



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Public Utility District No. 1 of Mason County

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

Published September 23, 2024

Report No. 1035616



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

September 23, 2024

Board of Commissioners
Public Utility District No. 1 of Mason County
Shelton, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Public Utility District No. 1 of Mason 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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TABLE OF CONTENTS

Schedule of Findings and Questioned Costs.....	4
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	6
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance	8
Independent Auditor's Report on the Financial Statements.....	12
Financial Section.....	16
About the State Auditor's Office.....	60

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Financial Statements

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

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We 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 its major federal program.

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

Identification of Major Federal Programs

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

<u>ALN</u>	<u>Program or Cluster Title</u>
97.039	Hazard Mitigation Grant

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 Mason County January 1, 2023 through December 31, 2023

Board of Commissioners
Public Utility District No. 1 of Mason County
Shelton, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Mason 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 16, 2024.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

We noted certain other matters that we have reported to the management of the District in a separate letter dated September 16, 2024.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

Pat McCarthy, State Auditor

Olympia, WA

September 16, 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 Mason County January 1, 2023 through December 31, 2023

Board of Commissioners
Public Utility District No. 1 of Mason County
Shelton, 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 Mason 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.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

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

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

Pat McCarthy, State Auditor

Olympia, WA

September 16, 2024

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

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

Board of Commissioners
Public Utility District No. 1 of Mason County
Shelton, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Public Utility District No. 1 of Mason 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 financial position of Public Utility District No. 1 of Mason County, as of December 31, 2023, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Required Supplementary Information

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

Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 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, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

September 16, 2024

FINANCIAL SECTION

Public Utility District No. 1 of Mason 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 Financial Statements – 2023

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Schedule of Changes in Total OPEB 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

Mason County Public Utility District #1

Management Discussion and Analysis

December 31, 2023

As Management of Mason County PUD #1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2023, with additional comparative data for 2022.

Overview of the Financial Statements

The following Management Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements and accompanying notes, and if applicable, any other supplementary information required as part of the basic financial statements.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the full-accrual basis of accounting, where the revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate fund(s).

The basic financial statements, presented for the year ended December 31, 2023, are comprised of:

- **Statement of Net Position:** The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.
- **Statement of Revenue, Expenses, and Changes in Fund Net Position:** This statement provides detail on the revenues and expenses for the year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through user fees and other charges.
- **Statement of Cash Flows:** The Statement of Cash Flows provides information on the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing.

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

Financial Analysis

The District's assets and deferred outflows exceeded liabilities and deferred inflows by just over \$38 million at the close of fiscal year 2023. Net position over time may serve as a useful indicator of a government's financial position.

Condensed Financial Information for December 31, 2023 and 2022 (In Thousands)

Statement of Net Position	2023	2022	% Change
Current Assets and Special Funds	7,883	8,968	-12%
Net Capital Assets	46,617	43,148	8%
Net Pension Asset	836	774	8%
Deferred Outflow of Resources	1,173	1,296	-9%
Total Assets	56,509	54,186	4%
Current Liabilities	2,396	2,543	-6%
Non-Current Liabilities	14,337	15,034	-5%
Total Liabilities	16,730	17,577	-5%
Deferred Inflows of Resources	962	1,398	-31%
Net Investments in Capital Assets	33,561	29,466	14%
Restricted for Customer Deposits	108	96	13%
Restricted for Debt Service	997	954	5%
Restricted for Net Pension Asset	1,060	749	42%
Unrestricted	3,091	3,945	-22%
Total Net Position	38,817	35,210	10%

The largest portion of the District's net position (87 percent) reflects investments in capital assets (land, buildings, substations, water infrastructure, wellhouses and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers. Although the District's investments in capital assets are reported net of related debt, it's important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

6 percent of the District's net position reflects resources that are subject to external restrictions on how they may be used. Specifically restricted for debt service payments and customer deposits. The remaining 7 percent is unrestricted and may be used to meet the District's ongoing obligations.

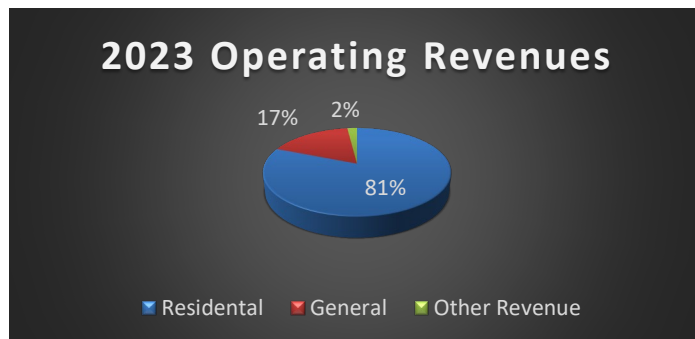
The District's overall net position increased by just over \$3.5 million from the prior fiscal year. The reasons for this increase are discussed in the following sections.

Statement of Revenues, Expenses and Change in Net Position

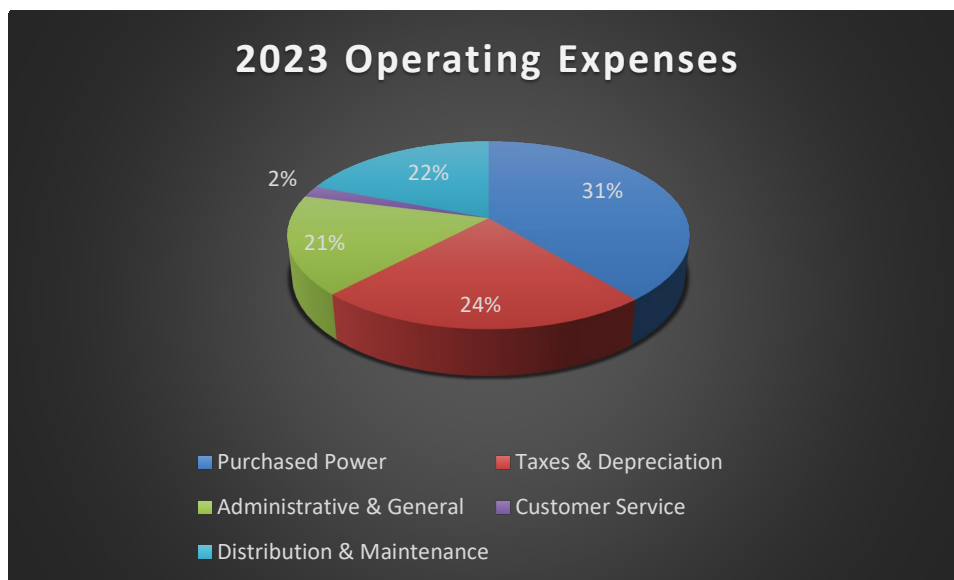
	2023	2022	% Change
Operating Revenues	13,220	13,376	-1%
Operating Expenses	(11,089)	(10,907)	2%
Net Operating Income	2,131	2,469	-14%
Non-Operating Revenues	1,962	2,185	-10%
Non-Operating Expenses	(487)	(621)	-22%
Net Operating Revenue (Expenses)	1,475	1,564	6%
Change In Net Position	3,606	4,033	11%
Net Position - Beginning of Year	35,211	31,178	13%
Net Position - End of Year	38,817	35,211	10%

