

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2023**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**  
CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

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**Independent Auditor's Report**

Board of Commissioners  
Public Utility District No. 1 of Jefferson County, Washington  
Port Townsend, Washington

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of Public Utility District No. 1 of Jefferson County, Washington which comprise 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 accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Jefferson County, Washington (the District) as of December 31, 2023, and the respective changes in 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 contain 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 Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in aggregate, they would influence the judgement 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 judgement 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 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 judgement, there are conditions or events, considered in 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 and the schedule of proportionate share of the net pension liability and the schedule of employer contributions on pages 40 through 41 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

March 26, 2024

**Public Utility District No. 1 of Jefferson County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2023**

**Information about the District**

Public Utility District No. 1 of Jefferson County, Washington (the District or the PUD) is a municipal corporation of the State of Washington as authorized under Revised Code of Washington (RCW) 54. The District provides electricity, water, and sewer utility services for the residents of Jefferson County, Washington. Additionally, the PUD conserves the water and power resources of the State in support of its authorized purpose. The District was formed in 1940 but did not provide any utility service until 1981, with the formation of Local Utility District No. 1. Initially providing water service, the District later received citizens' approval for sewer operations, and most recently, in 2008, the Jefferson County citizens voted to authorize the District to become its electrical provider. In 2013, the District purchased the electrical assets/infrastructure of Puget Sound Energy, Inc. in Eastern Jefferson County. The PUD now serves over 4,800 water connections, 360 sewer connections, and 20,500 electrical connections throughout Eastern Jefferson County.

The District operates under the authority of RCW 54. It is governed by a three-member elected Board of Commissioners that appoints a General Manager to oversee the District's daily operations. The PUD Board of Commissioners holds its regular scheduled meetings on the first and third Tuesday of each month starting at 4:00 p.m. The meeting's location, as well as recordings of past meetings, can be found at the PUD's website: [www.jeffpud.org](http://www.jeffpud.org).

Contact information related to this report: Kevin Streett  
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**Public Utility District No. 1 of Jefferson County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2023**

**Management's Discussion and Analysis**

As management of Jefferson County PUD No. 1 (the District), we are providing the District's financial statements and narrative overview and analysis of the financial activities of the District for the calendar year ended December 31, 2023.

The following Management's Discussion and Analysis is intended to provide a summary of the District highlights to serve as an introduction to the District's basic financial statements, the notes to the financial statements and other supplementary information required as part of the basic financial statements.

Statements included in this Annual Financial Report for 2023 are:

The statement of net position presents information on the District's assets, liabilities, and deferred outflows and inflows of resources. This statement provides information about the amount of investments in resources (assets), the obligations to creditors (liabilities), and items for which the recognition of these assets and liabilities are deferred to a later time-period (deferred inflows and outflows of resources). The net position increases when revenues exceed expenses.

The statement of revenues, expenses, and changes in net position reports the revenues and expenses during the years indicated. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through user fees and other charges.

The statement of cash flows provides information about the District's cash receipts and payment of operating expenses, as well as, funds provided and used in investing and financing activities.



**Public Utility District No. 1 of Jefferson County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2023**

**District Highlights**

Significant highlights of the District from 2022 to 2023 are as follows:

- Electric operating revenues decreased \$431 thousand from 2022 to 2023. Water operating revenues increased \$666 thousand from 2022 to 2023. Broadband operating revenues increased \$43 thousand in 2023.
- The total number of customers of the District increased from 25,677 in 2022 to 26,744 in 2023.
- The number of District employees increased from 65 in 2022 to 79 in 2023.
- Utility plant and construction work in progress increased \$10.3 million from 2022 to 2023 due to the ongoing buildout of the fiber infrastructure.

**Overview of the Financial Statements**

The District is a municipal corporation with financial activities in the areas of electric, water, and sewer. In addition to its enterprise role, the PUD uses its taxing authority to support the growth and expansion of broadband in Jefferson County.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues when earned and expenses when incurred during the year, regardless of when cash is received or paid.

The District's basic financial situation, shown on a comparative format, is presented in the Condensed Statement of Net Position.

**Public Utility District No. 1 of Jefferson County, Washington  
Management's Discussion and Analysis  
December 31, 2023**

**Financial Analysis**

The following information provides analysis of the 2023 and 2022 comparative financial information provided in the following tables.

**Condensed Statement of Net Position  
Fiscal Years Ended December 31, 2023 and 2022**

	December 31,		'23 - '22 Change
	2023	2022	
<b>Assets</b>			
Current Assets	\$ 31,300,141	\$ 21,784,341	44%
Noncurrent Assets	4,909,534	4,734,891	4%
Capital Assets	114,806,667	104,422,841	10%
Total Assets	\$ 151,016,342	\$ 130,942,073	15%
Deferred Outflows of Resources	\$ 38,973,528	\$ 41,441,925	-6%
<b>Liabilities</b>			
Current Liabilities	\$ 11,941,089	\$ 11,881,615	1%
Noncurrent Liabilities	93,171,384	90,284,484	3%
Total Liabilities	\$ 105,112,473	\$ 102,166,099	3%
Deferred Inflows of Resources	\$ 5,642,609	\$ 1,765,581	220%
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 56,642,443	\$ 51,720,360	10%
Restricted	1,322,197	1,378,585	-4%
Unrestricted	21,270,148	15,353,373	39%
Total Net Position	\$ 79,234,788	\$ 68,452,318	16%

**Current Assets**

**Cash and Cash Equivalents** - Cash accounts increased approximately \$8,807,211 from 2022 to 2023, primarily due to an increase in grant funding and proceeds from the issuance of debt.

**Receivables** - Receivables increased by \$18,956 in 2023 as compared to 2022. The District recorded a receivable in 2022 in the amount of \$1,174,477 for amounts owed by the federal government for grant programs. The federal grant receivable in 2023 was \$1,217,627.

**Material and Supplies** - Material and supplies increased \$625,597 in 2023. The District is anticipating an increase in construction activity (broadband programs) and longer delays in receiving materials. The market has also seen abnormal increases in the cost of transformers and meters.

**Prepaid Expenses** - The District had an increase in prepaid expenses of approximately \$7,648.

**Public Utility District No. 1 of Jefferson County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2023**

**Noncurrent Assets**

**Long-Term Portion of Assessments Receivable** - Total assessments receivable was \$161,143 as of December 31, 2023. This was an overall decrease of \$134,812 from 2022 as customers paid on their assessments.

**Nonutility Property** - This is comprised of \$2,311,358 of land and two rental homes (Peterson Lake), less accumulated depreciation of \$90,383 which was acquired for conserving state water resources and the protection of the Chimacum Water Basin.

**Restricted Assets** - The District maintains cash accounts which are restricted for making payment on certain debt obligations.

**Net Utility Plant** - Capital improvements in 2023 increased by \$10.3 million, net. Construction work in progress decreased by approximately \$2.3 million. Accumulated depreciation increased by approximately \$2.2 million primarily due to depreciation on plant in service.

See Note 3 - Utility Plant for additional information.

**Current Liabilities**

**Power Bills Payable** - Decreased by approximately \$275 thousand in 2023 as compared to 2022 due to cost of power and kwh purchased in November and December 2023 and 2023.

**Accounts Payable** - Increased by \$364 thousand due to the timing of vendor work and timing of payments.

**Accrued Interest** - Accrued interest at December 31, 2023, decreased \$8 thousand.

**Customer Deposits** - Increased by \$20 thousand as the District began to assess customer deposits after not requiring them prior to 2021.

