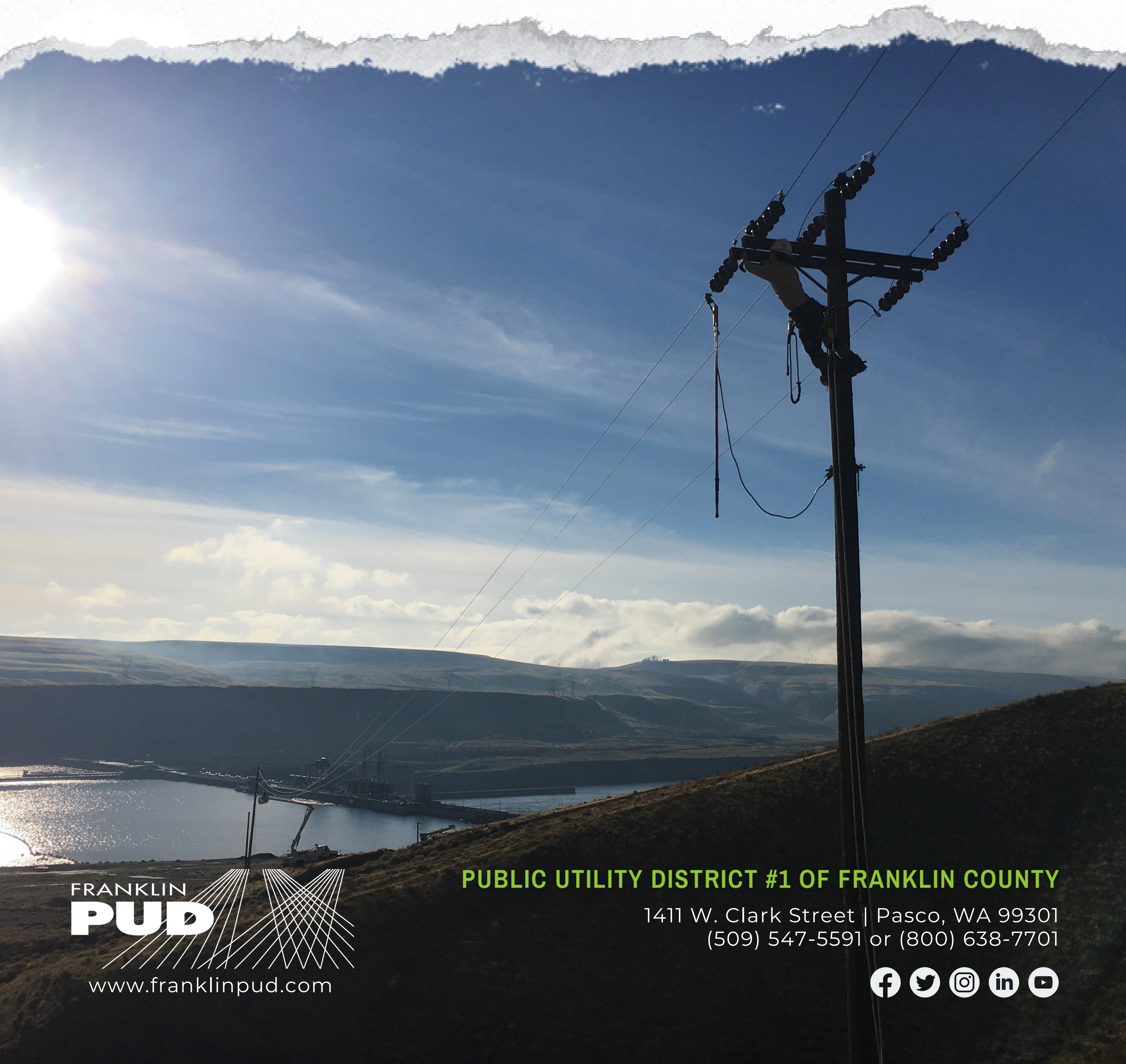
FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

2022 ANNUAL REPORT

PUBLISHED JUNE 2023



FRANKLIN PUD

www.franklinpud.com

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY

1411 W. Clark Street | Pasco, WA 99301

(509) 547-5591 or (800) 638-7701

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Katrina Fulton
Accounting Manager
Treasurer (CPA)

Nicole Kirby
Senior Accountant
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Senior Accountant

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Payroll
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Sergio Guzman
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Specialist

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Katrina Fulton
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A MESSAGE TO OUR CUSTOMERS

In 2022, Franklin PUD reached an important milestone – 75 years of providing electric service to the residents of Franklin County from their own locally-controlled utility. Those involved in the formation of Franklin PUD in 1947 likely did not imagine the changes that the future would hold. From the addition of wholesale Broadband services to becoming the fastest-growing county in Washington state, Franklin PUD has been committed to a singular purpose – providing our customers with the highest quality service at lowest possible cost. There have been challenges along the way, and some great accomplishments as well.

One such accomplishment in 2022 was the deployment of smart meter technology throughout Franklin PUD's service territory. This technology allows for two-way communication between the customer's meter and Franklin PUD, enabling us to run a more reliable and efficient power grid and deliver a higher level of service to our customers. Transferring over 33,000 outdated meters to smart meter technology was an effort that required all employees to work collectively toward this common goal – a goal that would help us continue to provide electric service at the lowest possible cost.

Franklin PUD's commitment to that goal drove the decisions made during the years of the pandemic and beyond. Our industry is facing unprecedented challenges including rising costs, extreme weather events, supply chain issues, and cybersecurity threats. We will continue to innovate, and problem solve to meet these challenges while fulfilling the mission we embarked upon 75 years ago.

Scott Rhees, Holly Dohrman, Commissioners, and Staff

Scott Rhees
General Manager / CEO

Holly Dohrman
Assistant General Manager

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MISSION & VISION

Provide safe, reliable, and affordable cost-based power that benefits our customers.

Franklin PUD will be a respected and reliable steward of electric and broadband systems, delivering high value to customers in the form of: low-cost and reliable power; a system infrastructure that supports safety and reliability; commitment to conservation of energy resources and our environment; and committed employees who excel in customer service and make Franklin PUD a great place to work.

BOARD OF COMMISSIONERS

The Board of Commissioners is the governing body for Franklin PUD. Commissioners have overall responsibility for setting policy and appointing the General Manager, who is responsible for the implementation of policies and direction of operations. Franklin PUD has a three-member Commission, and each Commissioner represents a certain district of Franklin County and are elected to serve a six-year term.

Roger Wright
District 1

Commissioner Wright took office in 2011 and serves district one, which encompasses the western portion of the City of Pasco, from the Columbia River to Burns Road, west of Road 52. His current term ends in 2028.

Bill Gordon
District 2

Commissioner Gordon took office in 2003 and serves district two, which encompasses the majority of the County's land area and includes Connell, Kahlotus, the Tri-Cities Airport, and rural Pasco. His current term ends in 2026.

Stu Nelson
District 3

Commissioner Nelson took office in 2003 and serves district three, which encompasses the eastern area of the City of Pasco, from the Columbia River to the Tri-Cities Airport east of Road 52. His current term ends in 2024.

FAST FACTS

(YEAR END 2022)

In 2022, Franklin PUD served customers throughout Pasco, Connell, Kahlotus, and other surrounding areas within Franklin County, WA.

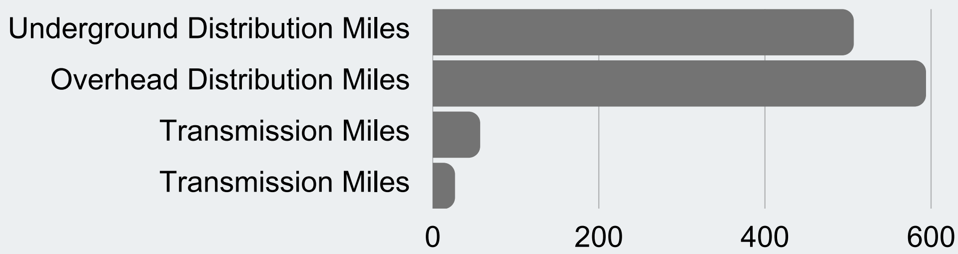
86
employees

435 SQ MI
service territory

21
substations

29,344
customers

1,182
total line miles

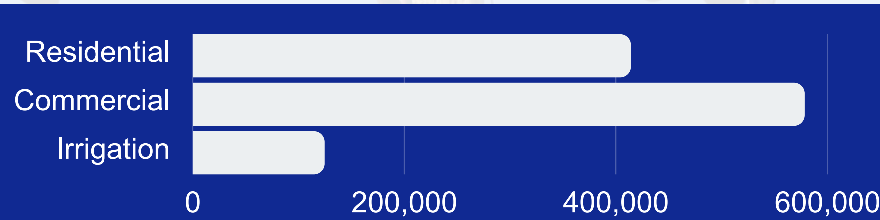


99.99%
reliability rating

59,064
phone calls received

40,690
in person transactions

1,115,913
retail electric sales (MWh)



130.17 aMW
average system load

253 MW
system peak demand

423,734 MWh
wholesale electric sales

208
customers receiving disability discount

668
customers receiving senior discount

327
new residential service requests

BROADBAND

Franklin PUD provides wholesale broadband services (100 MB - 10 GB speeds) to retail service providers and houses a state of the art 4,800 square-foot colocation facility.

