



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Public Utility District No. 1 of Kitsap County

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

Published September 19, 2024

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

September 19, 2024

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the District’s compliance with requirements applicable to each of its major federal programs.

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

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>ALN</u>	<u>Program or Cluster Title</u>
21.029	COVID-19 – Coronavirus Capital Projects Fund
66.468	Drinking Water State Revolving Fund Cluster - Drinking Water State Revolving Fund

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

INDEPENDENT AUDITOR'S REPORT

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

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

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, 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 Kitsap 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 September 11, 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.



Pat McCarthy, State Auditor

Olympia, WA

September 11, 2024

INDEPENDENT AUDITOR'S REPORT

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

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

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the compliance of Public Utility District No. 1 of Kitsap County, with the types of compliance requirements identified as subject to audit in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2023. The District's major federal programs are identified in the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

Other Matters

We noted certain matters related to compliance that we have reported to the management of the District in a separate letter dated September 11, 2024.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

We noted certain other matters that we have reported to the management of the District in a separate letter dated September 11, 2024.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large initial "P" and "M".

Pat McCarthy, State Auditor

Olympia, WA

September 11, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

Board of Commissioners
Public Utility District No. 1 of Kitsap County
Poulsbo, 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 Kitsap 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 Kitsap 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Required Supplementary Information

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

Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 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 style with a large, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

September 11, 2024

FINANCIAL SECTION

Public Utility District No. 1 of Kitsap 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 Fund Net Position – 2023

Statement of Cash Flows – 2023

Notes to the Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – PERS 1, PERS 2/3 – 2023

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2023

Notes to Required Supplementary Information – Pension – 2023

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2023

Notes to the Schedule of Expenditures of Federal Awards – 2023

Management Discussion and Analysis

The following Management Discussion and Analysis is designed to provide an overview of the Kitsap County Public Utility District's (District) financial activities for the year ended December 31, 2023. This discussion should be read in conjunction with the District's financial statements and notes to the financial statements.

Basic Financial Statements

The Statement of Net Position presents the District's assets, deferred outflows, liabilities, and deferred inflows, with the balance reported as net position. The Statement of Net Position provides information about the nature and amount of investment in resources (assets), and the obligations to creditors (liabilities). The net position increases when revenues exceed expenses. The Statement of Revenue, Expenses and Changes in Fund Net Position reports the revenues and expenses during the periods indicated. The Statement of Cash Flow provides information about the District's cash receipts and payments from operations, as well as funds provided in investing and financing activities. The notes to the financial statements provide additional information that is essential to fully understanding the figures provided in the financial statements.

Financial Highlights

- The District had a total net position of \$75.8 million at December 31, 2023. Of this amount, \$8.2 million is classified as unrestricted and may be used to meet the District's ongoing obligations.
- The District's change in net position was \$8.3 million for 2023. Net income in 2023 was \$310 thousand higher than 2022, mostly due to an increase in water sales resulting from a basic rate increase implemented in 2023 and an increase in customer usage in the higher tiers. Capital contributions increased by \$3.2 million. In 2023, the District received \$1.8 million in grant income and \$5.5 million in developer extensions and capital facilities charges for new services and connections.
- In 2023, the District issued intergovernmental loans to finance capital assets and other infrastructure. The District made bond payments of \$1.9 million and intergovernmental loan payments of \$169 thousand.

Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

CONDENSED COMPARATIVE STATEMENT OF NET POSITION
As of December 31, 2023 and 2022

	2023	2022	2022 to 2023 Change	%
Assets				
Current and other assets	\$ 17,388,603	\$ 15,399,543	\$ 1,989,060	13%
Capital assets, net of depreciation	85,664,044	76,269,782	9,394,262	12%
<i>Total Assets</i>	<u>103,052,647</u>	<u>91,669,325</u>	<u>11,383,322</u>	
Deferred outflows of resources	2,156,446	2,264,413	(107,967)	-5%
Liabilities				
Other liabilities	3,486,166	2,731,398	754,768	28%
Long-term liabilities	23,412,558	20,549,030	2,863,528	14%
<i>Total Liabilities</i>	<u>26,898,724</u>	<u>23,280,428</u>	<u>3,618,296</u>	
Deferred inflows of resources	2,533,444	3,150,490	(617,046)	-20%
Net Position				
Net investment in capital assets	64,846,581	58,346,580	6,500,001	11%
Restricted	2,698,399	2,050,097	648,302	32%
Unrestricted	8,231,945	7,106,143	1,125,802	16%
<i>Total net position</i>	<u>\$ 75,776,925</u>	<u>\$ 67,502,820</u>	<u>\$ 8,274,105</u>	12%

- As of December 31, 2023, current and other assets mainly consisted of notes and assessments receivable, accounts receivable, cash and cash equivalents, and inventories representing 14%, 11%, 54%, and 17% respectively. Cash increased \$1.8 million (49%) from 2022 to 2023 due to an increase in sales. Inventory decreased \$330 thousand or 15% due to maintenance and construction projects. Net pension asset, also included in this category, increased \$303 thousand or 19% due to changes in the actuarial amount determined by the State of Washington.
- Other liabilities increased \$755 thousand or 28% due to an increase in overall accounts and short-term payables. The most significant driver for the increase in year-end accounts payable balances was multiple construction projects in process, with 58% of the increase in construction project payables and retainage withheld. The District also financed the purchase of a vactor truck, which was received in December of 2023.
- Net investment in capital assets increased overall due to increases in capital grant funding as well as other capital contributions, including developer extensions, installation charges and capital facilities charges.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets includes land, buildings, water systems, pump stations, collection and transmission lines, telecom fiber systems, machinery and equipment, construction work in progress and intangible assets. The District's total net capital assets as of December 31, 2023, were \$85.7 million. This increase of \$9.4 million or 12% from 2022 is a result of the District continuing to build critical drinking water and telecommunications infrastructure to increase resiliency, reliability, and sustainability in serving communities throughout Kitsap County.

In addition to the capital projects detailed below, the District spent \$287 thousand on Non-Contiguous LUD (NCLUD) builds, connecting 35 fiber internet customers and 3 water customers. Additionally, the District's Telecom Department constructed about 85 miles of new broadband fiber during 2023 bringing the current fiber build total to approximately 750 miles.

Kitsap PUD's Five Largest Capital Projects in 2023

As opposed to the NCLUD and broadband system builds discussed above, these are distinct projects.

Telecommunications: LUD #43 Hintzville Community (Seabeck) - \$2,222,394

This telecommunication project is funded by a local utility district and a Community Economic Revitalization Board (CERB) grant. This multi-phased project installs conduit, vaults, and multiport terminals and installs almost 17 miles of fiber cables connecting over 140 homes with fast fiber internet access once the project is complete. Installation equipment in each home can provide 1-gigabyte broadband speed with the ability to upgrade to faster future speeds by simply exchanging equipment.

Telecommunications: Gold Mountain Communications Zone Upgrade (Bremerton) - \$453,406

This telecommunication project extends broadband fiber in Bremerton from an established Kitsap Public Utility District terminal approximately 2.5 miles to the Gold Mountain Communications Zone. The fiber connects five sites used for emergency, cell, and broadcasting communications. The project provides redundancies and increases communications capacity.

Water: North Peninsula Water System (North Kitsap County) - \$675,197

Kitsap County is 1 of 3 Washington counties that do not receive any water supply from mountain snowpack. All the county's water comes from rainfall, but a rain shadow cast by the Olympic Mountains, causes this rainfall to be distributed unevenly throughout the county. This creates a need for regional drinking water infrastructure that can boost water supplies from more abundant areas in the county to those that tend to experience less rainfall.

In 2023, the District completed Phase 8C of Kitsap's Regional Drinking Water Infrastructure. Phase 8C completes the connection of the Vinland Water System to the North Peninsula Water System. This infrastructure helps provide sustainable water supply to Central and North Kitsap County while also improving the District's ability to manage Kitsap's water resources for the benefit of the entire community.

Water: Bill Point Water Distribution System Rebuild (Bainbridge Island) - \$1,072,251

This project installs approximately 4,800 feet of new water main throughout the Bill Point community on Bainbridge Island. Most work will take place within existing road prisms. A chlorination system was built on the existing wellfield site, so the existing wells can be pumped into the system as needed. This is the rebuild of an acquired system that needed to be brought up to the District's standards. This project is funded by the Environmental Protection Agency's Drinking Water State Revolving Fund and a local utility district.

Water: Bill Point & Island Utility Intertie (Bainbridge Island) - \$556,468

This project installs approximately 2,850 feet of new watermain connecting the Bill Point and Island Utility Water System, allowing for enhanced water supply reliability, operational flexibility, and resilience. This project is funded in part by the Environmental Protection Agency's Drinking Water State Revolving Fund and a local utility district.

For further explanations of the capital asset activity of the District, please refer to Note 4, Utility Plant and Depreciation.

Long-Term Liabilities

The District's long-term debt as of December 31, 2023, consists of \$13.2 million in bonds payable, \$3.9 million in intergovernmental loans, and \$2.5 million in draws on a bank line of credit. During 2023, the District opened a \$5 million line of credit to cover anticipated temporary cash shortfalls due to capital expenditures needed to carry out its capital improvement plans prior to bond issues planned for 2024.

Between 2022 and 2023, the District's loan and bond liabilities increased by \$2.8 million due to the draws on the line of credit and the \$276 thousand financed purchase of a vector truck. Please refer to Note 5, Long-Term Debt, for more detailed information regarding long-term debt activity.