The District's total operating revenue decreased by \$156 thousand dollars from 2022 to 2023 to \$13.2 million. Kilowatt hour sales decreased to 83.7 million kWh's as compared to 2022's total of 86.3 million kWh's. Even though the electric usage decreased in 2023, the District continued to have new electric service connections. In 2023, the District received a Revenue Distribution Credit from Bonneville Power Administration. The Board voted to pass that credit onto its ratepayers, which equated to \$533,057, which reduced the overall revenue of the District. Even with the energy credit issued to electric ratepayers and the reduction in kWh sales, the overall reduction in revenue only equated to 1% as compared to 2022. Other non-operating revenues increased in part because of the District's investments in the Local Government Investment Pool and the interest income received in 2023. Interest rates continue to hover all of 2023 between 4.5% to 5.45% at yearend. This equates to an increase of just over \$285 thousand in interest revenue. The District received grant income to assist with various electric and water projects.

In 2023, the District's revenue was primarily residential, making up 81% of the overall revenue for 2023, with general covering 17%, and the remaining 2% made up of other miscellaneous revenue, including street lights.



The District's operating expenses include purchased power, transmission and distribution, customer services, and administrative and general expenses. Overall, the operating expenses increased by \$182 thousand dollars from 2022 to 2023. The increase in labor and material costs played a part in the overall change over 2022, as well as an increase in maintenance work crews performed, rather than capital projects.



In summary, Staff continued to work extremely hard to monitor costs and the cash flow very closely to ensure that the District remained financially stable. Grant funded construction projects have been key to allow the District to complete much need infrastructure upgrades for both electric and water departments, without going out for additional loan funding.

Capital Asset and Long-Term Debt Activity

At the end of 2023, the District invested just over \$3.4 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2022 to 2023 was 7%.

Capital Assets (in thousands)

	2023	2022	% Change
Land	1,282	1,215	6%
Plant in Service	61,327	59,074	4%
Construction Work in Progress	5,139	2,775	85%
Total Capital Assets	67,747	63,064	7%

Construction in progress saw an increase of 85% as compared to 2022. The District has several large projects that were in progress at the end of 2023. A larger balance is expected to continue as the District continues to bid larger construction projects, with the Manzanita substation construction planned for 2024 through 2025. More detailed information about the District's construction work in progress is presented in Note 4 to the financial statements.

Long Term Debt – At the end of 2023, the District had \$13 million in outstanding debt, an overall decrease of \$627 thousand. The District did not acquire new debt in 2023 and is actively working towards paying its debt off faster than the amortization schedules show. In 2023, the District allocated 1% of its revenue from rates towards paying down long-term debt. The additional 1% funded each year will allow the District to pay off its current debt 5-10 years faster. More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.

Requests for Information

The financial reports are designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the District Accountant at N. 21971 Hwy. 101, Shelton, WA 98584.

Mason County PUD #1
Statement of Net Position
December 31, 2023

ASSETS:

Current Assets:

Cash and Cash Equivalents	
Cash & Working Funds	\$ 48,707
Investments	\$ 3,357,584
Accounts Receivable (net)	\$ 1,188,565
Accounts Receivable (other)	\$ 486,440
Inventories	\$ 1,698,856
Prepayments	\$ 710

TOTAL CURRENT ASSETS	\$ 6,780,861
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Noncurrent Assets:

Restricted Assets	
Debt Service Reserves	\$ 996,682
Customer Deposits	\$ 105,336
Net Pension Asset	\$ 836,090
Total Noncurrent Assets	\$ 1,938,108

Capital Assets Not Being Depreciated:

Construction In Progress	\$ 5,139,108
Land & Land Rights	\$ 1,281,751
Total Capital Assets Not Being Depreciated	\$ 6,420,859

Capital Assets Being Depreciated:

Distribution	\$ 46,715,259
General Plant	\$ 11,249,822
Transmission	\$ 3,361,470
Less: Accumulated Depreciation	\$ (21,130,684)
Total Capital Assets Being Depreciated (Net)	\$ 40,195,867

Total Capital Assets	\$ 46,616,726
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TOTAL NONCURRENT ASSETS	\$ 48,554,834
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TOTAL ASSETS	\$ 55,335,695
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Deferred Outflows Of Resources:

Outflows of Resources Relating to ARO's	\$ 27,342
Outflows of Resources Relating to OPEB	\$ 430,766
Outflows of Resources Relating to Pensions	\$ 714,966

TOTAL OUTFLOWS OF RESOURCES:	\$ 1,173,074
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 56,508,769
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The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Net Position
December 31, 2023

LIABILITIES

Current Liabilities:

Accounts Payable	\$	779,780
Consumer Deposits	\$	107,743
Current Portion of Bonds, Notes and Loans Payable	\$	907,177
Current Portion of OPEB Liability	\$	115,627
Other Current Liabilities	\$	<u>482,749</u>

TOTAL CURRENT LIABILITIES	\$	2,393,076
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Noncurrent Liabilities:

Accrued Vacation And Holidays	\$	576,147
Asset Retirement Obligations	\$	27,342
Long Term Debt - Loans	\$	2,978,682
Long Term Debt - Bonds	\$	9,169,237
OPEB	\$	1,224,630
Net Pension Liability	\$	<u>361,220</u>

TOTAL NONCURRENT LIABILITIES	\$	<u>14,337,258</u>
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TOTAL LIABILITIES	\$	16,730,334
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Deferred Inflows of Resources:

Deferred Inflows Related to OPEB	\$	478,907
Deferred Inflows Related to Pensions	\$	<u>482,805</u>

TOTAL DEFERRED INFLOWS OF RESOURCES	\$	<u>961,712</u>
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NET POSITION

Net Investments in Capital Assets	\$	33,561,630
Restricted for Customer Deposits	\$	107,743
Restricted for Debt Service	\$	996,682
Restricted for Net Pension Asset	\$	1,059,998
Unrestricted	\$	<u>3,090,670</u>

TOTAL NET POSITION	\$	<u>38,816,723</u>
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TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$	<u><u>56,508,769</u></u>
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The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD No. 1
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2023

OPERATING REVENUES:

Sales - Residential	\$	10,685,973
Sales - General	\$	2,212,750
Sales - Street Lights	\$	114,621
Other Revenues	\$	<u>206,803</u>
Total Operating Revenues	\$	13,220,147

OPERATING EXPENSES:

Cost of Purchased Power	\$	3,478,372
Transmission Expense	\$	6,454
Distribution & Maintenance Expense	\$	2,390,315
Customer Service Expense	\$	258,974
General Administration	\$	2,344,165
Depreciation & Amortization	\$	1,749,201
Taxes	\$	<u>861,528</u>
Total Operating Expenses	\$	<u>11,089,009</u>

OPERATING INCOME	\$	2,131,138
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NON-OPERATING REVENUE(EXPENSES):

Revenue from Merchandising/Jobbing and Contract Work	\$	116,717
Costs and Expenses Merchandising Jobbing and Contract work	\$	(20,893)
Interest and Dividend Income	\$	285,061
Interest Expense and Related Charges	\$	(466,363)
Other Non-Operating Revenues	\$	<u>1,560,064</u>
Total Non-Operating Revenues(Expenses)	\$	<u>1,474,586</u>

CHANGE IN NET POSITION	\$	3,605,724
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Total Net Position	January 1, 2023	\$	<u>35,210,999</u>
Total Net Position	December 31, 2023	\$	<u><u>38,816,723</u></u>

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31, 2023

CASH FLOWS from OPERATING ACTIVITIES:

Receipts from Customers	\$	13,220,147
Receipts from Grants	\$	917,959
Payments to Suppliers	\$	(4,946,800)
Payments to Employees	\$	<u>(5,167,011)</u>
Net Cash Provided(used) by Operating Activities	\$	<u>4,024,295</u>

CASH FLOWS from CAPITAL FINANCING ACTIVITIES:

Proceeds from Capital Debt	\$	-
Purchases of Capital Assets	\$	(4,577,009)
Principal Paid on Capital Debt	\$	(841,930)
Interest Paid on Capital Debt	\$	<u>(466,363)</u>
Net cash Provided (Used) by Capital and Related Financing Activities	\$	<u>(5,885,301)</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest and Dividends		
Net Cash Provided by Investing Activities	\$	<u>285,061</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(1,575,945)
Cash and Cash Equivalents Balances - Beginning of Year	\$	<u>6,084,254</u>
Cash and Cash Equivalents Balances - End of Year	\$	<u><u>4,508,309</u></u>

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31, 2023

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$	2,131,138
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	\$	1,749,201
Receipts from Grants	\$	917,959
Other Deductions	\$	-
Change In Assets and Liabilities		
Accounts and Other Payable	\$	(258,908)
Inventories	\$	(561,558)
Prepayments	\$	51,168
Receivables - Net	\$	<u>(4,705)</u>
Net Cash Provided by Operating Activities	\$	<u><u>4,024,295</u></u>

The Accompanying Notes Are An Integral Part Of This Statement

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statements of the district 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.

A. Reporting Entity

Public Utility District No. 1 of Mason County (the PUD) was incorporated on November 6, 1934 and operates under the laws of the state of Washington applicable to a public utility.

The PUD is a special purpose government and provides electric, water, and sewer services to the general public. The PUD is primarily supported through user charges (or where the governing body has decided that periodic determination of net income is needed).

An elected 3-member board of commissioners governs the PUD. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The PUD has no component units.

B. Basis of Accounting and Presentation

The accounting records of the PUD are maintained in accordance with methods prescribed by the United States Department of Agriculture, Rural Utilities Services (RUS) and the State Auditor under the authority of Chapter 43.09 RCW. The PUD uses the Uniform System of Accounts – Electric, RUS Bulletin 1767B-1.

The PUD uses the full-accrual basis of accounting, where the revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized, and long-term liabilities are accounted for in the appropriate fund(s).

The PUD distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the PUD's principal ongoing operations. The principal operating revenues of the PUD are charges to customers for power, water, and sewer. Operating expenses for the PUD include cost of operations and maintenance, administrative and customer service, depreciation, taxes and debt amortization. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the PUD's policy to invest all temporary cash surpluses, in excess of the operating reserve in the Washington State Treasurer's Investment Pool. At December 31, 2023, the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

treasurer was holding \$4,508,309 in short term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents, restricted assets, and investments in various funds.

For the purposes of the Statement of Cash Flows, the PUD considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. **Investments** – See Note 2, Deposits and Investments.

3. **Receivables**

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services, including amounts owed for which billings have not been prepared. Notes and contract receivables consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

The PUD writes off accounts deemed to be uncollectible to the bad debt expense account.

4. **Inventories**

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the individual inventory items are consumed. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the balance is not available for future expenditures. A comparison market value is not necessary.

Inventories are expensed using the FIFO reporting method, where the inventory acquired first is expensed, over time.

5. **Restricted Assets**

These accounts contain resources for debt service and customer deposits. Specific debt service reserve requirements are described in Note 8, Long-Term Debt.

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

Cash and Investments – Debt Service	\$996,682
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Cash and Investments – Customer Deposits	\$105,336
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6. **Capital Assets and Depreciation** – See Note 3.

7. **Leases**

The District is a lessee for leases and has established, through policy, a threshold for determining when it is necessary to recognize a lease liability on the District's financial statements. The threshold adopted through policy is 1% of the District's 10% net investment

in capital assets. The District reviews the threshold on an annual basis, relative to the lease liability value to ensure if the value exceeds the established threshold. If at any time the lease liability exceeds the threshold, the District will follow the measures noted below for recognizing a lease on the financial statements. As of December 31, 2023 the total lease liability is \$8,868. The threshold as of December 31, 2023 is \$46,617. Since the liability is less than the established threshold, the District did not recognize a lease liability on the government wide financial statements for 2023.

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 method over its useful life.

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

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the 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 remeasurement of its lease, and will remeasure the leased asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. The PUD accrues unpaid leave for compensated absences as an expense and liability when incurred.

Vacation pay, which may be accumulated up to 1200 hours, is payable upon resignation, retirement, or death.

9. Pensions

For purposes of measuring the net pension liability, 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 market 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.

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

11. Long-Term Debt – See Note 8.

12. Net Position Classification

For government-wide reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2023 was \$4,508,309.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The district's deposits and certificates of deposit are entirely covered by Federal Depositary Insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Therefore, there are no policy and no custodial credit risks.

B. Investments

It is the District's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

Investments in Local Government Investment Pool (LGIP)

The district is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawal.

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

Investments Measures at Fair Value

The PUD measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2023, the district had the following investments measured at fair value:

Investments by Fair Value Level	12/31/2023	Fair Value Measurement Using		
		Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Class A Equity Investment	\$ 10,000	\$ 10,000	\$ -	\$ -
<hr/>				
Investments measured at amortized cost				
State Local Government Investment Pool (LGIP)	\$ 4,157,787			
<hr/>				
Total Investments in Statement of Net Position	\$4,167,787			

NOTE 3- CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined by the PUD as assets with individual costs of more than \$2,500 and an estimated useful life in excess of 1 year.