**Accrued Liabilities** - Decreased by approximately \$250 thousand in 2023 as compared to 2022 due to receipts of materials where the invoice had not been received by year end, this is mostly related to broadband fiber.

**Accrued Taxes** - Accrued Taxes at December 31, 2023, decreased \$185 thousand due to rate increase impact on revenues and an additional month unpaid at year end on certain taxes.

**Accrued Wages and Benefits** - Accrued Wages and Benefits at December 31, 2023, increased \$122 thousand due to an additional day of accrued payroll in 2023 as compared to 2022 and the timing of payments of certain other benefits.

**Accrued Compensated Absences** - Accrued Compensated Absences at December 31, 2023, increased \$36 thousand due to additional unused PTO and payrate increases.

**Public Utility District No. 1 of Jefferson County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2023**

**Current Portion of Long-Term Debt** - This represents the total of principal payments due in 2023 for the Public Works Trust Fund debt, notes payable, and bonds payable.

**Noncurrent Liabilities**

**Public Work Trust Fund and Drinking Water Loans** - In 2023, \$255,861 was paid on these loans.

**Public Works Board Loans** – In 2023, the PUD issued new debt.

**Notes Payable** - Notes payable increased by \$294,492 as the PUD issued new debt.

**Bonds Payable** - Bonds payable decreased by \$210,992 as the PUD made required debt payments. See Note 4 - Long-Term Debt for additional information.

**Net Pension Asset/Liability** - This liability represents the District's proportionate share of collective pension asset/liability. See Note 5 - Pension Plans for additional information.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2023 and 2022**

	December 31,		'23 - '22 Change
	2023	2022	
Operating Revenues	\$ 46,970,087	\$ 46,457,524	1%
Nonoperating Revenues	879,597	696,661	26%
Total Revenues	<u>\$ 47,849,684</u>	<u>\$ 47,154,185</u>	1%
Operating Expenses	\$ 39,300,408	\$ 37,974,577	3%
Nonoperating Expenses	2,635,438	2,809,674	-6%
Total Expenses	<u>\$ 41,935,846</u>	<u>\$ 40,784,251</u>	3%
Income Before Contributions	\$ 5,913,838	\$ 6,369,934	-7%
Capital Contributions and Grants	<u>4,868,632</u>	<u>3,619,424</u>	35%
Change in Fund Net Position	\$ 10,782,470	\$ 9,989,358	8%
Net Position, Beginning of Year	<u>68,452,318</u>	<u>58,462,960</u>	17%
Net Position, End of Year	<u>\$ 79,234,788</u>	<u>\$ 68,452,318</u>	16%

**Operating Revenues**

Operating revenues in 2023 were \$512,563 higher than 2022. Higher revenues were mostly related to rate increases implemented during the year.

**Public Utility District No. 1 of Jefferson County, Washington**  
**Management's Discussion and Analysis**  
**December 31, 2023**

**Operating Expenses**

**Purchased Power/Water/Broadband** - Purchased power and water decreased by \$1,981 thousand in 2023. Additional kilowatts of electrical power were purchased during 2022.

**Operations and Maintenance** - Increased by approximately \$1,431 thousand in 2023 as a result of more storms causing outages.

**Administrative and General** - Increased \$1,377 thousand in 2023.

**Taxes** - Increased \$29 thousand in 2023.

**Depreciation and Amortization** - Increased \$470 thousand in 2023.

**Nonoperating Revenues/Expenses**

**Nonoperating Revenues** - In 2023, nonoperating revenues were \$128 thousand higher than 2022. An increase in interest rates led to increased interest income in 2023.

**Nonoperating Expenses** - Interest expense decreased \$57 thousand in 2023 due to the paydown of debt principal.

**Contacting the District**

This financial report is designed to provide the District's ratepayers, debt holders, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have any questions about this report or need additional information, contact the District's General Manager, Kevin Streett at Public Utility District No. 1 of Jefferson County, Washington, 310 Four Corners Road, Port Townsend, Washington 98368.

**BASIC FINANCIAL STATEMENTS**

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

Exhibit A

STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2023

	December 31, 2023
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 14,342,638
Receivables	
Accounts and Contracts, net	3,960,983
Unbilled Revenue	2,909,267
Federal Grants	1,217,627
Other	487,021
Materials and Supplies	8,013,852
Prepaid and Deferred Expenses	368,753
TOTAL CURRENT ASSETS	<u>\$ 31,300,141</u>
NONCURRENT ASSETS	
Long-Term Portion of Assessments Receivable	\$ 161,143
Nonutility Plant	2,220,975
Restricted Assets	
Cash	1,322,197
Investments	84,413
Net Pension Asset	1,120,806
Utility Plant	
Land and Land Rights	997,046
Utility and General Plant	172,925,683
Construction Work in Progress	11,429,547
Less: Accumulated Depreciated	<u>(70,545,609)</u>
Net Utility Plant	<u>\$ 114,806,667</u>
TOTAL NONCURRENT ASSETS	<u>\$ 119,716,201</u>
TOTAL ASSETS	<u>\$ 151,016,342</u>
DEFERRED OUTFLOWS OF RESOURCES	
Excess Consideration Provided for Acquisition	\$ 37,372,403
Deferred Pension Outflows	1,601,125
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 38,973,528</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 189,989,870</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	
CURRENT LIABILITIES	
Power Bills Payable	\$ 2,980,606
Accounts Payable	1,542,656
Accrued Interest	47,237
Customer Deposits	69,400
Accrued Liabilities	61,512
Accrued Taxes	1,241,901
Accrued Wages and Benefits	717,690
Accrued Compensated Absences	693,869
Current Portion of Long-Term Debt	4,586,218
TOTAL CURRENT LIABILITIES	<u>\$ 11,941,089</u>
NONCURRENT LIABILITIES	
PWTF Loans Payable	\$ 1,460,642
Public Works Board Loan Payable	2,303,164
Notes Payable	87,019,457
Bonds Payable	2,388,121
TOTAL NONCURRENT LIABILITIES	<u>\$ 93,171,384</u>
TOTAL LIABILITIES	<u>\$ 105,112,473</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Pensions Inflows	\$ 1,041,493
Unspent Grant Funds	4,601,116
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 5,642,609</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 110,755,082</u>
<b>NET POSITION</b>	
NET POSITION	
Net Investment in Capital Assets	\$ 56,642,443
Restricted	1,322,197
Unrestricted	21,270,148
TOTAL NET POSITION	<u>\$ 79,234,788</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 189,989,870</u>

See accompanying notes to the financial statements.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**Exhibit B**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	December 31, 2023
<b>OPERATING REVENUES</b>	
Power Sales to Retail and Commercial Customers	\$ 41,847,524
Water Sales to Retail and Commercial Customers	3,885,808
Broadband Sales to Retail and Commercial Customers	147,942
Other Operating Revenues	1,088,813
Total Operating Revenues	<u>\$ 46,970,087</u>
<b>OPERATING EXPENSES</b>	
Purchased Power and Water and Broadband Operations and Maintenance	\$ 14,822,164
Administration and General	7,458,186
Taxes	7,373,127
Depreciation and Amortization	2,619,468
Total Operating Expenses	<u>7,027,463</u> <u>\$ 39,300,408</u>
<b>NET OPERATING INCOME</b>	<u>\$ 7,669,679</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	\$ 146,090
Timber Harvest Tax and Other	679,172
Interest Expense	(2,635,438)
Other Nonoperating Expenses	54,335
Total Non-Operating Expenses	<u>\$ (1,755,841)</u>
<b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND FEDERAL GRANTS</b>	<u>\$ 5,913,838</u>
Federal Grants	3,073,206
Capital Contributions	<u>1,795,426</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 10,782,470</u>
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>68,452,318</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 79,234,788</u></u>

See accompanying notes to the financial statements.