CONDENSED COMPARATIVE STATEMENT OF CHANGES IN FUND NET POSITION

For the year ended December 31, 2023 and 2022

	2023	2022	2022 to 2023 Change	%
Operating revenues				
Water Sales	\$ 11,176,829	\$ 9,252,109	\$ 1,924,720	21%
Telecom sales	2,796,848	2,941,431	(144,583)	-5%
Sewer treatment revenue	246,517	173,861	72,656	42%
Other operating	414,580	478,159	(63,579)	-13%
Non-operating revenues - other	3,165,782	2,983,975	181,807	6%
Non-operating revenues -disposal of assets	48,802	31,269	17,533	56%
<i>Total revenues</i>	<u>17,849,358</u>	<u>15,860,804</u>	<u>1,988,554</u>	
Operating expenses	14,476,221	13,177,708	1,298,513	10%
Non-operating expenses	2,944,722	2,565,203	379,519	15%
<i>Total expenses</i>	<u>17,420,943</u>	<u>15,742,911</u>	<u>1,678,032</u>	
Income before contributions and special item	428,415	117,893	310,522	263%
Capital contributions	7,845,690	4,617,854	3,227,836	70%
Total capital contributions	<u>7,845,690</u>	<u>4,617,854</u>	<u>3,227,836</u>	
Change in net position	8,274,105	4,735,747	3,538,358	75%
Net Position, beginning of year	67,502,820	65,037,115	2,465,705	4%
Prior period adjustment	-	(2,270,042)	2,270,042	
Net Position, end of year	<u>\$ 75,776,925</u>	<u>\$ 67,502,820</u>	<u>\$ 8,274,105</u>	12%

The District's net position increased \$8.3 million or 12% between 2022 and 2023. This is mainly a result of 2023's increase in capital contributions of \$3.2 million (70%). The District received \$1.8 million in capital grants, \$2.7 million in donated capital via developer extensions, and \$2.3 million in capital facility charges, in addition to finalizing \$506 thousand in Local Utility Districts (LUDs) this year. Further, water sales revenues increased by \$1.9 million or 21% due to higher water consumption as well as a 29% base rate increase that took effect in 2023.

The District's operating expenses increased \$1.3 million when comparing 2023 to 2022. This is only a 10% increase compared to the double-digit revenue increases. The bulk of the operating expenses increased in the operations and maintenance of Water/Sewer, due to a combination of multiple emergency repairs on aging water infrastructure and the impact of inflation. Both water and telecom experienced significant inflationary increases on materials, supplies, electricity, fuel and equipment.

Current Conditions

The District's water utility continues to build regional infrastructure and consolidate failing water systems. These efforts provide improved and resilient utility service to affected communities. The District's drinking water utility owns and operates 28 Group A water systems and 24 Group B water systems, serving approximately 16,000 service connections.

In 2023, the District began the customer notification process to transition from an ownership and management model to an ownership only model under its Satellite Management Agency designation. The District has experienced a significant increase in demand from managed water systems for consultation, construction, and engineering services as managed systems plan to replace aging system infrastructure or work to comply with Environmental Protection Agency (EPA) and Washington State Department of Health (DOH) requirements. Transitioning to an ownership only model allows the District to dedicate staff resources to address and plan for current and future needs of aging water systems using proven funding methods and construction practices.

In 2023, the District contracted with FCS Group to complete its first cost-of-service analysis for the water and sewer utilities, as well as a revenue requirement analysis for the telecom utility. Outlined in the analysis by the FCS Group was a rate proposal to meet 2024-2029 revenue requirements for each utility. The Board of Commissioners in 2023 approved a plan that will have moderate rate increases, supplemented with bond debt financing for capital projects over the next six years. After six years, the District will have built a Capital Reinvestment Fund that will cover capital projects for the water utility. The telecom utility will pursue grant opportunities that are available from the Broadband Equity, Accessibility and Deployment program from the National Telecommunications and Information Administration (NTIA), in addition to bonds, and will begin building a Capital Reinvestment Fund in 2029. In 2024, the District will be pursuing an \$8.25 million bond for the water utility and a \$7.5 million bond for the telecom utility.

Requests for Information

This financial report is designed to provide the District's customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about the report or need additional information, contact the District's General Manager at:

Public Utility District No. 1 of Kitsap County
Attention: General Manager
P.O. Box 1989
Poulsbo, WA 98370

PUBLIC UTILITY DISTRICT NO.1 OF KITSAP COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2023

<u>ASSETS</u>	<u>Water/Sewer</u>	<u>Telecom</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	\$ 4,823,294	\$ 851,869	\$ 5,675,163
Accounts Receivable, net	1,014,760	128,312	1,143,072
Property Tax Receivable, net	20,097	35,145	55,242
Inventory materials and supplies	198,149	1,614,257	1,812,406
Short-term notes and assessments receivable	329,805	1,151,330	1,481,135
Short-term Lease Receivable	37,768	-	37,768
Other current assets	125,439	171,233	296,672
TOTAL CURRENT ASSETS	<u>6,549,312</u>	<u>3,952,146</u>	<u>10,501,458</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	365,779	-	365,779
Net Pension Asset	1,295,294	581,944	1,877,238
Long-term notes and assessments receivable	860,463	3,028,554	3,889,017
Lease Receivable	755,111	-	755,111
Capital Assets Not Being Depreciated/Amortized	5,638,807	4,331,683	9,970,490
Capital Assets Being Depreciated/Amortized, net	<u>52,701,325</u>	<u>22,992,229</u>	<u>75,693,554</u>
NET UTILITY PLANT	<u>58,340,132</u>	<u>27,323,912</u>	<u>85,664,044</u>
TOTAL NONCURRENT ASSETS	<u>61,616,779</u>	<u>30,934,410</u>	<u>92,551,189</u>
TOTAL ASSETS	<u>\$ 68,166,091</u>	<u>\$ 34,886,556</u>	<u>\$ 103,052,647</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Deferred loss on refunding	8,787	-	8,787
Amounts Related to Pension	1,072,696	481,936	1,554,632
Amounts Related to OPEB	<u>413,276</u>	<u>179,751</u>	<u>593,027</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,494,759</u>	<u>\$ 661,687</u>	<u>\$ 2,156,446</u>

The Notes to the Financial Statements are an integral part of this statement

**PUBLIC UTILITY DISTRICT NO.1 OF KITSAP COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

<u>LIABILITIES</u>	<u>Water/Sewer</u>	<u>Telecom</u>	<u>Total</u>
Current Liabilities:			
Accounts Payable	\$ 385,903	\$ 593,568	\$ 979,471
Taxes Payable	94,906	-	94,906
Interest Payable	22,204	41,139	63,343
Retainage payable	151,147	15,916	167,063
Due (to)/from other funds	(124,039)	124,039	-
Other Accrued Liabilities	236,376	106,556	342,932
Current portion of other Post Employment Benefits liability	116,473	50,659	167,132
Current portion of SBITA Liability	19,367	8,701	28,068
Current portion of long-term debt	1,017,173	626,078	1,643,251
TOTAL CURRENT LIABILITIES	<u>1,919,510</u>	<u>1,566,656</u>	<u>3,486,166</u>
Noncurrent Liabilities:			
Revenue bonds	4,928,240	5,195,436	10,123,676
General obligation bonds	-	4,505,359	4,505,359
Other noncurrent debt	3,254,971	1,103,862	4,358,833
Accrued compensated absences	805,793	361,581	1,167,374
PURMS claims payable	72,518	32,581	105,099
Other Post Employment Benefits liability	1,631,365	709,546	2,340,911
Net Pension Liability	559,801	251,505	811,306
TOTAL NONCURRENT LIABILITIES	<u>11,252,688</u>	<u>12,159,870</u>	<u>23,412,558</u>
TOTAL LIABILITIES	<u>\$ 13,172,198</u>	<u>\$ 13,726,526</u>	<u>\$ 26,898,724</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Amounts Related to Pensions	750,146	337,022	1,087,168
Amounts Related to Lease	768,801	-	768,801
Amounts Related to OPEB	472,128	205,347	677,475
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,991,075</u>	<u>\$ 542,369</u>	<u>\$ 2,533,444</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	48,978,021	15,868,560	64,846,581
Restricted for Net Pension Asset	1,609,508	723,112	2,332,620
Restricted for Debt Service	365,779	-	365,779
Unrestricted	3,544,269	4,687,676	8,231,945
TOTAL NET POSITION	<u>\$ 54,497,577</u>	<u>\$ 21,279,348</u>	<u>\$ 75,776,925</u>

The Notes to the Financial Statements are an integral part of this statement

**PUBLIC UTILITY DISTRICT NO.1 OF KITSAP COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
YEAR ENDED DECEMBER 31, 2023**

OPERATING REVENUES	Water/Sewer	Telecom	Total
Metered water sales	\$ 11,111,829	\$ -	\$ 11,111,829
Wholesale water sales	65,000	-	65,000
Wholesale telecom sales	-	2,796,848	2,796,848
Sewer treatment revenue	246,517	-	246,517
Street light revenue	67,188	-	67,188
Miscellaneous Operating Revenues	332,141	15,251	347,392
Total Operating Revenue	11,822,675	2,812,099	14,634,774
 OPERATING EXPENSES			
Operations and maintenance	6,280,452	2,760,132	9,040,584
Administration	834,470	257,782	1,092,252
Depreciation and Amortization	1,682,724	1,785,759	3,468,483
Business taxes	856,416	18,486	874,902
Total Operating Expenses	9,654,062	4,822,159	14,476,221
 OPERATING INCOME (LOSS)	2,168,613	(2,010,060)	158,553
 NONOPERATING REVENUES (EXPENSES)			
Property taxes	876,512	1,842,455	2,718,967
Grant income	10,604	63,662	74,266
Interest income	138,620	165,529	304,149
Gain (loss) on disposal of assets	(17,090)	65,892	48,802
Interest Expense	(221,484)	(377,665)	(599,149)
Nonoperating program expenses	(1,541,215)	(804,358)	(2,345,573)
Contract Revenue	32,400	36,000	68,400
Total Nonoperating Revenues (Expenses)	(721,653)	991,515	269,862
 INCOME BEFORE CONTRIBUTIONS	1,446,960	(1,018,545)	428,415
 CAPITAL CONTRIBUTIONS	5,301,583	2,544,107	7,845,690
CHANGE IN NET POSITION	6,748,543	1,525,562	8,274,105
 TOTAL NET POSITION, January 1, 2023	47,749,034	19,753,786	67,502,820
TOTAL NET POSITION, December 31, 2023	\$ 54,497,577	\$ 21,279,348	\$ 75,776,925