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility Plant in Service (and other capital assets) are recorded at cost (where the historical costs are known) or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 10 to 36 years. Depreciation expense for fleet is allocated to maintenance and repairs, based on the payroll hours designated each month to those corresponding GL accounts. For 2023, \$272,030 in depreciation expense was allocated to various maintenance and repair GL accounts and not included in the depreciation expense line item on the Statement of Revenues, Expenses and Changes in Fund Net Position.

Capital asset activity for the year ended December 31, 2023 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant Not Being Depreciated				
Land	\$ 1,215,244	\$ 66,521	\$ (14)	\$ 1,281,751
Construction in Progress	\$ 2,775,752	\$ 8,187,804	\$ (5,824,448)	\$ 5,139,108
Total Utility Plant Not Being Depreciated	\$ 3,990,996	\$ 8,254,325	\$ (5,824,462)	\$ 6,420,859
Utility Plant Being Depreciated				
Distribution and Transmission Plant	\$ 48,567,609	\$ 3,365,619	\$ (1,856,499)	\$ 50,076,729
General Plant	\$ 10,506,414	\$ 921,266	\$ (177,858)	\$ 11,249,822
Total Utility Plant Being Depreciated	\$ 59,074,023	\$ 4,286,885	\$ (2,034,357)	\$ 61,326,551
Less Accumulated Depreciation	\$ (19,916,933)	\$ (2,276,806)	\$ 1,063,056	\$ (21,130,683)
Total Utility Plant Being Depreciated (Net)	\$ 39,157,090	\$ 2,010,079	\$ (971,301)	\$ 40,195,868
Total Utility Plant (Net)	\$ 43,148,086	\$ 10,264,404	\$ (6,795,763)	\$ 46,616,727

NOTE 4-CONSTRUCTION AND OTHER SIGNIFICATN COMMITMENTS

Construction Commitments –

The District has active construction projects as of December 31, 2023 for both the Electric and Water divisions. The electric projects include the design of the Manzanita Substation, in addition to procurement of materials for the substation that have long lead times. Construction will hopefully start in the Spring of 2024, with planned completion by the end of 2025. For the water division, there are several projects in the design phase, including mainline replacement, iron and manganese treatment, and whole system upgrades. The Lake Arrowhead Manganese Treatment was 98% complete at the end of 2023, and Agate Beach Water System Upgrades phase 2 was 100% complete at yearend.

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

Project	Spent to Date	Remaining Commitment
Hill Way Overhead to Underground	\$ 699,307	\$ 265,337
Manzanita Substation	\$ 1,002,465	\$ 2,817,704
Eldon Fiber & Pole Rplacement	\$ 1,446,678	\$ 153,036
Duckabush Estuary Highway Relocation	\$ 56,816	\$ 943,184
Shadowood Water System Upgrades	\$ 268,923	\$ 1,876,889
Agate Beach Water System Upgrades	\$ 460,503	\$ 98,497
Lake Arrowhead Mainline Replacement Ph. 2	\$ 200,639	\$ 2,307,619
Ripplewood Mainline Replacement	\$ 87,090	\$ 618,671
Lake Arrowhead Manganese Treatment	\$ 322,705	\$ -
Bay East Iron & Manganese Treatment	\$ 40,365	\$ 773,228
Canal View Water System Upgrades	\$ 94,360	\$ 373,899

(The committed balance of \$10,228,064 is secured through grants, designated reserve funding, and State Revolving Fund loans. No additional funding will be required for future financing).

NOTE 5 – PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$361,220)
Pension assets	\$836,090
Deferred outflows of resources	\$714,966
Deferred inflows of resources	(\$482,805)
Pension expense/expenditures	(\$119,611)

State Sponsored Pension Plans

Substantially all district's 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

NOTE 5 – PENSION PLANS (Continued)

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 local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

NOTE 5 – PENSION PLANS (Continued)

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

* For employees participating in JBM, the contribution rate was 12.26%.

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).

NOTE 5 – PENSION PLANS (Continued)

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 defined benefit required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

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

* For employees participating in JBM, the contribution rate was 15.90%.

**For employees participating in JBM, the minimum contribution rate was 7.5%.

The district's actual PERS plan contributions were \$104,983 to PERS Plan 1 and \$198,793 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.

NOTE 5 – PENSION PLANS (Continued)

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

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

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

Discount Rate

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

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

Long-Term Expected Rate of Return

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

NOTE 5 – PENSION PLANS (Continued)

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS 1	504,651	361,220	236,038
PERS 2/3	909,348	(836,090)	(2,270,079)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2023, the district's reported its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$361,220
PERS 2/3	(\$836,090)

NOTE 5 – PENSION PLANS (Continued)

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

	Proportionate Share 6/30/22	Proportionate Share 6/30/23	Change in Proportion
PERS 1	.016002%	.015824%	(.000178)%
PERS 2/3	.020871%	.020399%	(.000472)%

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 except LEOFF 1.

Pension Expense

For the year ended December 31, 2023, the district's recognized pension expense as follows:

	Pension Expense
PERS 1	\$(8,113)
PERS 2/3	\$(111,498)
TOTAL	\$(119,611)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2023, the district's 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
Differences between expected and actual experience	\$	\$
Net difference between projected and actual investment earnings on pension plan investments	\$	\$(40,747)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$49,000	\$
TOTAL	\$49,000	\$(40,747)

NOTE 5 – PENSION PLANS (Continued)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$170,311	\$(9,342)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(315,089)
Changes of assumptions	\$351,020	\$(76,508)
Changes in proportion and differences between contributions and proportionate share of contributions	\$38,325	\$(41,118)
Contributions subsequent to the measurement date	\$106,311	\$0
TOTAL	\$665,966	\$(442,058)

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

Year ended December 31:	PERS 1
2024	\$(27,723)
2025	\$(34,864)
2026	\$21,497
2027	\$343
2028	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3 Inflows	PERS 2/3 Outflows
2024	\$(17,340)	\$12,942
2025	\$(9,110)	\$12,942
2026	\$(8,230)	\$4,133
2027	\$(3,219)	\$3,981
2028	\$(3,219)	\$2,276
Thereafter	\$0	\$2,049

NOTE 6 – DEFERRED COMPENSATION PLAN

The PUD offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington. The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The assets held in the deferred compensation plan are not available to employees until termination, retirement, death, or unforeseeable emergency.

NOTE 7 – RISK MANAGEMENT

The PUD purchases their liability insurance from Federated Rural Insurance Corporation. The PUD maintains a \$2,000,000 all-risk blanket with a \$15,000,000 umbrella policy. No insurance settlements have exceeded insurance coverage in the past 3 years. The risk of loss to the PUD is covered by:

- Liability coverage in the amount of \$21,642,633. This covers general liability, property damage, automobile coverage, personal injury, medical payments, and valuable papers.
- Employee dishonesty, money, and securities in the amount of \$4,000,000.
- Directors, Officers and Managers Liability and Corporate Indemnification Policy in the amount of \$1,000,000.
- Workers Compensation Insurance of \$100,000.
- Public Official Bond for the Treasurer in the amount of \$1,000,000.