**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**Exhibit C**

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	December 31, 2023
<b>OPERATING ACTIVITIES</b>	
Receipts From Customers	\$ 47,009,762
Payments to Suppliers	(24,977,896)
Payments to Employees and for Benefits	(9,072,340)
Net Change in Cash From Operating Activities	<u>\$ 12,959,526</u>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>	
Other Nonoperating Expenses	\$ 54,335
Payments Received on Assessments	813,984
Net Change in Cash From Non-Capital Financing Activities	<u>\$ 868,319</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and Construction of Capital Assets	\$ (15,258,806)
Cost of Removal and Credits	186,058
Proceeds from Issuance of Debt	7,540,684
Principal Payments on Debt	(4,417,482)
Interest Paid	(2,643,746)
Capital Contributions	1,795,426
Federal Grants	7,631,142
Net Change in Cash From Capital and Related Financing Activities	<u>\$ (5,166,724)</u>
<b>INVESTING ACTIVITIES</b>	
Receipts from Interest	\$ 146,090
Net Change in Cash From Investing Activities	<u>\$ 146,090</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS - RESTRICTED AND UNRESTRICTED</b>	<u>\$ 8,807,211</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR - RESTRICTED AND UNRESTRICTED</b>	<u>6,857,624</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR - RESTRICTED AND UNRESTRICTED</b>	<u><u>\$ 15,664,835</u></u>
Reconciliation of Operating Income to Net Cash	
From Operating Activities:	
Net Operating Revenues	\$ 7,669,679
Adjustments to Reconcile Net Operating Revenues to Net Cash	
From Operating Activities	
Depreciation and Amortization	7,027,463
Provision for Bad Debt	
(Increase) Decrease in Receivables	24,224
(Increase) Decrease in Materials and Supplies	(625,597)
(Increase) Decrease in Prepaid and Deferred Expenses	(7,648)
(Increase) Decrease in Investments	(4,249)
(Increase) Decrease in Deferred Outflows of Resources	144,840
(Increase) Decrease in Net Pension Asset	(376,578)
Increase (Decrease) in Accounts Payables	89,367
Increase (Decrease) in Customer Deposits	19,700
Increase (Decrease) in Accrued Liabilities	(250,242)
Increase (Decrease) in Accrued Taxes	(184,983)
Increase (Decrease) in Accrued Wages and Benefit	121,590
Increase (Decrease) in Accrued Compensated Absences	36,048
Increase (Decrease) in Deferred Inflows of Resources	(724,088)
Total Adjustments	<u>\$ 5,289,847</u>
Net Cash From Operating Activities	<u><u>\$ 12,959,526</u></u>

See accompanying notes to the financial statements.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Summary of Significant Accounting Policies**

Reporting entity - Public Utility District No. 1 of Jefferson County, Washington (the District or the PUD) is a municipal corporation governed by an elected, three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

The District's reporting entity consists of two primary operating systems. The Electric System distributes electricity to residential and other consumers in Jefferson County. The Water System includes nine separate Class A systems and four separate Class B systems. The District is required by various financing and contractual arrangements to report separately on each system and maintain each system as a separate segment with separate obligations.

Basis of accounting and presentation - The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governmental utilities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Revised Code of Washington, Chapter 43.09; the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System, and the Uniform System of Accounts for Class A and B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners (NARUC) for the Water System.

A summary of other significant accounting policies used in the preparation of the financial statements follows.

Revenue recognition and unbilled revenue - The Electric System and Water System utilize the accrual basis of accounting where revenues are recognized as earned on rates established by the District's Board of Commissioners. The District follows the industry practice of estimating unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31. This estimate is then recorded as unbilled revenue for the current year. The related accrued balance as of December 31, 2023 was \$2,909,267.

The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as related to the sale of electric or water services to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses for the District include the cost of sales and services, administrative expenses, utility taxes, and depreciation on capital assets. Nonoperating revenues and expenses include property tax revenues, preliminary public power study costs, regional studies, assessment revenues and expenses, interest income and expense, and timber sales not usually directly related to the provision of electric, water, or sewer service.

Recognition of electric and water revenue - The PUD distributes electric power to consumers in Washington. Electric revenue and the related cost of power purchased are recognized when electricity is used by the ultimate consumer. Water sales are recognized when water is used by the ultimate consumer.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

Taxes - The PUD collects various privilege and utility taxes from its customers on behalf of the State of Washington. Revenue is presented gross of taxes collected in the statement of revenues, expenses, and changes in net position. Taxes are presented under operating expenses in the statement of revenues, expenses, and changes in net position.

Receivables and allowance for uncollectible accounts - All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Assessments receivable represent the future amounts due on improvement district assessments. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers who may be unable to meet their financial obligations, and a reserve based on historical experience of accounts with balances of greater than 90 days past due. The allowance for uncollectible balances as of December 31, 2023 was \$259,246.

Cash and cash equivalents - For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Cash includes cash on hand, demand deposits, and certain short-term investments held. The Jefferson County Treasurer acted as the Treasurer of the District during the majority of the year and as such invested cash in excess of current requirements in various interest-bearing securities, which are disclosed as part of the District's investments. At the end of the fiscal year, the District was in the process of transferring all cash handled by the Jefferson County Treasurer to District accounts.

Restricted assets - In accordance with bond resolutions, related agreements, and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, bond reserve, and capital additions and are classified as current or noncurrent assets, as appropriate.

Because of certain bond covenants, the District is required to establish and maintain prescribed amounts of resources (cash and investments) that can be used only to service outstanding debt. These required reserves are maintained by the District in restricted funds attributable to each debt instrument.

Materials and supplies - Materials and supplies are valued at weighted average cost.

Capital assets and depreciation - Property, plant, and equipment are stated at cost. Assets with a useful life of more than one year and a cost of more than \$1,000 are capitalized. Where cost could not be determined from available records, estimated historical cost was used to record the estimated value of the assets. Donated assets are recorded at their acquisition value at the date of transfer.

Depreciation of exhaustible capital assets used by the District is charged as an expense against operations, and accumulated depreciation is reported in the statement of net position. Depreciation has been provided over the estimated useful lives using the composite rate or straight-line method.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

The estimated useful lives for each major class of depreciable capital assets are as follows:

Buildings	28 - 50 years
Equipment	5 - 28 years
Electric, water, and sewer systems	25 - 53 years
Office and computer equipment	5 - 20 years

Excess consideration provided for acquisition - Excess consideration provided for the acquisition of electric plant assets is classified as a deferred outflow of resources on the statement of net position in accordance with GASB Statement 69. The deferred outflow of \$62,521,725 is being amortized over the useful life of the assets at a rate of 3.72% per year. Amortization expense and accumulated amortization for the year ended December 31, 2023 were \$2,323,557 and \$25,149,322, respectively. No events have occurred leading to impairment evaluation per management as of December 31, 2023.

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

Net position - The District's net position is classified as follows:

*Net Investment in Capital Assets* reflects the District's total investment in capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition or construction of capital assets.

*Restricted Net Position* includes amounts that are constrained by provisions imposed by external parties and cannot be used for normal operations.