**PUBLIC UTILITY DISTRICT NO.1 OF KITSAP COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES	<u>Water/Sewer</u>	<u>Telecom</u>	<u>Total</u>
Receipts from customers	\$ 11,394,743	\$ 2,880,025	\$ 14,274,768
Payments to suppliers	(2,790,310)	(339,214)	(3,129,524)
Payments to employees	(6,616,284)	(3,080,143)	(9,696,427)
Payments for taxes	(813,252)	(18,486)	(831,738)
Other receipts	419,867	36,000	455,867
Other payments made	(171,986)	(16,290)	(188,276)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,422,778</u>	<u>(538,108)</u>	<u>884,670</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Operating grants received	9,812	12,044	21,856
Property taxes received	856,415	1,856,072	2,712,487
Note to Related Party	-	(500,000)	(500,000)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>866,227</u>	<u>1,368,116</u>	<u>2,234,343</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to utility plant and construction work in progress	(6,618,715)	(5,038,194)	(11,656,909)
Proceeds from disposition of assets	375	-	375
Proceeds from grants	29,084	1,988,844	2,017,928
Proceeds from new debt	1,592,734	2,500,000	4,092,734
Principal Paid on Long Term Debt	(1,100,514)	(605,963)	(1,706,477)
Interest Paid on Long Term Debt	(239,727)	(367,385)	(607,112)
Receipt of capital contribution	5,428,057	746,094	6,174,151
Receipt of insurance proceeds	58,635	67,452	126,087
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(850,071)</u>	<u>(709,152)</u>	<u>(1,559,223)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and Dividends on Investments	138,620	165,529	304,149
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>138,620</u>	<u>165,529</u>	<u>304,149</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,577,554</u>	<u>286,385</u>	<u>1,863,939</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,611,519	565,484	4,177,003
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,189,073</u>	<u>\$ 851,869</u>	<u>\$ 6,040,942</u>
 RECONCILIATION TO NET POSITION			
Cash and Cash Equivalents	4,823,294	851,869	5,675,163
Restricted Cash	365,779	-	365,779
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 5,189,073</u>	<u>\$ 851,869</u>	<u>\$ 6,040,942</u>

The Notes to the Financial Statements are an integral part of this statement

PUBLIC UTILITY DISTRICT NO.1 OF KITSAP COUNTY
STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2023

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

	2023		
	<u>Water/Sewer</u>	<u>Telecom</u>	<u>Total</u>
Utility Operating Income	\$ 2,168,613	\$ (2,010,060)	\$ 158,553
Adjustments to Reconcile Net operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation Expense	1,682,724	1,785,759	3,468,483
Other nonoperating income (expenses)	(1,557,659)	(768,358)	(2,326,017)
(Increase) Decrease in receivables	(40,465)	67,926	27,461
(Increase) Decrease in inventories	(20,192)	350,465	330,273
Increase (Decrease) in other current assets	4,409	(118,993)	(114,584)
Increase (Decrease) in PURMS liability	(1,885)	(847)	(2,732)
Increase (Decrease) in accounts payable	(530,930)	309,745	(221,185)
Increase (Decrease) in pension and OPEB activity	(480,637)	(241,842)	(722,479)
Increase (Decrease) in other accrued employee benefits	198,800	88,097	286,897
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ <u>1,422,778</u>	 \$ <u>(538,108)</u>	 \$ <u>884,670</u>
 Noncash Investing, Financing and Capital Activities			
Capital assets financed through accounts payable	\$ 240,295	\$ 429,486	\$ 669,781
Right to use assets financed thru SBITA obligations	39,399	17,701	57,100
Loan issued for capital assets	374,074	-	374,074

The Notes to the Financial Statements are an integral part of this statement

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Public Utility District No. 1 of Kitsap County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity. Kitsap Public Utility District (KPUD or District) is a municipal corporation in Washington State with incorporated boundaries the same as Kitsap County. The District was formed at the general election of 1940 by a vote of the County's electorate to explore providing electrical service as a public special purpose District instead of a private company. US entry into World War II and rapid growth in and around the naval shipyard at Bremerton initially delayed and eventually precluded assumption of electric service in Kitsap County by KPUD. In 1959, the District initiated several actions to study regional water resources in Kitsap County. In 1963, KPUD's Board recognized the necessity for long-range water supply plans to avert future shortages. Regional resource plans, studies and assessments have taken on increasing importance.

Kitsap Public Utility District strives to provide quality water and wholesale telecommunication utility services and sewer treatment services to citizens of Kitsap County. KPUD provides safe, reliable drinking water to about 16,000 customers throughout Kitsap County. The wholesale telecommunication service expands communication choices for Kitsap County residents, businesses and public agencies from Port Orchard to Bainbridge Island.

The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of Accounting and Presentation. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor, under the authority of Chapter 43.09 RCW. The District reports water/sewer and telecom services as separate segments.

The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows. The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are derived from its charges to customers for water/sewer and telecom services. The District also recognizes as operating revenue streetlight revenues and other miscellaneous operating revenues. Operating expenses include cost of providing services and maintenance, administrative expenses, depreciation/amortization, and business taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Assets, Deferred Outflows, Liabilities, Deferred Inflows, Fund Balance, Net Position

Cash and Cash Equivalents. The District's cash and cash equivalents are considered to be cash on hand, certificates of deposit, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

For the purposes of the statement of cash flows, the District classifies the Kitsap County Treasurer's Investment Pool as cash. Investments in the County Investment Pool are classified as cash equivalents on the financial statements.

The District does not have a written policy to invest temporary cash surpluses. All temporary cash surpluses are transferred to the Kitsap County Treasurer's Investment pool.

Investments. All investments of the District's funds are obligations of the US Government, the Kitsap County Treasurer's Investment Pool, banker's acceptances, or deposits with Washington State banks and savings and loan institutions pursuant to the requirements of Chapter 39.58 RCW. See Note 2 for more information.

Receivables. Accounts receivable includes current balances due on utility services billed and other receivables. Receivables are written off in the year that they are deemed to be uncollectable.

Property taxes are recorded as receivables when levied. Since State law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Materials Inventory. Telecom inventories are valued at cost, using the First In First Out method, which approximates market value. Water inventories are valued using the Average Costing method.

Restricted Funds. In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established for the water system revenue bonds. The assets held in these funds are restricted for specific uses, including debt service, other special reserve requirements, capital additions and pension assets. These are classified as current or noncurrent assets, as appropriate. Restricted funds include \$365,779 of bond reserves and \$2,332,620 of net pension assets as of December 31, 2023.

Capital Assets and Depreciation. Capital Assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year, and include property, plant equipment and infrastructure assets. Such assets are recorded at historical cost. Donations by developers are recorded at acquisition value at the date of donation. Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. Normal maintenance and repairs are accounted for as expenses when incurred. Major outlays for capital assets and improvements are capitalized as projects when constructed.

The original cost of utility plant retired or otherwise disposed of is removed from the plant account; accumulated depreciation is charged with the accumulated depreciation relating to the asset sold, and the net gain or loss on disposal is credited or charged to income. The gain (loss) from disposition of utility property account is maintained so that the transactions and details underlying each gain or loss are readily identifiable.

Depreciation is computed on the straight-line method over the estimated useful life of the asset as determined to be appropriate for the item being capitalized. A general guideline of categories and their associated useful life is as follows:

	<u>Useful Life</u>
Buildings and improvements	40-50 years
Water storage, transportation, and treatment	25-100 years
Transportation equipment	5-7 years
General equipment	5-10 years

See Note 4, Capital Assets

Leases. Lease receivables consist of amounts recorded in compliance with GASB 87, Leases. The Government has recorded the Lease Receivable and Deferred Inflows of Resources.

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

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

- The District uses its estimated rate of return as the discount rate for leases.
- The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease liability are composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease- and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. See Note 11 for more information.

Lease Liability consist of amounts recorded in compliance with GASB 87, Leases. The Government has recorded the Lease Liability and associated Intangible, right to use, asset.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis the same useful lives as the asset category of the underlying assets. If the asset's life is equivalent to the lease term, the Government's right to use asset is amortized over the life of the lease from implementation through lease term end.

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

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

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

See Note 11, Leases for more information.

Compensated Absences. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

Accrued leave, which may accumulate up to 26 weeks, is payable upon resignation, retirement or death. Upon an employee's permanent separation, the District will reimburse no more than 13 of the 26 weeks of accrued leave. If an employee permanently separates due to disability, the District General Manager may allow for payment of some or all the accrued leave above 13 weeks. See Note 5, Long-term Debt for the annual amount.

Long-term Debt. See Note 5, Long-term Debt.

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

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows. See Note 6, Pensions.

Total Other Post Employment Benefits Liability. See Note 7, Other Post Employment Benefits.

Deferred Outflows of Resources and Deferred Inflows of Resources. A Deferred Outflow of Resources is a consumption of net position that is applicable to future periods. Deferred Inflows of Resources are acquisitions of net position in one period that are applicable to future periods. These are distinguished from assets and liabilities in the statement of net position. The District recognizes Deferred Outflows and Deferred inflows related to pension liability, asset retirement obligations, lease receivables, other post-employment benefits (OPEB) liability and defeased bonds.

