Office of the Washington State Auditor
Pat McCarthy

December 23, 2024

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

Contracted CPA Firm's Audit Report on Financial Statements

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the financial statements of Public Utility District No. 1 of Kittitas County for the fiscal year ended December 31, 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 and, accordingly, we do not express an opinion on those financial statements.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

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PUBLIC UTILITY DISTRICT NO. 1
OF KITTITAS COUNTY, WASHINGTON

Financial Report

December 31, 2023

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Table of Contents
December 31, 2023

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial statements of Public Utility District No. 1 of Kittitas County, Washington (the "District") which are comprised of the statement of net position as of December 31, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Public Utility District No. 1 of Kittitas County, Washington and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, the schedules of employer's share of the net pension liability (asset) and employer contributions on pages 43 through 46, and the schedule for the other postemployment benefit plan on page 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a separate report dated July 24, 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 sole purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DeCoria, Blair & Teague, PS

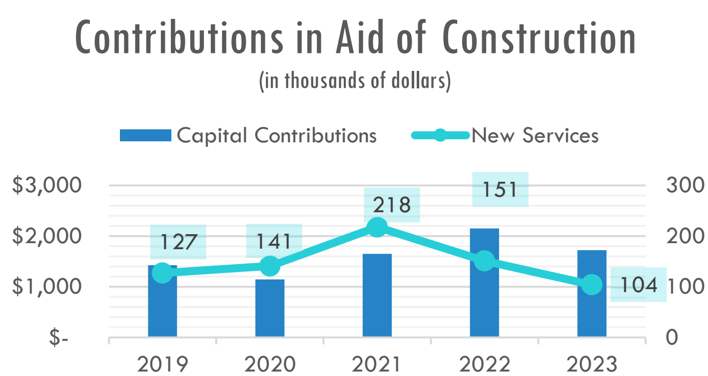
DeCoria, Blair & Teague, P.S.
Spokane, Washington

July 24, 2024

The following discussion and analysis provides an overview of the financial activities of Public Utility District No. 1 of Kittitas County, Washington (the District) for the year ended December 31, 2023. This overview is designed to be used in conjunction with the accompanying financial statements, notes, and other supplementary information.

Financial Highlights

- Standard & Poor's assigned the District a credit rating of A with a stable outlook. Long-term financial planning, robust financial metrics, robust liquidity with cash to cover 256 days of operating expenses, a diverse customer base and demonstrated willingness to raise rates in response to higher power costs are a few of the comments received.
- The District implemented an increase to its retail electric rates in August 2023. The budgeted rate increase was in response to forecasted power costs and capital expenditures.
- The District's low-income assistance program, which was originally implemented in July 2021, was updated in October 2023 to increase facility charge discounts for low-income households to $10 per month. In addition, the program was expanded to offer a payment voucher of up to $200 annually to households of qualifying seniors, people with disabilities, veterans, or active military personnel. The low-income assistance program is managed by HopeSource, a non-profit and community action agency in Kittitas County.
- Capital contributions, also known as contributions in aid of construction, are revenues resulting from customer requests for new or altered electric services. Customers requesting these construction projects are responsible for paying the cost, in accordance with the District's line extension policy, to prevent an impact on rates. Capital contributions of $1.72 million were recognized in 2023, less than 2022 contributions by 20% along with a 31% decrease in new service connections to 104 in 2023.



- Debt service coverage (DSC) demonstrates the ability to meet debt obligations even under unusual conditions. Bond covenants require a DSC of at least 1.25. The 2023 DSC for the District is 3.34.
- The District continues to produce a positive change in net position. Approximately $4.73 million increase in 2023 is a key indicator of the District's financial strength.
- Capital expenditures of $4.5 million though below the annual budget are on track with the 10-year capital plan. The District's increase in capital spending in recent years focuses heavily on replacement of aging infrastructure to ensure customers have access to reliable electric service for years to come. Capital projects completed during 2023 include:
  - Bettas Road Substation Project – The completed twenty megavolt-ampere (MVA) substation project added capacity to meet future load growth and provided feeder redundancy to the District between the Teanaway Station in the upper county and the Smithson Station in the lower county.
  - Vantage Highway Fire Rebuild Project – This project consisted of rebuilding a one-mile section of a three-phase distribution feeder damaged during fires in the summer of 2022. The repair of this damaged line was deferred until the spring of 2023 because of the nature of the redundant feeders to this area and the fact that there were not any customers in this

section of the line. The deferral allowed the District to plan and schedule and complete all work during regular business hours instead of under emergency conditions after hours.

- Lyons Road Feeder Tie Project – Just over two miles of new three-phase stranded aluminum lines built to current specifications, including a lowered neutral, fiberglass arms, clamp pins, and raptor/wildlife protection. This feeder tie project improved the redundancy and load shifting capabilities of both the Jenkins substation feeder J1 and the Parke substation feeder P2.
- SCADA Implementation Project – Supervisory control and data acquisition (SCADA) infrastructure provides real-time communication to integrated field devices to maintain efficiency and distribute data for smarter decisions and proactive communication of system issues. Procurement, programming, engineering, installation, and testing of the SCADA communication infrastructure to a new master station and the integration of the first substation took place in 2022. In 2023, the District added SCADA functionality to Smithson, Jenkins, and Bettas substations. As future budgets allow, the District will add Parke, Teanaway, and Ellensburg substations and other electronic field devices.
- Overhead Conductor and Pole Replacement Projects – Aging poles and lines were replaced throughout the District system. The upgrades improved the reliability, access, and capacity of the lines. In addition, load balance is improved, reducing line losses. Project areas are as follows:
    - New conductor installed: 13.26 miles total*
    - Other single pole locations: 138 new poles installed, or old poles replaced*

*Includes Vantage Highway Fire Rebuild and the Lyons Road Reconductor projects described above.

Overview of the Financial Statements

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

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

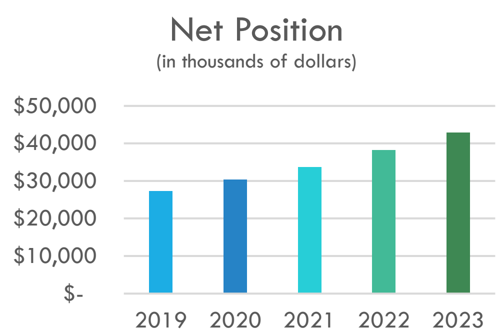
The Statement of Revenues, Expenses and Changes in Net Position provides operating results, non-operating revenues and expenses, and capital contributions.

The Statement of Cash Flows provides information about the District's cash provided and used by operating activities as well as other cash sources, including investment income, debt financing, debt service and capital additions during the year. This statement reports net changes in cash resulting from operations, investing, financing, and noncapital financing activities, if any.