*Unrestricted Net Position* are amounts that do not meet the definition of either net investment in capital assets or restricted net position and are used for normal operations.

Property tax revenues - Property taxes are levied and collected by the Jefferson County Treasurer. They are recognized as revenue when levied to the property owners.

Vacation, sick leave, and other compensated absences - District employees are entitled to certain compensated absences based on their length of employment and subject to one of two union agreements. With minor exceptions, compensated absences either vest or accumulate when they are earned. For union and nonunion employees who qualify for paid time off, PTO, they will be paid 100 percent of hours earned up to a limit of 504 hours at the time of separation from employment. Union employees who qualify for vacation will be paid 100 percent of earned hours, up to 45 days (360 hours), at the time of separation from employment. Union employees who qualify for sick leave will be paid up to 90 days of accrued leave at 10 percent of their current hourly rate at the time of separation from employment. For sick leave in excess of 90 days, the District will value the leave at 100 percent of their current hourly rate and apply towards the employee's HRA VEBA account.

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**NOTES TO FINANCIAL STATEMENTS**

Postemployment health care benefits - The District does not provide postemployment health care benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the District.

Income taxes - The District is a governmental entity under the laws of the State of Washington and, therefore, no provision for income taxes has been made in the accompanying financial statements.

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

Significant risks and uncertainties - The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions; collective bargaining labor disputes; changing local and national economic conditions; reliability standards issued by the North American Electric Reliability Corporation; federal government regulations and changing federal and state laws; and the financing and completion of significant capital projects.

**Note 2 - Cash, Deposits, and Investments**

Cash on hand at December 31, 2023 was \$1,400. The carrying amount of the District's deposits was \$15,664,835 and the bank balance was \$16,352,141.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. All of the District's bank deposits are not covered by Federal Depository Insurance (FDIC) and/or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The District does not have a deposit policy for custodial credit risk.

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

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

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

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

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.

Level 3: Unobservable inputs for an asset or liability.

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

<u>Investments by Fair Value Level</u>	<u>December 31, 2023</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Patronage with Associated Organizations	\$ 84,413	\$	\$	\$ 84,413
Total Investment Measured at Fair Value	\$ 84,413	\$ 0	\$ 0	\$ 84,413
Total Investments in Statement of Net Position	\$ 84,413			

**Note 3 - Utility Plant**

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. For electric plant purchased in 2010, assets were recorded at estimated cost with an adjustment for fair value in excess of historical cost recorded as a plant acquisition adjustment. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. For electric utility plant assets, the District follows the directive under the Rural Utilities Service (RUS) Bulletin 1767B-2, *Work Order Procedure*, when capitalizing assets. Depreciation expense is computed using the composite rate method over useful lives of 25 to 50 years. For water utility and other assets, the District capitalizes assets with costs in excess of \$1,000. Depreciation expense is computed using the straight-line method employing useful lives of 5 to 53 years. Repairs are charged to operating expenses.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are deferred pending construction of the asset and included in construction work in process. Costs relating to projects ultimately constructed are transferred to utility plant, whereas charges that relate to abandoned projects are expensed.

Following is a summary of 2023 changes in capital assets:

	Beginning Balances	Increases	Transfers	Decreases	Ending Balances
Capital Assets, Not Being Depreciated					
Land	\$ 648,929	\$	\$ 348,117	\$	\$ 997,046
Construction in Progress	13,803,403	14,732,714	(17,106,570)		11,429,547
Total Capital Assets, Not Being Depreciated	<u>\$ 14,452,332</u>	<u>\$ 14,732,714</u>	<u>\$ (16,758,453)</u>	<u>\$ 0</u>	<u>\$ 12,426,593</u>
Depreciable Capital Assets					
Buildings	\$ 8,879,862	\$ 239,511	\$ (348,117)	\$ 58,927	\$ 8,712,329
Equipment - General Plant	10,100,708	286,581	(58,848)		10,328,441
Electric Distribution Plant	108,886,143		15,122,546	2,330,132	121,678,557
Broadband Fiber Distribution Plant			482,578		482,578
Water and Sewer Systems	30,411,499		1,560,294	248,015	31,723,778
Total Capital Assets Being Depreciated	<u>\$ 158,278,212</u>	<u>\$ 526,092</u>	<u>\$ 16,758,453</u>	<u>\$ 2,637,074</u>	<u>\$ 172,925,683</u>
Less Accumulated Depreciation for:	<u>68,307,703</u>	<u>4,855,123</u>		<u>2,617,217</u>	<u>70,545,609</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 89,970,509</u>	<u>\$ (4,329,031)</u>	<u>\$ 16,758,453</u>	<u>\$ 19,857</u>	<u>\$ 102,380,074</u>
Total Capital Assets, Net	<u>\$ 104,422,841</u>	<u>\$ 10,403,683</u>	<u>\$ 0</u>	<u>\$ 19,857</u>	<u>\$ 114,806,667</u>

Total depreciation recorded during 2023 was \$4,855,123, of which \$4,703,905 was charged to expense and \$151,218 was charged to clearing accounts. Per the requirements of the Uniform System of Accounts, vehicle depreciation is charged to clearing accounts and then spread to operations, maintenance and construction accounts based on where the vehicle was used. It is not expensed to depreciation expense.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Note 4 - Long-Term Debt**

Long-term debt of the District as of December 31, 2023 consists of RUS loans, Public Works Trust Fund (PWTF) and Drinking Water loans, private debt for the purchase of property, and Revenue Bonds. Revenues of the District are pledged to pay related debt. RUS loans are secured by a pledge of all assets of the District. Additionally, all revenue bonds require a portion of cash and cash equivalents to be reserved for future debt retirement. The Jefferson County Treasurer has established sufficient reserves and District management believes that the District is in compliance with all debt covenants. The District has no arbitrage liability with respect to bond issuances. The following tables summarize the District’s long-term debt obligations as of December 31, 2023:

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding December 31, 2023</u>
<b>Rural Utilities Services Federal Financing Bank Loan for the Acquisition of PSE Electrical Plant Assets</b>			
PUD-JEFF 001-001 - Quarterly P&I payments of \$1,482,454 maturing December 2041 with interest at 2.603%	3/13	\$ 114,743,000	\$ 85,015,556
PUD-JEFF 001-002 - Quarterly P&I payments of \$10,725 maturing December 2041 with interest at 3.308%	8/13	764,000	580,209
PUD-JEFF 001-003 - Monthly Interest Payments through April 2025 and Monthly P&I payments of \$25,462.82 beginning May 2025 maturing April 2049 with interest of 4.3727%	05/23	4,536,458	<u>4,536,458</u>
Total rural utilities services federal financing bank loan for the acquisition of PSE Electrical Plant assets			<u>\$ 90,132,223</u>