SBITA Liability and Right to Use Asset

SBITA liabilities consist of amounts recorded in compliance with GASB 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The District has recorded the SBITA liability and associated intangible, right to use, SBITA asset.

At the commencement of a subscription-based information technology arrangement, the District initially measures the SBITA liability at the present value of payments expected to be made during the SBITA term. Subsequently, the SBITA liability is reduced by the principal portion of SBITA payments made. The SBITA asset is initially measured as the initial amount of the SBITA liability, adjusted for payments made at or before the implementation date, plus certain initial direct costs. Subsequently, the SBITA asset is amortized using the straight-line basis over the same useful lives as the SBITA term.

See Note 12, SBITA for more information.

2. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

As of December 31, 2023, the District’s cash and cash equivalents are as follows:

Kitsap County Cash/Bank Accounts	\$	533,740
Petty Cash/Change Fund		5,300
Kitsap County Investment Pool		<u>5,501,902</u>
Total cash and cash equivalents	\$	<u>6,040,942</u>

Deposits:

Custodial credit risk (deposits). Custodial risk for deposits is the risk that, in the event of a bank failure, the government’s deposits may not be returned. The District has not adopted a policy that addresses deposit custodial risk; however, the District’s deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a

multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In the event of a bank failure, claims for the District’s deposits would be satisfied by the FDIC or from the sale of collateral held in the PDPC pool.

Amounts held in Washington State banks approved by the Public Deposit Protection Commission (PDPC) are covered by federal depository insurance up to \$250,000 and by the PDPC for amounts over \$250,000. The PDPC constitutes a multiple financial institution collateral pool that provides for additional assessments against participants of the pool on a pro rata basis. Accordingly, the deposits covered by PDPC are considered to be insured.

Investments

The District does not have a policy for custodial credit risk of investment securities. Further, the District is not subject to foreign currency risk or interest rate risk. The District is currently invested in the Kitsap County Treasurer’s Investment Pool.

Investments Measured at Amortized Cost

As of December 31, 2023, the District had the following investments at amortized cost:

<u>Investment</u>	<u>Maturities</u>	<u>Total</u>
Kitsap County Investment Pool	NA	\$ <u>5,501,902</u>
Total		\$ <u><u>5,501,902</u></u>

The District is a participant in the Kitsap County Treasurer’s Investment Pool, an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The District reports its investment in the pool at amortized cost.

3. CONSTRUCTION IN PROCESS

The District has active construction projects as of December 31, 2023. The projects include:

Project	As of 12/31/2023
CWIP - T HINTZVILLE CERB LUD43	\$ 2,223,706
CWIP - T GOLD MOUNTAIN ZONE	814,919
CWIP - T ARPA 30 NODES	244,648
CWIP - T ALL OTHER PROJECTS, INCLUDING NCLUDS & RESIDENTIAL BUILDS	1,048,410
CWIP - BILL POINT (WATER)	1,125,692
CWIP - ISLAND UTIL/BILL PT INT	565,819
CWIP - DEER PATH TANK	17,858
CWIP - FORT WARD RESERVOIR	56,113
CWIP - HILLBEND CONTROL VALVE	12,230
CWIP - 2022 HILLTOP BOOSTER	21,842
CWIP - SULLIVAN RD RESERVOIR	6,562
CWIP - W - STRAWBERRY HILL	209,825
CWIP - W - OTHER REPLACEMENTS & RENEWALS	281,462
CWIP - SBI WELL10 (FILTER PLANT)	335,296
Total CWIP:	\$ 6,964,383

At year-end, the District's commitments with contractors are as follows:

ACCOUNT DESCRIPTION	AMT Left to Pay Out
CWIP - T LARSON LN	\$ 34,825
CWIP -T HINTZVILLE CERB LUD43	151,742
CWIP - T GOLD MOUNTAIN ZONE	35,150
CWIP - FORT WARD RESERVOIR	33,898
CWIP - PRIDDY VISTA NEW SERVICES	4,095
CWIP - WILDCAT	2,614
CWIP - ELDORADO WELL 4	1,714
CWIP - MAINT./UPGRADES	3,984
CWIP - W-STRAWBERRY HILL	6,838
CWIP - SBI WELL10 (FILTER PLANT)	11,879
	\$ 286,738

4. CAPITAL ASSETS

Utility plant activity for the year ended December 31, 2023 was as follows:

<i>Assets</i>	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated				
Land	\$ 3,006,107	\$ -	\$ -	\$ 3,006,107
Construction in progress	3,346,086	8,538,090	4,919,793	6,964,383
Total capital assets, not being depreciated	<u>6,352,193</u>	<u>8,538,090</u>	<u>4,919,793</u>	<u>9,970,490</u>
Capital assets, being depreciated/depleted:				
Plant	96,993,130	8,190,680	2,082,383	103,101,427
Buildings and improvements	6,038,536	125,810	29,354	6,134,992
Equipment	7,694,862	865,662	262,962	8,297,562
Intangible assets	2,702,223	22,849	172,500	2,552,572
Total capital assets being depreciated	<u>113,428,751</u>	<u>9,205,001</u>	<u>2,547,199</u>	<u>120,086,553</u>
Less accumulated depreciation for:				
Plant Building and Equipment	43,994,381	3,261,600	2,298,974	44,957,007
Intangible assets	331,327	61,128	172,500	219,955
Total accumulated depreciation	<u>44,325,708</u>	<u>3,322,728</u>	<u>2,471,474</u>	<u>45,176,962</u>
Total capital assets, being depreciated, net	<u>69,103,043</u>	<u>5,882,273</u>	<u>75,725</u>	<u>74,909,591</u>
Right to use assets, being amortized				
Land and Equipment	940,691	-	-	940,691
SBITA	-	115,172	-	115,172
Total right to use assets, being amortized	<u>940,691</u>	<u>115,172</u>	<u>-</u>	<u>1,055,863</u>
Less accumulated amortization for:				
Right to use assets	126,145	145,755	-	271,900
Total capital assets, being amortized, net	<u>814,546</u>	<u>(30,583)</u>	<u>-</u>	<u>783,963</u>
Total capital assets being depreciated/amortized, net	<u>69,917,589</u>	<u>5,851,690</u>	<u>75,725</u>	<u>75,693,554</u>
Assets, Net	<u>\$ 76,269,782</u>	<u>\$ 14,389,780</u>	<u>\$ 4,995,518</u>	<u>\$ 85,664,044</u>

5. LONG-TERM DEBT

General Obligation Bonds – General Obligation Bonds are issued to finance the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the KPUD. General obligation bonds outstanding issued by the Telecom Activity are as follows:

General Obligation Bonds	Authorized Amount	Ending Balance
2013 (A) G/O Bonds - Serial Bonds \$70,000-\$150,000 due through December 1, 2033. Interest at 0.450% to 4.346%.	\$ 2,030,000	\$ 1,215,000
2020 G/O Bonds - Serial Bonds \$166,000-\$302,000 due through December 1, 2039. Interest at 1.27% to 2.94%.	4,400,000	3,633,000
Total General Obligations Bonds:	\$ 6,430,000	\$ 4,848,000

The annual debt service requirements to maturity for general obligation bonds outstanding as of December 31, 2023, including interest, are as follows:

G/O Bonds			
Year	Principal	Interest	Total
2024	\$ 368,000	\$ 146,471	\$ 514,471
2025	371,000	137,837	508,837
2026	383,000	127,986	510,986
2027	390,000	117,370	507,370
2028	403,000	106,186	509,186
2029-2033	1,790,000	342,340	2,132,340
2034-2038	939,000	109,606	1,048,606
2039-2042	204,000	5,998	209,998
	\$ 4,848,000	\$ 1,093,794	\$ 5,941,794

Revenue Bonds – Revenue bonds are authorized and adopted by the Board of Commissioners for the construction of capital additions. Water/Sewer and Telecom revenues of the District provide the security for repayment of KPUD debt.

Revenue Bonds - Other	Authorized Amount	Ending Balance
2013 Revenue Bonds - Serial bonds \$160,000-\$290,000 due through December 1, 2033. Interest at 2.00%-3.00%.	\$ 4,490,000	\$ 1,950,000
Total Public Offering Revenue Bonds	\$ 4,490,000	\$ 1,950,000

Revenue Bonds - Direct Placements	Authorized Amount	Ending Balance
2015 Revenue Bonds - Serial bonds \$57,000-\$83,000 due through December 1, 2030. Interest at 1.40% to 3.87%.	\$ 2,000,000	\$ 969,000
2016 Revenue Bonds - Serial bonds \$229,655-\$281,060 due through December 1, 2025. Interest at 1.40% to 3.87%.	2,557,746	553,591
2018 Telecom Revenue Bonds- Term bonds \$388,383 due December 1, 2029. Interest 3.19%	388,383	133,905
2018 Water Revenue Bonds (B) - Term bonds \$312,385 due December 1, 2040. Interest at 3.66%.	312,385	158,058
2020 Telecom Revenue Bonds (A) - Term bonds \$25,400 due December 1, 2027. Interest at 3.5%.	25,400	7,831
2020 Telecom Revenue Bonds (B) - Term bonds \$807,317 due December 1, 2041. Interest at 3.95%.	807,317	281,145
2020 Telecom Revenue Bonds (C) - Serial bonds \$307,739 due December 1, 2039. Interest at 3.95%.	307,739	186,020
2020 (A&B) Water Revenue Bonds - Serial bonds \$2,661,458 due December 1, 2039. Interest at 2.51% to 3.5%.	2,661,458	1,895,000
2021 Telecom Revenue Bonds (A) - Serial bonds \$279,908 due December 1, 2042. Interest at 4.1%.	279,908	174,488
2021 Telecom Revenue Bonds (B) - Serial bonds \$807,317 due December 1, 2042. Interest at 4.25%.	807,317	271,003
2021 Telecom Revenue Bonds (C) - Serial bonds \$2,378,435 due December 1, 2043. Interest at 4.25%.	2,378,435	1,342,435
2022 Telecom Revenue Bonds (A) - Serial bonds \$1,000,000 due 12/1/37. Interest at 6.25% Only \$836,292 drawn at December 31, 2022.	836,292	436,788
Total Direct Placement Revenue Bonds:	\$ 13,362,380	\$ 6,409,264

