Office of the Washington State Auditor
Pat McCarthy

December 2, 2024

Board of Commissioners
Public Utility District No. 1 of Snohomish County
Everett, Washington

Contracted CPA Firm's Audit Report on Financial Statements and Federal Single Audit

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements and compliance with federal grant requirements of Public Utility District No. 1 of Snohomish County for the fiscal years ended December 31, 2023. The District contracted with the CPA firm for this audit and requested that we accept it in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor did not audit the accompanying financial statements or Public Utility District No. 1 of Snohomish County's compliance with federal grant agreements and, accordingly, we do not express an opinion on those financial statements or on compliance.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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Report of Independent Auditors

The Board of Commissioners
Public Utility District No. 1 of Snohomish County
Everett, Washington

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Public Utility District No. 1 of Snohomish County, Washington (the District), which comprise the District's combined and individual statements of net position, and the related combined and individual statements of revenues, expenses and changes in net position and cash flows of the Electric, Generation, and Water Systems, as of and for the year ended December 31, 2023, and the District's combined statements as of and for the year ended December 31, 2022, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the combined financial position of the District as of December 31, 2023 and 2022, and the individual financial positions of the Electric, Generation, and Water Systems as of December 31, 2023, and the respective changes in financial positions and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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 (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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis, schedule of proportionate share of the net pension liability – PERS, schedule of employer contributions – PERS, and schedule of changes in total other post-employment benefits (OPEB) liability and related ratios, 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 audits 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 schedules of Electric System – statements of revenues, expenses, and debt service coverage, Electric System – revenue and statistical data, and Water System – statements of revenues, expenses, debt service coverage, and statistical data are presented for purposes of additional analysis and are 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. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 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 solely 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.

Moss Adams LLP

Everett, Washington
April 5, 2024

Management's Discussion and Analysis (Unaudited)

The following discussion provides an overview of Public Utility District No. 1 of Snohomish County (the PUD) financial activities for the years ended December 31, 2023 and 2022. This unaudited discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

Financial Highlights

Combined Operating Results

The PUD's combined net operating income for 2023 was $55 million, a $17 million decrease from $72 million in 2022. Combined net income increased from $94 million in 2022 to $102 million in 2023, an 8.5% increase. The PUD benefitted from higher interest rates in 2023, resulting in a $31 million increase in interest income from 2022. Of this increase, $21 million is attributable to non-cash fair market value adjustments made to the PUD's investments. Net income was influenced by an increase of $25 million in miscellaneous service revenue from three primary sources in 2023, as follows. Due to the Bonneville Power Administration's (BPA) exceptional financial performance during fiscal year 2021-2022, its Power Reserves Distribution Clause program provided $21 million. BPA's Energy Conservation Achievement program provided an additional $5.0 million. Another $1.3 million was provided by the sale of greenhouse gas emission no-cost allowances through the Washington State Climate Commitment Act (CCA).

Combined net operating income decreased from $73 million in 2021 to $72 million in 2022. The decrease in net operating income was caused in large part by increases in operating expenses of $59 million while operating revenues increased $58 million. Combined net income in 2021 was $93 million and saw modest growth to a net income of $94 million in 2022. The increase was the result of robust growth in wholesale energy sales due to excess availability of water in the Pacific Northwest and higher prices on the open wholesale market. This was met with increases in purchase power and maintenance expenses of $24 million and $16 million, respectively.

The average number of Electric System accounts increased from 373,127 in 2022 to 377,270 in 2023, a 1.1% increase. New electric service connections were 4,361 in 2023, compared to 6,030 in 2022. The majority of new connections in 2023 were from residential units.

Retail MWh sales increased 0.6% from 6,761,419 MWh in 2022 to 6,799,853 MWh in 2023, compared to a 2.5% increase from 2021 to 2022. The increase in 2023 was primarily caused by modest gains in residential and commercial MWh sales.

Combined retail sales in 2023 were $681 million, $11 million higher than the $670 million realized in 2022, higher still than the $647 million experienced in 2021. This increase in 2023 was primarily attributable to $21 million in residential and commercial retail energy sales. An area of significant increase was the PUD base charges. In April of 2022 the base charge was implemented, and the PUD realized $7.9 million in revenue. In 2023 the PUD realized 12 months of the base charge. The Commission approved a rate structure change that became effective April 1, 2023, which significantly increased the base charge. The increase and a full 12 months of revenue resulted in $30 million in base charge specific revenue for 2023.

The PUD sells surplus power into wholesale power markets to balance resources with customer loads. Combined wholesale revenue was $73 million in 2023 compared to $74 million in 2022 and $43 million in 2021. Regional energy demand remained consistent while energy supply was diminished. Also, high natural gas prices caused energy from other generating sources to be higher. This caused wholesale prices to increase, which contributed to the PUD's $30 million increase in wholesale revenue from 2021. The Electric System sold $13 million of excess transmission capacity in 2023 and $10 million in 2022.

Combined other operating revenue was $65 million in 2023, an increase of $28 million from 2022. $25 million of this increase is attributable to miscellaneous service revenue increases as noted above. While the difference between activity found in 2023 compared to 2022 is significant, the $4.3 million change from $33 million in 2021 and $37 million in 2022 is less significant.

Combined operating expenses were $764 million in 2023. These expenses include $380 million in combined purchased power costs, an increase of $45 million from the prior year. This significant increase in cost was the result of a very cold and long-lasting winter, followed by rapid warming that preceded a quick water runoff evolution. The 2023 summer months were quite warm and Western Washington experienced lack of remarkable precipitation from late June to the latter half of September. Power supplied by BPA from Block and Slice products was down by approximately 12% from the prior year due to the lack of available water for generation. This required the PUD to purchase power on the market, typically at a premium price.

Combined operating expenses were $709 million in 2022. These expenses include $335 million in combined purchased power costs, an increase of $24 million from the prior year. This increase was driven by extreme heat in July 2022 and freezing weather in December 2022. In total, combined operations expenses increased from $188 million in 2021 to $204 million in 2022. This increase was partially offset by a $15 million decrease in bad debt expense. Combined maintenance costs were $13 million higher in 2022 due to several storms throughout the year.

Interest income, excluding fair market value adjustments, increased from $7.7 million in 2022 to $18 million in 2023. This increase of 134% is consistent with changes in interest rates observed in the broader economy. The PUD's cash reserve portfolio is invested in securities and deposits authorized by Washington State statute and is managed according to the PUD's cash reserve and investment policies. During 2022, the PUD's interest income, excluding fair market value adjustments, increased to $7.7 million from $4.2 million in 2021.

Electric System

Electric System Rates

General Rates

Effective April 1, 2022, the PUD implemented a 2.1% system-wide average rate increase. This was done in combination with the implementation of a base charge that is dependent on the customer connection size. Effective April 1, 2023, the PUD raised the base charge on all connection types. In 2022, the PUD recognized $7.9 million in base charges compared to $30 million in 2023. Base charge increases will continue to be implemented over the next several years. The PUD has elected to reduce per kWh charges as base charges increase. Effective November 1, 2023, the PUD implemented a 1.4% system-wide average rate increase as a pass through to customers of BPA cost increases for purchased power.

Bonneville Power Administration (BPA) Rates

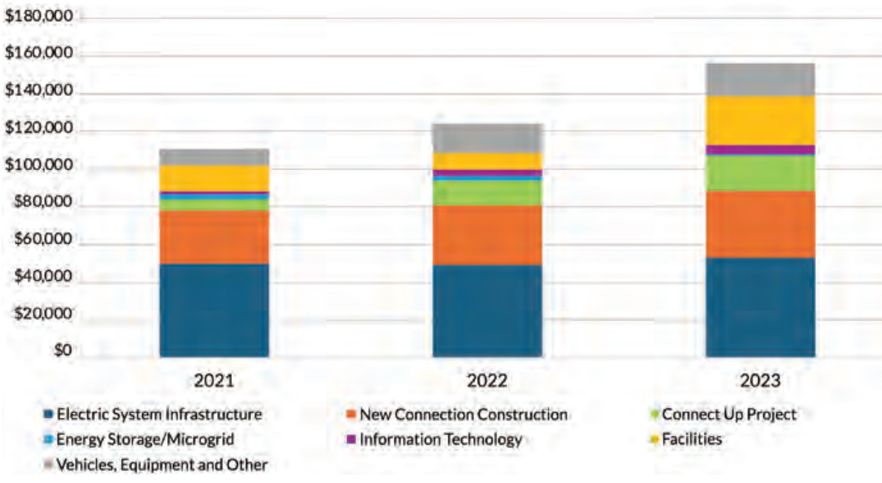
BPA's wholesale electricity is generated from federally owned hydroelectric projects in the Columbia River basin and one non-federal nuclear power plant. In 2023, BPA provided approximately 78% of the energy resources used by the PUD to serve its customers compared to 83% in 2022. Power purchases from BPA were $242 million in 2023 and $234 million in 2022, respectively. The $8 million increase purchased about 876 thousand less megawatts year over year due to a remarkably poor water year.

At the end of 2022, BPA provided to preferred buyers of energy a distribution of reserves. The financial performance from BPA gives their administrators the discretion to apply Reserve Distribution Clause amounts to rate reduction, incremental capital investment, debt reduction, or other high value purposes. This resulted in the PUD receiving the benefit of $26 million from December of 2022 through September of 2023. Additionally, BPA granted $12 million as a result of financial performance from the 2022-2023 fiscal year. This will be recognized from December 2023 to September of 2024. The PUD has and will continue to record these transactions as other operating revenue.

Capital Investments – Customer Growth

The PUD makes significant investments in capital programs each year to maintain, expand, and enhance its electric distribution system. The number of customers continues to grow in the PUD's service area. The need for electric distribution infrastructure and facilities to serve customers and assure reliability is expected to continue. Electric System capital additions were $158 million in

Electric Capital Expenditures (in millions)



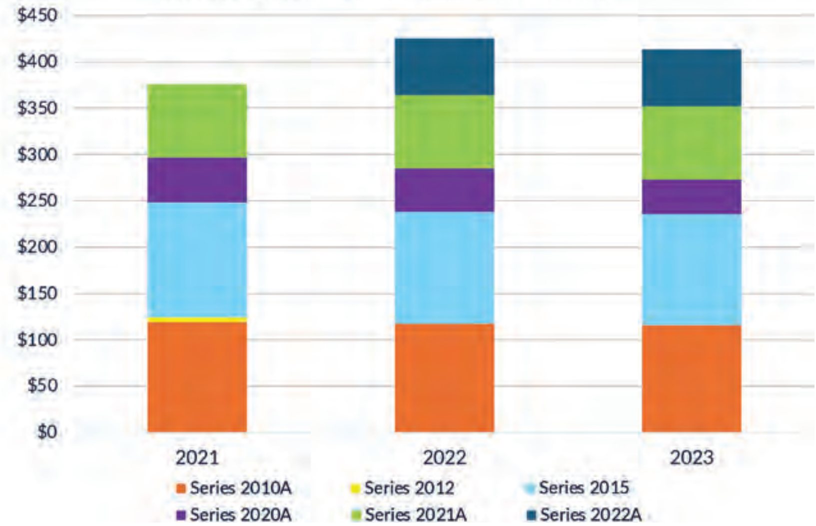
2023 and $132 million in 2022.

Key projects in 2023 include site, civil, and electrical construction completed on the Sky Valley substation. Harbour Pointe Bank 1 upgrade is completed, energized, and serving customers. The addition of Bank 2 at Edgecomb is energized and supporting new load in North County. The PUD completed ten substation reliability upgrades. The Jennings Park substation was also completed in 2023. Construction of a new 5.3-mile transmission line from Stanwood to Camano Island is under way. The PUD, to improve the reliability and safe distribution of energy, continued to replace infrastructure that has reached its useful life. In 2023, 573 distribution poles, 25 transmission poles, and 6.9 miles of underground cable were replaced.

Capital Funding and Debt Levels

The PUD utilizes a combination of revenues, cash reserves, grants, and revenue bonds to fund investments in the electric distribution and transmission system infrastructure. In addition, the PUD receives capital contributions from developers to fund infrastructure construction directly related to growth.

Electric System Revenue Bonds (in millions)



In June 2021, the Electric System issued $79 million of Series 2021A Revenue bonds, the first sale of new money tax-exempt bonds since 2015. The bonds, which have a final maturity of 2051, were sold at an average interest rate of 1.5%, benefitting from a historically low long-term interest rate environment and strong bond ratings. In July 2022, the Electric System issued $61 million of Series 2022A Revenue bonds with a final maturity of 2052 and an average interest rate of 3.4%. Proceeds from the bond sales are being used to fund qualifying additions, replacements, and improvements to the Electric System, including construction and upgrades relating to the electric distribution system, the Connect Up advanced meter project, and development of the PUD's North County community office. The PUD expects proceeds from the 2021A and 2022A bonds to be fully expended in 2024 and 2025, respectively.

In conjunction with the 2022A bond sale, S&P and Moody's, two major bond rating agencies, affirmed the PUD's bond ratings of AA and Aa2, respectively.

Long-term debt of the Electric System, including current maturities, totaled $413 million at December 31, 2023, compared to $425 million in 2022 and $375 million in 2021.

Guam Mutual Aid

In May of 2023, the island of Guam was struck by Typhoon Mawar. Mawar was the strongest storm to strike the island in 20 years; wind speeds surpassed 130 miles per hour and impacted nearly all of island's 52,000 electrical customers. Guam Power Authority (GPA) reached out to the American Public Power Association for mutual aid assistance. In response, the PUD dispatched its personnel and equipment to the restoration effort including 15-line workers, equipment operators, and mechanics, two bucket trucks, and a mechanic truck. PUD personnel contributed roughly 9,400 labor hours and repaired several miles of a major transmission line that services critical operations such as a hospital and U.S. military base. PUD equipment was returned and GPA reimbursed the PUD $2.5 million in related expenses.