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	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding December 31, 2023</u>
<b>Public Works Trust Fund and Drinking Water Loans</b>			
PW-05-691-024: Beckett Pt. - Annual principal payments of \$50,776 plus interest at 0.50% maturing July 2025	5/05	\$ 948,924	\$ 101,552
PW-05-691-025: Marrowstone Island - Annual principal payments of \$108,806 plus interest at 0.50% maturing July 2025.	6/06	2,000,000	217,613
DM10-952-018: Sparling Well/Quimper - Annual principal payments of \$26,887 plus interest at 1.0% maturing October 2044. \$803,750 of debt was forgiven in 2016.	8/11	1,607,500	564,629
DM12-952-091: Kala Point - Annual principal payments of \$27,225 plus interest at 1.0% maturing October 2035. \$544,500 of debt was forgiven in 2016.	11/12	1,089,000	326,700
DM-13-952-177: Sparkling Water Treatment - Annual principal payments of \$29,108 plus interest at 1.0% maturing October 2037.	4/14	582,162	<u>506,010</u>
Total public works trust fund and drinking water loans			<u>\$ 1,716,504</u>
	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding December 31, 2023</u>
<b>Public Works Board Loans</b>			
PC22-96103-073: Quilcene Water Tank - Annual principal payments of \$109,427 plus interest at .94% maturing October 2041.	5/23	\$ 2,037,248	\$ 1,969,683
PBC23-96104-001: Broadband fiber - Annual principal payments of \$34,070 plus interest at .42% maturing October 2037.	10/23	476,978	<u>476,978</u>
Total public works board loans			<u>\$ 2,446,661</u>
	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding December 31, 2023</u>
<b>Notes Payable</b>			
Washington State Department of Health DWSRF Loan - Monthly Principal payments of \$19,600 plus interest at 1.25% maturing October 2048	10/23	\$ 490,000	\$ 490,000
Peterson Lake Loan - Monthly P&I payments of \$14,329 maturing March 2026 with interest at 6%	3/06	2,000,000	<u>361,053</u>
Total Notes Payable			<u>\$ 851,053</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Revenue Bonds for Water and Sewer Systems**

LUD 14: Marrowstone Island - Serial Bonds \$102,000 - \$173,000 due through March 2026 with interest at 5.70% - 6.75%.	3/09	\$	2,000,000	\$	489,000
Tri-Area (USDA) - Semi-Annual P&I payments of \$82,831 with interest at 4.5% maturing April 2043.	4/03		3,043,250		<u>2,122,161</u>
Total Revenue Bonds for Water and Sewer Systems				\$	<u>2,611,161</u>
Total Long-Term Debt				\$	<u><u>97,757,602</u></u>

During the year ended December 31, 2023, the following changes occurred in the District's long-term debt:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
<b>Long-Term Debt</b>					
RUS Loans	\$ 89,283,321	\$ 4,536,458	\$ 3,687,556	\$ 90,132,223	\$ 3,789,736
Public Works Trust					
Fund Loans	1,972,365		255,861	1,716,504	255,862
Public Works					
Board Loans		2,514,226	67,565	2,446,661	143,497
Notes Payable	556,561	490,000	195,508	851,053	174,083
Bonds Payable	<u>2,822,153</u>		<u>210,992</u>	<u>2,611,161</u>	<u>223,040</u>
	<u>\$ 94,634,400</u>	<u>\$ 7,540,684</u>	<u>\$ 4,417,482</u>	<u>\$ 97,757,602</u>	<u>\$ 4,586,218</u>

Interest expense was \$2,635,438 for the year ended December 31, 2023. Capitalized interest was \$0 for the year ended December 31, 2023.

Lines of credit - The District has an available unsecured line of credit with NRUCFC on which it may borrow up to \$5,000,000. No balance was outstanding at December 31, 2023.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

Scheduled maturities and interest on long-term debt are as follows:

<b>Principal</b>	<b>Electric System</b>	<b>Water System</b>	<b>Combined as of December 31, 2023</b>
2024	\$ 3,823,807	\$ 762,411	\$ 4,586,218
2025 - 2029	21,157,257	2,229,695	23,386,952
2030 - 2034	24,167,700	1,627,475	25,795,175
2035 - 2039	27,516,381	1,474,741	28,991,122
2040 - 2044	12,738,533	975,679	13,714,212
2045 - 2049	1,205,523	78,400	1,283,923
	<u>\$ 90,609,201</u>	<u>\$ 7,148,401</u>	<u>\$ 97,757,602</u>
<b>Interest</b>			
2024	\$ 2,383,442	\$ 180,724	\$ 2,564,166
2025 - 2029	10,376,118	625,591	11,001,709
2030 - 2034	7,398,527	432,696	7,831,223
2035 - 2039	3,978,074	249,895	4,227,969
2040 - 2044	734,664	63,761	798,425
2045 - 2049	120,027	2,447	122,474
	<u>\$ 24,990,852</u>	<u>\$ 1,555,114</u>	<u>\$ 26,545,966</u>
<b>Total</b>			
2024	\$ 6,207,249	\$ 943,135	\$ 7,150,384
2025 - 2029	31,533,375	2,855,286	34,388,661
2030 - 2034	31,566,227	2,060,171	33,626,398
2035 - 2039	31,494,455	1,724,636	33,219,091
2040 - 2044	13,473,197	1,039,440	14,512,637
2045 - 2049	1,325,550	80,847	1,406,397
	<u>\$ 115,600,053</u>	<u>\$ 8,703,515</u>	<u>\$ 124,303,568</u>

**Note 5 - Pension Plans**

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:

<b>Aggregate Pension Amounts - All Plans</b>	<b>Amount</b>
Pension Assets	\$ 1,120,806
Deferred Outflows of Resources	1,601,125
Deferred Inflows of Resources	1,041,493
Pension Income	238,101

State sponsored pension plans - Substantially 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 and defined contribution retirement plans. The state legislature establishes and amends laws pertaining to the creation and administration of all public retirement systems.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

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, Washington 98540-8380

Or the DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

Public Employees' Retirement System (PERS) - PERS members include elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is composed of three separate pension plans for membership purposes. PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

The PERS serves approximately 1,978 local participating employers. The PERS membership includes approximately 333,202 participants.

As of June 30, 2023, membership consisted of:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
Inactive Members or Beneficiaries Receiving Benefits	39,461	72,191	8,922
Inactive Members Entitled to but Not Yet Receiving Benefits	147	30,755	7,606
Active Members Vested	440	78,977	16,710
Active Members Nonvested	69	56,657	21,267
Total Plan Employees	<u>40,117</u>	<u>238,580</u>	<u>54,505</u>

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 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 nonduty 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.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

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

	<u>Employer</u>	<u>Employee</u>
<b>Actual Contribution Rates January - June 2023</b>		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
	<u>10.39%</u>	<u>6.00%</u>
<b>Actual Contribution Rates July - August 2023</b>		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.85%	
Administrative Fee	0.18%	
	<u>9.39%</u>	<u>6.00%</u>
<b>Actual Contribution Rates September-December 2023</b>		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	2.97%	
Administrative Fee	0.20%	
	<u>9.53%</u>	<u>6.00%</u>

PERS Plans 2 and 3 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 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 Plans 2 and 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 Plans 2 and 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:

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

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

PERS Plans 2 and 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 Plans 2 and 3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plans 2 and 3 benefits include duty and nonduty 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 five 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 is 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.