33
retail service providers

380
miles of fiber

POWER RESOURCES

BONNEVILLE POWER ADMINISTRATION (BPA)

Franklin PUD buys most of its power from Bonneville Power Administration (BPA). Depending upon hydroelectric generating conditions and market prices, we expect to procure between 85% and 90% of our total energy resources from BPA.

NINE CANYON WIND PROJECT

Nine Canyon Wind Project is located in the Horse Heaven Hills south of Kennewick and is owned by Energy Northwest. Franklin PUD contracts for the output of 10MW of capacity from this project.

WHITE CREEK WIND PROJECT

In 2007, Franklin PUD contracted for the output of 10 MW of capacity in the White Creek Wind Project, located in the Columbia River Gorge approximately 21 miles east of Goldendale in Klickitat County, Washington.

ESQUATZEL CANAL HYDROELECTRIC PROJECT

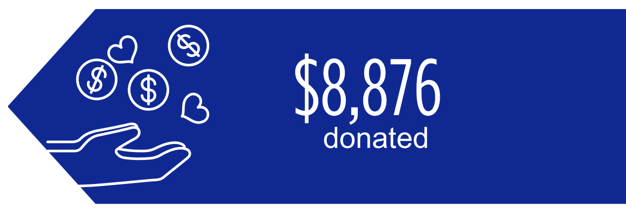
In 2011, Franklin PUD contracted with Green Energy Today, LLC for the Esquatzel Canal Hydroelectric Project, located at the confluence of the South Columbia Basin Irrigation District's Esquatzel Diversion Canal and the Columbia River, five miles north of Pasco.

PACKWOOD LAKE HYDROELECTRIC PROJECT

Also owned by Energy Northwest, this small hydro project located in the Cascade Mountains south of Mount Rainier, was constructed in 1962, and has 27-MW of generating capacity. Franklin PUD contracts for 10.5% of the output from Packwood.

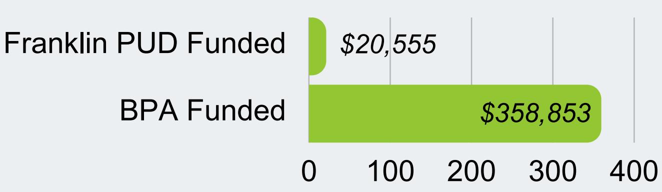
HELPING HANDS

The Helping Hands program gives Franklin PUD customers an opportunity to donate funds to assist other local, low-income customers in our service territory pay their electric bill.

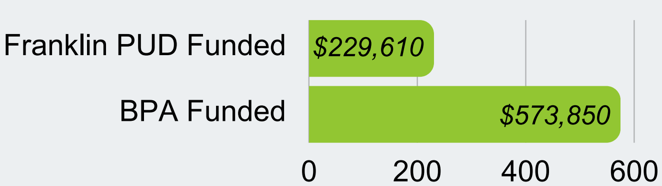


CONSERVATION INVESTMENTS

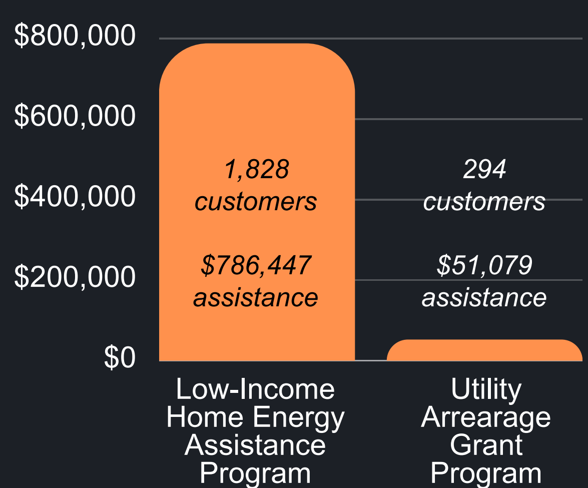
CONSERVATION PROGRAM



LOW-INCOME CONSERVATION PROGRAM



CUSTOMER ASSISTANCE



Financial Statements Audit Report

Public Utility District No. 1 of Franklin County

For the period January 1, 2021 through December 31, 2022

Published June 29, 2023

Report No. 1032866

Office of the Washington State Auditor
Pat McCarthy

June 29, 2023

Board of Commissioners
Public Utility District No. 1 of Franklin County
Pasco, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Franklin County's financial statements.

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

Sincerely,

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 1 of Franklin County
January 1, 2021 through December 31, 2022

Board of Commissioners
Public Utility District No. 1 of Franklin County
Pasco, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Franklin County, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 23, 2023.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 1 of Franklin County
January 1, 2021 through December 31, 2022

Board of Commissioners
Public Utility District No. 1 of Franklin County
Pasco, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of Public Utility District No. 1 of Franklin County, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Franklin County, as of December 31, 2022 and 2021, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2023

FINANCIAL SECTION

Public Utility District No. 1 of Franklin County
January 1, 2021 through December 31, 2022

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2022 and 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2022 and 2021
Statement of Revenues, Expenses and Changes in Net Position – 2022 and 2021
Statement of Cash Flows – 2022 and 2021
Notes to Financial Statements – 2022 and 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2022 and 2021
Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2022 and 2021

MANAGEMENT'S DISCUSSION & ANALYSIS

Public Utility District No. 1 of Franklin County (District) provides the following overview and analysis of key data presented in the District's basic financial statements for the years ended December 31, 2022 and 2021, with additional comparative data for 2020. Information within this section should be used in conjunction with the basic financial statements and accompanying notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District accounts for its financial activities within a single proprietary fund. The District's financial activities are comprised of the purchase, transmission, distribution, and sale of electric energy, as well as the sale of wholesale telecommunication services.

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 basic financial statements for the years ended December 31, 2022 and 2021 are comprised of:

Statement of Net Position

The District presents its Statement of Net Position using the balance sheet format. The statement reflects the assets, deferred outflows, liabilities, deferred inflows, and net position (equity) of the District at year-end. The net position section of the statement is separated into four categories: net investment in capital assets, restricted for debt service, restricted for pension and unrestricted.

Statement of Revenues, Expenses, and Changes in Net Position

This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the period. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows

The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital, and related financing, and investing. The District classifies highly liquid investments within its definition of cash and cash equivalents.

The notes to the financial statements presented at the end of the basic financial statements are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows.

COMPARATIVE CONDENSED FINANCIAL INFORMATION

Statement of Net Position (in thousands)

	2022	2021	2021 to 2022 Change	2020
Current and Other Assets	$92,004	$91,838	0.18%	$75,232
Capital Assets and Work in Progress	278,816	267,867	4.09%	259,868
Accumulated Depreciation	(124,732)	(122,473)	1.84%	(115,760)
Total Assets	**246,088**	**237,232**	**3.73%**	**219,340**
Deferred Outflows of Resources	4,621	4,633	-0.26%	4,247
Total Assets and Deferred Outflows	**250,709**	**241,865**	**3.66%**	**223,587**
Current and Other Liabilities	21,007	19,093	10.02%	15,717
Noncurrent Liabilities	65,600	67,988	-3.51%	72,794
Total Liabilities	**86,607**	**87,081**	**-0.54%**	**88,511**
Deferred Inflows of Resources	8,218	13,209	-37.79%	3,694
Total Liabilities and Deferred Inflows	**94,825**	**100,290**	**-5.45%**	**92,205**
Net Investment in Capital Assets	105,273	96,775	8.78%	97,294
Restricted for Debt Service	388	1,017	-61.83%	2,787
Restricted for Pension	2,662	1,153	130.84%	
Unrestricted	47,562	42,630	11.57%	31,301
Total Net Position	**$155,884**	**$141,575**	**10.11%**	**$131,382**