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

Financial Analysis of the District as a Whole

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



Condensed Comparative Financial Information

Statements of Net Position December 31	2023	2022
Current Assets - Unrestricted	$ 6,690,901	$ 5,110,746
Current Assets - Restricted	3,236,351	3,050,555
Net Utility Plant	45,078,354	42,222,019
Other Noncurrent Assets	4,177,672	5,211,235
Deferred Outflows of Resources	380,186	441,516
Total Assets and Deferred Outflows of Resources	59,563,464	56,036,071
Current Liabilities	5,226,108	5,017,328
Noncurrent Liabilities	11,123,292	12,322,888
Deferred Inflows of Resources	303,081	513,289
Total Liabilities and Deferred Inflows of Resources	16,652,481	17,853,505
Net Investment in Capital Assets	33,645,621	29,517,544
Restricted Net Position	1,314,198	1,498,385
Unrestricted Net Position	7,951,164	7,166,637
Total Net Position	$ 42,910,983	$ 38,182,566

Statements of Revenues, Expenses and Changes in Net Position Year Ended December 31	2023	2022
Sales of Electricity	$ 12,878,371	$ 13,073,817
Other Operating Revenues	353,637	279,606
Total Operating Revenues	13,232,008	13,353,423
Cost of Power	4,593,383	4,943,818
Other Operating Expenses	5,768,249	6,051,018
Total Operating Expenses	10,361,632	10,994,836
Operating Income	2,870,376	2,358,587
Other Income and Expense, Net	137,137	42,257
Capital Contributions	1,720,904	2,150,719
Changes in Net Position	4,728,417	4,551,563
Net Position, Beginning of Year	38,182,566	33,631,003
Net Position, End of Year	$ 42,910,983	$ 38,182,566

Assets

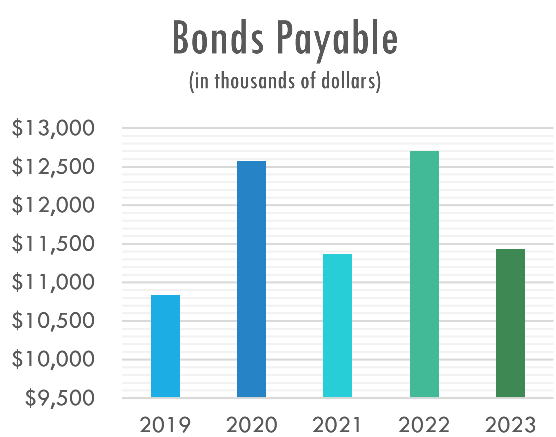
Current assets increased 31% from 2022. Total investments in all classifications increased by 21% with an increase of $1.9 million in current investments and 6% in restricted investments. Investing in the Local Government Investment Pool (LGIP) allows the District to take advantage of market increases in interest rates while also maintaining access to current monies for capital projects. Accounts receivable from sales of electricity decreased with the 21% reduction in December sales. Additionally, the reserve for doubtful accounts increased for uncollected line extension project costs. Miscellaneous receivables outstanding of $381 thousand at the end of the year included damage to power lines and customer line extensions.

Utility Plant increased by a total of 6.8% over 2022's year-end balances reflecting additional investments in utility plant assets. Construction in progress decreased compared to 2022 following the completion of several large projects, described earlier in this report.

Other noncurrent assets decreased by 20%. This figure includes a reduction in regulatory assets due to a refund from Bonneville Power Administration (BPA) in the amount of $222 thousand after completion of the Bettas substation. During 2021, the District paid $1.62 million to BPA for upgrades associated with the construction of the Bettas substation. The District could recover this payment, plus interest, over a period of up to 20 years in the form of credits on its BPA transmission invoices. As of December 31, 2023, the District has earned interest of $141,799 and received transmission credits of $9,884. The balance of $1.53 million is recorded as a regulatory asset.

Also included in regulatory assets is the unamortized portion of a $825 thousand District contribution paid to Public Utility District No. 2 of Grant County in 2020 for increased capacity at a point of delivery. During 2023, the District recorded $27.5 thousand of amortization, resulting in an unamortized balance of $729 thousand on December 31, 2023.

Net pension asset, which represents the District's proportionate share of the collective net pension asset for the Washington State Public Employees' Retirement System (PERS) Plan 2, increased 5% from the prior year's balance to $443 thousand. This resulted from changes in the 2023 actuarial valuation.



Liabilities

The balance in total current liabilities increased by 4% in 2023 compared to 2022. Amounts payable from restricted assets increased $338 thousand from customer advances for line extensions. The District implemented a new component to line extension fees and charges in the form of a transformer deposit in 2021, which appeared for the first time on the 2022 financial statements in the amount of $248 thousand and reduced to $155 thousand in 2023. $93 thousand of transformer deposits associated with a large project were refunded to the developer as part of the final cost true-up, prior to services being energized. This type of deposit is collected from customers requesting line extensions to housing developments as defined in the line extension policy and is designed to be released based on the percentage of energized service connections, as defined in the customer's construction agreement.

Retainage payable to vendors is also included in the amounts payable from restricted assets. The District is statutorily required to withhold retainage of 5% from public improvement contracts until the project is completed and accepted. The total amount of retainage held by the District increased from $316 thousand to $363 thousand by year-end 2023.

Noncurrent liabilities fluctuate for additional borrowing and principal payments on bond indebtedness based on repayment schedules. In 2023, the District refinanced $2.5 million on a revolving line of credit and made annual principal payments of $1.26 million.

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

The current ratio was 1.9 and 1.63 for 2023 and 2022, respectively.

Net Position

Net investment in capital assets and restricted net position fluctuate with bond issuances, bond payments, and capital projects capitalized. Net investment in capital assets, net of related debt, increased by $4.1 million compared to 2022.

Net position increased in 2023 and 2022. Unrestricted net position can be used to finance the day-to-day operations of the District and is increased and decreased by earnings. The Board of Commissioners has designated funds for vehicle replacement. These funds are not subject to external restrictions like bond covenants or third-party contractual agreements, and as such are not included in the restricted net position.

Revenues and Expenses

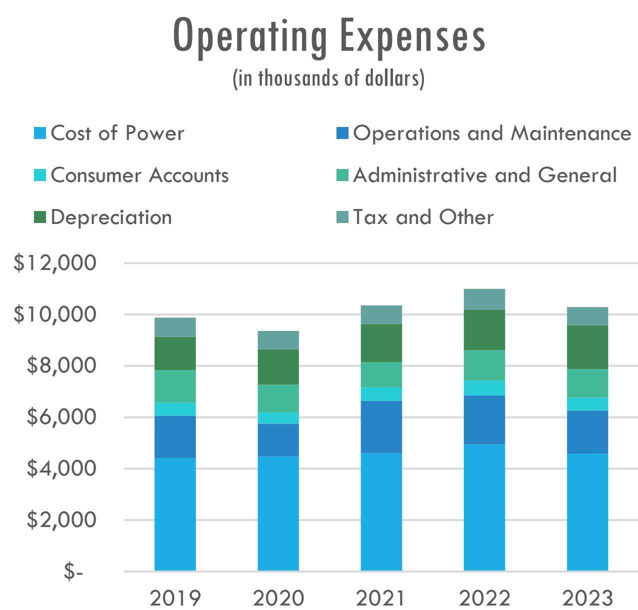
Total sales of electricity decreased by 1% while kWh decreased by 4.5% in 2023. This is due in part to the number of days billed of 364 and 367 in 2023 and 2022, respectively. Additionally, the August 2023 rate increase offset the kWh decrease.

Other operating revenues increased by 26% in 2023 after decreasing in 2022 due to conservation revenues received from Bonneville Power Administration (BPA) for projects completed during the year.

In 2023, total operating expenses decreased by 6%, driven by a decrease of $350 thousand in cost of power and a

decrease of $245 thousand in operations and maintenance expenses. The District, as a distribution system only, purchases more than 90% of its power from BPA and demonstrates a willingness and ability to adjust rates in response to the BPA rate changes.

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



Other income and expense include interest income, interest expense, and miscellaneous other items. Interest expense of $317 thousand constitutes much of the expense. Interest income of $271 thousand constitutes much of the income and increased 61% in 2023.

Income before capital contributions is used to fund capital projects and principal repayment of long-term debt. Capital contributions received from customers are for residential and commercial line extensions projects requests. Changes in net position following capital contributions increased by $4.7 million.

Contacting the District's Financial Management

This report is designed to provide the District's customers, bondholders, creditors, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. The annual report consists of Management Discussion and Analysis, Independent Auditors' Report, Basic Financial Statements (Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows) along with accompanying Notes and Supplementary Information.

Questions concerning the information provided in this report should be directed to the District's Finance Department at 1400 Vantage Highway, Ellensburg, WA 98926.