PERS Plans 2 and 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 Plans 2 and 3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the State Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plans 2 and 3 required contribution rates (expressed as a percentage of covered payroll) for 2023 were as follows:

	<u>Employer</u>	<u>Employee</u>
<b>Actual Contribution Rates January - June 2023</b>		
PERS Plan 2	6.36%	6.36%
PERS Plan 2 UAAL	3.85%	
Administrative Fee	0.18%	
	<u>10.39%</u>	<u>6.36%</u>
<b>Actual Contribution Rates July-August 2023</b>		
PERS Plan 2	6.36%	6.36%
PERS Plan 2 UAAL	2.85%	
Administrative Fee	0.18%	
	<u>9.39%</u>	<u>6.36%</u>
<b>Actual Contribution Rates September-December 2023</b>		
PERS Plan 2	6.36%	6.36%
PERS Plan 2 UAAL	2.97%	
Administrative Fee	0.20%	
	<u>9.53%</u>	<u>6.36%</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

	<u>Employer</u>	<u>Employee</u>
<b>Actual Contribution Rates January - June 2023</b>		
PERS Plan 3	6.36%	Varies
PERS Plan 3 UAAL	3.85%	
Administrative Fee	0.18%	
	<u>10.39%</u>	
<b>Actual Contribution Rates July - August 2023</b>		
PERS Plan 3	6.36%	6.00%
PERS Plan 3 UAAL	2.85%	
Administrative Fee	0.18%	
	<u>9.39%</u>	<u>6.00%</u>
<b>Actual Contribution Rates September - December 2023</b>		
PERS Plan 3	6.36%	6.00%
PERS Plan 3 UAAL	2.97%	
Administrative Fee	0.20%	
	<u>9.53%</u>	<u>6.00%</u>

The District's actual contributions to the plan were \$0 to PERS Plan 1 and \$701,119 to PERS Plans 2 and 3 for the year ended December 31, 2023.

Actuarial assumptions - The total pension liability (TPL) for each of the plans was determined using the most recent actuarial valuation completed in 2023 with a valuation date of June 30, 2022. The actuarial assumptions used in the valuation are summarized in the Actuarial Section of DRS' *Annual Comprehensive Financial Report* located on the DRS employer-resource GASB webpage. The actuarial assumptions used in the June 30, 2022, valuation were based on the results of the 2013-2018 Demographic Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2022 Actuarial Valuation Report.

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. Mortality rates were developed using the Society of Actuaries' Pub.H-2010 mortality rates, which vary by member status (eg, active, retiree, or survivor), as our base table. The Office of the State Actuary (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 their lifetime.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

Discount rate - The discount rate used to measure the total pension liability was 7.00% for all plans. To determine that rate, an asset sufficiency test was completed to test whether each pension plan’s fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on the assumptions described in OSA 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 the Washington State Investment Board (WSIB) provided. The CMAs contain three pieces of information for each class of assets WSIB currently invests in:

- Expected annual return.
- Standard deviation of the annual return.
- 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	20.0%	1.5%
Tangible Assets	7.0%	4.7%
Real Estate	18.0%	5.4%
Global Equity	32.0%	5.9%
Private Equity	23.0%	8.9%
Total	100.0%	

Sensitivity of NPL - The table below presents the District’s proportionate share of the net pension liability (asset) 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 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Decrease (8.00%)</u>
District's Net Pension Liability (Asset)			
PERS Plan 1	\$ 1,188,723	\$ 850,866	\$ 555,995
PERS Plans 2 and 3	2,144,429	(1,971,672)	(5,353,308)



**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

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.

At December 31, 2023, the District reported a total net pension asset of \$1,120,806 for its proportionate share of the net pension liabilities as follows:

District's Net Pension Liability (Asset)	
PERS Plan 1	\$ 850,866
PERS Plan 2 and 3	(1,971,672)
	<u>\$ (1,120,806)</u>

At December 31, 2023, the District's proportionate share of the collective net pension liabilities was as follows:

	<u>Proportionate Share June 30, 2022</u>	<u>Proportionate Share June 30, 2023</u>	<u>Change in Porportion</u>
District's Proportionate Share of Net Pension Liabilities			
PERS Plan 1	0.0364600%	0.0372740%	0.0008140%
PERS Plans 2 and 3	0.0474390%	0.0481050%	0.0006660%

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

The collective net pension liability 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.

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

District's Pension Expense (Benefit)	
PERS Plan 1	\$ (7,273)
PERS Plan 2 and 3	(230,828)
	<u>\$ (238,101)</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>PERS Plan 1</b>		
Difference Between Expected and Actual Experience	\$	\$
Changes of assumptions		
Net Difference Between Projected and Actual Earnings on Plan Investments		(95,981)
Employer Contributions Subsequent to the Measurement Date		
Totals	<u>\$ 0</u>	<u>\$ (95,981)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>PERS Plan 2 and 3</b>		
Difference Between Expected and Actual Experience	\$ 401,627	\$ (22,030)
Changes of assumptions	827,776	(180,437)
Net Difference Between Projected and Actual Earnings on Plan Investments		(743,045)
Employer Contributions Subsequent to the Measurement Date	<u>371,722</u>	
Totals	<u>\$ 1,601,125</u>	<u>\$ (945,512)</u>
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>PERS Plan 1, 2 and 3</b>		
Difference Between Expected and Actual Experience	\$ 401,627	\$ (22,030)
Changes of assumptions	827,776	(180,437)
Net Difference Between Projected and Actual Earnings on Plan Investments		(839,026)
Employer Contributions Subsequent to the Measurement Date	<u>371,722</u>	
Totals	<u>\$ 1,601,125</u>	<u>\$ (1,041,493)</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

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

<u>Year Ended December 31</u>	<u>PERS Plan 1</u>	<u>PERS Plans 2 and 3</u>
2024	\$ (65,302)	\$ (351,480)
2025	(82,125)	(429,090)
2026	50,637	614,621
2027	809	222,397
2028		218,616
Thereafter		8,827

**Note 6 - Insurance and Risk Management**

The District is a member of the Public Utility Risk Management Services (PURMS) Self Insurance fund. PURMS is a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

PURMS consists of 18 members and NoaNet, a governmental entity consisting of local governments. The risks shared by the members are defined in the Self Insurance Agreement (SIA). PURMS consists of three pools for liability, property, and health and welfare coverage.

The pools operate independently of one another and all members do not participate in all pools. The District participates in the liability, property, and health and welfare pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The administrator and elected Administrative Committee conduct the business of the pools.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise, terminated members continue to receive coverage for the time they were members.

Each of the PURMS Risk Pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides annual financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools, and periodically, the State Risk Manager performs its own audit of PURMS' Risk Pools.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

Liability risk pool - The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million, per occurrence, of excess general liability insurance and \$35 million, per occurrence, of professional liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$65 million, per occurrence, over the first layer of \$35 million is also available to those members that choose to participate. The District has been participating in the second layer of excess liability insurance since January 1, 2018. The amount of the layer was \$65 million in 2023. The fund maintains \$35 million of excess coverage for public officials, with a \$500,000 retention. The deductible is \$250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The designated reserve level was \$3.5 million at December 31, 2023. The District was assessed \$270,268 in 2023.

Property risk pool - The majority of the property in the property pool has a self-insured retention of \$250,000 per property loss. Certain classes of property have higher retention requirements up to \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies but for most classes of property is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The District was assessed \$119,977 in 2023.

Health and welfare risk pool - The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health and Welfare Risk Pool (H&W Pool) in accordance with the terms of the Health and Welfare Coverage of the SIA (H&W Coverage) and the terms of each member's respective Coverage Booklet provided to its employees.

The H&W Pool's operations are financed by assessments of its participants. Each month, each participant of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such member's employees (H&W Claims Costs); and (b) for such member's share of Shared H&W Costs. "Shared H&W Costs" consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each participant is limited by two different pairs of stop-loss points. The Individual Stop-Loss Point was \$365,000 and the Aggregate Stop-Loss Point was \$25,372,203 for 2023 for the combined Claims Costs of the employees of all participants of the H&W Pool.

Insurance settlements have not exceeded insurance coverage in the past three years.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Note 7 - Commitments and Contingencies**

Power supply contracts - The District has a power purchase contract with the Bonneville Power Administration (BPA) to provide the District's power supply through September 30, 2028.