Connect Up Project

In 2020, the PUD's Board of Commissioners (the Commission) approved the Connect Up program. This infrastructure and technology project includes installation of new meters capable of two-way communication. The installation process is scheduled to run until the end of 2026, as every PUD customer is slated to receive a new meter. The initial network will consist of 149 base stations dispersed throughout the service territory on existing or new poles or towers. Due to supply chain constraints sourcing meters, the PUD has delayed components of this project. Upon the project's completion, the PUD will have deployed over 385,000 new electric meters and 25,000 water meters.

Benefits for the Electric System include improved system visibility, outage responses, and system efficiency. The PUD's Water System customers will be able to identify leaks, track hourly and daily consumption, and better manage water usage.

The total project costs are currently estimated at $93 million and will be primarily funded by bond proceeds. As of December 31, 2023, the PUD has expended $39 million on this project.

Generation System

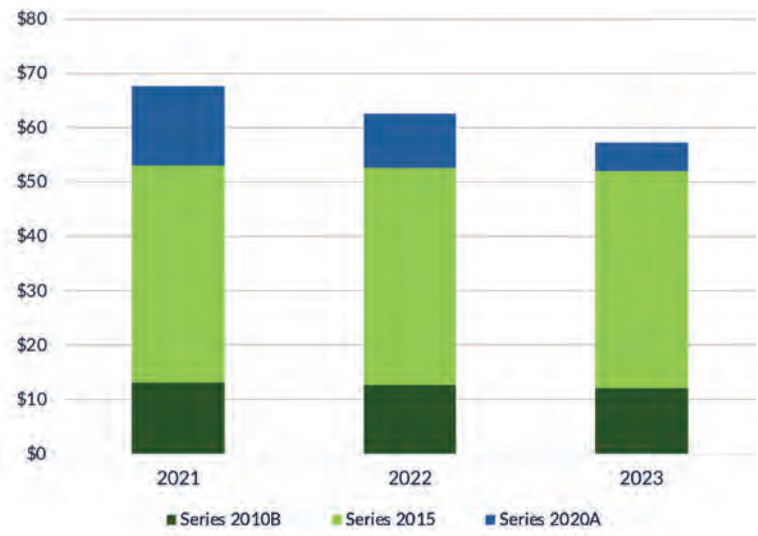
Henry M. Jackson Hydroelectric Project (Jackson) Maintenance and Capital Improvement

In June of 2023, the PUD completed the replacement of 48-inch and 10-inch cone valves. The valves are used to maintain minimum flows of water on the Sultan River, which is a crucial component to maintaining water levels for natural resource operations to maintain healthy flows for migratory fish. These valves have a useful life of 60 years and will provide continued serviceability of the Jackson Hydroelectric project. The valve replacement cost was approximately $3.2 million as of December 2023 and involved PUD planning resources from September of 2020-October of 2023.

The Jackson Hydroelectric project is embarking on a multiyear project to increase the facility's reliability, resiliency, and overall service life. This project is expected to be completed in 2027.

This work comes after March 2022, when the PUD completed the largest single scheduled shutdown in the Jackson Hydroelectric project's history, which had been postponed since 2020 due to the COVID-19 Pandemic. The shutdown lasted 20 days. The tasks performed included replacement of valve rings, removal of 4 miles of fiber optic cable in the tunnel, and maintenance to the powerhouse substation, at a cost of $1.8 million. All maintenance work performed was critical for the continued reliable operation of the Jackson project. The next comprehensive shutdown of the project is expected sometime in 2025.

Generation System Revenue Bonds (in millions)



Lower Generation System Debt Levels

Debt levels in the Generation System have been declining in recent years. Long-term debt of the Generation System, including current maturities, totaled $57 million at December 31, 2023, compared to $63 million in 2022, and $68 million in 2021.

Water System

Water System Operating Results

Retail sales revenue for the Water System increased to $15 million in 2023 from $14 million in 2022, following stable activity of $14 million in 2021. The revenue increases in 2023 and 2022 were the result of increases in the water residential rate and customer growth.

Operating expenses increased slightly from $15 million in 2022 to $16 million in 2023, following an increase of $1.8 million in 2022 from 2021. The 2023 increase was the result of higher purchased water because of a shutdown of the Lake Stevens Well, as well as higher operation and maintenance costs. The Lake Stevens Well was shutdown due to a failure of pump motors. The extended nature of the shutdown was a result of longer than normal lead times for replacement parts. The well was back in operation in May of 2023, but the PUD did not see usual production until June of the same year.

Water System capital contributions were $2.9 million in 2023, $2.0 million lower than the $4.9 million in 2022 and lower still than the $6.1 million in 2021. This decrease reflects slower developer activity, due to rising interest rates and supply chain constraints within the Water System service area in central Snohomish County.

Capital Funding and Debt Levels

The PUD utilizes a combination of revenues, cash reserves, grants, Washington State loans, and revenue bonds to fund water system capital improvements. In addition, the Water System receives capital contribution fees from developers to address growth in the Water System service area.

In October 2023, the Water System issued $18 million of Series 2023A Revenue bonds. The bonds, which have a final maturity of 2043, were sold at an average interest rate of 4.2%. Proceeds of the bond sale are being used to fund qualifying additions, replacements, and improvements to the Water System, including construction and upgrades relating to the water distribution system and the Connect Up advanced meter project. The PUD expects proceeds to be fully expended in 2026.

Long-term debt of the Water System, including current maturities, totaled $28 million at December 31, 2023, compared to $11 million in 2022, and $13 million in 2021.

Warm Beach Water System Improvements

Improvements to the Warm Beach Water System were funded by a combination of $6.3 million of federal and state grants and loans through the Drinking Water State Revolving Fund (DWSRF), $0.8 million contributed by the Warm Beach Water Association upon transfer to the PUD, and approximately $1.2 million from the PUD's Water System operating reserve. Customers of the PUD's Warm Beach Water System pay a capital improvement surcharge to service the loans and reimburse the operating reserve over a 20-year period, ending 2038.

The PUD initiated a drawdown of $2.2 million and $3.1 million from the DWSRF in 2022 and 2021, respectively. Of the $2.2 million drawdown initiated in 2022, $0.6 million was recorded as a receivable at December 31, and subsequently received in January 2023 upon final closeout of the loans.

Overview of the Financial Statements

Basic Financial Statements

The Combined Statements of Net Position present the PUD's net position as the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The Combined Statements of Net Position provide information about the nature and amount of investments in resources (assets), the consumption of net assets in one period that are applicable to future periods (deferred outflows of resources), the obligations to creditors (liabilities), and the acquisition of net assets that are applicable to future periods (deferred inflows of resources).

The Combined Statements of Revenues, Expenses, and Changes in Net Position report the revenues and expenses during the periods indicated and identify operating activity separately from non-operating activity.

The Combined Statements of Cash Flows provide information about the PUD's cash flows from operating activities, capital, and related financing activities, investing activities, and non-capital financing activities, and presents a reconciliation of net operating income to net cash provided by operating activities.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the figures provided in the basic financial statements.

Financial Analysis

Analysis of the comparative financial information is provided in the following table:

Condensed Combined Financial Information (In millions)	**2023**	**As restated 2022**	**As restated 2021**
Current Assets, Investments, and Special Funds	$ 716	$ 763	$ 677
Net Utility Plant	1,857	1,761	1,688
Other Assets	82	85	166
Total Assets	**2,655**	**2,609**	**2,531**
Deferred Outflows of Resources	44	51	25
Current Liabilities	129	157	127
Long–Term Debt	521	525	485
Other Liabilities	108	115	96
Total Liabilities	**758**	**797**	**708**
Deferred Inflows of Resources	60	84	163
Net Investment in Capital Assets	1,417	1,366	1,299
Restricted	236	124	199
Unrestricted	228	289	187
Net Position	**$ 1,881**	**$ 1,779**	**$ 1,685**
Operating Revenues	$ 819	$ 781	$ 723
Operating Expenses	764	709	650
Net Operating Income	**55**	**72**	**73**
Interest Charges	(20)	(14)	(16)
Other Income and Expense	33	3	2
Net Income before Capital Contributions	**68**	**61**	**59**
Capital Contributions	34	33	34
Net Income	**102**	**94**	**93**
Net Position – beginning of year	1,779	1,685	1,592
Net Position	**$ 1,881**	**$ 1,779**	**$ 1,685**

Assets

Current assets, investments, and special funds decreased $47 million in 2023 as a result of decreases to long term investments and special funds. Current assets, investments and special funds increased $87 million in 2022 from 2021 balances.

The PUD had between $1.7 billion and $1.9 billion invested in a broad range of net utility capital assets at December 31, 2023 and 2022, respectively. Utility capital assets include five operating hydroelectric power generation plants, one biofuel generator, electric transmission and distribution lines, substations, water transmission and distribution pipes, storage and pump station facilities, buildings, and equipment. Utility plant additions were $173 million in 2023 and $149 million in 2022, reflecting investments in the distribution and transmission systems, including construction associated with growth and general facilities of the PUD. The increase in utility plant was offset by $9.5 million and $10 million due to routine retirements in 2023 and 2022, respectively. Accumulated depreciation increased $66 million and $65 million related to routine plant asset activity in 2023 and 2022, respectively.

Other assets decreased $3.2 million in 2023 and decreased $81 million in 2022 due primarily to the reduction of conservation loans and lease assets. The 2023 decrease was related to the collection of a grant from the Federal Emergency Management Administration (FEMA) related to work from declared major storm event in January of 2021. The change from 2021 to 2022 was primarily the result of the change in net pension assets.

Deferred Outflows of Resources

Deferred outflows of resources decreased to $44 million in 2023. This resulted from net decreases of $7.3 million in the OPEB and net pension liability deferrals in 2023 and unamortized loss on the refunding of debt.

Deferred outflows of resources increased to $51 million in 2022. This resulted from net increases of $28 million in the OPEB and net pension liability deferrals in 2022.

Liabilities

Current liabilities decreased $28 million in 2023 resulting from lower vendor payable balances primarily from market power purchases in 2022. Current liabilities increased $30 million in 2022 due to higher vendor payable balances from a dramatic increase in market purchases in December of 2022.

Long-term debt decreased $4.0 million in 2023 and increased $40 million in 2022 because of the regular repayment of debt in 2023, and Electric System revenue bond issuances in July 2022.

Total other liabilities decreased $7.7 million in 2023 and increased $19 million in 2022 primarily due to actuarial valuation changes in post-employment liabilities.

Deferred Inflows of Resources

Deferred inflows decreased $24 million in 2023 and decreased $79 million in 2022 as the result of changes in the valuation of the net pension deferrals.

Net Position

Net investment in capital assets increased $51 million and $67 million in 2023 and 2022, respectively, reflecting the growth in net utility plant. The PUD added 4,361 and 6,030 Electric System customer connections in 2023 and 2022, respectively. The Water System added 257 and 350 customer connections in 2023 and 2022, respectively.

Restricted net position represents resources that are subject to external restrictions, such as bond covenants or third-party contractual agreements, and resources restricted by the Commission's resolution. Restricted net position increased $3.3 million in 2023 and increased $21 million in 2022 due to changes in the actuarial valuation of a net pension asset.

Unrestricted net position is available to finance day-to-day operations without constraints established by covenants, legal requirements, or board resolutions. Unrestricted net position increased $47 million in 2023 due to the changes in recognition of post-employment liabilities. Unrestricted net position increased $5.4 million in 2022.

Operating Revenues

Operating revenues increased to $819 million in 2023, from $781 million in 2022. Retail revenues increased $11 million in 2023 due to increases in billed residential and commercial revenues. Wholesale revenues decreased $734 thousand due to decreases in power available for sale in the wholesale market. The largest contributor to the changes in Operating Revenues were the changes from other operating revenues. This consisted of changes in payments from BPA.

Operating revenues increased to $781 million in 2022, from $723 million in 2021. Retail revenues increased $23 million in 2022 due to increases in billed residential and commercial revenues. Wholesale revenues increased $30 million due to increases in the sales price and power available for sale in the wholesale market.

Operating Expenses

Operating expenses increased $55 million in 2023 to $764 million from $709 million in 2022. During 2023, purchased power costs increased by $45 million due to a particularly poor water year. The PUD, like many other utilities in the Northwest, saw a poor water year with remarkably high prices on the open market. The PUD deferred budgeted maintenance and capital projects to help alleviate the high prices being paid for energy. Operations and maintenance costs still increased by $4.4 million which can be attributed to repairs and general operating of PUD infrastructure.

Operating expenses increased $59 million in 2022 to $709 million from $650 million in 2021. In 2022 and 2021 the PUD recorded reductions in the net pension liability of $18 million and $43 million, respectively. The net impact of these reductions resulted in a $25 million increase in operating expenses in 2022. During 2022, purchased power costs increased by $24 million due to weather events leading to higher market power prices. Operating and maintenance costs increased by $16 million which can be attributed to repairs from significant weather events that occurred in November and December 2022.

Interest Charges

Interest charges increased $5.8 million from 2022 to 2023. Interest charges decreased $2.3 million from 2021 to 2022 due to declining debt levels.

Other Income and Expense

Other income and expense increased significantly to $33 million in 2023 from $2.6 million in 2022. This is the result of interest rates observed in the overall economy.