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

	2022	2021	2021 to 2022 Change	2020
Operating Revenues:				
Retail Energy Sales	$88,557	$85,833	3.17%	$82,663
Sales for Resale	15,879	14,854	6.90%	7,872
Other	2,646	2,544	4.00%	2,452
Total Operating Revenues	107,082	103,231	**3.73%**	92,987
Nonoperating Revenues	1,253	1,486	-15.68%	858
Total Revenues	**108,335**	**104,717**	**3.46%**	**93,845**
Operating Expenses:				
Power Supply	70,910	67,783	4.61%	58,907
Operations, Maintenance & Administrative	13,946	12,561	11.03%	14,764
Taxes & Depreciation	13,672	13,135	4.09%	12,419
Total Operating Expenses	98,528	93,479	5.40%	86,090
Nonoperating Expenses	2,113	3,156	-33.05%	2,718
Total Expenses	**100,641**	**96,635**	**4.15%**	**88,808**
Income (Loss) Before Capital Contributions	7,694	8,082	-4.80%	5,037
Capital Contributions	6,905	2,704	155.36%	2,900
Special Items	(290)	(593)	-51.10%	
Change in Net Position	14,309	10,193	40.38%	7,937
Beginning Net Position	141,575	131,382	7.76%	123,445
Ending Net Position	**$155,884**	**$141,575**	**10.11%**	**$131,382**

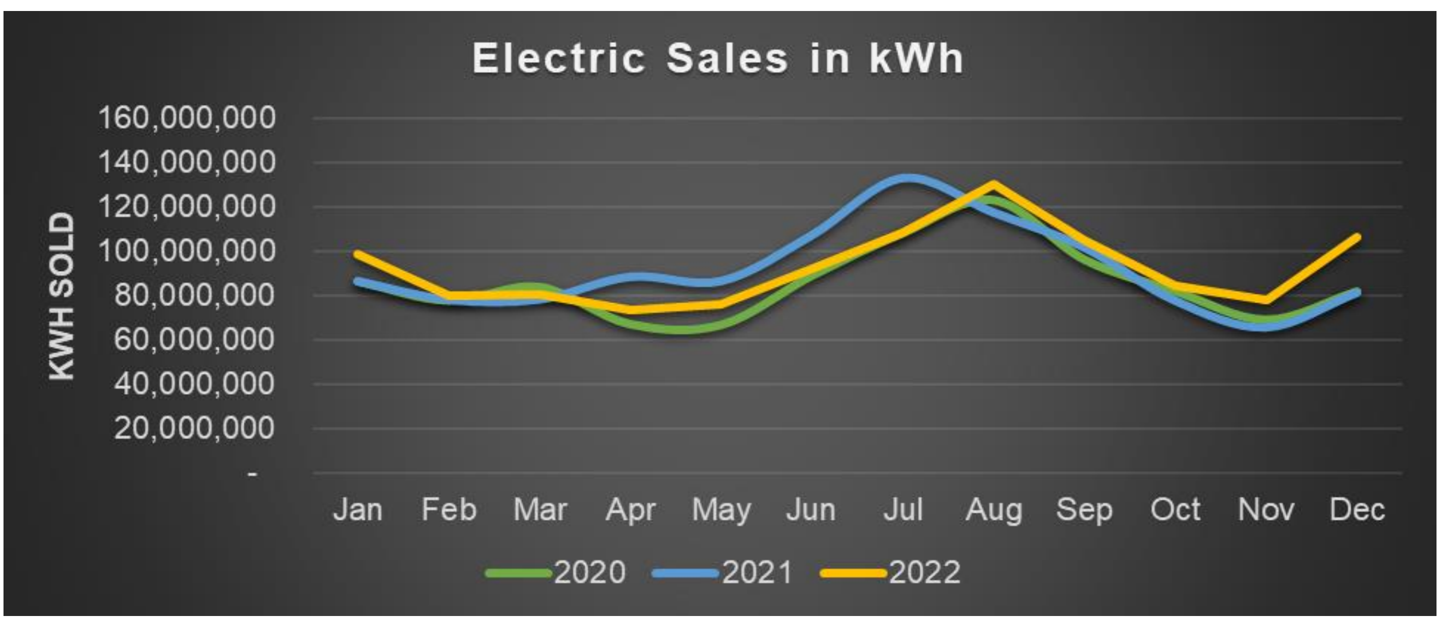
FINANCIAL ANALYSIS

The District ended 2022 with an increase in Net Position of 10.11%, continuing the strong financial performance of 2021. While pandemic-related challenges such as supply chain constraints and inflation continued, the District took measures to optimize financial resources and build liquidity. The following financial analysis focuses on the results of the District's operations by major components of income and expense for all periods presented.

Operating Revenues

2021 to 2022:

Retail energy sales comprised approximately 83% of the District's Operating Revenues in 2022. An increase of 3.17% over 2021 was driven primarily by an increase in kilowatt hour (kWh) loads experienced in December 2022 with extremely cold temperatures. Increased annual sales to Residential customers due to the cold December weather were offset by decreased Irrigation sales during the summer of 2022. Consumption of kWh by Irrigation customers in 2022 fell by 33.6% as operating conditions returned to average after record 2021 summer heat. Sales for Resale increased 6.90% in 2022 due to strong pricing in the wholesale power market.



2020 to 2021:

The District experienced a 11.02% increase in Total Operating Revenue in 2021. With the gradual easing of COVID-19 related restrictions Retail Energy Sales Revenue saw 3.83% growth over 2020. Kilowatt hour loads overall rose by 6.78% and were partially attributable to an extreme heat event in June 2021 with temperatures above all previous records for four consecutive days. Additionally, residential development continued, and the District added 579 (2.10% over 2020) new residential accounts.

Sales for Resale increased in 2021 by 88.69% from 2020. Although the District's own Retail Electric load required more of District's contracted Power Supply resources, the District remained a net seller of power as the Frederickson plant provided power for eleven months of 2021. This helped to serve the District's load as well as provide excess to sell on the open market. Overall pricing received on these transactions increased approximately 135% from 2020 on an average per megawatt hour basis.

Operating Expenses

The following chart is graphical representation of the District's previous three years' Operating Expenses:

Power Supply Costs represent the cost of providing electricity to the District's customer base. Power Supply Costs comprised approximately 71.2% of the District's total operating expenses in 2022. Net Power Supply is Power Supply less revenue received from the sale of electricity on the secondary market (Sales for Resale).

The following graph illustrates the components of the District's Power Supply Costs on a net basis.

2021 to 2022:

Gross Power Supply costs rose 4.61% in 2022 resulting from strong pricing in the wholesale market. The District's contract with Frederickson Power ended on September 1, 2022 after which the District filled deficit power resources with purchases on the wholesale market, particularly during the extreme cold experienced at the end of 2022. Total purchases on the wholesale market exceeded 2021 by $9.0 million; however, this was offset by $4.4 million in savings related to the expiration of the Frederickson Power contract.

2020 to 2021:

The District's Gross Power Supply costs rose 15.07% from 2020 as retail loads began to recover from the COVID-19 related decline of 2020. Additionally, the District's Frederickson plant resource ran eleven months in 2021, requiring purchases of natural gas to run the plant. Natural gas purchases and hedges increased 141% over 2020, and the District experienced significantly higher natural gas pricing in 2021 than in 2020.

Capital Contributions

2021 to 2022:

Revenue resulting from Capital Contributions increased 155.37% in 2022 due to the completion of two major commercial projects. Infrastructure to support two automated warehouses in the District's service territory was installed and are expected to add 14 MW of electric load when fully operational. Another large-scale project for a new food processing facility was also completed. These two projects accounted for over 50% of the Capital Contributions revenue recognized in 2022.

2020 to 2021:

Recognized revenue from Capital Contributions decreased 6.76% in 2021. Many projects closed and recognized in 2021 were started in 2020, and such projects were on average smaller in scale than prior to the COVID-19 pandemic.

SUMMARY OF FINANCIAL POSITION

The District's overall financial position improved in 2022, with an increase in Net Position of approximately $14.3 million. The District built Unrestricted Cash Reserves by utilizing bond proceeds to fund a portion of its deployment of Automated Metering Infrastructure (AMI) and saving over $1.5 million in debt service payments from previous years resulting from the issuance of the 2020 Revenue and Refunding bonds.