Union contract - The District employs approximately 60% of its workforce under collective bargaining agreements. The contract with IBEW Local 77 covers the electrical operations and expired in May 2023. The office and water staff are covered under a contract with Local Labor 252 which ends in December 2024.

Federal and state programs - The District participates in a number of federal and state assisted programs. These grants are subject to audit, which could result in requests for reimbursement to the grantor agencies for disallowed expenditures. District management believes that such disallowances, if any, will be immaterial.

**Note 8 - Participation in Northwest Open Access Network, Inc. (NoaNet)**

The District, along with nine other Washington State public entities, is a member of Northwest Open Access Network, Inc. (dba NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001.

The District has guaranteed up to 10% of NoaNet's long-term debt. The guarantee expires upon the earlier of the debt repayment or July 1, 2025. NoaNet's outstanding debt was \$15,295,000 at December 31, 2023. The District's guarantee outstanding at December 31, 2023 was \$1,529,500. Management does not expect to be called on this guarantee during 2024.

**Note 9 - Interfund Activity**

The District records its own consumption of electric and water utility services as retail sales and operating expense. Both revenues and expenses are reported on the statement of revenues, expenses, and changes in net position and on the condensed statement of revenues, expenses, and changes in net position. The amounts are not material.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Note 10 - Property Tax**

The Jefferson County Treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments are due.
May 31	Assessed value of property established for next year's levy at 100% of market value.
October 31	Second installments are due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The District is part of the county's taxing authorities and receives up to \$0.45 per \$1,000 of assessed valuation for general government services.

The District's portion of the regular levy for 2023 was \$.0680951 per \$1,000 on an assessed valuation of \$8,611,499,998 for a total regular levy portion of \$586,401.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Note 11 - System Reporting**

Summary financial information for each business-type activity system is presented below:

**Assets and Deferred Outflows of Resources**

	<u>Electric</u>	<u>Water</u>
<b>Current Assets</b>		
Cash and Cash Equivalent	\$ 13,188,479	\$ 1,154,159
Receivables		
Accounts and Contracts, net	3,701,655	259,328
Unbilled Revenue	2,667,936	241,331
Grants	1,217,627	
Other	486,209	812
Materials and Supplies	7,985,456	28,396
Prepaid Expenses	368,666	87
Total Current Assets	<u>\$ 29,616,028</u>	<u>\$ 1,684,113</u>
<b>Noncurrent Assets</b>		
Long-Term Portion of Assessments Receivable	\$	\$ 161,143
Nonutility Plant	82,774	2,138,201
Restricted Assets		
Cash	250	1,321,947
Investments	84,413	
Net Pension Assets	1,120,806	
Utility Plant		
Land and Land Rights	997,046	
Net Utility and General Plant	140,449,253	32,476,430
Construction Work in Progress	8,384,308	3,045,239
Less: Accumulated Depreciation	<u>(55,772,438)</u>	<u>(14,773,171)</u>
Net Utility Plant	<u>\$ 94,058,169</u>	<u>\$ 20,748,498</u>
Total Noncurrent Assets	<u>\$ 95,346,412</u>	<u>\$ 24,369,789</u>
Total Assets	<u>\$ 124,962,440</u>	<u>\$ 26,053,902</u>
<b>Deferred Outflows of Resources</b>		
Excess Consideration Provided for Acquisition	\$ 37,372,403	\$
Deferred Pension Outflows	1,601,125	
Total Deferred Outflows of Resources	<u>\$ 38,973,528</u>	<u>\$ 0</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Liabilities, Deferred Inflows of Resources, and Net Position**

	<u>Electric</u>	<u>Water</u>
<b>Current Liabilities</b>		
Power Bills Payable	\$ 2,980,606	\$
Accounts Payable	1,542,656	
Accrued Interest	331	46,906
Customer Deposits	68,900	500
Accrued Liabilities	61,512	
Accrued Taxes	1,241,901	
Accrued Wages and Benefits	717,690	
Accrued Compensated Absences	693,869	
Inter-Division Payables	5,600,200	(5,600,200)
Current Portion of Long-Term Debt	3,823,807	762,411
Total Current Liabilities	<u>\$ 16,731,472</u>	<u>\$ (4,790,383)</u>
<b>Noncurrent Liabilities</b>		
PWTF Loans Payable	\$	\$ 1,460,642
Public Works Board Loan Payable	442,908	1,860,256
Notes Payable	86,342,486	676,971
Bonds Payable		2,388,121
Total Noncurrent Liabilities	<u>\$ 86,785,394</u>	<u>\$ 6,385,990</u>
Total Liabilities	<u>\$ 103,516,866</u>	<u>\$ 1,595,607</u>
<b>Deferred Inflows of Resources</b>		
Deferred Pension Inflows	\$ 1,041,493	\$
Unspent Grant Funds	4,601,116	
Total Deferred Inflows of Resources	<u>\$ 5,642,609</u>	<u>\$ 0</u>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 40,904,145	\$ 15,738,298
Restricted	250	1,321,947
Unrestricted	13,872,098	7,398,050
Total Net Position	<u>\$ 54,776,493</u>	<u>\$ 24,458,295</u>



## PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO FINANCIAL STATEMENTS

## Statement of Revenues, Expenses, and Changes in Net Position

	<u>Electric</u>	<u>Water</u>
<b>Operating Revenues</b>		
Power Sales to Retail and Commercial Customers	\$ 41,847,524	\$
Water Sales to Retail and Commercial Customers		3,885,808
Broadband Sales to Retail and Commercial Customers	147,942	
Other Charges for Service	542,731	546,082
Total Current Assets	<u>\$ 42,538,197</u>	<u>\$ 4,431,890</u>
<b>Operating Expenses</b>		
Purchased Power and Water and Broadband	\$ 14,677,271	\$ 144,893
Operations and Maintenance	5,954,709	1,503,477
Administrative and General	6,454,603	918,524
Taxes	2,373,172	246,296
Depreciation and Amortization	6,016,566	1,010,897
Total Operating Expenses	<u>\$ 35,476,321</u>	<u>\$ 3,824,087</u>
<b>Operating Income (Loss)</b>	<u>\$ 7,061,876</u>	<u>\$ 607,803</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest Income	\$ 48,812	\$ 97,278
Timber Harvest Tax and Other	592,496	86,676
Interest Expense	(2,456,279)	(179,159)
Other Nonoperating Revenues (Expenses)	(26,172)	80,507
Total Nonoperating Revenues (Expenses)	<u>\$ (1,841,143)</u>	<u>\$ 85,302</u>
<b>Income (Loss) Before Capital Contributions and Grants</b>	\$ 5,220,733	\$ 693,105
<b>Capital Contributions and Grants</b>	<u>4,686,062</u>	<u>182,570</u>
<b>Change in Net Position</b>	\$ 9,906,795	\$ 875,675
<b>Accumulated Net Position</b>		
Beginning of Year	<u>44,869,698</u>	<u>23,582,620</u>
End of Year	<u>\$ 54,776,493</u>	<u>\$ 24,458,295</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Statement of Cash Flows**