Financial Statements

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Statement of Net Position
December 31, 2023

ASSETS	
Current Assets - Unrestricted:	
Cash and cash equivalents (Note 3)	$ 1,260,764
Accounts receivable, net (Note 4)	1,744,579
Materials and supplies inventory	1,099,753
Prepayments and other current assets	53,013
Investments (Note 7)	2,532,792
Total current assets - unrestricted	6,690,901
Current Assets - Restricted:	
Investments (Notes 5, 7 and 10)	3,236,351
Total current assets - restricted	3,236,351
Net Utility Plant (Note 6):	
Utility plant in service	63,248,729
Construction in progress	961,419
Accumulated depreciation	(19,131,794)
Total net utility plant	45,078,354
Other Noncurrent Assets:	
Regulatory assets (Note 8)	2,689,396
Investments (Note 7)	1,044,798
Net pension asset (Note 11)	443,478
Total other noncurrent assets	4,177,672
Total assets	59,183,278
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to the net pension liability (Note 11)	380,186
Total deferred outflows of resources	380,186
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	2,066,796
Compensated absences	231,264
Amounts payable from restricted assets (Note 5)	1,922,153
Long-term debt, due within one year (Note 10)	1,005,895
Total current liabilities	5,226,108
Noncurrent Liabilities:	
Long-term debt, due after one year (Note 10)	10,426,838
Net pension liability (Note 11)	191,156
Total other postemployment benefit obligation (Note 11)	505,298
Total noncurrent liabilities	11,123,292
Total liabilities	16,349,400
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to the net pension liability (Note 11)	303,081
Total deferred inflows of resources	303,081
Commitments and contingencies (Note 12)	
NET POSITION	
Net investment in capital assets	33,645,621
Restricted net position (Note 5)	1,314,198
Unrestricted	7,951,164
Total net position	$ 42,910,983

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

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2023

Operating revenues:		
Sales of electricity		$ 12,878,371
Other operating revenues		353,637
	Total operating revenues	13,232,008
Operating expenses:		
Cost of power		4,593,383
Distribution expense - operations		946,520
Distribution expense - maintenance		717,746
Consumer accounts expense		504,705
Administrative and general expense		1,116,339
Depreciation expense		1,695,160
Tax expense		714,754
Other deductions		73,025
	Total operating expenses	10,361,632
	Operating income	2,870,376
Other income and expense:		
Investment income, net		343,708
Gain on disposal of assets		40,426
Other nonoperating income		70,163
Interest expense		(317,160)
	Total other income and expense, net	137,137
	Income before capital contributions	3,007,513
Capital contributions		1,720,904
	Changes in net position	4,728,417
Net position, beginning of year		38,182,566
	Net position, end of year	$ 42,910,983

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Statement of Cash Flows
Year Ended December 31, 2023

	2023
Cash flows from operating activities:	
Receipts from customers	$ 13,498,645
Payments to suppliers	(6,274,060)
Payments to and on behalf of employees	(1,832,059)
Net cash provided by operating activities	5,392,526
Cash flows from capital and related financing activities:	
Additions to utility plant, net	(5,052,985)
Proceeds from sales of general plant	92,570
Borrowings (repayments) on line of credit, net	(2,500,000)
Proceeds from borrowings on long-term debt	2,500,000
Principal payments on long-term debt	(1,264,907)
Interest payments on long-term debt	(315,591)
Contributions in aid of construction	2,002,247
Cash from nonoperating sources	36,530
Net cash used by capital and related financing activities	(4,502,136)
Cash flows from investing activities:	
Purchases of investments	(2,415,772)
Proceeds from sales of investments	1,297,976
Interest and dividends received	216,904
Net cash used by investing activities	(900,892)
Net decrease in cash and cash equivalents	(10,502)
Cash and cash equivalents, beginning of year	1,271,266
Cash and cash equivalents, end of year	$ 1,260,764
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 2,870,376
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	1,695,160
Allocated depreciation	108,191
Changes in:	
Accounts receivable, net	358,099
Materials and supplies inventory	17,777
Prepayments and other current assets	(14,968)
Regulatory assets	256,704
Accounts payable and accrued expenses	120,380
Compensated absences	1,254
Amounts payable from restricted assets	337,754
Net pension asset (liability) and related deferred outflows (inflows)	(223,115)
Net other postemployent benefit obligation	(135,086)
Net cash provided by operating activities	$ 5,392,526
Supplemental disclosure of non-cash activities:	
Amortization of premium on bond issuance	$ (6,835)
Amortization of regulatory assets	48,686
Net gain on disposition of utility plant	(40,426)
Unrealized loss on investments	(72,265)
Non-cash patronage income recognized	(4,273)

1. Organization

Public Utility District No. 1 of Kittitas County, Washington ("the District") is a municipal corporation of the State of Washington established in 1936 to function as a public utility for the purpose of engaging in the generation, transmission, distribution and sale of electric energy. The District serves Kittitas and Yakima counties, including approximately 5,000 residents and businesses, with 757 miles of line. The District's administrative office is located in the City of Ellensburg.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

Recent Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for Subscription-Based Information Technology Arrangements (SBITAs); (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance and consistency of information about SBITAs.

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Statement No. 96 became effective for the District beginning in the fiscal year ended December 31, 2023. The District does not currently have any significant software subscription arrangements. As such, there was no financial statement impact of adopting this statement.

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

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

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to the leases, PPPs and SBITAs became effective for the District in the fiscal year ended December 31, 2023. Implementation did not have a material impact on the District's financial statements. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. The District is currently evaluating the financial statement impact of adopting this statement, but does not anticipate any impact upon implementation.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. Statement No. 101 is effective for fiscal years beginning after June 15, 2023. The District is currently evaluating the financial statement impact of adopting this statement.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The primary objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). Statement No. 101 is effective for fiscal years beginning after December 15, 2023. The District is currently evaluating the financial statement impact of adopting this statement.

In December 2023, the GASB issued Statement No. 102, *Certain Risk Disclosures*. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. If a government determines that those criteria for disclosure have been met for a concentration or constraint, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. Statement No. 102 is effective for fiscal years beginning after June 15, 2024. The District is currently evaluating the financial statement impact of adopting this statement.

2. Summary of Significant Accounting Policies, Continued

Recent Accounting Pronouncements, Continued

In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*. This Statement will revise and build upon the requirements in GASB Statement No. 34. Key changes in the new standard are summarized below.

- Revises the requirements for management's discussion and analysis (MD&A) with the goal of making it more readable and understandable
- Combines extraordinary items and special items into one category of "unusual or infrequent items"
- Defines operating and nonoperating revenues, specifically by defining nonoperating revenues and classifying all other revenues as operating
- Includes a new section for noncapital subsidies for proprietary funds' statement of revenues, expenses, and changes in fund net position
- Requires the presentation of proprietary funds' statement of revenues, expenses, and changes in fund net position in the statistical section of the report to include the same categories of revenues and expenses as the face of the financial statements
- Removes the option to disclose major component units in a condensed form in the notes to the financial statements and requires them to be shown individually or in combining financial statements following the fund financial statements
- Requires budgetary comparisons to be presented as RSI and adds new columns for variances between original-to-final budget and final budget-to-actual results

Cash and Cash Equivalents

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

Accounts Receivable

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

Materials and Supplies Inventory

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

2. Summary of Significant Accounting Policies, Continued

Restricted and Board Designated Assets

Restricted assets consist of assets that are restricted by bond covenants or third-party contractual agreements. Assets that are allocated by resolution of the Commissioners are considered to be Board designated. Board designated amounts are a component of unrestricted assets, as their use may be redirected at any time by approval of the Commissioners. At December 31, 2023, the Board has designated $429,152 for vehicle replacements, which is also excluded from restricted assets.