The annual debt service requirements to maturity for all revenue bonds outstanding as of December 31, 2023, including interest, are as follows:

Year	Revenue Bonds		
	Principal	Interest	Total
2024	\$ 893,710	\$ 300,519	\$ 1,194,229
2025	927,500	271,486	1,198,986
2026	666,990	247,258	914,248
2027	682,848	225,264	908,112
2028	718,854	201,945	920,799
2029-2033	2,817,896	648,840	3,466,736
2034-2038	1,004,680	229,736	1,234,416
2039-2043	646,786	54,970	701,756
Totals:	\$ 8,359,264	\$ 2,180,017	\$ 10,539,281

Direct Borrowings – The Department of Commerce Community Economic Revitalization Board and the Department of Health Drinking Water State Revolving Fund have low-cost financing programs that allow public entities in the state to finance public works (i.e. collection and transmission facilities).

Other Long Term Debt	Authorized Amount	Ending Balance
Bank Line of Credit - Drawdown note matures 6/21/2026. Interest rate is the Kitsap Bank Prime rate less 1% but will not be lower than 5%.	\$ 5,000,000	\$ 2,500,000
Financed Vac Truck Purchase - 3.333% - paid in full 11/5/26	275,907	275,907
Note Payable: DWSRF Sunset-Manzanita - Annual payments \$18,116 plus interest due through October, 2034, interest at 1.00%.	362,315	199,273
DWSRF #3 Crystal Springs Consolidations: Annual payments \$10,314 plus interest due through October, 2036, interest at 1.00%.	206,271	134,076
DWSRF #2 North Kitsap Consolidations: Annual payments \$52,273 plus interest due through October, 2036, interest at 1.00%.	1,045,460	679,549
DWSRF #4 Green Mountain Acres - Annual payments of \$19,483 plus interest through October, 2038, interest at 1.00%.	389,658	292,244
Department of Commerce Big Valley Project: Annual payments of \$25,000 plus interest due through June, 2040. Interest at 2.00%.	500,000	437,022
DWSRF Bill Point Water System - through 10/1/2045 and 50% is forgivable. Interest rate at 1.25%	2,455,000	1,343,506
DWSRF Bill Point Water System 27106 - through 10/1/2046 and 50% is forgivable. Interest rate at 1.25%	2,410,350	545,877
Total Other Long Term Debt:	\$ 12,644,961	\$ 6,407,454

The annual debt service requirements to maturity for other long-term debt outstanding as of December 31, 2023, including interest, are as follows:

Other Long Term Debt			
Year	Principal	Interest	Total
2024	\$ 259,658	\$ 231,215	\$ 490,873
2025	263,064	227,078	490,143
2026	2,766,570	139,455	2,906,025
2027	172,024	29,221	201,245
2028	172,488	27,143	199,631
2029-2033	869,720	104,229	973,949
2034-2038	685,145	52,541	737,686
2039-2043	302,692	17,815	320,507
2044-2046	916,093	2,275	918,368
	\$ 6,407,454	\$ 830,972	\$ 7,238,426

A summary of changes in long-term debt is as follows:

	Balance 1/1/2023	Increase	Decrease	Balance 12/31/2023	Due within one year
G/O Bonds	\$ 5,209,000	\$ -	\$ 361,000	\$ 4,848,000	\$ 368,000
Issuance Premiums GO Bonds	31,550	-	3,096	28,454	3,096
Public Offering Revenue Bonds	2,240,000	0	290,000	1,950,000	160,000
Direct Placement Revenue Bonds	7,129,451	0	720,187	6,409,264	733,710
Issuance Premiums Revenue Bonds	202,150	0	22,011	180,139	22,016
Total Bonds Payable	14,812,151	0	1,396,294	13,415,857	1,286,822
Direct borrowing loans	2,182,793	4,476,200	251,539	6,407,454	259,658
Leases Payable	871,920	0	93,143	778,777	96,771
SBITA Payable	0	57,100	0	57,100	28,068
Compensated Absences	1,040,004	127,370	-	1,167,374	-
Claims Liability	107,831	-	2,732	105,099	-
Other Post Employment Benefits	2,372,841	135,202	-	2,508,043	167,132
Pension Liability	903,722	-	92,416	811,306	-
Total long-term debt	\$ 22,291,262	\$ 4,795,872	\$ 1,836,124	\$ 25,251,010	\$ 1,838,451

Restricted assets include \$365,779 of cash as of December 31, 2023. These represent reserve requirements as contained in the various indentures.

There are several other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

Revenue Bonds

The District has pledged future water system revenue plus certain water and telecom LUD Assessments, net of operation and maintenance expenses, to repay \$8,359,264 revenue bonds. Proceeds from the bonds were used to finance capital improvements, to refund a portion of the District's Outstanding Bonds, to fund the Reserve Fund, and to pay the costs of issuance of the Bonds. The bonds are payable solely from future gross revenue plus certain LUD Assessments and are payable through 2042. The total principal and interest remaining to be paid on the bonds

is \$10,539,281 as of December 31, 2023. Bond amounts presented on financial statements includes premiums of \$208,593, annual interest is decreased by amortization of debt premium and increased by the amortization of gain/loss refunding.

6. PENSIONS

The following table represents the aggregate pension amounts for all plans for the year 2023:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 811,306
Pension assets	1,877,238
Deferred outflows of resources	1,554,632
Deferred inflows of resources	1,087,168
Pension expense/expenditures	(119,161)

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 comprised of three separate pension plans for membership 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 five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2023		
PERS Plan 1	6.36%	6.00%
Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	10.39%	6.00%
July – August 2023		
PERS Plan 1	6.36%	6.00%
Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Total	9.39%	6.00%
September – December 2023		
PERS Plan 1	6.36%	6.00%
Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Total	9.53%	6.00%

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.

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The 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 PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.39%	6.36%
July – August 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
Employee Pers Plan 3		Varies
Total	9.39%	6.36%
September - December 2023		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
Employee PERS Plan 3		Varies
Total	9.53%	6.36%

The District actual PERS plan contributions were \$229,547 to PERS Plan 1 and \$427,742 to PERS Plan 2/3 for the year ended December 31, 2023.

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 promotions and longevity.
- **Investment rate of return:** 7.00%

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

The actuarial results reflect the following changes in assumptions and methods since the last valuation:

Method changes

Methods did not change from the prior contribution rate setting June 30, 2021 Actuarial Valuation Report (AVR).

Discount Rate

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

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

Long-Term Expected Rate of Return

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

Estimated Rates of Return by Asset Class

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 are summarized in the table below. The inflation component used to create the table is 2.20 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
PERS 1	1,133,455	811,306	530,145
PERS 2/3	2,041,721	(1,877,238)	(5,096,910)

Pension Plan Fiduciary Net Position

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

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

On June 30, 2023, the District reported its proportionate share of the net pension liabilities or assets as follows:

Plan	Liability or (Asset)
PERS 1	\$ 811,306
PERS 2/3	(1,877,238)

On June 30, the District’s proportionate share of the collective net pension liabilities or assets was as follows:

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	0.03246%	0.03554%	0.00308%
PERS 2/3	0.04245%	0.04580%	0.00335%

Employer contribution transmittals received and processed by the 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 the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

Pension Expense

For the year ended December 31, 2023, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 91,515
PERS 2/3	(210,676)
TOTAL	(119,161)

Deferred Outflows of Resources and Deferred Inflows of Resources

On December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (91,519)
Contributions subsequent to the measurement date	103,601	-
TOTAL	\$ 103,601	\$ (91,519)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 382,391	\$ (20,975)
Net difference between projected and actual investment earnings on pension plan investments	-	(707,457)
Changes of assumptions	788,129	(171,781)
Changes in proportion and differences between contributions and proportionate share of contributions	60,826	(95,436)
Contributions subsequent to the measurement date	219,685	-
TOTAL	\$ 1,451,031	\$ (995,649)

TOTAL ALL PLANS	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 382,391	\$ (20,975)
Net difference between projected and actual investment earnings on pension plan investments	-	(798,976)
Changes of assumptions	788,129	(171,781)
Changes in proportion and differences between contributions and proportionate share of contributions	60,826	(95,436)
Contributions subsequent to the measurement date	323,286	-
TOTAL	1,554,632	\$ (1,087,168)

Deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2024. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2024	\$ (62,266)	\$ (325,836)
2025	(78,306)	(405,960)
2026	48,282	578,707
2027	771	202,299
2028	-	192,639
Thereafter	-	(6,152)

7. OTHER POST EMPLOYMENT BENEFITS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year 2023:

<u>Aggregate OPEB amounts - All Plans</u>	
OPEB Liabilities	\$ 2,508,043
Deferred outflows of resources	593,027
Deferred inflows of resources	677,475
OPEB Expense	179,072

OPEB Plan Description

The District administers a Post-Retirement Health Care Program under a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. The District provides for the payment of premiums for medical and dental insurance to retired employees and their spouses, when the retiree has worked for the District for a minimum of 15 years (20 years for those hired on or after November 13, 2018).