NOTE 8 – LONG-TERM DEBT

Long-Term Debt

The District issues a combination of RUS Bonds and Revenue Bonds for both electric and water divisions. The Bonds were purchased for electrical distribution, transmission and special equipment replacement and additions. They include wire, transformers, meters, conduit, and poles, and other electrical equipment. PWTF and Water Bond Loans were purchased for water distribution, transmission and meter replacement and additions, including piping, pumps, well houses, reservoirs, wells and many other water related equipment.

The revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Electric System RUS Revenue Bonds	2045	2.853%	3,880,000	149,231
Electric System Revenue Bonds 2014	2014-2033	3.00%	3,585,000	175,000
Electric System Revenue Bonds 2018	2019-2038	4.00%	6,730,000	275,000
Water System Revenue Bonds 2018	2032	3.44%	3,000,000	193,000

NOTE 8 – LONG TERM DEBT (Continued)

Revenue bond debt service requirements to maturity are as follows:

Calendar Year Ending December 31, 2023:

Year	Principal	Interest	Total
2024	792,231	470,743	1,262,974
2025	783,385	424,838	1,208,223
2026	815,385	394,187	1,209,571
2027	812,538	347,385	1,159,923
2028	875,385	330,275	1,205,660
2029	932,231	308,179	1,240,410
2030	935,385	258,908	1,194,293
2031-2035	3,770,923	758,656	4,529,513
2036-2040	1,951,923	208,892	2,160,815
2041-2045	477,539	28,935	506,474
TOTAL	\$12,146,923	\$3,530,932	\$15,677,855

Debt issuance costs are expensed in the period incurred and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium.

At December 31, 2023 the District has \$901,915 available in debt service funds to service the revenue bonded debt. Restricted assets contain \$996,682 in reserves required by bond indentures.

On June 6th, 2014, the PUD issued a \$3,585,000 bond for refinancing the RUS debt of 5%. The bonds bear an average interest rate of 2% to 5% and will be redeemed over the next 20 years. This bond replaces the RUS debt that was to be amortized over the next 28 years. The total savings over the next 20 years is \$874,000. The bond was sold at a premium of \$55,251.50 and has a current balance of \$2,350,000 and a maturity date of December 01, 2033.

On July 24, 2018, the PUD issued \$6,730,000 in revenue bonds to pay off the \$3,000,000 Key Bank Line of Credit and use the remaining funds for infrastructure construction. The bonds bear an average interest rate of 4%, sold at a premium of \$268,331.25, and has a current balance of \$5,505,000, with a maturity date of December 01, 2038. These revenue bonds are tax-exempt and must follow the federal arbitrage regulations. The arbitrage yield for these bonds is 3.358627%.

On April 27, 2018, the PUD issued a \$3,000,000 bond to purchase 32 water systems from Thurston County PUD for \$1,191,357.80, with the remaining funds to be used for infrastructure improvements. The bond bears an interest rate of 3.44%, with a maturity date of 12/01/2032. The balance of the bond at yearend is \$1,930,000. These revenue bonds are tax-exempt and must follow the federal arbitrage regulations. The arbitrage yield for these bonds is 3.4395%.

NOTE 8 – LONG TERM DEBT (Continued)

The PUD has Public Works Trust Fund Loans (PWTF) and Drinking Water State Revolving Fund Loans (DWSRF) for its water systems. The interest rate averages 1% over 20 years.

At December 31, 2023 the balance of the PWTF & DWSRF Loans was \$680,891, detailed as follows:

<u>System</u>	<u>Balance</u>	<u>Maturity</u>	<u>Loan Number</u>
Arcadia Estates Water	\$10,100	10/01/2025	PW-05-691-034
Canal Tracts Water	\$18,627	10/01/2025	PW-05-691-037
Canal Mutual Water	\$54,798	07/01/2027	PW-07-962-302
Hoodsport Water	\$142,287	10/01/2029	PW-99-65199-035
Madrona Beach	\$28,834	10/01/2030	DR-09-952-070
Hood Canal Water	\$211,407	10/01/2031	PC12-951-081
Ripplewood Water	\$20,798	10/01/2046	DWL27245
Canal View Water	\$13,016	10/01/2045	DWL26238
Lake Arrowhead	\$54,203	10/01/2046	DWL27176
Shadowood Water	\$126,819	10/01/2045	DWL26162

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2018 Water Revenue Bonds	2,116,000		186,000	1,930,000	193,000
2014 Revenue Bonds	2,345,000		170,000	2,175,000	175,000
2014 Bond Premium	33,149		2,765	30,388	2,763
RUS Loans	2,656,308		119,384	2,536,923	149,231
PWTF Loans	544,074		78,020	466,054	80,283
DWSRF Loans		224,453	9,617	214,836	9,617
2018 Electric Revenue Bonds	5,770,000		265,000	5,505,000	275,000
2018 Bond Premium	217,658		20,763	196,895	22,283
Total Long-Term Debt	13,682,189	224,453	828,144	13,055,096	907,177

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2023, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable					
2018 Water Bonds	2,116,000		186,000	1,930,000	193,000
2014 Revenue Bonds	2,345,000		170,000	2,175,000	175,000
2014 Bond Premium	33,149		2,765	30,384	2,763
2018 Electric Revenue Bonds	5,770,000		265,000	5,505,000	275,000
2018 Bond Premium	217,658		20,763	196,895	22,283
Total bonds payable	10,481,807	-	644,528	9,837,279	668,046
Loans Payable				-	
RUS Loans	2,656,308		119,384	2,536,924	149,231
PWTF Loans	544,074		78,020	466,054	80,283
DWSRF Loans	-	224,453	9,617	214,836	9,617
Total loans payable	3,200,382	224,453	207,021	3,217,814	239,131
Pension / OPEB Obligations	1,745,591		44,114	1,701,477	115,627
Compensated Absences	489,679	86,468		576,147	
Asset Retirement Obligations	27,342			27,342	
Total Long-Term Liabilities	15,944,801	310,921	895,663	15,360,059	1,022,804

NOTE 10 – CONTINGENCIES AND LITIGATION

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

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

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

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

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$1,340,257

OPEB assets	\$0.00
Deferred outflows of resources	\$430,766
Deferred inflows of resources	\$478,907
OPEB expense/expenditures	\$115,627

The PUD belongs to the State of Washington's Public Employees Benefits Board (PEBB), a single employer defined benefit plan, which provides medical and dental through private health insurance plans to eligible retirees. Retiree benefit provisions are established by Commission resolution.