Other income and expense remained relatively flat in 2022 due to a decrease of $4.0 million in interest income reflecting unfavorable market conditions. This was offset by an increase in nonoperating income of $2.0 million because of a Warm Beach Loan Subsidy and FEMA storm, as well as an increase of $2.0 million in other deductions because of the final decommissioning of the MESA 2 battery energy storage system assets in 2021.

Capital Contributions

Capital contributions remained relatively flat in 2023 and 2022. Capital contributions are collected from property developers when they request to connect to the PUD's electric or water distribution systems or request engineering or construction services.

Requests for Information

The basic financial statements, notes, and management's discussion and analysis are designed to provide a general overview of the PUD's finances. Questions concerning any of the information provided in this report should be directed to the PUD at 2320 California Street, Everett, WA 98201.

Combined Statements of Net Position

Years ended December 31, 2023 and 2022

(In thousands)

	2023				As restated 2022
Assets	Electric System	Generation System	Water System	Combined	Combined
Current Assets:					
Cash and temporary investments:					
Cash and cash equivalents	$ 46,971	$ 4,634	$ 2,499	$ 54,104	$ 39,316
Temporary investments	72,211	3,880	1,240	77,331	85,256
Total Cash and Temporary Investments	**119,182**	**8,514**	**3,739**	**131,435**	**124,572**
Accounts and other receivables, net	103,457	1,673	1,933	107,063	120,782
Intersystem loans receivable	3,419	–	–	–	–
Materials and supplies	59,081	–	2,550	61,631	48,629
Prepayments and other	8,039	317	202	8,558	6,007
Total Current Assets	**293,178**	**10,504**	**8,424**	**308,687**	**299,990**
Long–Term Investments & Special Funds:					
Long–term investments	102,668	2,221	1,469	106,358	124,316
Special funds – bond funds and other	252,738	11,821	36,534	301,093	338,523
Total Long–Term Investments & Special Funds	**355,406**	**14,042**	**38,003**	**407,451**	**462,839**
Utility Plant:					
Plant in service	2,288,272	361,171	182,998	2,832,441	2,697,326
Construction work in progress	175,016	6,701	9,435	191,152	165,116
Total Utility Plant	**2,463,288**	**367,872**	**192,433**	**3,023,593**	**2,862,442**
Accumulated depreciation and amortization	(947,946)	(168,226)	(50,624)	(1,166,796)	(1,100,856)
Net Utility Plant	**1,515,342**	**199,646**	**141,809**	**1,856,797**	**1,761,586**
Other Assets:					
Conservation loans and other receivables, net	5	–	240	245	3,464
Lease asset receivable	19,500	–	601	20,101	23,073
Intersystem loans and receivables	24,119	–	–	–	–
FERC licenses	–	13,426	–	13,426	13,969
Net pension assets	44,577	921	1,335	46,833	44,112
Other assets	659	355	–	1,014	170
Total Other Assets	**88,860**	**14,702**	**2,176**	**81,619**	**84,788**
Total Assets	**2,252,786**	**238,894**	**190,412**	**2,654,554**	**2,609,203**
Deferred Outflows of Resources					
Unamortized loss on refunding debt	578	897	–	1,475	2,728
Net pension and OPEB deferrals	40,463	1,169	1,037	42,669	48,761
Total Deferred Outflows of Resources	**41,041**	**2,066**	**1,037**	**44,144**	**51,489**
Total Assets and Deferred Outflows	**$ 2,293,827**	**$ 240,960**	**$ 191,449**	**$ 2,698,698**	**$ 2,660,692**

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

Combined Statements of Net Position

Years ended December 31, 2023 and 2022

(In thousands)

	2023				As restated 2022
Liabilities	Electric System	Generation System	Water System	Combined	Combined
Current Liabilities:					
Accounts payable	$ 53,434	$ 762	$ 455	$ 54,651	$ 83,346
Accrued taxes	19,246	75	107	19,428	18,953
Accrued interest	1,654	245	108	2,007	1,975
Other accrued liabilities	30,495	75	1	30,571	31,689
Customer deposits	2,875	–	5	2,880	3,200
Current maturities of long–term debt	12,815	5,610	1,078	19,503	18,233
Intersystem loans payable	–	3,419	–	–	–
Total Current Liabilities	**120,519**	**10,186**	**1,754**	**129,040**	**157,396**
Long–Term Debt:					
Revenue bonds	437,929	54,938	23,806	516,673	520,293
Other notes payable	–	–	4,500	4,500	4,919
Total Long–Term Debt	**437,929**	**54,938**	**28,306**	**521,173**	**525,212**
Other Liabilities:					
Intersystem loans and payables	–	24,119	–	–	–
FERC license obligations	–	13,426	–	13,426	13,969
Net pension liability	19,327	514	489	20,330	25,671
Lease liability	8,117	213	–	8,330	4,403
SBITA liability	2,042	–	–	2,042	3,633
OPEB liability	45,507	949	1,004	47,460	52,990
Other liabilities	15,099	796	11	15,906	14,626
Total Other Liabilities	**90,092**	**40,017**	**1,504**	**107,494**	**115,292**
Total Liabilities	**648,540**	**105,141**	**31,564**	**757,707**	**797,900**
Deferred Inflows of Resources					
Unearned FERC license contributions	–	3,500	–	3,500	4,000
Net pension deferrals	24,866	264	724	25,854	46,028
Other deferred inflows	28,178	1,421	900	30,499	33,518
Total Deferred Inflows of Resources	**53,044**	**5,185**	**1,624**	**59,853**	**83,546**
Net Position					
Net investment in capital assets	1,148,004	139,654	129,794	1,417,452	1,366,215
Restricted:					
Reserve funds	858	5,788	802	7,448	7,977
Rate stabilization	113,324	–	1,492	114,816	113,007
Net pension assets	44,577	921	1,335	46,833	44,112
Debt service and other	31,161	5,788	17,348	54,297	54,975
Unrestricted	254,319	(21,517)	7,490	240,292	192,960
Total Net Position	**1,592,243**	**130,634**	**158,261**	**1,881,138**	**1,779,246**
Total Liabilities, Deferred Inflows and Net Position	**$ 2,293,827**	**$ 240,960**	**$ 191,449**	**$ 2,698,698**	**$ 2,660,692**

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

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2023 and 2022

(In thousands)

	2023				As restated 2022
	Electric System	Generation System	Water System	Combined	Combined
Operating Revenues:					
Retail sales	$ 665,555	$ –	$ 15,109	$ 680,664	$ 670,114
Wholesale sales	72,441	26,428	969	73,410	74,144
Other	64,031	217	389	64,637	36,790
Total Operating Revenues	**802,027**	**26,645**	**16,467**	**818,711**	**781,048**
Operating Expenses:					
Purchased power	406,324	–	–	379,896	334,766
Purchased water	–	–	4,230	4,230	3,600
Operations	208,087	6,435	4,863	219,385	201,739
Maintenance	36,008	3,133	2,723	41,864	55,072
Depreciation and amortization	65,651	6,119	3,583	75,353	72,078
Taxes	42,107	74	817	42,998	41,600
Total Operating Expenses	**758,177**	**15,761**	**16,216**	**763,726**	**708,855**
Net Operating Income	**43,850**	**10,884**	**251**	**54,985**	**72,193**
Interest Charges:					
Interest	20,101	4,365	512	23,801	22,669
Amortization of debt related costs	(2,386)	(1,159)	34	(3,511)	(8,254)
Total Interest Charges	**17,715**	**3,206**	**546**	**20,290**	**14,415**
Other Income and Expense:					
Interest income, fair value adjustments, net	24,936	1,268	1,542	26,569	(4,369)
Other income and expense, net	6,538	214	(54)	6,698	6,997
Total Other Income and Expense	**31,474**	**1,482**	**1,488**	**33,267**	**2,628**
Net Income Before Capital Contributions	57,609	9,160	1,193	67,962	60,406
Capital Contributions	**29,785**	**1,214**	**2,931**	**33,930**	**33,364**
Net Income	87,394	10,374	4,124	101,892	93,770
Net Position, Beginning of year	**1,504,849**	**120,260**	**154,137**	**1,779,246**	**1,685,476**
Net Position, End of year	**$ 1,592,243**	**$ 130,634**	**$ 158,261**	**$ 1,881,138**	**$ 1,779,246**

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

Combined Statements of Cash Flows

Years ended December 31, 2023 and 2022

(In thousands)

	2023				As restated 2022
	Electric System	Generation System	Water System	Combined	Combined
Cash Flows from Operating Activities:					
Cash received from customers	$ 752,321	$ 25,463	$ 16,367	$ 767,723	$ 746,790
Cash payments to suppliers	(605,275)	(4,672)	(9,739)	(593,258)	(569,689)
Cash payments to employees	(102,358)	(5,790)	(4,908)	(113,056)	(111,531)
Cash payments for taxes	(42,982)	(92)	(810)	(43,884)	(40,090)
Other cash received (paid)	50,847	(261)	(251)	50,335	107,311
Net Cash Provided by Operating Activities	**52,553**	**14,648**	**659**	**67,860**	**132,791**
Cash Flows from Capital & Related Financing Activities:					
Capital construction	(145,668)	(6,748)	(6,298)	(158,714)	(138,012)
Proceeds from debt	–	–	19,652	19,652	70,139
Repayment of debt	(11,985)	(5,355)	(893)	(18,233)	(18,346)
Debt issuance costs	–	–	(227)	(227)	(543)
Interest paid on debt	(20,120)	(4,388)	(440)	(23,771)	(22,482)
Capital contributions	18,381	1,214	1,331	20,926	28,149
Intercompany loans	3,338	(3,338)	–	–	–
Other cash received (paid)	5,264	59	212	5,535	8,891
Net Cash Provided by (Used for) Capital & Related Financing Activities	**(150,790)**	**(18,556)**	**13,337**	**(154,832)**	**(72,204)**
Cash Flows from Investing Activities:					
Sale of special funds and investment securities	300,261	25,927	11,442	337,630	354,482
Purchase of special funds and investment securities	(215,016)	(23,417)	(26,908)	(265,341)	(437,720)
Interest on investment securities	17,728	1,208	1,043	18,802	9,700
Net Cash Provided by (Used for) Investing Activities	**102,973**	**3,718**	**(14,423)**	**91,091**	**(73,538)**
Cash Flows from Non–Capital Financing Activities:					
Non–capital grants received	10,568	101	–	10,669	2,973
Net Cash Provided by Non–Capital Financing Activities	**10,568**	**101**	**–**	**10,669**	**2,973**
Net Increase (Decrease) in Cash & Cash Equivalents	**15,304**	**(89)**	**(427)**	**14,788**	**(9,978)**
Beginning of Year	31,667	4,723	2,926	39,316	49,294
Cash & Cash Equivalents – End of Year	**$ 46,971**	**$ 4,634**	**$ 2,499**	**$ 54,104**	**$ 39,316**

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

Combined Statements of Cash Flows (continued)

Years ended December 31, 2023 and 2022

(In thousands)

	2023				As restated 2022
	Electric System	Generation System	Water System	Combined	Combined
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities:					
Net Operating Income	$ 43,850	$ 10,884	$ 251	$ 54,985	$ 72,193
Adjustments to net operating income					
Depreciation and amortization expense	65,651	6,119	3,583	75,353	72,077
Pension and OPEB related	(4,108)	2,395	1,967	81,311	(21,763)
Other cash received (paid)	2,587	(343)	(54)	2,190	(596)
(Increase) decrease in receivables	8,769	(1,181)	110	7,698	(4,918)
(Increase) decrease in other assets	(35,915)	(840)	(1,423)	(38,178)	(14,117)
Increase (decrease) in payables	(27,050)	(249)	(1,395)	(28,694)	26,900
Increase (decrease) in other liabilities	(1,231)	(2,137)	(2,380)	(86,805)	3,015
Total Adjustments	**8,703**	**3,764**	**408**	**12,875**	**60,598**
Net Cash Provided by Operating Activities	**$ 52,553**	**$ 14,648**	**$ 659**	**$ 67,860**	**$ 132,791**
Non–cash Investing, Capital and Related Financing Activities					
Non–cash capital contributions	$ 10,252	$ –	$ 1,601	$ 11,853	$ 7,187
Changes in valuation of financial instruments	8,265	258	454	8,977	(12,071)
Amortization of debt related costs	2,386	1,159	(34)	3,511	8,254

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

Notes to Combined Financial Statements

December 31, 2023 and 2022

Note 1
Summary of Significant Accounting Policies

General

Public Utility District No. 1 of Snohomish County, Washington, (the PUD) is a public electric and water utility serving Snohomish County and Camano Island in Island County, Washington. The PUD's operations consist of three systems: Electric, Generation, and Water. The PUD is governed by a three-member Board of Commissioners (the Commission), which is elected for staggered six-year terms. The legal responsibilities and powers of the PUD, including the establishment of rates and charges for services rendered, are exercised through the Commission.

The Electric System is made up of the PUD's electric transmission and distribution system. The Generation System is composed of the PUD's Henry M. Jackson Hydroelectric Project, four smaller hydroelectric projects, and a biofuel generator that went into service in 2022. The Water System is made up of the PUD's water distribution system.

The accompanying financial statements for 2023 include the Combined Statements of Net Position and the Combined Statements of Revenues, Expenses, and Changes in Net Position, and Combined Statements of Cash Flows for each system. System columns presented in the financial statements and notes may not add to the combined totals due to the elimination of intercompany loans and routine intercompany transactions.

The PUD's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when incurred. Revenues and costs that are directly related to the generation, purchase, transmission, and distribution of electricity or water are reported as operating revenues and expenses. All other revenues and expenses are reported as other income and expense.