These measures enabled the District to hold rates steady during 2022, with no planned rate increase for 2023. The District continues to monitor the current economic environment and is experiencing the impact of continued inflation. These factors, along with projected cash balances and future capital needs, will be the basis for determining whether future rate action is necessary. The District's last rate increase was 4.1%, effective May 1, 2017.

District management monitors the effectiveness of its financial operations by measuring results against the financial policy adopted by the District's governing body. This policy directs District management to develop financial plans that position the District for current and future years while being fiscally responsible to the District's ratepayers.

The financial policy consists of three key financial performance metrics – minimum cash/investment reserve balance (sufficient to fund 10% of gross power supply costs, 25% of other operating costs, and 25% of planned capital spending); minimum debt service coverage ratio of 1.6; maximum debt/asset ratio of 40%; and funding of a Rate Stabilization Fund at a level sufficient to meet the fiscal needs of the District.

The District achieved all financial performance metrics for 2022, 2021 and 2020.

Capital Asset and Long-Term Debt Activity

Capital Assets (in thousands)

	2022	2021	Increase (Decrease)	% Change	2020
Land	$892	$892			$893
Plant in Service	276,932	265,767	11,165	4.20%	257,066
Construction Work in Progress	992	1,208	(216)	-17.88%	1,909
Accumulated Depreciation	(124,732)	(122,473)	(2,259)	1.84%	(115,760)
Total Net Capital Assets	$154,084	$145,394	$8,690	5.98%	$144,108

The District's Net Capital Assets increased 5.98% in 2022, with the infrastructure build out of two major commercial projects as well as deployment of AMI, which was 96% completed in 2022. Additionally, the first phase of a major rehabilitation of the Franklin Substation began in 2020 and was completed in 2022 at a cost of $3.2 million. Phase two of the Project is currently underway and expected to be complete in 2023. More detailed information about the District's capital assets is presented in Note 3 to the financial statements – Capital Assets.

Long Term Debt (in thousands)

	2022	2021	Increase (Decrease)	% Change	2020
Revenue Bonds, including Current Portion	$64,858	$67,104	($2,246)	-3.35%	$69,586

Debt service payments totaled $4.1 million annually in 2022 and 2021 and $5.6 million in 2020. More detailed information regarding the District's long term debt is presented in Note 4 to the financial statements – Long Term Debt.

Bond Ratings

In 2022, the District affirmed its credit rating with Standard & Poor's (A+). The District affirmed its credit rating with Moody's in 2020 (A1), and there was no change to this rating in 2022 or 2021.

OTHER SIGNIFICANT MATTERS

The District completed the sale of the District's Combustion Turbines and related equipment in 2021. For more information, refer to Note 12 – Special Item.

In 2022, 2021 and 2020, the District qualified as a subrecipient of grant funding from multiple programs. Refer to Note 14 – Grant Awards for further information.

The District began a new Power Supply contract with Powerex, a wholly owned subsidiary of BC Hydro, effective January 1, 2023. Refer to Note 15 – Subsequent Events.

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY

STATEMENT OF NET POSITION

As of December 31, 2022 and 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2022	2021
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 2)		
Unrestricted	$37,227,391	$41,174,782
Restricted	11,810,699	14,987,894
Total Cash and Cash Equivalents	49,038,090	56,162,676
Customer Accounts Receivable, Net	12,904,231	9,994,787
Wholesale Power Receivable	426,858	1,929,121
BPA Prepay Receivable, Current Portion	600,000	600,000
Inventories	5,427,415	4,306,959
Prepayments	543,460	450,633
Derivative Asset (Note 1)	5,299,001	4,733,237
Other Current Assets	36,955	4,744
Total Current Assets	**74,276,010**	**78,182,157**
Noncurrent Assets		
Investments - Unrestricted	10,027,337	
Restricted Debt Service Reserve Fund (Note 2)	2,221,493	2,306,675
BPA Prepay Receivable (Note 8)	2,850,000	3,450,000
Net Pension Asset (Note 6)	2,629,378	7,899,656
Utility Plant (Note 3)		
Land	892,140	892,140
Plant in Service	276,931,728	265,766,885
Construction Work in Progress	991,793	1,208,172
Accumulated Depreciation	(124,731,772)	(122,473,485)
Net Utility Plant	154,083,889	145,393,712
Total Noncurrent Assets	**171,812,097**	**159,050,043**
TOTAL ASSETS	**246,088,107**	**237,232,200**
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of Hedging Derivatives	55,952	1,699,839
Deferred Loss on Refunding	1,817,611	2,060,820
Deferred Pension Outflows (Note 6)	2,747,331	872,245
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**4,620,894**	**4,632,904**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$250,709,001**	**$241,865,104**

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY

STATEMENT OF NET POSITION

As of December 31, 2022 and 2021

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2022	2021
LIABILITIES		
Current Liabilities		
Accounts Payable	$9,074,238	$6,554,010
Customer Deposits	1,523,915	1,516,172
Accrued Taxes Payable	2,893,696	2,506,469
Accrued Interest Payable	706,545	721,058
Other Credits and Liabilities (Note 5)	4,003,181	4,160,696
Revenue Bonds, Current Portion (Note 4)	2,750,000	1,935,000
Derivative Liability (Note 1)	55,952	1,699,839
Total Current Liabilities	**21,007,527**	**19,093,244**
Noncurrent Liabilities		
Outstanding Revenue Bonds (Note 4)	62,107,543	65,169,092
Net Pension Liability (Note 6)	1,522,492	777,865
Other Credits and Liabilities (Note 5)	1,969,629	2,041,171
Total Noncurrent Liabilities	**65,599,664**	**67,988,128**
TOTAL LIABILITIES	**86,607,191**	**87,081,372**
DEFERRED INFLOWS OF RESOURCES		
Accumulated increase in fair value of hedging derivatives	5,299,001	4,733,237
Deferred Pension Inflow (Note 6)	2,773,230	8,311,437
Deferred Gain on Refunding (Note 4)	145,383	164,142
TOTAL DEFERRED INFLOWS OF RESOURCES	**8,217,614**	**13,208,816**
NET POSITION		
Net Investment in Capital Assets	105,272,522	96,775,284
Restricted for Debt Service	388,159	1,016,675
Restricted for Pension	2,661,548	1,153,288
Unrestricted	47,561,967	42,629,669
TOTAL NET POSITION	**155,884,196**	**141,574,916**
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	**$250,709,001**	**$241,865,104**

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31, 2022 and 2021

OPERATING REVENUES	2022	2021
Retail Energy Sales (Note 1)	$88,557,451	$85,832,689
Broadband Revenue	2,237,652	2,156,718
Sales for Resale	15,879,051	14,854,244
Other Operating Revenue	408,229	387,566
TOTAL OPERATING REVENUES	**107,082,383**	**103,231,217**
OPERATING EXPENSES		
Power Supply (Note 8)	70,910,111	67,782,765
System Operations and Maintenance	5,709,304	4,605,143
Broadband Operations and Maintenance	647,977	627,105
Customer Accounting and Information	2,100,052	2,099,419
Administrative and General Expense	5,488,355	5,229,318
Taxes	5,193,952	5,070,615
Depreciation and Amortization of Intangible Assets	8,478,427	8,064,794
TOTAL OPERATING EXPENSES	**98,528,178**	**93,479,159**
OPERATING INCOME	**8,554,205**	**9,752,058**
NONOPERATING REVENUES AND EXPENSES		
Interest Income	826,769	120,137
Bond Interest, Debt Premium/Discount Amortization and Issuance Costs	(2,061,562)	(2,155,611)
Federal and State Grant Revenue (Note 14)	347,302	1,291,292
Federal and State Grant Expense (Note 14)	(51,079)	(1,000,000)
Other Nonoperating Revenue (Expense)	78,502	73,682
TOTAL NONOPERATING REVENUES AND EXPENSES	**(860,068)**	**(1,670,500)**
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS & SPECIAL ITEM	**7,694,137**	**8,081,558**
CAPITAL CONTRIBUTIONS	6,905,409	2,704,080
SPECIAL ITEM (Note 12)	(290,266)	(592,699)
CHANGE IN NET POSITION	**14,309,280**	**10,192,939**
NET POSITION, BEGINNING OF YEAR	**141,574,916**	**131,381,977**
NET POSITION, END OF YEAR	**$155,884,196**	**$141,574,916**

The accompanying notes are an integral part of this statement.