Retirees meeting age and service requirements at retirement are eligible for OPEB benefits. Until the retiree reaches Medicare eligibility (age 65) the retiree and spouse may elect to participate in the District’s medical and dental plans on the same basis as if the individual were a full-time employee. Upon attainment of Medicare eligibility (age 65), the retiree and spouse may elect coverage under a Medicare supplemental policy. The Medicare supplemental benefit is only provided to employees hired before November 13, 2018, who elected option A.

On December 31, 2023, the membership in the plan consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	8
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>73</u>
Total	<u><u>81</u></u>

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust. The District contributes between 50 and 85 percent of the cost of current-year premiums for eligible retired plan members and their spouses.

Assumptions and Other Input

The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about retirement ages, mortality and the healthcare cost trend. The actuarially determined amounts are subject to

continual revision as actual results are compared to past expectations and new estimates are made about the future.

The District's total OPEB liability of \$2,508,043 was measured as of December 21, 2023 with a valuation date of December 31, 2022. The actuarial valuation method was used to calculate the liability. The Entry Age actuarial cost method and the recognized immediately amortization method were used in this calculation. There are no assets in this plan, therefore, no asset valuation method was used.

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement period, unless otherwise specified, on December 31, 2023:

Discount rate - Beginning of Measurement Year	4.02%
Discount Rate - End of Measurement Year	3.75%
Projected Salary Changes	3.25% Wage Inflation + Service-Based Increases
Healthcare Trend Rates, including Medical Inflation	Initial rate ranges from about 3.5-5.2%, reaching an ultimate rate of approximately 4.3% in 2080.
Post-Retirement Participation Percentage - hired prior to 11/13/18	90%
Post-Retirement Participation Percentage - hired on or after 11/13/18	75%
Percentage with Spouse Coverage hired prior to 11/13/18	75%
Percentage with Spouse Coverage hired on or after 11/13/18	50%

Other Actuarial assumptions and sources are as follows:

- The source of the discount rate is the Bond Buyer General Obligation 20- Bond Municipal Index. The source of the salary increases and retirement rates is the Washington State Public Retirement Systems 2013-2018 Demographic Experience Study.
- Mortality rates were based on the Pub-2010 Public Retirement Plans Table PubG.H, employee table, with projection from 2010 using the Society of Actuaries Scale MP-2017.
- 2023 Medical Premiums and 2023 Dental Premiums were used to develop aged claims. Employees who retire prior to age 65 and elect to receive benefits from the Plan are assumed to stay with the same medical plan as they are currently subscribed. Employees who retire on or after age 65 and retirees who reach age 65 are assumed to choose a Medicare supplement plan from the same health care provider as their pre-Medicare insurance. All employees who elect to receive benefits from the Plan are assumed to choose the Uniform Dental Plan.
- It was assumed that member participation for employees hired prior to November 13, 2018 would be 90% and those hired on or after would be 75%.
- It was further assumed that there was a 75% likelihood that current and future retirees cover a spouse and that female spouses are three years younger than their male spouses.

Sensitivity Rates

GASB 75 requires an analysis of the impact of changing the Healthcare Trend and Discount rate assumptions by 100 basis points. The following tables present the total OPEB liability of the District on December 31, 2023, adjusted for that assumption change.

Health Care Trend Rate Sensitivity

1% Decrease	Current Health Care Trend Rate	1% Increase
\$ 2,231,551	\$ 2,508,043	\$ 2,846,496

Discount Rate Sensitivity

1% Decrease	Current Discount Rate	1% Increase
\$ 2,853,484	\$ 2,508,043	\$ 2,231,610

Changes in the Total OPEB Liability

At the measurement date December 31, 2023, the changes in the total OPEB liability are as follows:

Service cost	\$	86,795
Interest Cost		92,898
Changes in assumptions		80,611
Benefit payments		(55,817)
Implicit Rate Subsidy Fulfilled		(69,285)
Net change in total OPEB liability		135,202
Total OPEB liability - beginning		<u>2,372,841</u>
Total OPEB liability - ending	\$	<u><u>2,508,043</u></u>

The District reported \$179,072 as OPEB expense for the calendar year 2023.

Deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Recognition of Deferred Resources in Future	
OPEB Expense	
Year Ended December 31:	
2024	\$ (621)
2025	(621)
2026	(621)
2027	(621)
2028	(621)
Thereafter	(81,343)

8. DEFERRED COMPENSATION PLANS

Plan Description. The District's Section 457 Plan is a single-employer defined contribution plan. Plan benefit terms have been established by the Washington State Department of Retirement Deferred Compensation Program (DCP) and the District's personnel policy. The District makes matching contributions on behalf of participating employees. No assets are accumulated in trusts or equivalent arrangements by the District which meet the criteria in GASB 73, paragraph 101. The plan assets are administered by a third-party, which is the Washington State Department of Retirement Systems – Washington State Investment Board.

Plan assets are held in each employee's name and are the property of the employee and are 100% vested upon contribution.

Contributions. Contribution rates for employees can change annually and are limited by the State of Washington DCP regulations and the IRS Section 457 limitations. The District matches up to 100% up to \$139/pay period or \$3,336 annually. Per the DCP program, the minimum contribution is \$30 per month and the 2023 contribution limit, including the match, was \$22,500. Pension expense and employer contributions for the District was \$212,038, for the year ended December 31, 2023.

9. RISK MANAGEMENT

Self-Insurance Fund

The District is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management service to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement (Pool or Liability Pool) was made pursuant to the provisions of Chapter 54.16 RCW, and interlocal government agreements. The Pool was formed on December 31, 1976, when certain Public Utility Districts (PUDs) in the State of Washington joined together by signing an Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2023, there were 21, 18, and 12 members in the Liability, Property, and Health & Welfare pools, respectively. The Pool provides liability, property, and health and welfare insurance coverage for its members and their employees under an agreement entitled “PURMS Joint Self-Insurance Agreement” (SIA).

Liability Risk Pool

The Liability Pool is financed through assessments of its participating members (Liability Assessment) in accordance with the terms of the Liability General Assessment Formula. Liability Assessments are levied at the beginning of each calendar year to replenish the Liability Pool to the Designated Liability Pool Balance. In addition, Liability Assessments are levied at any time during the year that the actual Liability Pool Balance becomes \$500,000 less than the Designated Liability Pool Balance.

For 2023, the Designated Liability Pool Balance was \$3,500,000. As a result, as of December 31, 2023, the Liability Pool maintained cash reserves of \$1,973,681 to pay for operating expenses and liability claims. The Liability Coverage Limit was \$1,000,000 per occurrence as of December 31, 2023.

As of December 31, 2023, there were 95 known incidents or unresolved Liability Claims pending against one or members or former members of the Liability Pool. The total risk posed by these claims to such members and to the Liability Pool itself is unknown but the reserves set by the Administrator for these claims were \$290,226.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the SIA. Under the SIA, the Property Pool has had a self-insured retention (or Property coverage Limit) of \$250,000 per property loss.

At all times, PURMS maintains Excess Property Insurance for its members in the Property Pool. For 2023, the amount of the Excess Property Insurance was \$200 million, with excess coverage attaching at the \$250,000 Property Coverage Limit for all Property Losses except those subject to increased retention levels for certain property risks.

In accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustments expense for the Liability Pool. A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager and made available to the Washington State Auditor's Office.

As of December 31, 2023, there were 18 known property claims pending from members of the property pool. The total risk posed by these claims to such members and to the Property Pool itself is unknown and can only be estimated. The reserves set by the Administrator for these claims were \$120,833.

10. PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1, on property value listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A re-evaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$.45 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate.

For 2023, the District's regular tax levy was 0.044723 per \$1,000 on a total assessed valuation of \$60,628,527,471 plus timber excise distribution of \$2,884 for a total regular levy of \$2,714,374. The District has collected \$2,703,012 or 99.6% of the total amount levied.

Property taxes are recorded as receivables when levied. Since State law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Special levies approved by the voters are not subject to the above limitations.

11. LEASES

Government as Lessor

On December 31, 2023, the District has three leases receivable in which it is acting as Lessor.

Lease Type	Start Date	Initial Term	Extensions up to:	Lease Receivable at 12/31/2023
Antenna	8/2021	20 years	2 additional 5 years*	\$ 551,159
Antenna**	11/2020	20	2 additional 5 years	201,647
Antenna	3/1/2006	5 Year	5 additional 5 years	40,074
Total \$				792,879

**3rd party receives payments until June 30, 2035

For the leases, the District assumed two of the extensions. The first lease must have both parties approve the extension; therefore, it was not assumed. Also, the second lease does not receive payments until 2035 as the payments are currently going to a 3rd party. During 2023, the inflows of resources recognized in calendar year 2023 from leases is \$36,520 for principal, \$9,633 for interest.

The Government's schedule of future payments included in the measurement of the lease receivable is as follows:

Lease Receivable			
	Principal	Interest	Total Requirements
2024 \$	37,768	\$ 9,211	\$ 46,979
2025	39,060	8,769	47,830
2026	24,846	8,342	33,188
2027	23,019	7,968	30,987
2028	24,342	7,575	31,917
2029-2033	111,621	25,914	137,535
2034-2038	264,227	26,830	291,057
2039-2042	267,995	7,589	275,584
	<u>\$ 792,879</u>	<u>\$ 102,198</u>	<u>\$ 895,077</u>

Government as Lessee

On December 31, 2023, the District used its lease policy to evaluate financial agreements that are potential leases in which the Government serves as the lessee. On December 31, 2023, the District has ten lease payables in which it is acting as a lessee of building, equipment and heavy equipment.