Net Utility Plant

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

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

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

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

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

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

Deferred Charges and Deferred Credits

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

2. Summary of Significant Accounting Policies, Continued

Investments

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

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, established a fair value hierarchy for those assets and liabilities measured at fair value, that distinguishes between assumptions based on market data (observable inputs) and the organization's own assumptions (unobservable inputs). The hierarchy consists of: Level 1 – quoted market prices in active markets for identical instruments; Level 2 – inputs other than Level 1 inputs that are observable; and Level 3 – unobservable inputs developed using estimates and assumptions determined by the organization. At December 31, 2023, the assets or liabilities of the District that were measured at fair value on a recurring basis are summarized as follows:

	Level 1	Level 2	Level 3	Total
Federal Farm Credit Bank	$ --	$ 943,802	$ --	$ 943,802
Federal Nat'l Mortgage Assn	--	966,910	--	966,910
	$ --	$ 1,910,712	$ --	$ 1,910,712

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The District had no assets measured at fair value on a nonrecurring basis during 2023.

Valuation of Long-Lived Assets

Management of the District periodically reviews the net carrying value of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. These reviews consider the net realizable value of each asset to determine whether an impairment in value has occurred, and whether there is a need for any asset impairment write-down. Impaired assets are reported at the lower of cost or net realizable value. At December 31, 2023, no assets were considered to be impaired.

Compensated Absences

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

2. Summary of Significant Accounting Policies, Continued

Asset Retirement Obligations

An asset retirement obligation (ARO) is a legally enforceable liability associated with the retirement of a tangible capital asset. The District has identified AROs for certain assets that are expected to operate in perpetuity. As the District cannot estimate a settlement date or extent of the obligation, a reasonable estimate of the obligation cannot be made. As such, ARO liabilities are not recorded for retirement activities associated with certain distribution projects. The District has not recorded any AROs as of December 31, 2023.

Deferred Financing Costs

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

Revenue and Cost Recognition

The District records revenue billed to its customers when the meters are read each month. Substantially all of the District's customers' meters were read as of December 31, 2023. Accordingly, management believes that any unbilled revenue would not be material to the financial statements, and therefore has not provided an accrual for unbilled accounts receivable.

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

Taxes

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

Clearing Accounts

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

Credit Risk

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

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

2. Summary of Significant Accounting Policies, Continued

Credit Risk, Continued

Credit is extended to customers, generally without collateral requirements, although deposits are required from certain customers and formal shut-off policies and procedures are in place. Concentration of credit risk with respect to consumer receivables is generally limited due to the District's large number of customers. However, approximately 15% of the District's electric sales were made to six commercial customers during 2023. At December 31, 2023, these commercial customers owed the District $170,992 for electric service, which has been fully paid subsequent to year-end.

In addition, credit is also extended, generally without collateral requirements, for non-electric sales, such as capital contributions and reimbursements, which are also subject to risk. Amounts that management has deemed to be potentially uncollectable, if any, have been included in the allowance for doubtful accounts (see Note 4).

Accounting Estimates

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

Subsequent Events

The District has evaluated subsequent events through July 24, 2024, the date as of which these financial statements were available to be issued. With the exception of the items described in Note 13, no material subsequent events have occurred since December 31, 2023 that required recognition or disclosure in these financial statements.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and deposits held in checking accounts at local banks. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each bank at December 31, 2023.

The carrying amount of cash and cash equivalents, including restricted cash and cash equivalents, on the District's books at December 31, 2023 was $1,260,764. Bank balances totaled $1,298,472 at that date. The differences between the carrying amount of cash and cash equivalents on the District's books and the combined balances per the banks consisted of outstanding checks and deposits not processed by the banks as of December 31, 2023.

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

3. Cash and Cash Equivalents, Continued

A summary of the uninsured bank balances at December 31, 2023 is as follows:

Bank balances at December 31, 2023	$ 1,298,472
Portion insured by the FDIC	(254,118)
Uninsured balances	$ 1,044,354

4. Accounts Receivable

Accounts receivable consist of the following at December 31, 2023:

Electric service	$ 1,570,222
Other receivables	391,512
	1,961,734
Less: allowance for doubtful accounts	(217,155)
	$ 1,744,579

Other receivables generally consist of amounts due to the District related to certain capital contributions for new or improved infrastructure projects and amounts related to reimbursement of costs incurred for damages caused to the District's infrastructure, generally as a result of an accident. Amounts which management has deemed to be potentially uncollectible have been included in the allowance for doubtful accounts.

5. Restricted Assets

At December 31, 2023, the District has certain amounts that are classified and reported as restricted investments. These amounts are restricted in accordance with bond covenants or by requirements to segregate funds for the payment of certain current liabilities. Bond sinking funds and unspent construction funds, if any, from bond proceeds are restricted by bond covenants and are reported as restricted net position. The other amounts have been reported as amounts payable from restricted assets.

Restricted Net Position	
Bond sinking funds	$ 1,314,198
	1,314,198
Amounts Payable from Restricted Assets	
Consumer deposits	243,025
Transformer deposits	155,022
Contractor retainage	362,769
Customer contributions in aid to construction	1,033,445
Customer energy prepayments	102,284
Restricted for future asset replacement (Note 6)	25,608
	1,922,153
Restricted investments	$ 3,236,351

6. Net Utility Plant

Net utility plant activity for the year ended December 31, 2023 is as follows:

	Balance December 31, 2022	Additions	Transfers	Disposals	Balance December 31, 2023
Transmission plant	$ 97,409	$ --	$ --	$ --	$ 97,409
Distribution plant	52,119,075	839,156	7,158,258	(140,232)	59,976,257
General plant	2,502,612	143,268	24,230	(46,953)	2,623,157
Accumulated depreciation	(17,817,612)	(1,803,351)	--	489,169	(19,131,794)
	36,901,484	(820,927)	7,182,488	301,984	43,565,029
Land	317,639	--	279,018	(50,000)	546,657
Intangibles	5,249	--	--	--	5,249
Construction in progress	4,997,647	3,425,278	(7,461,506)	--	961,419
	$ 42,222,019	$ 2,604,351	$ --	$ 251,984	$ 45,078,354

Total depreciation for 2023 was $1,803,351. Depreciation on transportation and work equipment is allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense. Depreciation on transportation and work equipment that was allocated to clearing accounts, and subsequently charged to construction work orders or maintenance expense totaled $108,191 in 2023.

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

7. Investments

Investments consist of the following at December 31, 2023:

Investments in associated organizations	$ 100,996
State of Washington Local Government Investment Pool (substantially restricted)	4,802,233
Marketable securities	1,910,712
	$ 6,813,941

Investments in associated organizations primarily consist of patronage capital credits from Federated Rural Electric Insurance Exchange Cooperative (Federated) in the amount of $100,781 at December 31, 2023.

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

7. Investments, Continued

The amounts invested in the LGIP include $3,236,351 that are recorded as restricted investments at December 31, 2023 (see Note 5).

Marketable securities consist of the following at December 31, 2023:

Federal Farm Credit Bank, bearing interest at a fixed rate of .650%, maturing in June 2025, rated A by S&P	$ 943,802
Federal National Mortgage Association, bearing interest at a fixed rate of .400%, maturing in September 2024, rated A by S&P	966,910
	$ 1,910,712

Marketable securities have the following maturities at December 31, 2023:

	Maturities (in Years)				
	Less than 1	1 - 2	3 - 4	5+	Total
Federal Farm Credit Bank	$ --	$ 943,802	$ --	$ --	$ 943,802
Federal Nat'l Mortgage Assn	966,910	--	--	--	966,910
Total	$ 966,910	$ 943,802	$ --	$ --	$ 1,910,712

8. Regulatory Assets

Regulatory assets consist of the following at December 31, 2023:

Payment pursuant to transfer agreement with Public Utility District No. 2 of Grant County, Washington	$ 729,185
Utility easement	413,377
Payment to Bonneville Power Administration towards substation construction	1,530,232
Deferred transmission costs payable pursuant to Transmission Service Agreement with U.S. Bureau of Reclamation	25,136
Transportation clearing balances	(8,534)
	$ 2,689,396

During 2020, the District paid Public Utility District No. 2 of Grant County, Washington (Grant) $824,886 towards the cost of constructing infrastructure upgrades and improvements to Grant's system pursuant to a transfer agreement with Grant that will facilitate the wheeling of power by Grant to the District. Under the terms of the transfer agreement, Grant will wheel power and energy supplied by BPA to the District in exchange for agreed-upon rates for a period of up to 30 years. The District is amortizing the costs of the payment to Grant over 30 years at the rate of approximately $2,291 per month. The amortization of the payment has been included in cost of power in the Statement of Revenues, Expenses and Changes in Net Position. At December 31, 2023, the remaining unamortized cost is $729,185.