PUBLIC UTILITY DISTRICT #1 OF FRANKLIN COUNTY

STATEMENT OF CASH FLOWS

For the years ended December 31, 2022 and 2021

CASH FLOWS FROM OPERATING ACTIVITIES	2022	2021
Cash received from customers	$113,371,800	$104,177,402
Cash paid to suppliers and counterparties	(83,084,957)	(76,683,000)
Cash paid to employees	(8,625,106)	(8,676,300)
Taxes Paid	(5,463,096)	(5,286,785)
Other receipts	55	3,394
NET CASH PROVIDED BY OPERATING ACTIVITIES	***16,198,696***	***13,534,711***
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Grant Revenue	341,345	1,000,000
Grant Expense	(51,079)	(1,000,000)
Special Item - Returned Unspent Grant Funds	(290,266)	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**-**	**-**
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(16,200,844)	(8,431,444)
Interest paid on long-term debt	(2,163,175)	(1,927,501)
Principal paid on long-term debt	(1,935,000)	(2,170,000)
Contributions in aid of construction	5,439,331	4,766,565
Release of Debt Service Reserve	85,182	93,821
Grant Revenue	287,254	9,995
Proceeds from disposal of plant	301,514	154,795
NET CASH (USED) BY CAPITAL & RELATED FINANCING ACTIVITIES	***(14,185,738)***	***(7,503,769)***
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment purchases	(9,964,313)	(70,935)
Investment sales and maturities		5,242,802
Interest Income	826,769	120,137
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	***(9,137,544)***	***5,292,004***
NET INCREASE (DECREASE) IN CASH	***(7,124,586)***	***11,322,946***
CASH BALANCE, BEGINNING OF YEAR	***56,162,676***	***44,839,730***
CASH BALANCE, END OF YEAR	***$49,038,090***	***$56,162,676***

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS

For the years ended December 31, 2022 and 2021

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	$8,554,205	$9,752,058
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	8,478,427	8,064,794
Miscellaneous other revenue and receipts	194,998	992,530
Miscellaneous other disbursements and expenses	93,388	(2,818,864)
Pension Expense (Credit)	(1,115,390)	(2,505,534)
(Increase) decrease in receivables	(1,407,181)	(1,765,769)
(Increase) decrease in plant supplies	(1,120,456)	(547,818)
(Increase) decrease in prepaid expenses	(92,827)	(50,083)
(Increase) decrease in other assets	(32,211)	2,910
(Decrease) increase in payables	2,907,455	(208,095)
(Decrease) increase in other credits	(261,712)	2,618,582
NET CASH PROVIDED BY OPERATING ACTIVITIES	***$16,198,696***	***$13,534,711***

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

During 2022 and 2021, the District received $901,314 and $325,891, respectively, in non-cash capital contributions. Accumulated increases and decreases in the fair value of hedging derivatives had no effect on cash flows for 2022 or 2021. For accumulated increases in fair value, the District records an offsetting asset. For accumulated decreases in fair value, the District records an offsetting liability.

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Franklin County (the District) was established in 1938 and purchases, transmits, distributes, and sells electric energy. In addition, the District is authorized under state law to provide wholesale telecommunications services. The District's service area is approximately 435 square miles in Franklin County, Washington and includes over 90 percent of the County's population.

The District's properties include 21 substations, 1,182 miles of transmission and distribution lines, and other buildings, equipment, and related facilities. The District has 86 employees and serves 33,244 active accounts. The District has operating revenues in excess of $107 million and total assets of over $246 million. An elected three-member Board of Commissioners administers the District.

As required by generally accepted accounting principles (GAAP), the District has considered all potential component units in defining the reporting entity and has identified no component units.

Basis of Accounting and Presentation

The accounting and reporting policies of the District are regulated by the Washington State Auditor's Office under chapter 43.09 RCW and are based on the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC).

The District uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be non-operating revenues and expenses.

The District's accounting policies conform to GAAP as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following are a summary of the significant accounting policies used in the preparation of the financial statements.

Deposits and Investments

For purposes of the Statement of Cash Flows, short-term highly liquid investments with a maturity of less than three months at the time of purchase are considered cash equivalents. Cash equivalents classified as noncurrent are not included in the Statement of Cash Flows due to their intended purpose. The District reports investments at fair value. The District considers all deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP) cash and cash equivalents.

Since the pool is sufficiently liquid to permit withdraw of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent. Funds in the Local Government Investment Pool (LGIP), a qualified, unrated external investment pool, are reported at amortized cost which approximates fair value. The pool portfolio is invested in a manner that meets the maturity, quality, diversification, and liquidity requirements set forth by the GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. Refer to Note 2 – Deposits and Investments.

Restricted Assets

Deposits and Investments are recorded in accounts as prescribed by the District's bond resolutions or third-party contractual agreements. The funds held in these accounts are restricted for specific uses including debt service and are classified under both current and non-current assets based on the nature and intent of the funds use.

Accounts Receivable

The District uses the percentage-of-sales method to record amounts estimated to be uncollectible based on the prior year's write offs. Uncollected accounts over 60 days, except those with special arrangements, are approved monthly for write off by the Board of Commissioners.

Inventories

Inventories are valued at average cost, which approximates the fair value.

Derivative Instruments

The District accounts for derivative instrument transactions in accordance with GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. Subject to certain exceptions, GASB 53 requires that every derivative instrument be recorded on the statement of net position as an asset or liability, measured at its fair value and that changes in the derivatives fair value be recognized currently in earnings unless such derivatives meet specific hedge accounting criteria to be determined as effective.

Effective hedges qualify for hedge accounting and such changes in fair values are deferred. It is the District's policy to document and apply as appropriate the normal purchase and normal sales exception under GASB Statement No. 53. The District has reviewed its various contractual arrangements to determine applicability of these standards. Purchases and sales of forward electricity, natural gas and option contracts that require physical delivery and which are expected to be used or sold by the reporting entity in the normal course of business are generally considered "normal purchases and normal sales".

These transactions are excluded under GASB Statement No. 53 and therefore are not required to be recorded at fair value in the financial statements. Certain put and call options, and financial swaps for electricity and natural gas, are considered to be derivatives under GASB Statement No. 53, but do not generally meet the "normal purchases and normal sales" criteria.

As of December 31, 2022, the District had the following derivative instruments outstanding:

	Changes in Fair Value		Fair Value at December 31, 2022			
	Classification	Amount	Classification	Amount	Notional	
Cash Flow Hedges:						
Financial Swap Forward	Deferred Inflow	$ 5,299,001	Derivative Asset	$ 5,299,001	107,320	MWh
Financial Swap Forward	Deferred Outflow	$ (55,952)	Derivative Liability	$ (55,952)	13,080	MWh

These derivative instruments were entered into between October 2020 and November 2022 with maturities between January 2023 and June 2025.

As of December 31, 2021, the District had the following derivative instruments outstanding:

	Changes in Fair Value			Fair Value at December 31, 2021				
	Classification		Amount	Classification	Amount		Notional	
Cash Flow Hedges:								
Financial Swap Forward	Deferred Inflow	$	3,351,770	Derivative Asset	$	3,351,770	5,874	MWh
Financial Swap Forward	Deferred Inflow	$	1,381,467	Derivative Asset	$	1,381,467	578,400	mmbtu
Financial Swap Forward	Deferred Outflow	$	(1,461,175)	Derivative Liability	$	(1,461,175)	54,494	MWh
Financial Swap Forward	Deferred Outflow	$	(238,664)	Derivative Liability	$	(238,664)	168,000	mmbtu

These derivative instruments were entered into between August 2019 and December 2021 with maturities between January 2022 and September 2023.

The fair values of the commodity swap contracts are based on the futures price curve for the Mid-Columbia Intercontinental Exchange for electricity. There are instances when the variance between prices at the Sumas gas trading hub and the Henry gas trading hub are wide, creating an illiquid market. The District has approved using Henry Hub to hedge Frederickson (refer to Note 8 – Power Supply) when this occurs but requires the position to be converted to Sumas by six months to delivery.

This reduction of basis risk is achieved through the use of financial basis swaps. The fair value of the options was calculated using the Black-76 options pricing model. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All the District's fair value measurements are classified as Level 2.

Objective and Strategies:

The District enters into derivative energy transactions to hedge its known or expected positions within its approved risk management policy. Decisions are made to enter into forward transactions to protect its financial position, specifically to deal with expected long and short positions as determined by projected load and resource balance positions. Generally, several strategies are employed to hedge the District's resource portfolio, including:

Combustion Turbines

The District's contract for this resource ended as of September 1, 2022. Until that point, the District purchased gas for future periods to generate electricity when the plant was economically viable on a marginal basis for that period based on parameters set by the Risk Management Committee. If load projections indicated that the District did not require the electricity to serve its customers, an equivalent quantity of power will concurrently be sold or otherwise hedged for the same period.