The accompanying financial statements 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 PUD's other significant accounting and financial policies are described in the following sections.

Retail Sales

The PUD bills Electric and Water system customers for their consumption on a monthly basis. The accompanying financial statements include estimated unbilled revenues for electricity and water delivered to customers between the last billing date and the end of the year. Unbilled electric revenue was $42 million and $47 million as of December 31, 2023, and 2022, respectively. Unbilled water revenue was $709 thousand and $731 thousand as of December 31, 2023, and 2022, respectively. Power sale and purchase transactions are recognized over the duration of the contracts as a component of retail and wholesale revenue and purchased power operating expenses.

Cash Equivalents

The PUD considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded when invoices are issued and are written off when they are determined to be uncollectible. A reserve is established for uncollectible accounts receivable based upon historical write-off trends and knowledge of specific circumstances that indicate collection of an account may be unlikely. The allowance for doubtful accounts was $2.1 million and $3.4 million as of December 31, 2023 and 2022, respectively. In 2022, the PUD resumed the pre-pandemic practice of disconnecting service for non-payment. The PUD received a grant of $5.2 million and $11 million in 2023 and 2022, respectively, to help alleviate customer accounts in arrears during the pandemic.

Material and Supplies

Material and supplies are recorded at average cost and consist primarily of materials for construction and maintenance of utility plant.

Special Funds

Special funds are restricted or limited-use funds that have been established in accordance with Commission resolutions, bond resolutions, state law, or other agreements. These funds, which consist of cash, cash equivalents, and investments, are restricted for specific purposes, including debt service, bond reserves, rate stabilization, qualifying capital expenditures, Other Post-employment Benefits (OPEB), Federal Energy Regulatory Commission (FERC) license commitments, and other reserve requirements. It is the PUD's practice to use unrestricted funds prior to using restricted funds, except for funds set aside for specific expenditures and debt service payments.

Unamortized Loss on Refunding Debt

The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds using the straight-line method. The difference for bonds defeased by operating funds is charged in the current period.

Net Position

Net position consists of the following components:

- ***Net investment in capital assets:*** This component consists of capital assets, net of accumulated depreciation and amortization reduced by the net outstanding debt balances related to capital assets, net of unamortized debt related costs.
- ***Restricted:*** This component consists of assets and liabilities with constraints placed on use. Constraints include those imposed by bond covenants or third-party contractual agreements, and resources restricted by Commission resolution.
- ***Unrestricted:*** This component consists of assets and liabilities that do not meet the definition of "net investment in capital assets" or "restricted."

Compensated Absences

Employees accrue paid time off (PTO) or vacation in varying amounts according to their years of service. Accrued liability for PTO and vacation was $20 million and $18 million at December 31, 2023 and 2022, respectively. These liabilities are presented as part of Other Accrued Liabilities.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The PUD has used estimates in determining reported amounts including unbilled revenue, allowance for doubtful accounts receivable, accrued liability for injuries and damages, depreciable lives of utility plant, pensions, and other contingencies. Actual results could differ from these estimates.

In 2022, a change in accounting estimate was made for the provision of outstanding damage claims. The newly adopted accounting estimate is preferable over the method used before the change bringing the provision balance closer to the five-year actual average uncollectible. The identified financial statement line items impacted are the Bad Debt Expense and Accounts Receivable Provision for Uncollectible Accounts.

In 2022, the PUD implemented a new reporting module for long-term debt which improved the precision of related bond premium and discount amortization calculations. The implementation and associated change in estimate for amortization calculations resulted in a $5.1 million increase in net position for the period.

Accounting Changes and Reclassifications

In May 2020, GASB issued Statement No. 96 Subscription-Based Information Technology Arrangements (SBITA), which establishes a standard of accounting for the right-to-use subscription assets that are a financial exchange when specific conditions are met. These arrangements are considered right-to-use assets. The PUD has adopted the provisions of GASB Statement No. 96 for the year ended December 31, 2023. (Footnote 5)

In June 2017, GASB issued Statement No. 87 Leases, which establishes a standard for lease accounting based on the fact that leases are a financial exchange for the right-to-use an underlying asset. The PUD has adopted the provisions of GASB Statement No. 87 for the year ended December 31, 2022. (Footnote 4)

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation.

Note 2
Special Funds and Cash and Temporary Investments

The PUD's investment policy authorizes the investment of funds in United States (U.S.) Treasury, federally guaranteed and U.S. government-sponsored enterprise agency obligations, municipal bonds, supranational securities, commercial paper, certificates of deposit, bankers' acceptances, bank deposits and savings accounts. Certificates of deposit and bank deposits are held with qualified public depositories of the State of Washington and are collateralized under the Washington State Public Deposit Protection Act. In all instances, the PUD evaluates the creditworthiness of the financial institutions with which it invests.

All PUD investments are in compliance with State of Washington statutes, PUD investment policy, and PUD bond resolutions. Substantially all PUD investments are recorded at fair value based on observable market prices or indices. The relative type of PUD's investments at December 31, 2023 and 2022 are summarized below.

	Electric System		Generation System		Water System	
	2023	2022	2023	2022	2023	2022
U.S. Treasury Securities	50%	56%	23%	43%	42%	38%
U.S. Agency Obligations						
Federal Home Loan Bank	16%	14%	11%	3%	8%	25%
Federal Farm Credit Bank	8%	8%	–	–	13%	21%
Federal National Mortgage Association	2%	3%	7%	–	4%	–
Federal Home Loan Mortgage Corporation	–	4%	–	–	–	–
Supranational Securities						
Inter–American Development Bank	2%	–	–	–	2%	–
International Bank for Reconstruction and Development	–	–	5%	–	2%	–
International Finance Corporation	1%	–	–	–	–	–
Municipal Bonds						
State of California	1%	–	5%	–	1%	–
State of Hawaii	–	–	–	–	4%	–
Cash and Interest–bearing Demand or Time Deposits	4%	4%	–	–	–	1%
Washington State Local Government Investment Pool	16%	11%	49%	54%	24%	15%

The PUD invests funds consistent with the following objectives: conform with state and local statutes, preserve principal, maintain adequate liquidity, and maximize yield. The PUD's investments are purchased with the intent of holding the security until maturity.

Investment securities owned by the PUD are registered in the PUD's name and held in trust by banks or trust companies. Other PUD investments are insured by federal depository insurance or protected against loss under the Washington State Public Deposit Protection Act.

The Washington State Local Government Investment Pool (LGIP) is an investment vehicle operated by the Washington State Treasurer, offering governmental agency investors the economies of scale available from a multi-billion-dollar pooled fund investment portfolio. As of December 31, 2023, LGIP investments include primarily U.S. Treasury securities, repurchase agreements, U.S. agency securities, and interest-bearing bank deposits. The PUD records these investments at amortized cost.

The PUD must give notice to the LGIP of planned withdrawals over $1 million on the same day. The LGIP may suspend withdrawals or liquidate if the difference between the amortized cost per share and the market net asset value per share results in material dilution or other unfair results. The LGIP may suspend redemptions if the New York Stock Exchange suspends trading or closes, if the U.S. bond markets are closed, and if the Securities and Exchange Commission declares an emergency.

In order to address custodial credit risk, all investments except bank deposits, certificates of deposit, and funds held in the LGIP, are held in the PUD's name by a third-party custodian. The PUD addresses concentration of credit risk by diversifying investments by security type and issuer.

The PUD manages its exposure to decreases in the fair value of its investments arising from increasing interest rates by diversifying investments by time to maturity. All funds are invested in instruments with maturities of less than five years, with the weighted average maturity of the invested portfolio remaining below three years. The PUD's investment policy specifies that the investment portfolio be structured so maturing investments match projected cash flow needs in order to mitigate interest rate risk. Investment maturities for combined special funds and cash and temporary investments at December 31, were as follows:

	2023		2022	
Term	**Amount Invested (in thousands)**	**Percent of Invested Fund**	**Amount Invested (in thousands)**	**Percent of Invested Fund**
Less than 30 days	$ 93,717	17%	$ 94,097	16%
30 to 90 days	30,671	6%	45,572	8%
90 days to 1 year	174,522	32%	136,977	23%
1 year to 5 years	212,165	40%	283,098	48%
Bond reserves invested to bond maturity	27,811	5%	27,667	5%
	$ 538,886	**100%**	**$ 587,411**	**100%**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The PUD's investments, at fair value, can be categorized by valuation techniques into two levels. Level 1 investments are traded on a national securities exchange and are valued at the last reported sales price on the last business day of the year. Level 2 investments are valued using pricing models maximizing the use of observable inputs for similar securities.

The table below shows the fair value hierarchy for each system's investments subject to fair value measurement, at December 31 (in thousands):

	2023						2022	
	Electric		Generation		Water		Combined	
	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
U.S. Treasury Notes	$ 240,667	$ –	$ 5,220	$ –	$ 17,560	$ –	$ 322,196	$ –
U.S. Agency Obligations	–	123,224	–	4,065	–	10,133	–	168,859
Supranational Securities	–	15,861	–	1,176	–	1,970	–	–
Municipal Bonds	–	3,017	–	1,125	–	2,008	–	–
Assets Valued at Fair Value	**$ 240,667**	**$ 142,102**	**$ 5,220**	**$ 6,366**	**$ 17,560**	**$ 14,111**	**$ 322,196**	**$ 168,859**

Note 3
Capital Assets

Utility Plant

Utility plant is stated at cost. The PUD's capitalization threshold for utility plant is $5,000 and $35,000 for information technology. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from 5 to 77 years. When utility plant assets are retired, the original cost together with removal costs, less salvage, is charged to accumulated depreciation. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and betterments is capitalized. See Table 1 for additional utility plant details.

The PUD reviews the carrying value of its utility plant and other equipment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Capital Contributions

The PUD records capital contributions from customers and developers, relating to expansions to the PUD's infrastructure, as a separate category of non-operating revenue.

Table 1
Utility Plant
(In thousands)

	As restated 2021	As restated 2022			2023		
	Ending Balance	Additions	Retirements & Transfers	Ending Balance	Additions	Retirements & Transfers	Ending Balance
Electric System							
Transmission	$ 186,299	$ 3,566	$ (687)	$ 189,178	$ 9,300	$ (515)	$ 197,963
Distribution	1,381,228	62,066	(6,353)	1,436,941	91,172	(8,645)	1,519,468
General Plant & Other	423,294	24,596	(1,818)	446,072	30,300	(279)	476,093
Right–to–use Lease Assets[1]	2,169	2,321	–	4,490	4,542	(157)	8,875
Right–to–use Subcription Assets[2]	–	7,157	–	7,157	1,069	(1,721)	6,505
Land & Non–Depreciable Assets	75,454	1,861	(3)	77,312	2,056	–	79,368
Plant in Service	2,068,444	101,567	(8,861)	2,161,150	138,439	(11,317)	2,288,272
Construction Work in Progress	124,607	30,548	–	155,155	19,861	–	175,016
Utility Plant	2,193,051	132,115	(8,861)	2,316,305	158,300	(11,317)	2,463,288
Less Accumulated Depreciation and Amortization[1,2]	(834,374)	(59,486)	2,629	(891,231)	(60,339)	3,624	(947,946)
Net Utility Plant	**$1,358,677**	**$ 72,629**	**$ (6,232)**	**$1,425,074**	**$ 97,961**	**$ (7,693)**	**$ 1,515,342**
Generation System							
Generation/Production	$ 296,107	$ 1,940	$ (280)	$ 297,767	$ 4,583	$ (25)	$ 302,325
Transmission	2,811	326	(221)	2,916	100	(43)	2,973
Distribution	6,835	1,979	–	8,814	–	16	8,830
General Plant & Other	31,173	694	(524)	31,343	1,603	(22)	32,924
Right–to–use Lease Assets[1]	–	161	–	161	103	–	264
Land & Non–Depreciable Assets	13,822	28	–	13,850	1	4	13,855
Plant in Service	350,748	5,128	(1,025)	354,851	6,390	(70)	361,171
Construction Work in Progress	5,123	1,107	–	6,230	471	–	6,701
Utility Plant	355,871	6,235	(1,025)	361,081	6,861	(70)	367,872
Less Accumulated Depreciation and Amortization[1]	(157,303)	(5,254)	494	(162,063)	(6,180)	17	(168,226)
Net Utility Plant	**$ 198,568**	**$ 981**	**$ (531)**	**$ 199,018**	**$ 681**	**$ (53)**	**$ 199,646**
Water System							
Generation/Production	$ 9,397	$ 21	$ –	$ 9,418	$ 389	$ –	$ 9,807
Transmission & Distribution	143,153	10,421	(52)	153,522	1,062	(21)	154,563
General Plant & Other	14,207	91	(82)	14,216	243	–	14,459
Land & Non–Depreciable Assets	4,158	–	11	4,169	–	–	4,169
Plant in Service	170,915	10,533	(123)	181,325	1,694	(21)	182,998
Construction Work in Progress	4,560	–	(829)	3,731	5,704	–	9,435
Utility Plant	175,475	10,533	(952)	185,056	7,398	(21)	192,433
Less Accumulated Depreciation	(44,257)	(3,540)	235	(47,562)	(3,086)	24	(50,624)
Net Utility Plant	**$ 131,218**	**$ 6,993**	**$ (717)**	**$ 137,494**	**$ 4,312**	**$ 3**	**$ 141,809**
Combined Net Utility Plant	**$1,688,463**	**$ 80,603**	**$ (7,480)**	**$1,761,586**	**$ 102,954**	**$ (7,743)**	**$ 1,856,797**

[1]Right-to-use lease assets and associated accumulated amortization restated in 2021 in accordance with GASB 87

[2]Right-to-use subscription assets and associated accumulated amortization restated in 2022 in accordance with GASB 96

Note 4
Leases

The PUD is both a lessor and a lessee. For leases with a maximum possible term of twelve months or less at commencement, the PUD recognizes revenue or expense based on the provisions in each contract. For all other leases (i.e., those that are not short-term), as a lessee or lessor, the PUD recognizes a right-to-use asset and lease liability, or a lease receivable and a deferred inflow, respectively, in accordance with GASB Statement No. 87.