8. Regulatory Assets, Continued

During 2014, the Beverly Bridge, which served as one of the District's points of delivery and to which the District's power lines were attached, burned. The Department of Natural Resources, which has responsibility for bridge construction, repair and maintenance, declared the bridge to be unusable. Through 2021, the bridge remained unusable, which served as an incentive for the District to enter into the agreement with Grant described in the preceding paragraph. During 2022, the Washington State Parks and Recreation Commission facilitated the cooperation of seven different parties, including the District, to fund the repair of the Beverly Bridge. In exchange for a payment of $431,350, the District was granted a 50-year easement, which allows the District to attach its lines to the bridge. The District's payment is being amortized over the 50-year easement period at the rate of approximately $719 per month. During 2023, the District recorded amortization of $8,627, resulting in an unamortized cost of $413,377 at December 31, 2023.

During 2021, the District paid $1,620,245 to the Bonneville Power Administration (BPA) pursuant to a Network Integration Transmission Service Agreement, resulting from a new BPA business practice for funding network upgrades. In accordance with the new BPA business practice, the District was required to pay a portion of the estimated cost of construction of a new substation on Bettas Road within the District's territory. During 2023, the network upgrades were completed at a cost that was less than the amount of funds already advanced by the District, and the final cost adjustment was completed. Accordingly, BPA reimbursed the District $221,928 during 2023, which was recorded as a reduction to the regulatory asset balance on the District's books. In addition, the District earns interest from BPA on the net prepayment amount for the substation construction costs.

The net amount paid to BPA has been recorded as a regulatory asset and will be recovered through transmission credits applied toward the District's monthly bill from BPA for up to 20 years from the date the new substation is energized. The District's engineering staff have reviewed BPA's estimate of the transmission credits and believes the amount credited will be sufficient to fully recover the amount paid by the District to BPA within the 20-year period.

A summary of the changes in the BPA regulatory asset is as follows:

Total BPA regulatory asset, beginning of year	$ 1,711,653
Refund of final cost adjustment	(221,928)
Interest earned	50,391
Transmission credits received	(9,884)
Decrease in total BPA regulatory asset	(181,421)
Total BPA regulatory asset, end of year	$ 1,530,232

During early 2022, the District was notified by the U.S. Bureau of Reclamation (USBR) that the District owed $89,980 for transmission costs associated with the Transmission Service Agreement between the USBR and the District for the period from 2013 through 2021, which had not been previously billed by the USBR. The District has been advised by its legal counsel that they believe the Federal government can only seek payment for the most recent six years. During 2022, the District calculated the amount that it believes is owed for the transmission costs, totaling $50,272. This amount, which was paid in early 2023, is being amortized over four years, the period over which the District plans to recoup the costs through customer rates. During 2023, the District recorded amortization of $12,568, resulting in an unamortized balance of $25,136 at December 31, 2023. If the USBR claim is ultimately settled for a higher amount, the additional amount will be added to the regulatory asset and amortized over the remaining amortization period.

9. Line of Credit

Effective April 30, 2019, the District established a $6 million non-revolving line of credit with a local bank for the purpose of providing financing for the District's capital program. During February 2020, the terms of the line of credit were amended to convert the line to a revolving line of credit, thus allowing repaid amounts on the line to be re-borrowed. The line, which included interest at a fixed rate of 2.60%, matured on December 1, 2023. Prior to this line of credit expiring on December 1, 2023, the District advanced $2,500,000 from a new revolving line of credit issued under a $7.5 million Series 2023 Electric Revenue Bond, the proceeds of which were used to pay off this line of credit.

As described above, during November 2023, the District established a $7.5 million revolving line of credit with a local bank, through the issuance of a Series 2023 Electric Revenue Bond, for the purpose of providing funds to repay the 2019 line of credit and financing for the District's capital program. The line, which includes interest at a fixed rate of 5.70%, allows for funds to be advanced through December 1, 2026. Proceeds from the new $7.5 million revolving line of credit, totaling $2,500,000 through December 31, 2023, are included as part of long-term debt under the newly-issued Series 2023 Electric Revenue Bond (see Note 10).

10. Long-Term Debt

During 2013, the District issued $4,220,000 of Series 2013 Electric Revenue and Refunding Bonds. The bonds were issued at a premium of $140,132, and bear interest at rates which vary from 2.00% to 4.00%. A portion of the proceeds from the Series 2013 Electric Revenue and Refunding Bonds was used to retire the outstanding principal balance of previously-issued Series 2002 Electric Revenue Bonds. The premium received on the bonds is being amortized over the life of the new bonds (240 months). During 2023, amortization of the premium on the bonds totaled $6,835. This amount has been recorded as a reduction of interest expense in the Statement of Revenues, Expenses and Changes in Net Position.

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

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

During 2023, the District issued a $7,500,000 Series 2023 Electric Revenue Bond to fund the repayment of the 2019 line of credit (see Note 9) and finance capital improvements to the District's utility plant. The corresponding revolving line of credit includes a draw period of funds through December 1, 2026. Through December 31, 2023, the District has advanced $2,500,000 of funds under this bond. The bond, which bears interest at the rate of 5.70%, requires semi-annual payments of interest and annual payments of principal of varying amounts and matures in December 2033.

10. Long-Term Debt, Continued

At December 31, 2023, the District held $1,323,989 of investments restricted for bond repayment as required by the bond covenants (see Note 5). The District is in compliance with all significant limitations and restrictions associated with the bonds, including the debt service coverage of 1.25. Debt service coverage was 3.34 at December 31, 2023.

A summary of changes in long-term obligations of the District for the year ended December 31, 2023 is as follows:

	Long-Term Obligations December 31, 2022	Long-Term Obligations Incurred	Long-Term Obligations Paid/Amortized	Long-Term Obligations December 31, 2023	Due Within One Year
Series 2013 Electric Revenue and Refunding Bonds	$ 1,515,000	$ --	$ (115,000)	$ 1,400,000	$ 115,000
Premium on issuance of 2013 Electric Revenue and Refunding Bonds	74,452	--	(6,835)	67,617	--
Series 2015 Electric Revenue and Refunding Bond	3,382,323	--	(450,607)	2,931,716	461,436
Series 2020 Electric Revenue and Refunding Bond	5,232,700	--	(699,300)	4,533,400	237,100
Series 2023 Electric Revenue Bond	--	2,500,000	--	2,500,000	192,359
	$ 10,204,475	$ 2,500,000	$ (1,271,742)	$ 11,432,733	$ 1,005,895

Future debt service requirements as of December 31, 2023 are summarized as follows:

	Principal	Interest	Total
Series 2013 Electric Revenue and Refunding Bonds:			
2024	$ 115,000	53,700	168,700
2025	120,000	49,000	169,000
2026	125,000	44,100	169,100
2027	130,000	39,000	169,000
2028	135,000	33,700	168,700
2029 - 2033	775,000	79,500	854,500
	1,400,000	299,000	1,699,000
Series 2015 Electric Revenue and Refunding Bond:			
2024	461,436	67,723	529,159
2025	471,635	57,063	528,698
2026	481,190	46,169	527,359
2027	494,076	35,053	529,129
2028	506,109	23,640	529,749
2029	517,270	11,949	529,219
	2,931,716	241,597	3,173,313