	<u>Electric</u>	<u>Water</u>
<b>Cash Flows From Operating Activities</b>		
Receipts from Customers	\$ 42,663,829	\$ 4,345,933
Payments to Suppliers	(23,520,001)	(1,457,895)
Payments to Employees and for Benefits	(7,727,502)	(1,344,838)
Net Cash from Operating Activities	<u>\$ 11,416,326</u>	<u>\$ 1,543,200</u>
<b>Cash Flows from Noncapital Financing Activity</b>		
Other Nonoperating Income/ Expense	\$ (26,172)	\$ 80,507
Payments Received on Assessments	592,496	221,488
Inter-Division Payables (Receivables)	1,066,129	(1,066,129)
Net Cash from Noncapital Financing Activities	<u>\$ 1,632,453</u>	<u>\$ (764,134)</u>
<b>Cash Flows from Capital and Related Financing Activity</b>		
Acquisition and Construction of Capital Assets	\$ (12,519,011)	\$ (2,739,795)
Cost of Removal and Credits	(6,712)	192,770
Proceeds from Issuance of Debt	5,013,435	2,527,249
Principal Payments on Debt	(3,687,555)	(729,927)
Interest Paid	(2,459,077)	(184,669)
Capital Contributions and Grants	9,243,998	182,570
Net Cash from Capital and Related Financial Activity	<u>\$ (4,414,922)</u>	<u>\$ (751,802)</u>
<b>Cash Flows from Investing Activities</b>		
Receipts from Interest	\$ 48,812	\$ 97,278
Net Cash from Investing Activities	<u>\$ 48,812</u>	<u>\$ 97,278</u>
<b>Net Change in Cash and Cash Equivalents</b>	\$ 8,682,669	\$ 124,542
<b>Cash and Cash Equivalent at Beginning of Year - Restricted and Unrestricted</b>	<u>4,506,060</u>	<u>2,351,564</u>
<b>Cash and Cash Equivalent at End of Year - Restricted and Unrestricted</b>	<u>\$ 13,188,729</u>	<u>\$ 2,476,106</u>
<b>Cash and Cash Equivalent at End of Year Consist of</b>		
Operating Cash and Cash Equivalents	\$ 13,188,479	\$ 1,154,159
Restricted Cash and Cash Equivalents	250	1,321,947
	<u>\$ 13,188,729</u>	<u>\$ 2,476,106</u>

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

**NOTES TO FINANCIAL STATEMENTS**

**Reconciliation of Net Operating Revenue (Expenses) to  
Net Cash from Operating Activities**

Net Operating Revenues (Expenses)	\$ 7,061,876	\$ 607,803
Adjustments to Reconcile Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Depreciation and Amortization	6,016,566	1,010,897
(Increase) Decrease in Receivables	110,481	(86,257)
(Increase) Decrease in Materials and Supplies	(636,141)	10,544
(Increase) Decrease in Prepaid and Deferred Expenses	(7,561)	(87)
(Increase) Decrease in Investments	(4,249)	
(Increase) Decrease in Deferred Outflows of Resources	144,840	
(Increase) Decrease in Net Pension Asset	(376,578)	
Increase (Decrease) in Accounts Payables	89,367	
Increase (Decrease) in Customer Deposits	19,400	300
Increase (Decrease) in Accrued Liabilities	(250,242)	
Increase (Decrease) in Accrued Taxes	(184,983)	
Increase (Decrease) in Accrued Wages and Benefit	121,590	
Increase (Decrease) in Accrued Compensated Absences	36,048	
Increase (Decrease) in Deferred Inflows of Resources	<u>(724,088)</u>	
Total Adjustments	<u>\$ 4,354,450</u>	<u>\$ 935,397</u>
Net Cash from Operating Activities	<u>\$ 11,416,326</u>	<u>\$ 1,543,200</u>

**Note 12 - Subsequent Events**

The District has evaluated subsequent events through March 26, 2024, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2023, have been incorporated into these financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

RSI 1

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AS OF JUNE 30, LAST 10 FISCAL YEARS

	PERS 1									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.037274%	0.036460%	0.034161%	0.029131%	0.034134%	0.029481%	0.026527%	0.026887%	0.024189%	0.020203%
Employer's Proportionate Share of the Net Pension Liability	\$ 850,866	\$ 1,015,180	\$ 417,186	\$ 1,028,482	\$ 1,312,573	\$ 1,316,631	\$ 1,258,727	\$ 1,443,959	\$ 1,265,310	\$ 1,017,736
Employer's Covered Payroll	6,811,060	5,913,202	5,224,694	4,349,136	4,773,469	3,884,483	3,298,818	3,157,676	2,697,385	2,182,729
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	12.49%	17.17%	7.98%	23.65%	27.50%	33.89%	38.16%	45.73%	46.91%	46.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.16%	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%
	PERS 2 & 3									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.048105%	0.047439%	0.439270%	0.038204%	0.044046%	0.037680%	0.034121%	0.034416%	0.031244%	0.026012%
Employer's Proportionate Share of the Net Pension Liability	\$ (1,971,671)	\$ (1,759,409)	\$ (4,375,836)	\$ 488,607	\$ 427,836	\$ 643,352	\$ 1,185,542	\$ 1,732,818	\$ 1,116,366	\$ 525,796
Employer's Covered Payroll	6,811,060	5,913,202	5,269,074	4,435,619	4,827,756	3,925,909	3,363,002	3,208,763	2,773,498	2,239,050
Employer's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	-28.95%	-29.75%	-83.05%	11.02%	8.86%	16.39%	35.25%	54.00%	40.25%	23.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	107.02%	106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%	93.29%

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

RSI 2

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
AS OF JUNE 30, LAST 10 FISCAL YEARS

	PERS 1									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or Contractually Required Contributions	\$ 253,995	\$ 223,451	\$ 254,457	\$ 211,129	\$ 244,756	\$ 197,058	\$ 181,068	\$ 153,848	\$ 134,157	\$ 103,742
Contributions in Relation to the Statutorily or Contractually Required Contributions	(253,995)	(223,451)	(254,457)	(211,129)	(244,756)	(197,058)	(181,068)	(153,848)	(134,157)	(103,742)
Contributions Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 6,811,060	\$ 5,913,202	\$ 5,750,566	\$ 5,317,132	\$ 4,309,843	\$ 4,144,460	\$ 3,688,452	\$ 3,225,327	\$ 3,025,349	\$ 2,571,386
Contributions as a Percentage of Covered Payroll	3.73%	3.78%	4.42%	3.97%	5.68%	4.75%	4.91%	4.77%	4.43%	4.03%
	PERS 2 & 3									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or Contractually Required Contributions	\$ 422,946	\$ 381,112	\$ 416,109	\$ 351,949	\$ 359,737	\$ 290,746	\$ 254,647	\$ 200,938	\$ 172,658	\$ 128,454
Contributions in Relation to the Statutorily or Contractually Required Contributions	(422,946)	(381,112)	(416,109)	(351,949)	(359,737)	(290,746)	(254,647)	(200,938)	(172,658)	(128,454)
Contributions Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 6,811,060	\$ 5,913,202	\$ 5,750,566	\$ 5,317,132	\$ 4,309,843	\$ 4,144,460	\$ 3,688,452	\$ 3,225,327	\$ 3,025,349	\$ 2,571,386
Contributions as a Percentage of Covered Payroll	6.21%	6.45%	7.24%	6.62%	8.35%	7.02%	6.90%	6.23%	5.71%	5.00%

**OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79423-1954

**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 Jefferson County, Washington  
Port Townsend, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Jefferson County, Washington (the District), which comprise 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, and have issued our report thereon dated March 26, 2024.

**Report on Internal Control over Financial Reporting**

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

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

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



## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

Lubbock, Texas

March 26, 2024