PUD as a Lessee

The following table summarizes the balances of right-to-use assets by major classes reported in net utility plant at December 31, 2023 (in thousands):

	December 31, 2023		December 31, 2022	
	Electric	Generation	Electric	Generation
Right–to–use assets – Land	$ 8,117	$ 102	$ 4,071	$ _
Less Accumulated Amortization	(647)	(9)	(242)	_
Right–to–use assets– Land, Net	7,470	93	3,829	_
Right–to–use assets – Building	419	162	419	161
Less Accumulated Amortization	(279)	(30)	(140)	(9)
Right–to–use assets – Building, Net	140	132	279	152
Right–to–use assets – Equipment	339	_	_	_
Less Accumulated Amortization	(52)	_	_	_
Right–to–use assets – Equipment, Net	287	_	_	_
Total Right–to–Use Assets	**$ 7,897**	**$ 225**	**$ 4,108**	**$ 152**

The PUD is involved in several leases and subleases of land and buildings to perform PUD operations. The obligations relating to these leases have been recognized on the Combined Statements of Net Position as both a right-to-use asset and the related lease liability equal to the present value of the lease payments in each agreement payable during the contracted term. For years ended December 31, 2023, and December 31, 2022, the PUD recorded $1.1 million and $0.4 million as amortization as well as $0.2 million and $0.1 million in interest expense, respectively. All lessee activity resides within the Electric System with the exception of two Generation System leases. At December 31, 2023, the PUD had principal and interest requirements for active leasing activities, as follows (in thousands):

Year Ended December 31	Principal	Interest	Total
2024	$ 469	$ 263	$ 732
2025	346	255	601
2026	324	247	571
2027	280	241	521
2028	234	235	469
2029-2033	1,282	1,091	2,373
2034-2038	1,596	894	2,490
2039-2043	1,317	632	1,949
2044-2048	848	448	1,296
2049-2053	1,449	205	1,654
2054	185	1	186
	$8,330	**$4,512**	**$12,842**

PUD as a Lessor

The PUD is also involved in lease agreements as the lessor of assets such as land and pole attachments. These leases are ancillary to the PUD's mission to provide power to its rate payers. The PUD primarily leases space to telecom entities, which allows them to provide services to networks.

The PUD does not engage in variable lease arrangements as a lessor. The PUD has lessor agreements with remaining contract terms ranging from four months to twenty-three years. These agreements are recorded at their net present value of $20 million and $23 million on the Combined Statements of Net Position at December 31, 2023 and 2022, respectively. The PUD recognized $4.3 million of lease income and $0.3 million in lease interest income recorded as other income for both years ended December 31, 2023 and 2022.

The PUD monitors changes in circumstances that may require remeasurement of a lease. Remeasurements of leases were performed during the year ended December 31, 2023, as a result of changes to pole attachments throughout the year.

Note 5
Subscription Based Information Technology Arrangements

In May 2020, the GASB issued Statement No. 96 SBITA, which defines a SBITA as a contract that conveys control of the right-to-use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. To comply with the statement, the lessee involved in the SBITA is required to recognize on their financial statements a subscription liability and an intangible right-to-use subscription asset. The PUD adopted the provisions of GASB Statement No. 96 on January 1, 2022, and restated the Combined Statements of Net Position, and Combined Statements of Revenues, Expenses, and Changes in Net Position at December 31, 2022, to reflect the implementation of this statement, as summarized at right (in thousands).

Subscriptions with a maximum possible term of twelve months or less at commencement are expensed as incurred. For all other subscriptions, the PUD recognizes a right-to-use asset and a subscription liability in accordance with GASB Statement No. 96. Currently, all SBITA contracts are held by the Electric System. The PUD has 22 SBITA contracts that meet the criteria for recognition and the PUD's information technology capitalization threshold of $35,000. The right-to-use asset relating to these SBITA contracts are recognized on the Combined Statements of Net Position as a subscription asset under plant in service.

	Electric	Combined
December 31, 2022, Balances Previously Reported		
Prepayments and other	$ 6,974	$ 7,430
Plant in Service	2,153,992	2,690,169
Accumulated Depreciation & Amortization	(889,383)	(1,099,008)
Accounts Payable	80,301	83,163
SBITA Liability	–	–
Operations & Maintenance Expense	242,210	258,743
Depreciation & Amortization Expense	60,948	70,229
Interest Expense	18,842	22,655
Net Income	73,433	93,701
Net Position	$ 1,504,780	$ 1,779,177
Restatment for adoption of GASB Statement No. 96		
Prepayments and other	$ (1,423)	$ (1,423)
Plant in Service	7,157	7,157
Accumulated Depreciation & Amortization	(1,848)	(1,848)
Accounts Payable	183	183
SBITA Liability	3,633	3,633
Operations & Maintenance Expense	(1,932)	(1,932)
Depreciation & Amortization Expense	1,849	1,849
Interest Expense	14	14
Net Income	69	69
Net Position	$ 69	$ 69
As restated December 31,2022		
Prepayments and other	$ 5,551	$ 6,007
Plant in Service	2,161,149	2,697,326
Accumulated Depreciation & Amortization	(891,231)	(1,100,856)
Accounts Payable	80,484	83,346
SBITA Liability	3,633	3,633
Operations & Maintenance Expense	240,278	256,811
Depreciation & Amortization Expense	62,797	72,078
Interest Expense	18,856	22,669
Net Income	73,502	93,770
Net Position	$ 1,504,849	$ 1,779,246

The following table shows the total amount of subscription assets and the related accumulated amortization at December 31, 2023 (in thousands):

Year Ended December 31	2023	2022
Subscription Assets	$ 6,505	$ 7,157
Accumulated Amortization	(2,557)	(1,848)
Net Subscription Asset	**$ 3,948**	**$ 5,309**

The PUD's 22 SBITA contracts have terms through 2026 that meet the criteria for recognition under GASB Statement No. 96. At December 31, 2023, the PUD had principal and interest requirements for their SBITA activities, as follows (in thousands):

Year Ended December 31	Principal	Interest	Total
2024	$ 909	$ 19	$ 928
2025	723	10	733
2026	410	3	413
Total	**$ 2,042**	**$ 32**	**$ 2,074**

The PUD excludes variable payments from the measurement of the right-to-use assets and subscription liability. Those payments totaled $227 thousand and $74 thousand for the years ended December 31, 2023 and December 31, 2022, respectively.

Note 6
Long-term Debt

Debt service (principal and interest) payments on the PUD's revenue bonds and other notes payable to maturity, excluding intersystem borrowing, are set forth in Table 2 (in thousands):

Table 2	Electric System Revenue Bonds		Generation System Revenue Bonds		Water System Revenue Bonds		Water System Loans	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 12,815	$ 19,773	$ 5,610	$ 2,937	$ 660	$ 1,134	$ 418	$ 53
2025	14,860	19,682	1,410	2,654	710	1,101	418	48
2026	14,275	19,173	1,480	2,583	685	1,065	418	43
2027	14,695	18,678	1,560	2,505	740	1,031	418	38
2028	15,140	18,153	1,640	2,423	840	994	354	33
2029–2033	84,615	79,042	9,600	10,729	4,890	4,293	1,442	114
2034–2038	105,140	54,042	12,380	7,941	6,195	2,944	861	53
2039–2043	65,535	28,008	15,940	4,378	7,950	1,231	589	15
2044–2048	44,085	17,853	7,555	571	–	–	–	–
2049–2053	41,835	4,670	–	–	–	–	–	–
Total	**$ 412,995**	**$ 279,074**	**$ 57,175**	**$ 36,721**	**$ 22,670**	**$ 13,793**	**$ 4,918**	**$ 397**

The Electric, Generation and Water Systems' revenues, net of specified operating expenses, are pledged as security for the systems' revenue bonds until their respective bonds are defeased or repaid. Principal and interest paid in 2023 and 2022 were $41 million and $40 million, respectively. Total revenues available for debt service as defined for the same periods were $150 million and $163 million in 2023 and 2022, as restated, respectively. Annual principal and interest payments required 28% and 25% of revenues at December 31, 2023 and 2022, respectively.

Tax-exempt revenue bonds make up the majority of the PUD's long-term debt and are subject to Internal Revenue Service Code (the Code) requirements for arbitrage rebate. Rebates are calculated based on earnings on gross proceeds of the bonds that are in excess of the amount prescribed by the Code. The estimated arbitrage liability at December 31, 2023, was $0.4 million and $0 at December 31, 2022.

Electric System

A summary of principal outstanding on Electric System long-term debt follows (in thousands):

	December 31, 2023	2022
Series 2022A Revenue bonds, 4.0–5.0%, due 2025–2052, earliest call 2032	$ 61,050	$ 61,050
Series 2021A Revenue bonds, 5.0%, due 2026–2051, earliest call 2031	78,685	78,685
Series 2020A Revenue Refunding bonds, 0.7–1.5%, due 2024–2028	37,790	46,825
Series 2015 Revenue bonds, 5.0%, due 2025–2040, earliest call 2025	119,475	121,205
Series 2010A Revenue bonds, 5.5–5.6%, due 2025–2035, currently callable	115,995	117,215
Total Principal Outstanding on Long–term Debt	**$ 412,995**	**$ 424,980**

During July of 2022, the PUD issued $61 million of Series 2022A Electric System Revenue bonds at a premium of $7.5 million with an average interest rate of 3.4%. The proceeds from the bonds will be used to finance additions, betterments, and improvements to and renewals, replacement, and extensions of the Electric System.

Changes in the Electric System long-term debt during the years ended December 31, 2023, and 2022, follow (in thousands):

	2021	2022			2023		
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 375,440	$ 61,050	$ (11,510)	$ 424,980	$ –	$ (11,985)	$ 412,995
Unamortized bond premium	39,420	7,469	(6,435)	40,454	–	(2,660)	37,794
Unamortized bond discount	(67)	–	16	(51)	–	6	(45)
Total Debt	414,793	68,519	(17,929)	465,383	–	(14,639)	450,744
Less: Current maturities	(11,510)			(11,985)			(12,815)
Total Long–term Debt	**$ 403,283**			**$ 453,398**			**$ 437,929**

The PUD is obligated as part of its bond resolution to purchase, for use in its Electric System, all power available to the Electric System from the Generation System. The PUD is also unconditionally obligated by the bond resolution to set aside revenues in amounts sufficient to pay, to the extent not otherwise paid, all the debt service on the Generation System bonds on a parity of lien with the Electric System Senior bonds.

The PUD is required to maintain a cash reserve for certain Electric System bonds. As of December 31, 2023 and 2022, the PUD held the reserve requirement of $21 million in the Electric System.

The fair value of the Electric System's long-term debt was $437 million and $448 million at December 31, 2023 and 2022, respectively. The fair value of the Electric System's long-term debt is estimated based on quoted market prices for the same or similar issues.

Generation System

A summary of principal outstanding on Generation System long-term debt follows (in thousands):

	December 31, 2023	2022
Series 2020A Revenue Refunding bonds, 5.0%, due 2024	$ 5,080	$ 9,925
Series 2015 Revenue bonds, 5.0%, due 2025–2045, earliest call 2025	39,985	39,985
Series 2010B Revenue bonds, 5.3–5.7%, due 2024–2040, currently callable	12,110	12,620
Total Principal Outstanding on Long–term Debt	**$ 57,175**	**$ 62,530**

Changes in the Generation System long-term debt during the years ended December 31, 2023, and 2022, follow (in thousands):

	2021		2022			2023	
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 67,650	$ –	$ (5,120)	$ 62,530	$ –	$ (5,355)	$ 57,175
Unamortized bond premiums	5,993	–	(1,895)	4,098	–	(720)	3,378
Unamortized bond discounts	(8)	–	2	(6)	–	1	(5)
Total Debt	73,635	–	(7,013)	66,622	–	(6,074)	60,548
Less: Current maturities	(5,120)			(5,355)			(5,610)
Total Long–term Debt	**$ 68,515**			**$ 61,267**			**$ 54,938**

The PUD is required to maintain a cash reserve for certain Generation System bonds. As of December 31, 2023 and 2022, the PUD maintained the reserve requirement of $5.3 million and $6.0 million, respectively, in the Generation System.

The fair value of the Generation System's long-term debt was $60 million and $65 million at December 31, 2023 and 2022, respectively. The fair value of the Generation System's long-term debt is estimated based on quoted market prices for the same or similar issues.

Water System

A summary of principal outstanding on Water System long-term debt follows (in thousands):

	December 31, 2023	December 31, 2022
Series 2023 Revenue Refunding bonds, 5.0%, due 2024–2043	$ 17,885	$ –
Series 2019 Revenue Refunding bonds, 5.0%, due 2024–2031	4,785	5,260
State of Washington Drinking Water Revolving Fund (DWSRF) loans:		
equal principal payments plus 1.0% interest due annually through 2042	2,797	2,944
equal principal payments plus 1.0% interest due annually through 2034	1,370	1,495
equal principal payments plus 1.5% interest due annually through 2029	496	578
equal principal payments plus 1.5% interest due annually through 2027	256	320
Total Principal Outstanding on Long–term Debt	**$ 27,589**	**$ 10,597**

During October of 2023, the PUD issued $18 million of Series 2023 Water System Revenue Bonds at a premium of $1.1 million with an average interest rate of 4.2%. The proceeds from the bonds will be used to finance additions, betterments, and improvements to and renewals, replacements, and extensions of the Water System.