Surplus Purchased Power Resources

The District hedges projected surpluses in future periods by selling power or by purchasing put options. Surplus power is generally sold forward at a fixed-price, either physically or financially, when the probability of surplus is very high; surplus power is hedged through the purchase of physical or financial put options when the projected surplus is less certain, but nevertheless expected to be available under expected scenarios.

Deficit Power Resources

The District hedges projected power resource deficits in future periods by purchasing power or by purchasing power call options (or if the Frederickson Project (see Note 8 – Power Supply) was economically viable for the period, by buying gas or gas call options). Power is generally purchased to cover projected deficits at a fixed price, either physically or financially, when the probability of the deficit position is very high; such deficit positions are hedged through the purchase of physical or financial call options when the projected deficits are less certain, but nevertheless expected under the approved planning conditions.

Derivatives authorized under the Risk Management Policy and employed by the District include:

- Physical power and natural gas forward purchases and sales
- Monthly and daily power and gas physical calls and puts
- Power and natural gas fixed for floating swaps
- Currency swaps relating to managing US/Canadian exchange rate risk resulting
- from transactions denominated in Canadian dollars
- Quarterly and monthly financial power and gas put and call options
- Financial daily power and gas put and call options
- Quarterly and monthly financial power and natural gas swaptions
- Financial natural gas swing and basis swaps

There is no associated debt for these instruments at December 31, 2022 or 2021.

Credit Risk

The District's Risk Management Committee (RMC) partners with The Energy Authority (TEA) to develop credit policies and credit limits for the counterparties with whom the District conducts physical and financial commodity transactions. Services performed by TEA include monitoring of credit exposure on a real time basis on behalf of the District, as well as providing recommendations regarding counterparty credit quality based on various credit evaluation factors.

All physical electricity transactions (for hourly and/or daily) for the District are traded by TEA as principal (on behalf of the District) and rely on TEA's credit limits. All forward physical/financial commodity transactions are entered into only with counterparties approved by the District's Risk Management Committee for creditworthiness; credit limits based on market conditions and available qualified counterparties are established and reviewed annually by the Risk Management Committee.

As of December 31, 2022, the District had 45 counterparties. As of December 31, 2021, the District had 41 counterparties. The maximum credit extended to any single counterparty in either year was $3 million. The District entered into master enabling agreements with various counterparties, which enable hedging transactions. Such agreements include the Western Systems Power Pool (WSPP) form of agreement for physical power transactions, various forms of enabling agreements for physical gas transactions and International Swap Dealers Association Agreements (ISDA) for financial transactions.

All the enabling agreements have provisions addressing credit exposure and provide for various remedies to assure financial performance, including the ability to call on additional collateral as conditions warrant, generally as determined by the exposed party. The District also uses netting provisions in the agreement to diffuse a portion of the risk.

Transactions under the physical enabling agreements are used to deal with long and short physical positions under the direction of the Risk Management Committee and pursuant to the risk management policy. Transactions under the ISDA agreements are used to financially hedge long or short positions so that the agreements also permit the District to hedge the risk of an underlying physical position by using call options or put options.

The aggregate fair value of hedging derivative instruments in asset positions was $5,299,001 and $4,733,237 as of December 31, 2022 and 2021, respectively. The District transacts with various counterparties throughout the year, and as of December 31, 2022 five counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa3 Negative to A+/Stable. As of December 31, 2021 six counterparties comprised 100% of the net exposure to credit risk, with credit ratings ranging from Not Rated/Baa2 to A.

Basis Risk

The District proactively works to eliminate or minimize basis risk on energy transactions by entering into derivative transactions that settle pursuant to an index derived from market transactions at the point physical delivery is expected to take place. At December 31, 2022 and 2021, there are no derivative transactions outstanding that carry basis risk. As applicable, all power related transactions are to be settled on the relevant Mid-Columbia index and all gas transactions are to be settled on the relevant Sumas/Huntingdon index or be converted to the Sumas/Huntingdon index within six months of delivery. The District has ready access to electric transmission and natural gas transportation capacity at those respective trading points.

Termination Risk

As of December 31, 2022 and 2021, no termination events have occurred and there are no outstanding transactions with material termination risk. None of the outstanding transactions have early termination provisions except in the event of default by either counterparty. Events of default are generally related to (i) failure to make payments when due, (ii) failure to provide and maintain suitable credit assurances as required, (iii) bankruptcy or other evidence of insolvency, or (iv) failure to perform under any material provision of the agreement.

Failure to provide or receive energy or natural gas under physical commodity transactions does generally not fall under the events of default provisions unless the non-performing party fails to pay the resulting liquidated damages as they come due. There is no rollover, interest rate, foreign currency, or market access risk for these derivative products as of December 31, 2022 and 2021.

Other Receivables

In 2013, a long-term receivable was established as a result of participation in the BPA prepay program. The outstanding balance of this receivable was $3,450,000 as of December 31, 2022. Of this amount $600,000 will be collected within one year and is accordingly classified within current accounts receivable, the remaining $2,850,000 is shown under noncurrent assets. For more information regarding the BPA prepay program, refer to Note 8 - Power Supply.

Utility Plant & Depreciation

Major expenses for utility plant and major repairs that increase useful lives are capitalized. The District's capitalization threshold is $5,000 for non-infrastructure capital. All costs related to infrastructure are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost where the historical cost is known. Where historical cost is not known, assets are recorded at estimated cost. Contributions by developers and customers are recorded at estimated value as contributions in aid of construction. The District records depreciation on assets acquired by contributions.

Capital assets are depreciated using the straight-line method over the following estimated useful lives for major asset classes:

- Broadband 5 – 20 years
- Transmission 33 – 50 years
- Distribution 15 – 50 years
- General Plant 5 – 40 years
- Production 20 years

Intangible assets are amortized over their estimated useful life at the time of purchase if the asset meets the criteria for amortization. Initial depreciation on utility plant is generally recorded in the month subsequent to project completion. Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned projects are expensed.

The estimated original cost of operating property retired (or otherwise disposed of) and the cost of removal, less salvage, is charged to accumulated depreciation. For distribution and certain Broadband assets, the retirement original cost is calculated using the average cost of the asset and is charged to accumulated depreciation, while the cost of removal remains in a separate retirement costs subaccount. 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 the net gain or loss on disposition is credited or charged to income.

There were no sales of significant units or systems in 2022. In 2021, the District completed the sale of turbines used in the decommissioned Combustion Turbine plant. Refer to Note 3 - Capital Assets and Note 12 – Special Item.

Other Credits and Liabilities

The District records unpaid leave for compensated absences as an expense and liability when incurred. Personal leave may accumulate to a maximum of 700 hours, and is payable upon separation of service, retirement, or death. Employees hired before April 1, 2011 may accumulate a maximum of 1,200 hours.

Extended sick leave is sick leave accrued by employees (at 30%) prior to April 1, 1993, adjusted to actual as of December 31, 2022 and 2021. This total is no longer current sick leave; it is used at the employee's option to supplement the District sponsored short-term disability plan. The amount also represents the portion of leave that may be used upon retirement towards health insurance.

The District records revenues collected from Contributions in Aid of Construction at the beginning of a capital project as unearned revenue (Customer Advances for Construction) until the capital project is completed, at which point the revenue is recognized as revenue from Capital Contributions on the Statement of Revenues, Expenses and Changes in Net Position. The unrecognized portion (Customer Advances for Construction) of Capital Contributions is presented under Current Liabilities as Other Credits and Liabilities on the Statement of Net Position. Refer to Note 5 - Other Credits and Liabilities.

Debt Premium and Discount

Original issue and reacquired bond premiums and discounts relating to revenue bonds are amortized over the lives of the related bonds using the straight-line method. Unamortized premium and discount is included in the amount shown as Outstanding Revenue Bonds within the financial statements. Debt issuance costs are expensed in the period incurred in accordance with GASB Statement No. 65.

Revenue Recognition

Revenues from retail sales of electricity include an estimate for energy delivered to customers between the last billing date and the end of the year. This amount is included within Retail Energy Sales in the accompanying financial statements in the amount of $3.1 million at December 31, 2022 and $2.6 million at December 31, 2021.

Pensions

For purposes of measuring the net pension asset and 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.