Employees are eligible for reimbursement of medical and dental coverage provided that they retire from active employment with the PUD with 15 or more years of service. Employee retiree coverage continues for a maximum of 10 years. The elected Commissioners are eligible for payment of post-retirement benefits based on 18 years of service. They are not eligible for a percentage of employment by year and must serve 18 years to receive 54 percent for 10 years. The PUD funding policy and status is a pay as you go and there are no assets that accumulate in a qualifying trust. The PUD pays employees a portion of the premium cost based on years of service at retirement according to the following schedule:

<u>Years of Service</u>	<u>District Percentage</u>	<u>Years of Service</u>	<u>District Percentage</u>
15	45%	23	69%
16	48%	24	72%
17	51%	25	75%
18	54%	26	78%
19	57%	27	81%
20	60%	28	84%
21	63%	29	87%
22	66%	30 or More	100%

Employees covered by benefit terms – At December 31, 2023, the following employees were covered by the benefit terms:

Participants	
Active Employees	29
Inactive Employees Entitled to But Not Yet Receiving Benefits	0
Inactive Employees Currently Receiving Benefits	4
TOTAL	33
Average Ages	
Active Employees	46.7
Inactive Employees Entitled to But Not Yet Receiving Benefits	----
Inactive Employees Currently Receiving Benefits	65.8
Average Service	

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

Changes in the Net OPEB Liability

	Total OPEB Liability
Balances as of 12/31/2022	\$1,300,037
Changes for the year:	
Service Cost	\$59,111
Interest on Total OPEB Liability	53,725
Changes of benefit terms	0
Difference Between Expected & Actual Experience	0
Changes of Assumptions and Other Inputs	34,430
Contributions – Employer	0
Contributions - Active & Inactive Employees	0
Net Investment Income	0
Benefit Payments ⁽²⁾	(107,046)
Administrative Expenses	0
Other Changes	0
Net Changes	<u>\$40,220</u>
Balances as of 12/31/2023	\$1,340,257

(1) Includes the Implicit Rate Subsidy.

Because there were no significant changes to the Postretirement Health Plan since the full valuation for Fiscal Year 2022, Menard Consulting prepared the roll-forward calculation on January 2, 2024, for 2023. The Discount Rate was changed from 4.31% to 4.00%, which is the S& Municipal Bond 20 Year High-Grade Rate Index as of December 31, 2023. All other assumptions, methods, and results are based on Fiscal Year 2022 GASB 75 Actuarial Report dated January 19, 2023.

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

OPEB Expense

Service Cost	\$56,669
Interest on Service Cost	<u>2,442</u>
Total	\$59,111
Interest Cost	53,725
Difference Between Expected & Actual Experience	(4,115)
Changes of Assumptions and Other Inputs	<u>6,906</u>
Total	\$115,627

Deferred Outflows/Inflows of Resources

At December 31, 2023, the district reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected & Actual Experience	\$58,422	\$118,039
Changes of Assumptions	372,344	360,868
Net Difference Between Projected & Actual Earnings on OPEB Plan Investments	<u>0</u>	<u>0</u>
Total	\$430,766	\$478,907

For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's OPEB expense.

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

Future Deferred Outflows/Inflows of Resources

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

Fiscal Year Ending:	Outflows	Inflows
December 31, 2024	\$72,454	\$69,663
December 31, 2025	72,454	69,663
December 31, 2026	72,454	69,663
December 31, 2027	72,454	69,663
December 31, 2028	68,065	62,466
December 31, 2029	52,599	44,514
December 31, 2030	7,823	42,931
December 31, 2031	7,823	39,544
December 31, 2032	4,639	10,799
December 31, 2033	2	0

Significant Assumptions

Health Care Trend Rates

Initial Health Care Cost Trend Rate

- HMO Medical Plan	6.00%
- PPO Medical Plan	6.50%
- Dental HMO Plan	3.50%
- Dental PPO Plan	4.00%
- Vision Plan	2.00%

Ultimate Health Care Cost Trend Rate

- Medical Plans	4.50%
- Dental & Vision Plans	Constant for all years

Fiscal Year the Ultimate Rate is Reached

Fiscal Year 2037

Additional Information

Valuation Date January 1, 2023

Measurement Date December 31, 2022

Actuarial Cost Method Entry Age Normal (AMM)

Discount Rate 4.00%

Inflation Rate 3.00%

Salary Rate Increase 3.50%

Covered Payroll \$2,544,072

Net OPEB Liability as a Percentage of Covered Payroll

50.90%

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

Discount Rate

The District does not have a dedicated Trust to pay retiree healthcare benefits. Per GASB 75, the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

A rate of 4.00% is used, which is the S&P Municipal Bond 20 Year High-Grade Rate Index as of December 31, 2023.

Difference Between Expected & Actual Experience (Economic & Demographic)

Difference	(146,575)
Average Expected Remaining Service Lives	10.27 years
<u>Amortization Schedule</u>	
Fiscal Years 2023 - 2031:	(\$14,268)
Fiscal Year 2032:	(\$3,896)

Changes of Assumption

Change in Discount Rate

Difference	\$34,430
Average Expected Remaining Service Lives	10.001 years
<u>Amortization Schedule</u>	
Fiscal Years 2023 - 2032:	(\$3,443)
Fiscal Year 2033:	\$2

Change in Trend Rates

Difference	\$35,668
Average Expected Remaining Service Lives	10.27 years
<u>Amortization Schedule</u>	
Fiscal Years 2023 - 2031:	\$3,472
Fiscal Year 2032:	\$948

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

Change in Mortality Assumption

Difference	\$9,326
Average Expected Remaining Service Lives	10.27 years

Amortization Schedule

Fiscal Years 2023 - 2031: \$908

Fiscal Year 2032: \$248

Net Difference Between Projected & Actual Earnings on OPEB Plan Investments

Not applicable.

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 4.5 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 – percentage point lower (3.5%) or 1 – percentage point higher (5.5%) than the current rate.

Health Care Trend			
	<u>1% Increase</u>	<u>Valuation Rate</u>	<u>1% Decrease</u>
Total OPEB Liability	\$1,510,584	\$1,340,257	\$1,199,732
Change	12.71%		(10.48%)

The following presents the total OPEB liability of the District calculated using the discount rate of 4.30 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.31%) or 1-percentage point higher (5.31%) than the current rate.