Changes in the Water System long-term debt during the years ended December 31, 2023 and 2022, follow (in thousands):

	2021		As restated 2022			2023	
	Balance	Additions	Reductions	Balance	Additions	Reductions	Balance
Revenue bonds, face amount	$ 6,560	$ –	$ (1,300)	$ 5,260	$ 17,885	$ (475)	$ 22,670
Unamortized bond premiums	1,288	–	(445)	843	1,142	(189)	1,796
Other notes payable	6,633	2,245	(3,541)	5,337	–	(419)	4,918
Total Debt	14,481	2,245	(5,286)	11,440	19,027	(1,083)	29,384
Less: Current maturities	(1,806)			(893)			(1,078)
Total Long–term Debt	**$ 12,675**			**$ 10,547**			**$ 28,306**

The Water System periodically enters into low-interest loan agreements with the Washington State Public Works Trust Fund and the DWSRF. These funds have provided various loans to the PUD for the repair, replacement, rehabilitation, and reconstruction of water facilities. In 2022, the PUD initiated drawdowns of $2.2 million to pay costs associated with acquiring and improving the Warm Beach Water System, which was transferred to the PUD in 2018. Of the $2.2 million drawdown initiated in 2022, $0.6 million was recorded as a receivable at December 31, 2022, and subsequently received in January 2023. As of December 31, 2022, the PUD processed final loan closeout documentation related to the Warm Beach Water System loans, allowing the PUD to recognize 50% loan forgiveness, directly reducing the outstanding loan liability by $3.1 million.

The PUD is required to maintain a cash reserve for certain Water System bonds. As of December 31, 2023 and 2022, the PUD maintained the reserve requirement of $1.2 million and $0.4 million, respectively, in the Water System.

The fair value of the Water System's long-term Revenue bonds was $26 million and $6.0 million, respectively, as of December 31, 2023 and 2022. The fair value for the Washington State Public Works Trust Fund loan and the DWSRF loans approximates the carrying amounts since such loans are exclusive and have no market.

Note 7
Retirement and Deferred Compensation Plans

Pensions: State-sponsored (DRS) Plans

The table that follows represents the aggregate pension amounts for all plans ending December 31, (in thousands):

	2023	2022
Pension liabilities	$ (20,330)	$ (25,670)
Pension assets	$ 46,833	$ 44,112
Deferred outflows of resources	$ 38,478	$ 45,033
Deferred inflows of resources	$ (25,854)	$ (46,028)
Pension expense/expenditures (credits)	$ 21,679	$ 29,816

State-sponsored Pension Plans

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

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

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

Public Employees Retirement System (PERS)

PERS members include elected officials, state employees, employees of 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 Description & Contributions

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's twenty-four 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. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

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) were as follows:

Actual Contribution Rates	Employer	Employee
July 2021 through August 2022	10.25%	6.00%
September 2022 through June 2023	10.39%	6.00%
July 2023 through August 2023	9.39%	6.00%
September 2023 through December 2023	9.53%	6.00%

PERS 2/3 Description & Contributions

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44. PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The rates are adopted by the Pension Funding Council, and are subject to change by the Legislature. The employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

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

The PERS Plan 2/3 defined benefit required contribution rates (expressed as a percentage of covered payroll) were as follows:

Actual Contribution Rates	Employer Plan 2/3	Employee Plan 2	Employee Plan 3
July 2021 through August 2022	10.25%	6.36%	varies
September 2022 through June 2023	10.39%	6.36%	varies
July 2023 through August 2023	9.39%	6.36%	varies
September 2023 through December 2023	9.53%	6.36%	varies

Both the PUD and employees made the required contributions. The PUD's required contributions for the years ended December 31, were (in thousands):

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2023	$ 37	$ 13,046	$ 2,687
2022	$ 39	$ 13,262	$ 2,666
2021	$ 83	$ 14,081	$ 2,811

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2021 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2023. Plan liabilities were rolled forward from June 30, 2022, to June 30, 2023, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

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

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).

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 CMAs and their target asset allocation to simulate future investment returns at various future times.

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
Fixed Income	20%	1.50%
Tangible Assets	7%	4.70%
Real Estate	18%	5.40%
Global Equity	32%	5.90%
Private Equity	23%	8.90%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the PUD's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7%, as well as what the PUD'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%) or 1 percentage point higher (8%) than the current rate (in millions).

	2023			2022		
	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
PERS Plan 1	$ 28.4	$ 20.3	$ 13.3	$ 34.3	$ 25.7	$ 18.1
PERS Plan 2/3	$ 50.9	$ (46.8)	$ (127.2)	$ 51.9	$ (44.1)	$ (123.0)

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

At June 30, the PUD reported its proportionate share of the net pension liabilities and assets as follows:

Plan	Liability (or Asset) 2023	2022
PERS 1	$ 20,330	$ 25,670
PERS 2/3	(46,833)	(44,112)
Total	**$ (26,503)**	**$ (18,442)**

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

Plan	Proportionate Share 6/30/23	Proportionate Share 6/30/22	Change in Proportionation
PERS 1	0.89%	0.92%	(0.03%)
PERS 2/3	1.14%	1.19%	(0.05%)
Total	**2.03%**	**2.11%**	**(0.08%)**

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2023, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

Pension Expense

For the years ended December 31, the PUD recognized pension expense as follows (in thousands):

Plan	2023	2022
PERS 1	$ 6,784	$ 5,998
PERS 2/3	14,895	23,818
Total	**$ 21,679**	**$ 29,816**

Deferred Outflows of Resources and Deferred (Inflows) of Resources

At December 31, the PUD reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following:

	2023				2022			
	PERS 1		PERS 2/3		PERS 1		PERS 2/3	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	$ –	$ –	$ 9,540	$ (523)	$ –	$ –	$ 10,930	$ (999)
Net difference between projected and actual investment earnings on pension plan investments	–	(2,293)	–	(17,649)	–	(4,254)	–	(32,612)
Change of assumptions	–	–	19,662	(4,286)	–	–	24,586	(6,438)
Changes in proportion and differences between contributions and proportionate share of contributions	–	–	1,694	(1,103)	–	–	1,518	(1,725)
Contributions subsequent to measurement date	2,479	–	5,103	–	2,997	–	5,002	–
	$ 2,479	**$ (2,293)**	**$ 35,999**	**$ (23,561)**	**$ 2,997**	**$ (4,254)**	**$ 42,036**	**$ (41,774)**

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

Year Ended December 31:	PERS 1	PERS 2/3
2024	$ (1,560)	$ (8,044)
2025	(1,962)	(9,798)
2026	1,210	14,881
2027	19	5,630
2028-2029	–	5,789
Total	**$ (2,293)**	**$ 8,458**

Post-Employment Benefits Other than Pensions (OPEB)

The PUD implemented GASB Statement No. 75 to recognize the net liability related to OPEB and its disclosure requirements. There are two OPEB plans, healthcare and life insurance. They are a single-employer defined benefit OPEB plan administered by the PUD. There are no stand-alone financial statements presented for either of these plans.

OPEB Plan Descriptions

Healthcare Plan

The PUD administers retiree self-insured medical and vision insurance and Health Reimbursement Arrangement (HRA) benefits for eligible retirees hired before July 1, 2009, and their dependents. Retiree benefit provisions are established by Commission resolution.

In general, the PUD pays a contribution toward the retiree's PUD group health plan premiums or to a HRA. For retirees and their dependents under age 65 who elect a PUD group medical plan, the PUD contribution is based on 75% of the premium for the most commonly elected retiree health plan during the prior year. Retirees and their dependents under age 65 who waive PUD group medical plan coverage receive a $180 monthly contribution into their HRA. When a retiree or dependent becomes eligible for Medicare at age 65, the retiree is no longer eligible for the group medical plan; however, the PUD contributes $180 a month to the retiree's HRA. This OPEB plan is closed to employees hired after July 1, 2009. In 2023 and

2022, the PUD contributed $2.9 and $2.4 million, respectively, to the plans. Plan members receiving benefits contributed $0.5 million in 2023 and $0.4 million in 2022.

Retiree Life Insurance

The PUD administers life insurance benefits related to a term life insurance plan terminated in 1986 for eligible retirees. The retiree life insurance benefit provisions were established by Commission resolution.

Employees who were covered by the PUD's group term life insurance prior to November 1986 may reinstate this insurance at the time of retirement subject to a $60,000 maximum benefit. Retiree insurance premium contribution amounts are established by the Commission. The PUD entered into an insurance contract to fully insure the life insurance obligation, and contributed $328,000 and $345,000 toward the premium in 2023 and 2022, respectively.

Valuation Date, Measurement Date, and Reporting Date

The valuation date of OPEB liability is December 31, 2022. This is the date as of which the census data is gathered, and the actuarial valuation is performed. The measurement date is December 31, 2022. This is the date as of which the total OPEB liability is determined and rolled forward to the reporting date of December 31, 2023. GASB Statement No. 75 allows a lag of up to one year between the measurement date and the reporting date. There have been no significant changes between the valuation date and fiscal year ends. No adjustment is required between the measurement date and the reporting date.

Actuarial Assumptions and Other Inputs

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

- ***Inflation:*** 2.5% based on Actuary's capital market expectations.
- ***Salary increases:*** 3.25% for which the assumption above inflation is based upon the most recent pension valuation for Plan 2 of the Public Employees Retirement System (PERS), a subset of the Washington State Retirement Systems.
- ***Discount rate:*** 3.72% as of the measurement date of December 31, 2022.
- ***Healthcare cost trend rates:*** 6.8% for 2023, decreasing to an ultimate rate of 4.5% for 2042 and later years.
- ***Retirees' share of health benefit-related costs:*** 25% of projected health insurance premiums for retirees.
- ***Life insurance cost trend rates:*** 4.5% for 2023–2027.
- ***Retirees' share of life benefit-related costs:*** 25% of projected life insurance premiums for retirees.

The discount rate was based on the 20-Year Tax-Exempt Municipal Bond Yield, as required by GASB Statement No. 75.

Mortality rates were based on the PUB 2010 Tables for Males or Females, as appropriate, projected generationally.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period ended December 31, 2022.

OPEB Liability

As of December 31, 2023, the PUD's total OPEB liability for retiree healthcare was $37.0 million, and $4.3 million for retiree life benefits, recorded in other accrued and other liabilities. The annual payroll of active employees covered by the plan was $64.2 million in 2023, compared to $70.1 million in 2022.

The following census of membership was used in the actuarial valuation:

	Healthcare	Life
Retirees (and beneficiaries for healthcare)	692	191
Active employees	394	3
Total	**1,086**	**194**

The following table shows the changes in the PUD's net OPEB liability (in thousands):

Healthcare

	2023			2023	2022
	Electric	Generation	Water	Combined	Combined
Net OPEB liability – beginning of year	$ 39,626	$ 952	$ 996	$ 41,574	$ 41,899
Changes for the year:					
Service cost	959	29	28	1,016	976
Interest on total OPEB liability	803	24	24	851	883
Effect of economic/demographic gains/(losses)	2,331	70	69	2,470	–
Effect of assumptions changes or inputs	(6,013)	(180)	(178)	(6,371)	237
Expected benefit payments	(2,373)	(71)	(70)	(2,514)	(2,421)
Net Changes	(4,293)	(128)	(127)	(4,548)	(325)
Net OPEB liability – end of year	**$ 35,333**	**$ 824**	**$ 869**	**$ 37,026**	**$ 41,574**

Life

	2023			2023	2022
	Electric	Generation	Water	Combined	Combined
Net OPEB liability – beginning of year	$ 5,238	$ 135	$ 138	$ 5,511	$ 5,707
Actuarial beginning of year adjustment					
Changes for the year:					
Service Cost	4	–	–	4	4
Interest on total OPEB liability	104	3	3	110	117
Effect of economic/demographic gains/(losses)	(193)	(6)	(6)	(205)	–
Effect of assumptions changes or inputs	(700)	(21)	(21)	(742)	34
Expected benefit payments	(330)	(10)	(10)	(350)	(351)
Net Changes	(1,115)	(34)	(34)	(1,183)	(196)
Net OPEB liability – end of year	**$ 4,123**	**$ 101**	**$ 104**	**$ 4,328**	**$ 5,511**

Changes of assumptions and other inputs reflect a change in the discount rate from 2.06% in 2022 to 3.72% in 2023. The schedule of changes in the PUD's total OPEB liability and related ratios is included in the Required Supplementary Information.

Sensitivity Analysis

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the PUD, calculated using the discount rate of 3.72%, as well as what the PUD's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.72%) or 1 percentage point higher (4.72%) than the current rate (in millions):

	2023		
	1% Decrease (2.72%)	Current Discount Rate (3.72%)	1% Increase (4.72%)
Healthcare	$ 40.4	$ 37.0	$ 34.1
Life	$ 4.7	$ 4.3	$ 4.0

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate

The following presents the total OPEB liability of the PUD, calculated using the current healthcare cost trend rates as well as what the PUD's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates (in millions):

	2023		
	1% Decrease 5.80% graded down to 3.50%	Current Trend Rate 6.80% graded down to 4.50%	1% Increase 7.80% graded down to 5.50%
Healthcare	$ 35.8	$ 37.0	$ 38.4

OPEB Financial Statement Balances

For the year ended December 31, 2023, and 2022, the PUD recognized an OPEB healthcare expense reduction of $0.1 million and expense of $1.0 million, respectively. For OPEB life insurance, the PUD recognized OPEB expense reduction of $0.8 million and expense of $0.1 million for each of the years ended December 31, 2023 and 2022, respectively. At December 31, 2023, the PUD reported deferred outflows of resources and deferred inflows of resources related to OPEB healthcare from the following sources (in thousands):

	2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,673	$ (151)
Changes of assumptions or other inputs	994	(4,916)
Total	**$ 2,667**	**$ (5,067)**

There were no deferred outflows or deferred inflows of resources related to the OPEB life plan.