Federal and State Grant Revenue

The District was awarded funding from multiple agencies in 2022 and 2021. Portions of the funding were eligible for matching funds from the State of Washington. Funds were provided as a cash advance or on a cost reimbursement basis depending on the terms of the grant agreement for the specific program. These funds are included within the amount presented on the Statement of Revenues, Expenses and Changes in Net Position. Refer to Note 14 – Grant Awards.

Use of Estimates

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

Construction Financing

Capital expenditures in 2022 were made using 36.54% from capital contributions, 41.54% from rate revenue and 21.92% from bond funds.

NOTE 2 – DEPOSITS AND INVESTMENTS

As of December 31, the District's Deposits and Investments were classified as follows:

	2022	2021
Unrestricted Cash and Cash Equivalents, Current:		
Revenue Fund	$35,809,598	$39,756,989
Customer Deposits	1,417,793	1,417,793
Subtotal	37,227,391	41,174,782
Restricted Cash and Cash Equivalents, Current:		
Bond Principal and Interest	1,623,211	1,366,058
Bond Proceeds - Construction Funds	10,177,488	13,611,836
Escrow - Washington Department of Transportation	10,000	10,000
Subtotal	11,810,699	14,987,894
Total Cash and Cash Equivalents, Current	49,038,090	56,162,676
Investments - Unrestricted, Noncurrent	10,027,337	
Restricted Debt Service Reserve, Noncurrent	2,221,493	2,306,675
Total Funds	**$61,286,920**	**$58,469,351**

Credit Risk

In accordance with the District's bond resolutions and investment policy all investments are held in instruments permitted for funds of the District under the Revised Code of Washington.

The District's cash deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or protected against loss by deposit with financial institutions recognized as qualified public depositories of the state of Washington under the guidelines of the Washington State Public Deposit Protection Commission (PDPC).

As of December 31, 2021, District investments had the following credit quality and risk exposure:

Type	Fair Value	Average Maturity	Held By	S&P/Moody's Rating
Agencies	$7,518,844	2-3 years	US Bank	AA+/Aaa
Treasuries	$2,508,493	<1 year	US Bank	NR/Aaa

Custodial Credit Risk

The District's deposits and investments are held by public depositories authorized by the Washington Public Deposit Protection Commission (PDPC). Public depositories are required to fully collateralize deposits in accordance with state law, and as such are not subject to custodial credit risk.

Fair Value

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:** These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;

- **Level 3:** Unobservable inputs for an asset or liability.

As of December 31, 2022, the District had the following investments measured at fair value:

		Fair Value Measurements Using		
Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Agencies	$7,518,844		$7,518,844	
Treasuries	2,508,493	2,508,493		
Total Investments	**$10,027,337**	**$2,508,493**	**$7,518,844**	

Funds Held in the Local Government Investment Pool (LGIP)

The District transfers funds between cash accounts and the Local Government Investment Pool (LGIP) in order to meet the District's operational needs. The LGIP is an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

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

Bond Principal and Interest

The District's bond resolutions require deposit of District Revenues sufficient to pay accrued semi-annual interest and annual principal as due within the coming year. These funds are restricted by the bond resolutions strictly for payment of debt service obligations.

Debt Service Reserve

In accordance with the District's bond resolution, the District provides a reserve account for the payment of principal and interest on the bonds. The reserve account does not secure the bonds. The District recalculates the balance required of the reserve account in accordance with the bond resolutions annually and releases an amount to bring the fund to the level required. The Debt Service Reserve fund is held in liquid Cash Equivalents; however, the District has classified it as noncurrent as the intent is not to use the fund for current debt service coming due.

Escrow Account

The District maintains a separate escrow account to secure a $10,000 blanket bond held with the Washington State Department of Transportation (WSDOT). The funds in this account are held in a separate escrow savings bank account for benefit of WSDOT and covers all projects the District performs on behalf of WSDOT.

NOTE 3 – CAPITAL ASSETS

Utility Plant Activity for the year ended December 31, 2022 was as follows:

Utility Plant	Balance 12/31/2021	Increase	Decrease	Balance 12/31/2022
Assets not subject to depreciation:				
Land	$892,140			$892,140
Construction Work in Progress	1,208,172	23,833,044	(24,049,423)	991,793
Assets subject to depreciation or amortization:				
Intangible	823,099		(192,052)	631,047
Broadband	23,656,784	8,707,838	(7,321,975)	25,042,647
Transmission	8,075,615	91,095	(166,043)	8,000,667
Distribution	208,235,147	15,292,597	(5,808,769)	217,718,975
General Plant	24,976,240	726,939	(164,787)	25,538,392
Subtotal	267,867,197	48,651,513	(37,703,049)	278,815,661
Less Accumulated Depreciation and Amortization:				
Intangible	(548,973)	(108,521)	189,469	(468,025)
Broadband	(14,989,956)	(896,162)	53,923	(15,832,195)
Transmission	(3,763,079)	(189,713)	2,460	(3,950,332)
Distribution	(87,225,457)	(4,264,990)	3,455,580	(88,034,867)
General Plant	(15,946,020)	(665,120)	164,787	(16,446,353)
Total Accumulated Depreciation and Amortization	(122,473,485)	(6,124,506)	3,866,219	(124,731,772)
Net Utility Plant	**$145,393,712**	**$42,527,007**	**($33,836,830)**	**$154,083,889**

Utility Plant Activity for the year ended December 31, 2021 was as follows:

Utility Plant	Balance 12/31/2020	Increase	Decrease	Balance 12/31/2021
Assets not subject to depreciation:				
Land	$893,104	$100,394	($101,358)	$892,140
Construction Work in Progress	1,908,455	12,819,414	(13,519,697)	1,208,172
Assets subject to depreciation or amortization:				
Intangible	900,706		(77,607)	823,099
Broadband	22,699,779	957,005		23,656,784
Transmission	7,800,140	275,475		8,075,615
Distribution	201,247,987	22,498,897	(15,511,737)	208,235,147
General Plant	24,417,485	558,755		24,976,240
Subtotal	259,867,656	37,209,940	(29,210,399)	267,867,197
Less Accumulated Depreciation and Amortization:				
Intangible	(504,108)	(122,472)	77,607	(548,973)
Broadband	(14,111,709)	(878,247)		(14,989,956)
Transmission	(3,576,878)	(186,201)		(3,763,079)
Distribution	(82,258,838)	(11,461,702)	6,495,083	(87,225,457)
General Plant	(15,308,501)	(637,519)		(15,946,020)
Total Accumulated Depreciation and Amortization	(115,760,034)	(13,286,141)	6,572,690	(122,473,485)
Net Utility Plant	**$144,107,622**	**$23,923,799**	**($22,637,709)**	**$145,393,712**

The District has active construction projects as of December 31, 2022 in the amount of $991,793. The District does not require future financing to complete these projects.

NOTE 4 – LONG TERM DEBT

During the year ended December 31, 2022, the following changes occurred in long term debt:

Series	Final Maturity	Original Issue Amount	Balance, 12/31/21	Increases	Decreases	Balance, 12/31/22	Amounts Due Within One Year
2013B - interest rates ranging 1.0% - 4.2%	2038	$9,155,000	$7,785,000			$7,785,000	330,000
2016A - interest rates ranging 3.1% - 5.0%	2041	16,870,000	16,870,000		(55,000)	16,815,000	1,125,000
2016B - interest rates ranging 1.0% - 2.2%	2022	15,305,000	1,880,000		(1,880,000)		
2020A Electric Revenue Bonds - interest rate 4.0%	2045	6,055,000	6,055,000			6,055,000	
2020B - interest rates ranging .6% - 2.9%	2041	32,135,000	32,135,000			32,135,000	1,295,000
Subtotal			**64,725,000**		**(1,935,000)**	**62,790,000**	**2,750,000**
Plus: Unamortized premium			2,403,612		(312,939)	2,090,673	
Less: Unamortized discount			(24,520)		1,390	(23,130)	
Total Long Term Debt			**$67,104,092**		**($2,246,549)**	**$64,857,543**	**$2,750,000**

During the year ended December 31, 2021, the following changes occurred in long term debt:

Series	Final Maturity	Original Issue Amount	Balance, 12/31/20	Increases	Decreases	Balance, 12/31/21	Amounts Due Within One Year
2013B - interest rates ranging 1.0% - 4.2%	2038	$9,155,000	$7,975,000		($190,000)	$7,785,000	
2016A - interest rates ranging 3.1% - 5.0%	2041	16,870,000	16,870,000			16,870,000	55,000
2016B - interest rates ranging 1.0% - 2.2%	2022	15,305,000	3,860,000		(1,980,000)	1,880,000	1,880,000
2020A Electric Revenue Bonds - interest rate 4.0%	2045	6,055,000	6,055,000			6,055,000	
2020B - interest rates ranging .6% - 2.9%	2041	32,135,000	32,135,000			32,135,000	
Subtotal			**66,895,000**		**(2,170,000)**	**64,725,000**	**1,935,000**
Plus: Unamortized premium			2,716,978		(313,366)	2,403,612	
Less: Unamortized discount			(25,910)		1,390	(24,520)	
Total Long Term Debt			**$69,586,068**		**($2,481,976)**	**$67,104,092**	**$1,935,000**