Discount Rate			
	<u>1% Increase</u>	<u>Valuation Rate</u>	<u>1% Decrease</u>
Total OPEB Liability	\$1,233,247	\$1,340,257	\$1,459,380
Change	(7.98%)		8.89%

NOTE 12 –ASSET RETIREMENT OBLIGATIONS (ARO)

The District has identified two asset retirement obligations within its water department. The first ARO is a well located in the Twanoh Terrace water system. This well was damaged in 2001, due to the Nisqually Earthquake. Within the next five years, the Twanoh Terrace system will be consolidated with the Twanoh Heights water system, and will then share the well currently used only by Twanoh Heights. At that time, the Twanoh Terrace well will be decommissioned, pursuant to WAC 173-160-381, regulated by Department of Ecology. The second ARO is a well located in the Lake Arrowhead water system. Well 1 was abandoned due to ground water influence. The District has plans in the next 10 years to decommission the well, pursuant to WAC 173-160-381, regulated by Department of Ecology. The District contracted with an engineering firm to determine the cost of the obligations, which was established using the current value. There are no legally required funding provisions associated with these ARO's, and because the cost to decommission these wells are nominal, the District does not have assets restricted for payment of the liabilities.

NOTE 13 - SEGMENT REPORTING				
	2023	2023	2023	
	Electric	Water	Sewer	TOTALS
CURRENT ASSETS				
Cash and Cash Equivalents				
Cash & Working Funds	\$ 48,707	\$ -	\$ -	\$ 48,707
Investments	\$ 2,888,218	\$ 465,171	\$ 4,195	\$ 3,357,584
Accounts Receivable - Net Sales	\$ 988,392	\$ 200,118	\$ 54	\$ 1,188,565
Accounts Receivable - Other	\$ 990,863	\$ (515,246)	\$ 10,824	\$ 486,441
Inventories	\$ 1,468,485	\$ 221,312	\$ 9,058	\$ 1,698,856
Prepayments	\$ -	\$ 710	\$ -	\$ 710
Total Current Assets	\$ 6,384,665	\$ 372,065	\$ 24,132	\$ 6,780,862
NON-CURRENT ASSETS				
Restricted Assets				
Debt Service	\$ 996,682	\$ -	\$ -	\$ 996,682
Customer Deposits	\$ 85,144	\$ 20,192	\$ -	\$ 105,336
Total Restricted Assets	\$ 1,081,826	\$ 20,192	\$ -	\$ 1,102,018
Net Pension Assets	\$ 836,090			\$ 836,090
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 977,691	\$ 304,060	\$ -	\$ 1,281,751
Construction in Progress	\$ 3,517,512	\$ 1,621,596	\$ -	\$ 5,139,108
Capital Assets Being Depreciated				
Transmission	\$ 3,361,470	\$ -	\$ -	\$ 3,361,470
Distribution	\$ 30,438,880	\$ 16,184,685	\$ 91,694	\$ 46,715,259
General Plant	\$ 8,250,337	\$ 2,987,984	\$ 11,502	\$ 11,249,822
Less: Accumulated Depreciation	\$ (15,244,777)	\$ (5,861,008)	\$ (24,899)	\$ (21,130,684)
Total Capital Assets Being Depreciated (Net)	\$ 26,805,910	\$ 13,311,661	\$ 78,296	\$ 40,195,867
Total Capital Assets	\$ 31,301,113	\$ 15,237,317	\$ 78,296	\$ 46,616,726
Total Non-Current Assets	\$ 33,219,029	\$ 15,257,509	\$ 78,296	\$ 48,554,834
Total Assets	\$ 39,603,694	\$ 15,629,574	\$ 102,428	\$ 55,335,696
Outflows of Resources Relating to ARO's	\$ -	\$ 27,342	\$ -	\$ 27,342
Outflows of Resources Relating to Pensions	\$ 714,966	\$ -	\$ -	\$ 714,966
Outflows of Resources Relating to OPEB	\$ 430,766	\$ -	\$ -	\$ 430,766
Total Outflows of Resources	\$ 1,145,732	\$ 27,342	\$ -	\$ 1,173,074
Total Assets and Deferred Outflows of Resources	\$ 40,749,426	\$ 15,656,916	\$ 102,428	\$ 56,508,769
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 779,780	\$ -	\$ -	\$ 779,780
Consumer Deposits	\$ 87,866	\$ 19,878	\$ -	\$ 107,743
Bonds, Notes and Loans Payable	\$ 624,277	\$ 282,900	\$ -	\$ 907,177
Current Portion OPEB	\$ 115,627	\$ -	\$ -	\$ 115,627
Other Current Liabilities	\$ 481,152	\$ 1,596	\$ -	\$ 482,749
Total Current & Accrued Liabilities	\$ 2,088,702	\$ 304,374	\$ -	\$ 2,393,077
Non-Current Liabilities:				
Accrued Vacation and Holidays	\$ 576,147	\$ -	\$ -	\$ 576,147
Asset Retirement Obligations	\$ -	\$ 27,342	\$ -	\$ 27,342
Long Term Debt - Loans	\$ 2,387,692	\$ 590,990	\$ -	\$ 2,978,682
Long Term Debt - Bonds	\$ 7,432,237	\$ 1,737,000	\$ -	\$ 9,169,237
OPEB	\$ 1,224,630	\$ -	\$ -	\$ 1,224,630
Net Pension Liability	\$ 361,220		\$ -	\$ 361,220
Total Non-Current Liabilities	\$ 11,981,926	\$ 2,355,332	\$ -	\$ 14,337,258
Total Liabilities	\$ 14,070,628	\$ 2,659,706	\$ -	\$ 16,730,335
Deferred Inflow Related to Pensions	\$ 482,805	\$ -	\$ -	\$ 482,805
Deferred Inflow Related to OPEB	\$ 478,907	\$ -	\$ -	\$ 478,907
Total Inflows of Resources	\$ 961,712	\$ -	\$ -	\$ 961,712
Net Position				
Net Investments in Capital Assets	\$ 20,856,907	\$ 12,626,427	\$ 78,296	\$ 33,561,630
Restricted for Customer Deposits	\$ 87,866	\$ 19,878	\$ -	\$ 107,743
Restricted for Debt Service	\$ 996,682	\$ -	\$ -	\$ 996,682
Restricted for Net Pension Asset	\$ 1,059,998	\$ -	\$ -	\$ 1,059,998
Unrestricted	\$ 2,715,633	\$ 350,904	\$ 24,133	\$ 3,090,670
Total Net Position	\$ 25,717,086	\$ 12,997,209	\$ 102,429	\$ 38,816,723
TOTAL NET POSITION, LIABILITIES AND DEFERRED	\$ 40,749,426	\$ 15,656,915	\$ 102,429	\$ 56,508,769