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB credit (expense) as follows (in thousands):

Measurement Period Ending December 31:	
2024	$ (1,055)
2025	(1,219)
2026	(126)
Thereafter	–
Total	**$ (2,400)**

Post-Employment Defined Contribution and Healthcare Plans

The PUD offers several defined contribution plans and a healthcare plan to employees.

Employees hired after July 1, 2009, are not eligible for the post-employment defined benefit healthcare plan but are instead eligible for a defined contribution healthcare plan. This plan is also known as the Retirement Health Savings (RHS) Plan. Under this plan, the PUD contributed $56.18 per month into an employee's individual HRA account in January through March 2023. Effective April 2023, the PUD contributed $57.30 each month into the plan. This amount will be adjusted by two percent (2%) annually, on April 1 of each calendar year. These funds are available to the employee for qualified health care costs upon separation from employment from the PUD.

Effective January 2023, the Commission approved adding a retention incentive for the CEO/General Manager in the form of a premium only RHS plan in the amount of $125,000. The funds are held in a revokable trust, requiring the CEO/General Manager to remain employed with PUD through February 15, 2027. If employment terms are not met, the plan balance will be forfeited. The plan was funded in November 2023. These funds are available to the employee for qualified health care costs upon separation from employment from the PUD.

The PUD administers a Non-PERS 401(a) Plan and Trust effective October 1, 1998. Participation in this profit-sharing plan is offered to eligible employees of the PUD as defined in the plan document. The Plan provides certain Employer Contributions to participants equal to the employer contributions that would have been made to Plan 2 of PERS if participants in the plan had been eligible to participate in PERS. The PUD recorded as pension expense contributions to the 401(a) Plan of $4 thousand in 2023 and 2022. These funds are available to participants following a settlement date as defined in the plan document.

The PUD administers an Internal Revenue Code Section 457 deferred compensation program, covering eligible employees as defined in the plan document. Participants may contribute and defer, up to defined limits, a portion of their current year's salary. There is no contribution to this plan from the PUD. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. All plan assets are held in trust for the exclusive benefit of participants and their beneficiaries.

Effective January 2023, the Commission approved adding a retention incentive for the CEO/General Manager in the form of a 457(f) deferred compensation plan in the amount of $600,000. The funds are not held in trust and requires the CEO/General Manager to remain employed with PUD through January 12, 2029. If employment terms are not met, the plan balance will be forfeited. The plan was funded in September 2023.

The PUD administers a 401(k) Savings Plan (the Plan) effective May 1, 1985. Participation in the Plan is offered to eligible employees of the PUD as defined in the plan document. The Plan is a defined contribution plan, which provides that participants may make voluntary salary deferral contributions, on a pretax basis, up to a maximum amount as indexed for COLA. In 2023, the contribution limit for employees was $22,500. The catch-up contribution limit for employees aged 50 and over was $7,500. Employee contributions are fully vested. Employer contributions are vested after 3 years of employment. Effective January 2023, the PUD makes matching contributions in an amount equal to 100% of the first 3% of a participant's compensation, contributed as a salary deferral. The PUD recorded as pension expense for matching contributions to the Plan of $3.9 million and $3.1 million in 2023 and 2022, respectively.

Note 8
BPA Power Purchase Agreement

The PUD is a preferred customer of the BPA, from which it acquired approximately 78% and 83% of its energy purchases in 2023 and 2022, respectively.

The PUD purchases power from BPA under power supply contracts offered pursuant to the Pacific Northwest Electric Planning and Conservation Act. These contracts provide the PUD with the ability to purchase power in excess of its declared resources on an as-needed basis. The PUD entered into contracts with BPA to purchase approximately 75-85% of its power requirements from the federal agency through 2028.

Energy Northwest Nuclear Projects Nos. 1, 2 and 3

The PUD entered into participation agreements in Energy Northwest's Nuclear Projects Nos. 1, 2 and 3. The PUD, Energy Northwest and BPA have entered into separate Net Billing Agreements with respect to Energy Northwest's Project No. 1, Project No. 2 and 70% ownership share of Project No. 3. The PUD is obligated to purchase from Energy Northwest, and BPA is obligated to purchase from the PUD, a maximum of approximately 20%, 15% and 19%, respectively, of the capacity of Project Nos. 1 and 2 and Energy Northwest's 70% ownership share of Project No. 3. BPA is unconditionally obligated to pay Energy Northwest the PUD's pro rata share of the total annual costs of the projects, including debt service on revenue bonds issued to finance the projects. The effect of these net billing agreements is that the cost of power sold by BPA to all of its customers, including the PUD, includes the cost of these projects.

Notwithstanding the assignment of the PUD's share of the capability of a net billed project to BPA, the PUD remains unconditionally obligated to pay to Energy Northwest its share of the total annual costs of the projects to the extent payment is not received by Energy Northwest from BPA. The PUD has not made payments under this contract.

Note 9
Generation System Projects

The Generation System consists of the PUD's Henry M. Jackson Hydroelectric Project (Jackson Project), four smaller hydroelectric projects and one biofuel generator. In 2023 and 2022, these projects supplied 4% and 5% of the PUD's energy needs, respectively.

Henry M. Jackson Hydroelectric Project

The Jackson Project is a multipurpose hydroelectric project with a capacity of 111.8 megawatts. The project is currently operating under a 45-year license issued by the Federal Energy Regulatory Commission (FERC) that will expire in 2056. The license agreement includes requirements for fish, wildlife, and recreation enhancement in the Jackson Project area. The PUD has also negotiated settlement agreements with the cities of Everett and Sultan, Washington Department of Fish and Wildlife, United States Forest Service, and the Tulalip Tribes that call for funding commitments over the course of the 45-year license.

Small Hydroelectric Projects

The Generation System owns four small hydroelectric projects. Two of these, the Youngs Creek Hydroelectric Project (Youngs Creek) and the Woods Creek Hydroelectric Project (Woods Creek) are located near Sultan, Washington, in Snohomish County. Completed in 2011, Youngs Creek has a capacity of 7.5 megawatts, and its FERC license expires in 2042. Woods Creek was purchased by the PUD in 2008, has a capacity of 650 kilowatts, and was upgraded by the PUD to meet current operating standards. This project is exempt from FERC licensing.

The PUD's other two projects, Calligan Creek Hydroelectric Project (Calligan Creek) and Hancock Creek Hydroelectric Project (Hancock Creek), were completed and began operations in 2018. These 6.0 megawatt run-of-the-river hydroelectric projects are situated near North Bend, Washington, in King County. The 50-year FERC licenses for each project will expire in 2065.

Biofuel Project

In September of 2022, the Generation System started operating a biogas engine generator which has a capacity of 675 kilowatts. The generator is owned and operated by the PUD. The space it occupies is leased from Qualco Energy on a lease agreement that runs through 2028. Qualco Energy blends food and agriculture waste in a digester, and sells the resulting biogas to the PUD to fuel the generator.

The PUD has committed the Electric System to purchase the output of its Generation System projects at the cost of the power produced.

Note 10
Related Party Transactions

The Generation System sells power to the Electric System at the cost of power produced including debt service and any other cash transactions. The Generation System sold $26 million and $29 million of power in 2023 and 2022, respectively, to the Electric System.

The Electric and Generation Systems periodically enter into loan transactions between the systems for various purposes including to defease bonds, to fund energy generation project construction, and to fund energy generation project studies, including the purchase and development of small hydroelectric projects. These loans are assigned terms consistent with the associated asset acquired, and interest rates are set at tax-exempt bond market rates at the time of the loan.

Electric System loans to the Generation System were $24 million and $28 million at December 31, 2023 and 2022, respectively. The Generation System recorded interest expense on these loans of $1.2 million in 2023 and $1.3 million in 2022.

Note 11
Self-Insurance Fund

The PUD maintains a comprehensive insurance program that includes liability insurance coverage of $50 million in excess of a $2 million self-insured retention per occurrence. This coverage insures against certain losses arising from property damage or bodily injury damage claims filed by third parties against the PUD. On December 31, 2023, the PUD's $2 million self-insured retention was fully funded. Self-insurance funds are included in special funds at market value, with balances of $10 million as of December 31, 2023 and 2022.

Note 12
Contingencies

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

The PUD has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Required Supplementary Information (Unaudited)

9-Year Schedule of Proportionate Share of the Net Pension Liability As of June 30 (In thousands)

PERS 1	2023	2022	2021	2020	2019	2018	2017	2016	2015*
Employer's proportion of the net pension liability	0.89%	0.92%	0.92%	0.85%	0.88%	0.87%	0.87%	0.91%	0.89%
Employer's proportionate share of the net pension liability	$ 20,330	$ 25,670	$ 11,285	$ 29,903	$ 33,889	$ 38,769	$ 41,111	$ 48,809	$ 46,613
Employer's covered employee payroll	$ 373	$ 482	$ 773	$ 649	$ 642	$ 608	$ 768	$ 1,059	$ 1,481
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5450.40%	5325.73%	1459.90%	4607.55%	5278.66%	6376.48%	5352.03%	4608.97%	3147.40%
Plan fiduciary net position as a percentage of the total pension liability	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

**PUD implemented GASB 68 in 2015, will report ten years of data when available*

PERS 2/3	2023	2022	2021	2020	2019	2018	2017	2016	2015*
Employer's proportion of net pension liability (asset)	1.14%	1.19%	1.17%	1.08%	1.12%	1.10%	1.10%	1.14%	1.11%
Employer's proportionate share of net pension liability	$(46,833)	$(44,112)	$(116,645)	$ 13,864	$ 10,915	$ 18,707	$ 38,094	$ 57,276	$ 39,776
Employer's covered employee payroll	$157,959	$147,593	$ 140,052	$126,542	$122,155	$114,293	$107,494	$106,886	$ 98,786
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	(29.65%)	(29.89%)	(83.29%)	10.96%	8.94%	16.37%	35.44%	53.59%	40.26%
Plan fiduciary net position as a percentage of the total pension liability	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

**PUD implemented GASB 68 in 2015, will report ten years of data when available*

Notes to Schedule: Factors that significantly affect trends in the amounts reported in the schedule include changes in benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions such as the discount rate. DRS allocates a portion of contributions from the PERS 2/3 to PERS 1 in order to fund its unfunded actuarially accrued liability.

10-Year Schedule of Employer Contributions As of December 31 (In thousands)

PERS 1	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 37	$ 39	$ 83	$ 91	$ 81	$ 81	$ 71	$ 98	$ 124	$ 155
Contributions in relation to the contractually required contributions	(37)	(39)	(83)	(91)	(81)	(81)	(71)	(98)	(124)	(155)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered Employer Payroll	370	380	696	705	632	632	594	879	1,221	1,611
Contributions as a percentage of covered employee payroll	10.00%	10.26%	11.93%	12.91%	12.82%	12.82%	11.95%	11.15%	10.14%	9.62%

PERS 2/3	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 15,733	$ 15,928	$ 16,892	$ 17,458	$ 15,640	$ 15,239	$ 13,267	$ 11,925	$ 1 0,581	$ 8,989
Contributions in relation to the contractually required contributions	(15,733)	(15,928)	(16,892)	(17,458)	(15,640)	(15,239)	(13,267)	(11,925)	(10,581)	(8,989)
Contribution deficiency (excess)	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Covered Employer Payroll	$ 158,819	$ 155,062	$146,019	$ 135,327	$ 121,760	$ 119,564	$ 110,945	$106,716	$ 103,383	$ 97,703
Contributions as a percentage of covered employee payroll	9.91%	10.27%	11.57%	12.90%	12.84%	12.75%	11.96%	11.17%	10.23%	9.20%

10-Year Schedule of Changes in Total Other Post-Employment Benefits (OPEB) Liability and Related Ratios

As of December 31 (in thousands)

Total OPEB Liability

Post- Employment - Health	2023	2022	2021	2020	2019	2018	2017 *	2016 *	2015 *	2014 *
Components of Change in Total OPEB Liability										
Service cost	$ 1,016	$ 976	$ 1,569	$ 1,198	$ 1,151	$ 1,066				
Interest on total OPEB liability	851	883	1,274	1,704	1,565	1,673				
Effect of economic/demographic gains (losses)	2,470	–	(906)	–	794	–				
Effect of assumption changes or inputs	(6,370)	237	(3,602)	4,442	(4,629)	1,395				
Expected benefit payments	(2,514)	(2,422)	(2,739)	(2,775)	(2,954)	(3,007)				
Net change in total OPEB liability	$ (4,547)	$ (326)	$ (4,404)	$ 4,569	$ (4,073)	$ 1,127	$ –	$ –	$ –	$ –
Total OPEB liability, beginning	41,573	41,899	46,302	41,733	45,806	44,679	45,800	57,400	57,100	49,700
Total OPEB liability, ending	**$37,026**	**$ 41,573**	**$ 41,898**	**$46,302**	**$ 41,733**	**$ 45,806**	**$45,800**	**$ 57,400**	**$ 57,100**	**$49,700**
Covered employee payroll	$ 64,174	$ 70,135	$ 74,130	$ 71,826	$ 70,291	$ 71,696	$ 71,409	$ 74,667	$105,400	$ 90,900
Total OPEB liability as a % of covered employee payroll	57.70%	59.28%	56.52%	64.46%	59.37%	63.89%	64.14%	76.87%	54.17%	54.68%

Post- Employment - Life	2023	2022	2021	2020	2019	2018	2017 *	2016 *	2015 *	2014*
Components of Change in Total OPEB Liability										
Service cost	$ 4	$ 4	$ 12	$ 7	$ 7	$ 12				
Interest on total OPEB liability	110	117	132	175	163	177				
Effect of economic/demographic gains (losses)	(205)	–	884	–	(14)	–				
Effect of assumption changes or inputs	(743)	34	38	653	(312)	178				
Expected benefit payments	(350)	(350)	(301)	(298)	(321)	(305)				
Net change in total OPEB liability	$ (1,184)	$ (195)	$ 765	$ 537	$ (477)	$ 62	$ –	$ –	$ –	$ –
Total OPEB liability, beginning	5,512	5,707	4,942	4,405	4,882	4,820	5,000	5,300	8,100	8,500
Total OPEB liability, ending	**$ 4,328**	**$ 5,512**	**$ 5,707**	**$ 4,942**	**$ 4,405**	**$ 4,882**	**$ 5,000**	**$ 5,300**	**$ 8,100**	**$ 8,500**
Covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total OPEB liability as a % of covered employee payroll	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Components of Change in Total OPEB Liability detailed data was unavailable in actuarial reports prior to 2018.*

Notes to Schedule: There are no changes of benefit terms.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate, election, demographic, and health assumptions each period. Discount rate used in 2023: 3.72%, 2022: 2.06%, 2021: 2.12%.