The Government's schedule of future payments included in the measurement of the lease payable is as follows:

Lease Type	Start Date	Initial Term	Extensions up to:	Lease Payable at
				12/31/2023
Building	5/1/2022	5 Years	5 Years	\$ 636,829
Building	12/01/2015	5 Years	10 Years	75,248
Building	12/1/2020	5 Years	n/a	15,036
Building	11/1/2021	5 Years	n/a	7,526
Equipment	6/16/2022	5 Years	n/a	1,318
Equipment	10/15/2022	5 Years	n/a	1,843
Equipment	9/15/2021	5 Years	n/a	972
Equipment	9/15/2020	5 Years	n/a	4,259
Heavy Equipment	5/31/22	5 Years	n/a	30,038
Heavy Equipment	8/22/22	5 Years	n/a	5,708
Total \$				778,777

	Lease Payable		
	Principal	Interest	Total Requirements
2024 \$	96,771 \$	17,863 \$	114,634
2025	98,719	15,691	114,410
2026	95,357	13,469	108,826
2027	91,205	11,175	102,380
2028	88,684	8,994	97,678
2029-2032	308,040	13,501	321,541
\$	<u>778,777</u> \$	<u>80,693</u> \$	<u>859,470</u>

Please see Capital Asset Note 4 for more capital asset information related to leases and accumulated amortization. At December 31, 2023, the District had \$940,691 in Right to Use Assets related to leases, offset by \$187,046 in accumulated amortization.

12. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS (SBITA'S)

At December 31, 2023, the District used its SBITA policy to evaluate financial agreements that are potential SBITAs.

The District has 6 SBITAs. Five of the arrangements are paid in advance and have no associated SBITA liability. These technology contracts range from 16 months to 3 years.

The District has one SBITA liability for its utility enterprise system. The agreement is for a noncancellable term of 3 years and started in 2022. Payments stay the same over the life of the agreement. In addition, this SBITA had a prepayment commitment of \$30,030 that was paid on 1/1/2023 and that was reclassified to the right to use asset. The District's schedule of future payments included in the measurement of the SBITA payable is as follows:

	SBITA Payments		
	Principal	Interest	Total
2024 \$	28,068 \$	1,962 \$	30,030
2025	29,032	998	30,030
	\$ 57,100 \$	2,960 \$	60,060

Note 4 contains more information on the SBITA Right to Use assets. At December 31, 2023, there is \$115,172 in SBITAs with \$37,539 of accumulated amortization.

13. PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC (NoaNet)

The District, along with nine other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. This communications backbone through Washington assists its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001. The District’s membership interest in NoaNet is 18.97 percent.

As a member of NoaNet and as allowed by RCW 54.16, the District guaranteed a portion of the 2020 NoaNet \$24.8 million bonds based upon an agreed share of 10 percent of the outstanding balance. See Note 14 for additional details. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded an increase in net position of \$8,066,257 for 2023. In accordance with Government Accounting Standards Board No. 14, *The Financial Reporting Entity*, a proportionate share of the changes in net position has not been recorded by the District. NoaNet had a positive net position of \$48,282,733 as of December 31, 2023.

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

14. FINANCIAL GUARANTEES

In December 2020, current Members of NoaNet entered into a Repayment Agreement to guarantee the 10-year, \$24,775,000 Telecommunications Network Revenue Bonds (2020 Bonds) issued by NoaNet to finance capital improvements and other expenses, repay loans and a line of credit, fund a reserve account, and pay bond issuance costs. The 2020 Bonds will become due beginning in December 2021 through December 2030 with interest due semi-annually at rates ranging from .591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed pursuant to RCW Chapters 24.06 and 39.34 and Title 54. Under the Repayment Agreement, each guarantor acknowledged and agreed that it is a guarantor of the payment of the principal and interest on the 2020 Bonds and was liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such

principal and interest up to each Member's agreed upon percentage interest. The District's guarantee is 10 percent of the outstanding bonds.

To the extent NoaNet's gross revenue is insufficient to pay principal and interest amounts when due, Noa Net shall bill each guarantor no less than 65 days in advance of each principal and interest payment date for its percentage share. Each guarantor has 30 days to pay after receipt of the bill. In the event of a failure by any guarantor to pay such amounts when due, the guarantor shall be subject to all remedies as contained in NoaNet's bylaws. Each guarantor shall remain obligated to pay its respective share of principal and interest on the 2020 Bonds, when due, whether or not it remains a member of NoaNet.

While the District has a year-end financial guarantee of \$1,772,500 for the Noa Net Bond, a liability is not recognized until it is more likely than not that the District would be required to make a payment on the Bonds (GASB70). Currently, NoaNet has sufficient gross revenues to pay the principal amounts of \$17,725,000 and interest on their 2020 Bonds. In May 2023 the District authorized a loan to NoaNet in the amount of \$500,000. The loan will have annual payments, including interest calculated at the time of the payment using an average of the prior 12 month 30-Day Yield published by the Local Government Investment Pool (LGIP). This loan is expected to be paid in full by May 1, 2034.

15. TELECOMMUNICATIONS SERVICES

The District was a founding member of NoaNet in 1999. The District began installation of fiber-optic communication for utility use in 1999 after examining various types of infrastructure that could be used to deliver advanced telecommunications services. The resulting research showed that fiber-optic cable provided the most robust and cost-effective solution. Fiber has an extremely long life cycle and almost unlimited bandwidth capacity, which will allow the District to migrate to new technologies without replacing an expensive outside plant infrastructure.

Public utility districts in Washington State have had the authority to offer wholesale telecommunication service since 2000 (RCW 54.16.330). A new law was passed in 2021, which gave public entities, including public utility districts, the authority to provide retail broadband services to the citizens of Kitsap County. The District currently focuses on providing wholesale telecommunications services to private service providers and bills those providers directly for services. The private service providers are directly responsible for billing each end-user.

The table below shows select revenue and expenses for the year ending December 31, 2023.

Operating Revenue	Amount
Whole Sale Fiber Services to ISP	2,736,498
Installation Charges	60,350
Other	15,251
Operating Expenses	Amount
Administration and General	257,782
Repairs and Maintenance	2,760,132
Other	1,804,245
Non Operating Revenue (Expenses)	Amount
Revenues	2,173,538
Expenses	(1,182,023)
Capital Investment	Amount
Current	2,526,348
Cumulative since beginning telecommunication services	32,792,911

16. INTERLOCAL AGREEMENT WITH SILVERDALE WATER DISTRICT

In 2013, the District signed an interlocal agreement with the Silverdale Water District (SWD) to share infrastructure resources. The agreement allows the District to use part of the SWD's water utility plant to move water through Kitsap County which saves the District from needing to build similar infrastructure. The cost to the District was approximately \$2.5 million. The District capitalized the total costs as an intangible asset, amortized over 100 years.

The District and SWD share in all costs associated with the design and construction of the Newberry Pump Station and Newberry Water Main construction projects. On December 31, 2023, the District expects an estimated receivable in the amount of \$80,351 from SWD. The estimated receivable is subject to management review and approval by the Board of Commissioners or an amendment to the Interlocal Agreement between the District and SWD.

17. IMPLEMENTATION OF GASB STANDARDS

On January 1, 2023, the District implemented the following GASB Statements:

GASB 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement requires recognition of certain subscription assets and liabilities for arrangements that previously were classified as operating expense and recognized as outflows of resources based on the payment provisions of the contract. It establishes a single model for SBITA accounting based on the foundational principle that SBITAs are financings of the rights to use an underlying information technology software asset.

As a result of implementing this GASB, the District has recorded the intangible, right to use, SBITA asset of \$115,172 and SBITA liability of \$57,100, with respective accumulated amortization in fiscal year 2023 of \$37,538. Additionally, \$7,755 was reclassified from prepaid assets to intangible right to use assets.

18. SUBSEQUENT EVENTS

The District has evaluated subsequent events through August 29, 2024.

On April 30, 2024, the District selected Northwest Municipal Advisors to assist in the structuring and issuance of two bonds in August of 2024 as recommended with rate increases by the FCS rate study conducted in 2023 and finalized in March of 2024.

On August 27, 2024, the District Board of Commissioners authorized the issuance and sale of tax-exempt water system revenue and refunding bonds in the principal amount of not to exceed \$11.5M and taxable limited tax general obligation and refunding bonds in the principal amount of not to exceed \$9.5M.

The purpose of the water system revenue and refunding bonds is to provide \$8.25M to support its 2024-2025 capital infrastructure replacement and improvement plan. The District is also considering refinancing its 2013 Water System Revenue and Refunding Bonds, with currently estimated savings of \$1.95M.

The purpose of the limited tax general obligation and refunding bonds is to provide \$7.5M for the telecommunications 2024-2026 capital improvement plan, supporting further expansion of its broadband network. The District is also considering refinancing its 2013A Limited Tax General Obligation Bonds, with currently estimated savings of \$1.22M.

As of May 2024, the District has negotiated an ILA with Kitsap County Sewer District 7 (KCSD7) to provide Satellite Management Operations for their wastewater treatment facility. The ILA took effect on July 1, 2024, and the District is currently providing services to KCSD7. This includes the performance of duties related to and oversight of administrative, financial, and operational responsibilities by employees of Kitsap Public Utility District. Compensation for services rendered is on a time and materials basis.