NOTE 13 - SEGMENT REPORTING (CONTINUED)						
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION			2023 ELECTRIC	2023 WATER	2023 SEWER	TOTAL
OPERATING REVENUES						
Sales - Residential			\$ 7,928,201	\$ 2,746,648	\$ 11,124	\$ 10,685,973
Sales - General			\$ 2,211,352	\$ 1,399	\$ -	\$ 2,212,750
Sales - Street Lights			\$ 114,621	\$ -	\$ -	\$ 114,621
Miscellaneous Other Revenues			\$ 197,246	\$ 9,557	\$ -	\$ 206,803
Total Operating Revenues			\$ 10,451,420	\$ 2,757,603	\$ 11,124	\$ 13,220,147
OPERATING EXPENSES						
Cost of Purchased Power			\$ 3,325,773	\$ 152,024	\$ 576	\$ 3,478,372
Transmission Expenses			\$ 6,454	\$ -	\$ -	\$ 6,454
Distribution & Maintenance Expense			\$ 1,709,456	\$ 678,893	\$ 1,966	\$ 2,390,315
Customer Service Expense			\$ 188,877	\$ 70,097	\$ -	\$ 258,974
Administrative and General			\$ 1,696,079	\$ 644,087	\$ 3,999	\$ 2,344,165
Depreciation			\$ 1,173,961	\$ 568,584	\$ 6,656	\$ 1,749,201
Taxes			\$ 720,330	\$ 140,770	\$ 429	\$ 861,528
Total Operating Expenses			\$ 8,820,929	\$ 2,254,455	\$ 13,626	\$ 11,089,009
NET OPERATING INCOME			\$ 1,630,491	\$ 503,148	\$ (2,502)	\$ 2,131,138
NON-OPERATING REVENUE (EXPENSES)						
Revenue from Merchandising, Jobbing And Contract Work			\$ 67,095	\$ 49,622	\$ -	\$ 116,717
Costs and Expenses of Merchandising, Jobbing and Contract Work			\$ (16,206)	\$ (4,686)	\$ -	\$ (20,893)
Interest and Dividend Income			\$ 239,315	\$ 44,136	\$ 1,609	\$ 285,061
Other Revenues			\$ 822,195	\$ 737,869	\$ -	\$ 1,560,064
Interest on Long-Term Debt			\$ (386,669)	\$ (79,694)	\$ -	\$ (466,363)
Total Non-Operating Revenue (Expenses)			\$ 725,730	\$ 747,248	\$ 1,609	\$ 1,474,586
Change In Net Position			\$ 2,356,222	\$ 1,250,396	\$ (893)	\$ 3,605,724
Total Net Posisiton January 1			\$ 23,360,864	\$ 11,746,813	\$ 103,322	\$ 35,210,999
Total Net Position December 31			\$ 25,717,086	\$ 12,997,209	\$ 102,429	\$ 38,816,723

NOTE 13 SEGMENT REPORTING (CONTINUED)		2023	2023	2023	
		Electric	Water	Sewer	TOTALS
Net Cash Provided(used) by Operating Activities		\$ 3,603,342	\$ 423,455	\$ (2,502)	\$ 4,024,295
Net cash Provided (Used) by Capital and Related Financing Activities		\$ (4,951,320)	\$ (903,738)	\$ (30,242)	\$ (5,885,300)
Net Cash Provided by Investing Activities		\$ 239,315	\$ 44,136	\$ 1,609	\$ 285,061
Net Increase (Decrease) in Cash and Cash Equivalents		\$ (1,108,663)	\$ (436,147)	\$ (31,135)	\$ (1,575,945)
Cash and Cash Equivalents Balances - Beginning of Year		\$ 5,127,414	\$ 921,509	\$ 35,330	\$ 6,084,254
Cash and Cash Equivalents Balances - End of Year		\$ 4,018,751	\$ 485,362	\$ 4,195	<u>\$ 4,508,309</u>

Mason County PUD #1
Schedule of Employer Contributions
For the Year Ended December 31, 2023

Contributions as a percentage of covered employee payroll

As of June 30, 2023

*As this is a newly adopted standard, information is only available for the last 9 years

Mason County PUD No 1
Schedule of Changes in Total OPEB Liability and Related Ratios
OPEB
For the year ended December 31, 2023
Last 10 Fiscal Years*

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total OPEB liability - beginning	\$ 1,374,458	\$ 1,281,728	\$ 1,281,728	\$ 1,698,374	\$ 1,628,827	1,300,037				
Service cost	49,285	0	51,887	71,549	89,248	59,111				
Interest	48,477	0	39,131	31,577	35,609	53,725				
Changes in benefit terms	0	0	0	0	0.00	-				
Differences between expected and actual experience	14,022	0	87,628	0	(146,575)	-				
Changes of assumptions	(238,452)	(9,814)	373,411	(48,117)	(214,669)	34,430				
Benefit payments	(85,349)	0	(162,809)	(124,556)	(92,402)	(107,046)				
Other changes	119,287	0	27,399	0.00	0.00	-				
Total OPEB liability - ending	<u>1,281,728</u>	<u>1,271,914</u>	<u>1,698,374</u>	<u>\$ 1,628,827</u>	<u>1,300,037</u>	<u>1,340,257</u>				
Covered-employee payroll	1,963,561	2,127,984	1,997,349	1,997,349	2,544,072	2,544,072				
Total OPEB liability as a % of covered payroll	65.28%	59.77%	85.03%	82%	51%	50.9%				

Notes to Schedule:

- * Until a full 10-year trend is compiled, only information for those years available is presented.
- ** No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.
- *** The ending balance reported as of December 31, 2019 for the 2020 actuary is \$9,814 more than what the District reported that same year on its financial statements and subsequent notes to the financial statements. The District has its actuary performed every two years and in the odd year, it amortizes the amounts for deferred inflows, outflows and OPEB expense. Because of this, there was a difference in amounts reported.

**Public Utility District No. 1 of Mason 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			Note
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Community Economic Revitalization Board)	COVID 19 - Coronavirus Capital Projects Fund	21.029	S21-96401-029	116,060	-	116,060	-
Drinking Water State Revolving Fund Cluster							
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Washington State Department of Health)	Drinking Water State Revolving Fund	66.468	DWL28365	96,107	-	96,107	- 3
Total Drinking Water State Revolving Fund Cluster:				96,107	-	96,107	-
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA State Military Department)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4635-DR-WA	566,488	-	566,488	- 5
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Military Department)	Hazard Mitigation Grant	97.039	HMGP DR- 4539-07-R	616,839	-	616,839	-
Total Federal Awards Expended:				1,395,494	-	1,395,494	-

The accompanying notes are an integral part of this schedule.

Mason County Public Utility District No. 1

Notes to the 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 the district's financial statements. The district uses the accrual method.

Note 2 – Federal De Minimis Indirect Cost Rate

The district has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. No indirect costs were charged.

Note 3 – Federal Loans

The District was approved by the EPA and Drinking Water State Revolving Fund to receive loans totaling \$139,100 to improve its drinking water systems, which includes 100% loan forgiveness. The District drew \$96,107 against this award in 2023, with a balance of \$42,993.

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 district'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 – FEMA Disaster Grants – Public Assistance

The amounts included on the SEFA relative to the FEMA Disaster Grant were incurred in a prior year, but was not approved by FEMA until 2023.

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