The PUD has established a fund to address the unfunded portion of future post-employment benefits. The balance of this account was $42.1 million and $38.2 million as of December 31, 2023 and 2022, respectively, and is included in special funds on the statements of net position. Since these funds have not been placed in an irrevocable trust, the PUD has not reduced the unfunded actuarial liability by these funds. Effective January 1, 2015, the PUD has entered into an insurance product that is expected to fund the remaining life insurance liability.

Electric System
Statements of Revenues, Expenses, and Debt Service Coverage (Unaudited)

(In thousands)

Years Ended December 31,	2021	As restated 2022	2023
Operating Revenues:			
Sale of electric energy	$ 667,405	$ 722,260	$ 743,396
Other operating revenues	32,334	36,161	64,031
Unbilled revenues	8,400	6,900	(5,400)
Total Operating Revenues	**708,139**	**765,321**	**802,027**
Operating Expenses:			
Purchased power	334,427	363,509	406,324
Operations and maintenance	215,636	240,278	244,095
Depreciation	58,988	62,797	65,651
Taxes	39,534	40,732	42,107
Total Operating Expenses	**648,585**	**707,316**	**758,177**
Net Operating Income (Loss)	**59,554**	**58,005**	**43,850**
Interest Charges	**13,930**	**13,269**	**17,715**
Other Income and Expense:			
Interest income	5,415	8,276	16,671
Net increase (decrease) in the fair value of investments	(4,857)	(11,390)	8,265
Other income and expense, net	3,095	3,587	6,538
Total Other Income and Expense	**3,653**	**473**	**31,474**
Capital Contributions:			
Cash contributions	21,424	24,317	19,533
Non-cash contributions	6,376	3,977	10,252
Total Capital Contributions	**27,800**	**28,294**	**29,785**
Net Income	**77,077**	**73,503**	**87,394**
Non-cash contributions	(6,376)	(3,977)	(10,252)
Interest charges	13,930	13,269	17,715
Depreciation	58,988	62,797	65,651
Pension & OPEB liability actuarial adjustments	(43,297)	(20,549)	(25,782)
Net increase (decrease) in the fair value of investments	4,857	11,390	(8,265)
Balance Available for Debt Coverage	**105,179**	**136,433**	**126,460**
Parity Debt Service Costs:			
Interest	15,762	18,488	19,969
Principal	11,085	11,510	11,985
Total Parity Debt Service Costs	**$ 26,847**	**$ 29,998**	**$ 31,954**
Parity Debt Service Coverage	**3.9x**	**4.5x**	**4.0x**

Electric System
Revenue and Statistical Data (Unaudited)

Years Ended December 31,	2021	2022	2023	% change from 2022
Retail Customers (average)				
Residential	332,746	338,130	342,025	1.2%
Commercial	34,071	34,709	34,957	0.7%
Industrial	76	76	78	2.6%
Other	203	211	209	(0.9%)
Retail Customers	**367,096**	**373,126**	**377,269**	**1.1%**
Megawatt-Hours Billed				
Residential	3,788,553	3,917,803	3,922,390	0.1%
Commercial	2,311,513	2,345,764	2,391,503	1.9%
Industrial	466,812	469,471	457,802	(2.5%)
Wholesale	1,512,879	1,847,108	1,473,414	(20.2%)
Other	26,892	28,381	28,159	(0.8%)
Megawatt-Hours Billed	**8,106,649**	**8,608,527**	**8,273,268**	**(3.9%)**
Revenues Billed (in thousands)				
Residential	$ 384,362	$ 403,146	$ 419,675	4.1%
Commercial	204,048	208,569	213,133	2.2%
Industrial	32,564	33,188	32,778	(1.2%)
Wholesale	42,693	73,375	72,441	(1.3%)
Other	3,739	3,981	4,073	2.3%
Revenues Billed	**$ 667,406**	**$ 722,259**	**$ 742,100**	**2.7%**
Average Retail Rate per kWh				
Residential	$ 0.101	$ 0.103	$ 0.107	3.9%
Commercial	$ 0.088	$ 0.089	$ 0.089	0.0%
Industrial	$ 0.070	$ 0.071	$ 0.072	1.4%
Number of Employees	1,025	1,047	1,079	3.1%
Electric Line Miles	6,608	6,652	6,697	0.7%
New Electric Service Connections	5,934	5,051	4,649	(8.0%)

Water System
Statements of Revenues, Expenses, Debt Service Coverage, and Statistical Data (Unaudited)

(In thousands)

Years Ended December 31,	2021	2022	2023
Operating Revenues:			
Sale of water	$ 14,626	$ 15,098	$ 16,078
Other operating revenues	362	408	389
Total Operating Revenues	**14,988**	**15,506**	**16,467**
Operating Expenses:			
Purchased water	3,217	3,600	4,230
Operations and maintenance	5,447	6,641	7,586
Depreciation	3,269	3,497	3,583
Taxes	784	775	817
Total Operating Expenses	**12,717**	**14,513**	**16,216**
Net Operating Income	**2,271**	**993**	**251**
Interest Charges	**266**	**(28)**	**546**
Other Income and Expense:			
Interest income	120	367	1,088
Net increase (decrease) in the fair value of investments	(86)	(405)	454
Other income and expense, net	(27)	3,123	(54)
Total Other Income and Expense	**7**	**3,085**	**1,488**
Capital Contributions:			
Cash contributions	3,425	1,724	1,330
Non-cash contributions	2,713	3,210	1,601
Total Capital Contributions	**6,138**	**4,934**	**2,931**
Net Income	**8,150**	**9,040**	**4,124**
Non-cash contributions	(2,713)	(3,210)	(1,601)
Interest charges	266	(28)	546
Depreciation	3,269	3,496	3,583
Pension and OPEB liability actuarial adjustments	(1,184)	(538)	(762)
Net increase (decrease) in the fair value of investments	86	405	(454)
Balance Available for Debt Coverage	**7,874**	**9,165**	**5,436**
Parity Debt Service Costs:			
Interest	381	328	385
Principal	1,220	1,300	475
Total Parity Debt Service Costs	1,601	1,628	860
Less: Assessment payments received	(5)	(4)	(10)
Debt Service Paid from Revenues	**$ 1,596**	**$ 1,624**	**$ 850**
Parity Debt Service Coverage	**4.9x**	**5.6x**	**6.4x**
Number of Water Customers (average)	22,774	23,156	23,475
Water Sales & Purchases (thousand cubic feet)			
Retail Cubic Feet Sold	220,504	218,913	233,223
Wholesale Cubic Feet Sold	31,499	33,677	40,831
Total Cubic Feet Sold	**252,003**	**252,590**	**274,054**
Average Retail Water Rates (thousand cubic feet)			
Residential	$3.52	$3.57	$3.66
Commercial	$3.24	$3.37	$3.53

Table of Contents

* Incorporated by reference only

Report of Independent Auditors 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*

The Board of Commissioners
Public Utility District No. 1 of Snohomish County
Everett, Washington

We have audited, in accordance with the 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 Snohomish County, Washington (the District), which comprise the District's combined and individual statements of net position, and the related combined and individual statements of revenues, expenses and changes in net position and cash flows of the Electric, Generation, and Water Systems, as of and for the year ended December 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated April 5, 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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 entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Everett, Washington
April 5, 2024

MOSSADAMS

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Commissioners
Public Utility District No. 1 of Snohomish County
Everett, Washington

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Snohomish County Public Utility District No. 1 (the District's) compliance with the types of compliance requirements identified as subject to audit in the 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 summary of 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 compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Programs

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 *(Government Auditing Standards)*; 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). Our responsibilities under those standards and the 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 District and to meet our other ethical responsibilities, in accordance with 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 of 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 material noncompliance when it exists. The risk of not detecting material noncompliance 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 judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

- 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 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.

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 a 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 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. 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. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended December 31, 2023, and have issued our report thereon dated April 5, 2024, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

Everett, Washington
April 5, 2024

Supplementary Information

Public Utility District No. 1 of Snohomish County
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	ALN Number	Pass Through Entity Identifying Number	Federal Expenditures	Passed-through to Subrecipients
DEPARTMENT OF HOMELAND SECURITY				
Pass through the State of Washington:				
Disaster Grants - Public Assistance				
(Presidentially Declared Disasters)	97.036	FEMA 4539-DR-WA	$ 467,321	$ -
	97.036	FEMA 4593-DR-WA	384,835	-
	97.036	FEMA 4682-DR-WA	367,055	-
	97.036	FEMA 4481-DR-WA	304,019	-
	97.036	FEMA 4418-DR-WA	80,334	-
	97.036	FEMA 4168-DR-WA	15,628	-
	97.036	FEMA 4635-DR-WA	615	-
			1,619,807	-
DEPARTMENT OF THE TREASURY				
Pass through Washington State Department of Commerce				
COVID-19 State and Local Fiscal Recovery Funds	21.027	SLFRP0002	5,159,271	-
US DEPARTMENT OF ENERGY				
Pass through Washington State University				
Renewable Energy Research and Development	81.087	DE-IA0000025	3,066	-
Total Expenditures of Federal Awards			$ 6,782,144	$ -

See Notes to Schedule of Expenditures of Federal Awards.

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures of federal awards of the Snohomish County Public Utility District No. 1 (the District) for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the net position, changes in net position, or cash flows of the District.

The District's reporting entity is defined in Note 1 of the District's financial statements. All federal awards from federal agencies are included in the Schedule.

Note 2 – Summary of Significant Accounting Policies

The accompanying Schedule is prepared whereby eligible grant expenditures are recorded when reimbursement of the grant expenditures are received from the granting agency. Disaster Grants from the Department of Homeland Security are prepared on the same basis of accounting as the District's financial statements using the accrual basis of accounting, whereby eligible grant expenditures are recorded when incurred (i.e., when goods are received or services provided). Such expenditures are recognized following the cost principles in Uniform Guidance wherein certain types of expenditures are not allowable or limited as to reimbursement. Expenditures reported include any property or equipment acquisitions incurred under federal programs. Pass-through identifying numbers are presented where available.

The amount shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, are more than shown.

The District is not eligible to use an indirect rate on these federal awards, therefore the de minimis indirect cost rate as described in 2 CFR 200.414 is not being utilized.

Note 3 – Department of Treasury Grant to WA DOC for Utility Residential Customer Arrearages

In November 2022, the District entered into a grant agreement with Washington State Department of Commerce to receive funds usable for utility accounts with arrearages from March 2020 to December 2021 related to COVID-19, meeting specific conditions. In December 2022, the District received and applied $11,190,099 to qualified customer accounts before December 31, 2022. In June 2023, the District received and applied an additional $5,519,271 to qualified customer accounts before June 30, 2023.

Note 4 – FEMA Disaster 4682

In November 2022, the Puget Sound area, including Snohomish & Island Counties, experienced a severe storm. This storm caused landslides, mudslides, trees and branches to fall, resulting in major outages throughout Snohomish County and Camano Island. On January 12, 2023, the Federal government declared the storms a Federal Disaster and made disaster relief funds available to Snohomish County. In 2023, the District submitted $489,406 in Category B costs related to this event. Category F costs of $9.7 million are in review with FEMA and have not been obligated. As of December 31, 2023, the District has recorded approximately $428,000 as a receivable and a corresponding expenditure of the same amount. This receivable includes the federal portion of $367,055, and the state portion of $61,176.

Public Utility District No. 1 of Snohomish County
Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	☐ Yes ☒ No
• Significant deficiency(ies) identified?	☐ Yes ☒ None reported
Noncompliance material to financial statements noted?	☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	☐ Yes ☒ No
• Significant deficiency(ies) identified?	☐ Yes ☒ None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

ALN Number	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
21.027	Department of Treasury Grant to Washington DOC Covid-19 State and Local Fiscal Recovery Funds	Unmodified
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	Unmodified

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	☒ Yes ☐ No

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.