10. Long-Term Debt, Continued

	Principal	Interest	Total
Series 2020 Electric Revenue and Refunding Bond:			
2024	$ 237,100	$ 89,180	$ 326,280
2025	242,100	84,340	326,440
2026	248,300	79,387	327,687
2027	251,600	74,338	325,938
2028	256,400	69,207	325,607
2029 - 2033	2,528,800	219,194	2,747,994
2034	769,100	7,768	776,868
	4,533,400	623,414	5,156,814
Series 2023 Electric Revenue Bond:			
2024	192,359	142,500	334,859
2025	203,323	131,536	334,859
2026	214,913	119,946	334,859
2027	227,162	107,696	334,858
2028	240,111	94,748	334,859
2029 - 2033	1,422,132	252,160	1,674,292
	2,500,000	848,586	3,348,586
Combined Totals:			
2024	1,005,895	353,103	1,358,998
2025	1,037,058	321,939	1,358,997
2026	1,069,403	289,602	1,359,005
2027	1,102,838	256,087	1,358,925
2028	1,137,620	221,295	1,358,915
2029 - 2033	5,243,202	562,803	5,806,005
2034	769,100	7,768	776,868
	$ 11,365,116	$ 2,012,597	$ 13,377,713

11. Employee Benefit Plans

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

Overview

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2023:

Aggregate Pension Amounts – All Plans

Net pension (asset)	$ (443,478)
Net pension liability	191,156
Deferred outflows of resources	380,186
Deferred inflows of resources	303,081
Pension expense (expense offset)	(73,603)

11. Employee Benefit Plans, Continued

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

Overview, Continued

All of the District’s full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit retirement plans. Public Employees’ Retirement System (PERS) retirement benefit provisions are established in Chapters 41.34 RCW and 41.40 RCW and may be amended only by the State Legislature.

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

Plan Description

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

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

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest-paid consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

11. Employee Benefit Plans, Continued

<u>Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued</u>

Plan Description, Continued

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

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time, duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5% and escalate to 15% with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Funding Policy

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.20%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates.

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability and an administrative expense that is currently set at 0.20%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

11. Employee Benefit Plans, Continued

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

Funding Policy, Continued

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
January 1 thru June 2023:			
Employer*	10.39%	10.39%**	10.39%***
Employee	6.00%	6.36%	****

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
July 2023 thru August 2023:			
Employer*	9.39%	9.39%**	9.39%***
Employee	6.00%	6.36%	****

* The employer rates include the employer administrative expense fee currently set at 0.18%.
** The employer rates include a component to fund the UAAL currently set at 2.85%.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

	PERS Plan 1	PERS Plan 2	PERS Plan 3
September 2023 thru December 2023:			
Employer*	9.53%	9.53%**	9.53%***
Employee	6.00%	6.36%	****

* The employer rates include the employer administrative expense fee currently set at 0.20%.
** The employer rates include a component to fund the UAAL currently set at 2.97%.
*** Plan 3 defined benefit portion only.
**** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

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

Year Ended December 31,	PERS 1	PERS 2/3	Total
2023	$ 51,944	$ 97,568	$ 149,512
2022	55,866	94,591	150,457
2021	55,944	93,194	149,138

11. Employee Benefit Plans, Continued

<u>Public Employees' Retirement System (PERS) Plans 1, 2 and 3, Continued</u>

Actuarial Methods and Assumptions

The total pension liability (TPL) for each of the PERS plans was determined using the most recent actuarial valuations completed in 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 increases
- Investment rate of return: 7.00%

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

There were no changes in methods between the two most recent actuarial valuations.

Discount Rate

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

Long-Term Expected Rate of Return

OSA selected a 7.00% long-term expected rate of return on pension plan investments using a building-block method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The CMAs contain three pieces of information for each class of assets WSIB currently invests in, including expected annual return; standard deviation of the annual return; and correlations between the annual returns of each asset class with every other asset class. The WSIB uses the CMAs and their target asset allocation to simulate future investment returns at various future times.

11. Employee Benefit Plans, Continued

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

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023, are summarized in the table below. The inflation component used to create the table is 2.20% and represents WSIB's most recent long-term estimate of broad economic inflation.

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

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

At December 31, 2023, the District reported a net pension liability (asset) for its proportionate share of the net pension liabilities (assets), as follows:

PERS 1	$ 191,156
PERS 2/3	(443,478)
Total	$ (252,322)

The District's proportionate shares of the collective net pension liability (asset) for the measurement dates of June 30, 2023 and 2022 were as follows:

	Proportionate Share June 30, 2023	Proportionate Share June 30, 2022	Change in Proportionate Share
PERS 1	0.0083740%	0.0087250%	-0.0003510%
PERS 2/3	0.0108200%	0.0113520%	-0.0005320%

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

The collective net pension liability (asset) was measured as of June 30, 2023, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2022, with update procedures used to roll forward the total pension liability to the measurement date.

11. Employee Benefit Plans, Continued

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

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

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

PERS 1	$ (13,064)
PERS 2/3	(60,539)
Total	$ (73,603)

Pension expense (expense offset) allocated to clearing accounts totaled $8,061 in 2023.

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

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions made subsequent to the measurement date	$ 22,703	$ --
Net difference between projected and actual investment earnings on pension plan investments	--	21,563
PERS 2/3		
Contributions made subsequent to the measurement date	$ 49,263	$ --
Net change in proportionate share	31,697	68,853
Differences between expected and actual experience	90,336	4,955
Changes in assumptions or other inputs	186,187	40,581
Net difference between projected and actual investment earnings on pension plan investments	--	167,129
Total	$ 380,186	$ 303,081

The amounts reported at December 31, 2023 as deferred outflows of resources related to pensions resulting from employer contributions made subsequent to the measurement date, totaling $71,966, will be recognized as a reduction of the net pension liability in the year ending December 31, 2024.

At December 31, 2023, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (expense offset) as follows:

Year Ending December 31,	PERS 1	PERS 2/3	Total
2024	$ (14,671)	$ (85,594)	$ (100,265)
2025	(18,450)	(107,353)	(125,803)
2026	11,376	122,360	133,736
2027	182	43,348	43,530
2028	--	49,646	49,646
Thereafter	--	4,295	4,295
	$ (21,563)	$ 26,702	$ 5,139

11. Employee Benefit Plans, Continued

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

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

The average of the expected remaining service lives (in years) of all employees that are provided with pensions through the Plans (active and inactive employees) determined at July 1, 2022, the beginning of the measurement period ended June 30, 2023, is zero and 6.9 years for PERS 1 and PERS 2/3, respectively.

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

The following table presents the District's proportionate share of the net pension liability (asset) at December 31, 2023 calculated using the discount rate of 7.00%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of:			
PERS 1 net pension liability (asset)	$ 267,059	$ 191,156	$ 124,910
PERS 2/3 net pension liability (asset)	482,335	(443,478)	(1,204,091)
	$ 749,394	$ (252,322)	$ (1,079,181)

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.

Other Postemployment Benefits

Overview

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

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

Aggregate OPEB Amounts

OPEB liability	$ 505,298
OPEB expense (expense offset)	(121,092)

11. Employee Benefit Plans, Continued

Other Postemployment Benefits, Continued

Plan Description

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

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

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

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

Subsidies

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

The explicit subsidy permitted under RCW 41.05.085 is a fixed dollar amount for a specific group of retirees. The explicit subsidy lowers the monthly premium paid by retired members enrolled in Medicare Parts A and B. PEBB determines the amount of the explicit subsidy annually. The explicit subsidy was $183 and $183 per member per month for 2023 and 2022, respectively.

11. Employee Benefit Plans, Continued

Other Postemployment Benefits, Continued

Subsidies, Continued

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

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

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

Employees Covered by Benefit Terms

As of December 31, 2023, the following employees are covered by the benefit terms:

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

The active employees have an average age of 50.3 as of December 31, 2023, and an average of 6.1 years of service.