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Kitsap County PUD No 1

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30

Last Ten Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2023	0.035541%	\$ 811,306	\$ 6,331,559	12.81%	80.16%
2022	0.032457%	903,722	5,361,724	16.86%	76.56%
2021	0.033357%	407,367	5,119,721	7.96%	89.00%
2020	0.030687%	1,083,417	4,672,348	23.19%	69.00%
2019	0.030969%	1,190,868	4,341,914	27.43%	67.00%
2018	0.029564%	1,320,338	3,928,666	33.61%	63.00%
2017	0.028682%	1,360,983	3,616,909	37.63%	61.00%
2016	0.028517%	1,531,497	3,390,312	45.17%	57.00%
2015	0.029526%	1,544,484	3,383,644	45.65%	59.00%
2014	0.030168%	1,519,727	3,295,831	46.11%	61.00%

Factors that significantly affect trends in the amounts reported in the schedule 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. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

See Notes to Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Kitsap County PUD No 1

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30

Last 10 Fiscal Years

Year Ended June 30,	Employer's proportion of the net pension liability (asset)	Employer's proportionate share of the net pension liability	Covered payroll	Employer's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2023	0.045801%	\$ (1,877,238)	\$ 6,331,559	-29.65%	107.02%
2022	0.042447%	(1,574,266)	5,361,724	-29.36%	106.73%
2021	0.042805%	(4,264,067)	5,119,721	-83.29%	120.29%
2020	0.040169%	513,739	4,672,348	11.00%	97.22%
2019	0.039953%	388,079	4,341,914	8.94%	97.77%
2018	0.038135%	651,121	3,928,666	16.57%	95.77%
2017	0.036892%	1,281,821	3,616,909	35.44%	90.97%
2016	0.036588%	1,842,177	3,390,312	54.34%	85.82%
2015	0.038128%	1,362,335	3,383,644	40.26%	89.20%
2014	0.038841%	785,117	3,295,831	23.82%	93.29%

Factors that significantly affect trends in the amounts reported in the schedule 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. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

See Notes to Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Kitsap County PUD No 1
 Schedule of Employer Contributions
 PERS 1
 For the Year Ended December 31
 Last Ten Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2023	\$ 229,547	\$ (229,547)	\$ -	\$ 6,725,487	3.41%
2022	216,587	(216,587)	-	5,765,016	3.76%
2021	224,230	(224,230)	-	5,238,612	4.28%
2020	232,523	(232,523)	-	4,844,322	4.80%
2019	221,671	(221,671)	-	4,491,719	4.94%
2018	210,805	(210,805)	-	4,160,434	5.07%
2017	182,869	(182,869)	-	3,725,565	4.91%
2016	167,646	(167,646)	-	3,514,584	4.77%
2015	147,240	(147,240)	-	3,343,823	4.40%
2014	132,060	(132,060)	-	3,276,517	4.03%

Factors that significantly affect trends in the amounts reported in the schedule 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. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

See Notes to Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION - State Sponsored Plans

Kitsap County PUD No 1
 Schedule of Employer Contributions
 PERS 2/3
 For the Year Ended December 31
 Last Ten Fiscal Years

Year Ended December 31,	Statutorily or contractually required contributions	Contributions in relation to the statutorily or contractually required contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2023	\$ 427,742	\$ (427,742)	\$ -	\$ 6,725,487	6.36%
2022	366,655	(366,655)	-	5,765,016	6.36%
2021	373,451	(373,451)	-	5,238,612	7.13%
2020	383,671	(383,671)	-	4,844,322	7.92%
2019	326,309	(326,309)	-	4,491,719	7.26%
2018	312,078	(312,078)	-	4,160,434	7.50%
2017	257,107	(257,107)	-	3,725,565	6.90%
2016	218,959	(218,959)	-	3,514,584	6.23%
2015	189,213	(189,213)	-	3,343,823	5.66%
2014	163,538	(163,538)	-	3,273,517	5.00%

Factors that significantly affect trends in the amounts reported in the schedule 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. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

See Notes to Required Supplementary Information

Kitsap County PUD No 1
Notes to Required Supplementary Information - Pension

For the Year Ended December 31
Last Ten Fiscal Years

Note 1: Significant Factors

There were no changes of benefit terms, significant changes in the employees covered under the benefit terms or in the use of different assumptions.

Note 2: Covered payroll

Covered payroll has been presented in accordance with GASB 82, *Pension Issues*. Covered payroll includes all payroll on which a contribution is based.

Note 3: Change in contribution rate

Rates in effect during the periods covered by the Required Supplemental Information are below:

PERS 1

<u>From this</u>	<u>Through this</u>	<u>Employer</u>
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/1/2022	6/30/2023	10.39%
7/1/2023	8/31/2023	9.39%
9/1/2023	current	9.53% *

* Employer contribution rate includes an administrative expense rate of 0.20%

PERS 2/3

<u>From this</u>	<u>Through this</u>	<u>Employer</u>
<u>Date</u>	<u>Date</u>	<u>Rate</u>
9/1/2013	6/30/2015	9.21%
7/1/2015	6/30/2017	11.18%
7/1/2017	8/31/2018	12.70%
9/1/2018	6/30/2019	12.83%
7/1/2019	8/31/2020	12.86%
9/1/2020	6/30/2021	12.97%
7/1/2021	8/31/2022	10.25%
9/1/2022	6/30/2023	10.39%
7/1/2023	8/31/2023	9.39%
9/1/2023	current	9.53% *

* Employer contribution rate includes an administrative expense rate of 0.20%

KITSAP PUBLIC UTILITY DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
PUBLIC EMPLOYEES BENEFIT BOARD
FOR THE YEAR ENDED DECEMBER 31

Total OPEB liability	2023	2022	2021	2020	2019	2018
Service cost	\$ 86,795	\$ 141,416	\$ 151,032	\$ 107,563	\$ 113,630	\$ 134,367
Interest	92,898	63,188	60,558	68,848	83,172	75,221
Differences between expected and actual experience	-	126,372	-	116,130	(213,459)	(132,297)
Changes of assumptions or other inputs	80,611	(831,097)	-	529,491	-	-
Implicit Rate Subsidy Fulfilled	(69,285)	(27,777)	-	-	-	-
Benefit payments	(55,817)	(49,042)	(4,002)	(93,060)	(11,163)	(6,029)
Net change in total OPEB liability	135,202	(576,940)	207,588	728,972	(27,820)	71,262
Total OPEB liability beginning	2,372,841	2,949,781	2,742,193	2,013,221	2,041,041	1,969,779
Total OPEB liability ending	<u>\$ 2,508,043</u>	<u>\$ 2,372,841</u>	<u>\$ 2,949,781</u>	<u>\$ 2,742,193</u>	<u>\$ 2,013,221</u>	<u>\$ 2,041,041</u>
Covered employee payroll	\$ 6,504,074	5,446,270	4,783,033	4,800,300	4,491,719	\$ 4,161,434
Total OPEB liability as a percentage of covered employee payroll	38.56%	43.57%	61.67%	57.13%	44.82%	49.05%

Notes to schedule

1. Changes of assumptions

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2023	3.75%	2020	2.21%
2022	4.02%	2019	3.50%
2021	2.16%	2018	3.87%

2. The District implemented GASB 75 in 2018, therefore no data is presented before then. Eventually, ten years of data will be presented.

3. There are no assets accumulated in a trust that meets the criteria of GASB 75, to pay related benefits.

**Public Utility District No. 1 of Kitsap County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Kitsap County)	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027	KC-438-23	169,794	-	169,794	-	4,5
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WA State Dept of Commerce - CERB)	COVID 19 - Coronavirus Capital Projects Fund	21.029	S21-96401-024	231,416	-	231,416	-	4
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via WA State Dept of Commerce - CERB)	COVID 19 - Coronavirus Capital Projects Fund	21.029	S21-96401-028	945,761	-	945,761	-	4
Total ALN 21.029:				1,177,177	-	1,177,177	-	
Drinking Water State Revolving Fund Cluster								
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via WA State DOH)	Drinking Water State Revolving Fund	66.468	DWL26156	1,037,541	-	1,037,541	-	3(a),4
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via WA State DOH)	Drinking Water State Revolving Fund	66.468	DWL27106	555,193	-	555,193	-	3(b),4
Total Drinking Water State Revolving Fund Cluster:				1,592,734	-	1,592,734	-	

The accompanying notes are an integral part of this schedule.

**Public Utility District No. 1 of Kitsap County
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 2023**

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	COVID 19 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	-	15,149	15,149	-	6
Total Federal Awards Expended:				2,939,705	15,149	2,954,854	-	

The accompanying notes are an integral part of this schedule.

**Public Utility District No. 1 of Kitsap County
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2023**

Note 1 - Basis of Accounting

This Schedule is prepared on the same basis of accounting as PUD No. 1 of Kitsap County's financial statements. PUD No. 1 of Kitsap County uses the accrual basis of accounting.

Note 2 - Federal Indirect Cost Rate

PUD No. 1 of Kitsap County has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The amounts expended do not include any indirect cost recoveries.

Note 3 - Federal Loans

(a) PUD No. 1 of Kitsap County was approved by the EPA and the Washington State DOH to receive a loan totaling \$2,455,000 to make improvements to the Bill Point and South Bainbridge Island regional water systems. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is \$1,343,505.

(b) PUD No. 1 of Kitsap County was approved by the EPA and the Washington State DOH to receive a loan totaling \$2,410,350 to consolidate the Bill Point, Island Utility and South Bainbridge Island water systems. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is \$545,877

Both the current and prior year loans are reported on the District's Schedule of Changes in Long-Term Liabilities.

Note 4 - Program Costs

The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the PUD No. 1 of Kitsap County's portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 5 - Program Costs

Of the \$169,794 in expenditures reported this year, \$9,606 is from a prior period. The grant subrecipient agreement between PUD No. 1 of Kitsap County and Kitsap County, with a contract term of 12/1/21 - 6/30/26 was not received until 8/30/23 and was signed and executed on 9/13/23. Due to the District's inability to confirm allowed costs for the 2022 reporting period without a contract, the \$9,606 in 2022 expenditures was not considered reportable in 2022. It is now being reported in 2023, the year in which the contract was received and executed.

Note 6 - Program Costs

The entire \$15,149 grant is from expenditures in 2020 and 2021.

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