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

As of December 31, 2023, the District reported a total OPEB liability of $505,298 related to this plan. The total OPEB liability was measured as of June 30, 2023 and was determined by using the alternative measurement method.

For the year ended December 31, 2023, the District recognized OPEB expense (expense offset) of $(121,092) related to this plan. Since the District records costs as they come due, there are no deferred outflows of resources for contributions to the OPEB plan. In accordance with the alternative measurement method, no deferred outflows of resources and deferred inflows of resources related to OPEB from any other sources are reported.

11. Employee Benefit Plans, Continued

Other Postemployment Benefits, Continued

Actuarial Assumptions

The total OPEB liability as of December 31, 2023 was determined using the following assumptions and other inputs, applied to all periods included in the measurement:

Discount rate*:	
Beginning of measurement year	3.54%
End of measurement year	3.65%
Projected salary changes	3.25% + service-based increases
Healthcare cost trend rate**:	Initial rate ranges from 2-16%, reaching an ultimate rate of approximately 3.8% in 2075
Mortality rates:	
Base mortality table	PubG.H-2010 (General)
Age setback	0 years
Mortality improvements	MP-2017 Long-term rates
Projection period	Generational
Inflation rate	2.35%
Post-retirement participation percentage	60%
Percentage with spouse coverage	45%

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

Changes in the Total OPEB Liability

The following table shows the changes in the total OPEB liability for the fiscal year ended December 31, 2023:

Total OPEB liability, beginning of year	$ 640,384
Service cost	25,962
Interest	23,343
Changes in experience data and assumptions	(170,397)
Benefit payments	(13,994)
Decrease in total OPEB liability	(135,086)
Total OPEB liability, end of year	$ 505,298

11. Employee Benefit Plans, Continued

Other Postemployment Benefits, Continued

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

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

	1% Decrease (2.65%)	Current Rate (3.65%)	1% Increase (4.65%)
Employer's proportionate share of the total OPEB liability (asset)	$ 595,159	$ 505,298	$ 432,907

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

	1% Decrease	Current Rate	1% Increase
Employer's proportionate share of the total OPEB liability (asset)	$ 425,445	$ 505,298	$ 606,834

Deferred Compensation Plans

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

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

Contributions to the 401(k) Plan for the years ended December 31, 2023, 2022 and 2021, respectively, were as follows:

Year Ended December 31,	Employer	Employee
2023	$ 21,581	$ 67,955
2022	21,019	62,611
2021	18,395	55,108

12. Commitments and Contingencies

Risk Management

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

All-risk Blanket:	
Physical damage to property	$ 15,374,679
Public liability	2,000,000
Crime coverage	1,000,000
Commercial Umbrella:	
Occurrence limit	20,000,000
Directors, Officer, Managers:	
Limit of liability	7,000,000
Cyber security	500,000

Risks and Uncertainties

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

Clerf Road Fire

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

The District has received nine claims for reimbursement of property damage resulting from the fire. Three of the claims have been settled with the homeowners and the other claims are in various stages of negotiations. To date, two lawsuits have been filed against the District in Kittitas County, Washington. Management intends to vigorously defend against the lawsuits. The outcome, or an amount or range of potential loss resulting from the lawsuits, cannot be predicted. However, management believes any outcome would fall within the District's insurance policy limits.

Power Purchase Contracts

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

12. Commitments and Contingencies, Continued

Power Purchase Contracts, Continued

Grant County PUD – The District has an agreement with Grant County PUD to receive .14% of the output from each of the Priest Rapids and Wanapum projects. The District has assigned the Priest Rapids and Wanapum shares to BPA for the period from October 1, 2011 through September 30, 2024. BPA will manage actual scheduled output from the District's shares and provide credits and charges for generation amounts that differ from the planned amounts. Under the terms of the contract with Grant County PUD, the District's payments are subject to annual "true up" adjustments at the end of each operating year. The 2023 "true up" adjustment resulted in a decrease of the cost of power related to the agreement with Grant County PUD in the amount of $10,671. This amount has been accrued in accounts receivable in the December 31, 2023 Statement of Net Position.

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

Other Contracts and Agreements

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

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

13. Subsequent Events

Dissolution of Bargaining Unit

The District has employed line workers, forepersons and a warehouse worker, which were covered under a collectively bargained union contract, which expired in June 2023. In a prior year, management elected to utilize external contractors for line repair, maintenance and construction of the District's infrastructure. Accordingly, the District has only had one warehouse worker position employed under the contract since 2019. The previous positions under the contract have remained vacated and the District has liquidated the fleet utilized by these vacated positions. As such, the District does not anticipate that the vacated positions will be filled.

Based on this understanding, prior to the expiration of the contract, the District filed for clarification with the Public Employment Relations Committee (PERC), asserting that the bargaining one-person unit was no longer appropriate. The District continued to operate under the existing agreement while the matter was being investigated. Subsequent to December 31, 2023, PERC provided their decision and concluded that a one-person unit is inappropriate for collective bargaining under RCW 41.56.060 and WAC 391-35-330. Accordingly, effective June 11, 2024, the District's union was officially dissolved.

13. Subsequent Events, Continued

FEMA Project

Subsequent to December 31, 2023, the District was notified by the Federal Emergency Management Agency (FEMA) that they were awarded grant funds totaling approximately $1,025,000 for partial reimbursement of costs incurred related to two disasters that occurred in prior years. These funds were received during March and April 2024. Because FEMA had not approved the award as of December 31, 2023, the District will recognize the amounts as revenue during the fiscal year ending December 31, 2024.

Required Supplementary Information

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

Plan Year	Employer's Portion of NPL	Employer's Proportionate Share of NPL (a)	Employer's Covered Employee Payroll (b)	Employer's NPL as a Percentage of Covered Payroll (a/b)	Plan Net Position as a Percentage of Total Pension Liability
2014	0.0096178%	$ 484,500	$ 1,120,341	43.25%	59.10%
2015	0.0110382%	577,402	1,238,799	46.61%	61.19%
2016	0.0111806%	600,449	1,327,431	45.23%	57.03%
2017	0.0105380%	500,036	1,330,867	37.57%	61.24%
2018	0.0112660%	503,143	1,503,511	33.46%	63.22%
2019	0.0118250%	454,713	1,661,043	27.38%	67.12%
2020	0.0096690%	341,368	1,460,436	23.37%	68.64%
2021	0.0079560%	97,161	1,223,456	7.94%	88.74%
2022	0.0087250%	242,936	1,407,419	17.26%	76.56%
2023	0.0083740%	191,156	1,495,828	12.78%	80.16%

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

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

Plan Year	Employer's Portion of NPL(A)	Employer's Proportionate Share of NPL(A) (a)	Employer's Covered Employee Payroll (b)	Employer's NPL(A) as a Percentage of Covered Payroll (a/b)	Plan Net Position as a Percentage of Total Pension Liability
2014	0.0118211%	$ 238,947	$ 1,096,645	21.79%	93.29%
2015	0.0136484%	487,664	1,215,319	40.13%	89.20%
2016	0.0137733%	693,475	1,305,478	53.12%	85.82%
2017	0.0132477%	460,294	1,211,605	37.99%	90.97%
2018	0.0143870%	245,645	1,503,511	16.34%	95.77%
2019	0.0152780%	148,401	1,661,043	8.93%	97.77%
2020	0.0124900%	159,740	1,460,436	10.94%	97.22%
2021	0.0102290%	(1,018,973)	1,223,456	-83.29%	120.29%
2022	0.0113520%	(421,021)	1,407,419	-29.91%	106.73%
2023	0.0108200%	(443,478)	1,495,828	-29.65%	107.02%

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

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

Fiscal Year	Statutorily Required Contributions (a)	Actual Contributions (b)	Contributions Deficiency (Excess) (a-b)	Employer's Covered Employee Payroll (c)	Contributions as a Percentage of Covered Employee Payroll (b/c)
	*	**			
2014	$ 49,796	$ 49,796	$ -	$ 1,203,972	4.14%
2015	57,084	57,084	-	1,268,950	4.50%
2016	63,210	63,210	-	1,296,506	4.88%
2017	70,982	70,982	-	1,447,558	4.90%
2018	78,850	78,850	-	1,557,570	5.06%
2019	82,367	82,367	-	1,661,548	4.96%
2020	59,146	59,146	-	1,233,102	4.80%
2021	55,944	55,944	-	1,310,213	4.27%
2022	55,866	55,866	-	1,487,272	3.76%
2023	51,944	51,944	-	1,534,085	3.39%

* The calculation for statutorily required contributions has been reduced by the 0.2% that applies to the employer administrative expense fee.

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

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

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

Fiscal Year	Statutorily Required Contributions (a) *	Actual Contributions (b) **	Contributions Deficiency (Excess) (a-b)	Employer's Covered Employee Payroll (c)	Contributions as a Percentage of Covered Employee Payroll (b/c)
2014	$ 58,922	$ 58,922	$ -	$ 1,179,211	5.00%
2015	70,461	70,461	-	1,246,585	5.65%
2016	79,405	79,405	-	1,274,568	6.23%
2017	99,552	99,552	-	1,447,558	6.88%
2018	116,813	116,813	-	1,557,570	7.50%
2019	128,051	128,051	-	1,661,548	7.71%
2020	97,662	97,662	-	1,233,102	7.92%
2021	93,194	93,194	-	1,310,213	7.11%
2022	94,591	94,591	-	1,487,272	6.36%
2023	97,568	97,568	-	1,534,085	6.36%

* The calculation for statutorily required contributions has been reduced by the 0.2% that applies to the employer administrative expense fee.

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF KITTITAS COUNTY, WASHINGTON
Notes to PERS Plan Schedules
December 31, 2023

1. Changes in Benefit Terms

There were no changes in benefit terms during the Plan year ended June 30, 2023.

2. Changes in Composition of the Population

There were no changes in the composition of the populations during the Plan year ended June 30, 2023.

3. Changes in Assumptions

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

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

	2023	2022	2021	2020	2019
Total OPEB liability, beginning of year	$ 640,384	$ 733,751	$ 706,634	$ 702,796	$ 476,959
Service cost	25,962	41,843	37,665	35,957	28,586
Interest	23,343	16,580	16,340	25,721	19,403
Changes in benefit terms	-	-	-	-	-
Changes in exeperience data and assumptions	(170,397)	(135,711)	(16,929)	(50,019)	186,276
Benefit payments	(13,994)	(16,079)	(9,959)	(7,821)	(8,428)
Net change in total OPEB liability	(135,086)	(93,367)	27,117	3,838	225,837
Total OPEB liability, end of year	$ 505,298	$ 640,384	$ 733,751	$ 706,634	$ 702,796
Employer's covered employee payrol	$ 1,573,590	$ 1,430,748	$ 1,188,092	$ 1,067,079	$ 1,729,987
Total OPEB liability as a percentage of covered payroll	32.11%	44.76%	61.76%	66.22%	40.62%

	2018
Total OPEB liability, beginning of year	$ 451,505
Service cost	40,238
Interest	17,545
Changes in benefit terms	-
Changes in exeperience data and assumptions	(28,953)
Benefit payments	(3,376)
Net change in total OPEB liability	25,454
Total OPEB liability, end of year	$ 476,959
Employer's covered employee payrol	$ 1,381,053
Total OPEB liability as a percentage of covered payroll	34.54%

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

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

1. Changes in Benefit Terms

There were no changes in benefit terms during the PEBB Plan year ended June 30, 2023.

2. Changes in Assumptions

During the PEBB Plan year ended June 30, 2023, the assumed discount rate was increased from 3.54% at June 30, 2022 to 3.65% at June 30, 2023, based on the 20-year municipal bond indices per GASB No. 75 requirements.

Compliance Report

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Kittitas County, Washington ("the District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 24, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify two deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2023-001 and 2023-002, that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

District's Response to the Finding

Government Auditing Standards require the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The sole purpose of this report is to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DeCoria, Blair & Teague, PS

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

July 24, 2024

Public Utility District No. 1 of Kittitas County, Washington
Schedule of Findings and Responses
Year Ended December 31, 2023

Section I – Summary of Auditor's Results:

Financial Statements

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

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

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

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

Section II – Financial Statement Findings:

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

Finding 2023-001

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

<u>Finding 2023-001, Continued</u>

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

<u>Finding 2023-002</u>

Condition	While improvement has occurred, the District's procedures for completely monitoring, recording and accounting for inventory are not fully formalized and documented, and have not consistently been performed in a timely manner. In addition, there appears to be a lack of appropriate communication between those responsible for designing the infrastructure, those responsible for the custody and tracking of inventory assets and those responsible for the financial records.
Criteria	An effective system of internal control over financial reporting includes regularly monitoring, recording and reconciling the receipt and usage of inventory in a timely manner, and adjusting the recorded balances if necessary.
Effect	In connection with performing our audit testing of the work order system, specifically related to the inventory charge coding, there were instances noted in which inventory items charged to work orders either did not agree or could not be directly agreed to supporting documentation. In some instances, there was minimal documentation that was provided that could directly support the specific inventory item, including quantities, charged to the work order. While there were no material misstatements identified in connection with performing this audit testing, and improvement has occurred from the prior year, it became apparent that documentation continued to not be adequately maintained to support the inventory amounts charged to various work orders or maintenance expense on a consistent and timely basis. In addition, there was also no evidence that any oversight or monitoring procedures were performed to ensure proper reconciliation of amounts charged to work orders or maintenance expense. It should also be noted that several infrastructure designs created by engineering were either not followed in the actual construction phase, or minimal communication occurred to properly update design codes in order to more accurately identify inventory assets to be used for construction, which could minimize the potential for misstatements of inventory quantities.

Finding 2023-002, Continued

Cause	The District does not have fully formalized, documented procedures for adequately communicating the infrastructure design, as well as tracking the inventory activity, including reconciling the supporting documentation of inventory activity to the amounts charged to the work orders or maintenance, in a timely manner. In addition, there are limited oversight procedures in place to ensure proper communication of inventory activity, including supporting documentation, has occurred between those responsible for designing the infrastructure, those responsible for the custody and tracking of inventory assets and those responsible for the financial records.
Recommendation	We recommend that the District develop and implement improved policies and procedures to adequately monitor, record and reconcile inventory transactions and the corresponding recorded balances, as applicable. These procedures should include documentation that supports the inventory activity, beginning with the accurate setup of the infrastructure design, including the documented communication between those responsible for designing the infrastructure, those responsible for the custody and tracking of inventory assets and those responsible for the financial records. In addition, we recommend that the District appoint an individual with the responsibility to monitor and oversee the performance of these procedures.
Management's Response	Management and the District's Board of Commissioners are aware of this condition and acknowledge management's responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud or error. Management has authorized the hiring of additional personnel in Operations to aid in the creation and implementation of procedures to adequately monitor, record and reconcile inventory transactions. These procedures must improve the work order system and provide documentation of inventory activity.

Public Utility District No. 1 of Kittitas County, Washington
Status of Prior Year Findings
Year Ended December 31, 2023

Finding 2022-001

Condition	The size of the District's staff is not large enough to permit a complete segregation of duties for a comprehensive system of internal control over financial reporting.
Status	This condition continues to exist at December 31, 2023. See Finding 2023-001.

Finding 2022-002

Condition	The District's procedures for completely monitoring, recording and accounting for inventory are not fully formalized and documented, and have not consistently been performed in a timely manner. In addition, there appears to be a lack of appropriate communication between those responsible for the custody and tracking of inventory assets and those responsible for the financial records.
Status	Improvement has occurred, but this condition continues to exist at December 31, 2023, and has been updated to better reflect the current status. See Finding 2023-002.