Future Debt Service on the bonds is as follows:

Year	Principal	Interest	Total
2023	2,750,000	2,119,634	4,869,634
2024	2,825,000	2,041,663	4,866,663
2025	2,915,000	1,954,363	4,869,363
2026	3,000,000	1,861,687	4,861,687
2027	3,105,000	1,761,659	4,866,659
2028-2032	17,260,000	7,080,307	24,340,307
2033-2037	16,760,000	4,230,193	20,990,193
2038-2042	9,820,000	1,716,445	11,536,445
2043-2045	4,355,000	353,000	4,708,000
Total	**$62,790,000**	**$23,118,951**	**$85,908,951**

During 2013 the District issued Series 2013A Electric Revenue and Refunding bonds in the amount of $18,370,000 and Series 2013B (taxable) in the amount of $9,155,000 for the purpose of financing certain capital improvements to the District's electric system and refund the 2001, 2002 and 2003 outstanding bonds, as well as certain maturities of the 2007 bonds. The refunding portion of the bond proceeds was placed in an irrevocable trust for future debt service on the refunded bonds.

At December 31, 2013, the 2001, 2002 and 2003 bonds were considered defeased and are no longer reflected in the District's financial statements. The refunding resulted in net present value cash flow savings of ($1,071,453) and an economic loss from refunding of $770,025. Bond proceeds were also used to establish the debt service reserve fund in the amount of $3,142,483 as required by the bond resolutions.

In October 2016, the District issued Electric Revenue and Refunding Bonds Series 2016A and 2016B (taxable) in the amounts of $16,870,000 and $15,305,000, respectively. The bonds were issued for the purpose of refunding the portion of the 2007 series bonds maturing after September 1, 2017 and to fund future improvement to the electric utility system in the amount of $5 million.

The refunding proceeds were placed in an irrevocable trust for future debt service on the refunded bonds and as of December 31, 2016 are no longer reported within the District's Financial Statements. The transaction resulted in a net present value cash flow savings to the District of $2.4 million over the life of the refunded bonds and an economic gain of $257,938. The refunding resulted in an increase to the District's Debt Service Reserve Fund of $772,166.

In December 2020 the District issued series 2020A Electric Revenue and Refunding bonds in the amount of $6,055,000 and Series 2020B (taxable) in the amount of $32,135,000. Series 2020B included $10 million new proceeds as well as $22,135,000 to advance refund the outstanding balance of 2013A Tax Exempt bonds as well as portions of the 2021 and 2022 maturities of the Series 2016B Bonds. New bond proceeds were issued for the purpose of financing certain capital improvements. Refunding proceeds were placed in an irrevocable trust for future debt service on the refunded bonds.

Accordingly, those bonds are no longer considered outstanding and are not reported within the District's financial statements. The bond resolution did not require a debt service reserve for these bond issues. This resulted in a release of the District's Debt Service Reserve fund of $1,514,153 which was designated for future debt service payments. Although the transaction resulted in an accounting loss of $2.3 million, the economic gain realized in the present value savings related to the refunding was $1,752,506.

There are a number of other limitations and restrictions contained in the various bond resolutions. The District is in compliance with all significant limitations and restrictions, including those regarding federal arbitrage.

NOTE 5 – OTHER CREDITS AND LIABILITIES

Changes in Other Credits and Liabilities as of December 31, 2022 were as follows:

Other Credits and Liabilities - Current	2021	Increases	Decreases	2022
Compensated Absences – Current	$ 702,389	$1,528,585	$(1,547,553)	$ 683,421
Extended Sick Leave	7,098	431		7,529
Customer Advances for Construction	3,220,855	6,263,170	(6,364,055)	3,119,970
Other Current Liabilities	230,354	102,151	(140,244)	192,261
Total Other Current Liabilities	**$4,160,696**	**$7,894,337**	**($8,051,852)**	**$4,003,181**

Other Credits and Liabilities – Noncurrent	2021	Increases	Decreases	2022
Compensated Absences – Long Term	$ 952,680	$ 89,716		$1,042,396
BPA Incentive Credit	1,088,491		(161,258)	927,233
Total Other Credits & Liabilities	**$2,041,171**	**$89,716**	**($161,258)**	**$1,969,629**

Changes in Other Credits and Liabilities as of December 31, 2021 were as follows:

Other Credits and Liabilities - Current	2020	Increases	Decreases	2021
Compensated Absences – Current	$746,416	$1,064,884	($1,108,911)	$702,389
Extended Sick Leave	6,884	214		7,098
Customer Advances for Construction	441,230	4,522,235	(1,742,610)	3,220,855
Other Current Liabilities	119,342	121,030	(10,018)	230,354
Total Other Current Liabilities	**$1,313,872**	**$5,708,363**	**($2,861,539)**	**$4,160,696**

Other Credits and Liabilities – Noncurrent	2020	Increases	Decreases	2021
Compensated Absences – Long Term	$891,067	$61,613		$952,680
BPA Incentive Credit	1,249,749		(161,258)	1,088,491
Total Other Credits and Liabilities	**$2,140,816**	**$61,613**	**($161,258)**	**$2,041,171**

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all state sponsored pension plans for the years 2022 and 2021:

Aggregate Pension Amounts – All Plans	2022	2021
Pension liabilities	$1,522,492	$777,865
Pension assets	$2,629,378	$7,899,656
Deferred outflows of resources	$2,747,331	$872,245
Deferred inflows of resources	$2,773,230	$8,311,437
Pension expense (income)	($396,537)	($1,977,835)

State Sponsored Pension Plans

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

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

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

Public Employees Retirement System (PERS)

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

PERS Plan 1

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

Contributions: The PERS Plan 1 member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary (OSA) and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension

Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January - August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**
September - December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Total	**10.39%**	**6.00%**

The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January - June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**
September - December 2021		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

PERS Plan 2 or 3

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

PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit.

Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent 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 ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. 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 percent and escalate to 15 percent 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.

Contributions: The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2022 were as follows:

PERS Plan 2 or 3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
January - August 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.25%**	**6.36%**
September - December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.39%**	**6.36%**

The District's actual PERS plan contributions were $371,742 to PERS Plan 1 and $630,110 to PERS Plan 2/3 for the year ended December 31, 2022.

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2 or 3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
January - June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**12.97%**	**7.90%**
September - December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**10.25%**	**6.36%**

The District's actual PERS plan contributions were $398,725 to PERS Plan 1 and $646,278 to PERS Plan 2/3 for the year ended December 31, 2021.

Actuarial Assumptions – as of June 30, 2022

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

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.

OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

Actuarial Assumptions – as of June 30, 2021

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the OSA's *2013-2018 Experience Study* and the *2019 Economic Experience Study.*

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases**: In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The 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 Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were no changes in methods and assumptions since the last valuation. There were changes in methods since the last valuation.

For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020.

OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans as of was 7.0% and 7.4% as of June 30, 2022 and 2021, respectively.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% and 7.4% was used to determine the total liability as of June 30, 2022 and 2021, respectively.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% (as of June 30, 2022) and 7.4% (as of June 30, 2021) was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

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

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, 2021, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the District's 2022 proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
PERS 1 (.054680%)	$2,034,028	$1,522,492	$1,076,041
PERS 2/3 (.070896%)	$3,096,436	($2,629,378)	($7,333,495)

The table below presents the District's 2021 proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.40%)	Current Rate (7.40%)	1% Increase (8.40%)
PERS 1 (.063695%)	$1,325,137	$777,865	$300,588
PERS 2/3 (.079301%)	($2,250,458)	($7,899,656)	($12,551,772)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2022, the District reported a pension liability (asset) of $1,522,492 and ($2,629,378) for its proportionate share of the net pension liability (asset) as follows:

	Liability (or Asset)
PERS 1	$1,522,492
PERS 2/3	($2,629,378)

At June 30, 2021, the District reported a pension liability of $777,865 and ($7,899,656) for its proportionate share of the net pension liability (asset) as follows:

	Liability (or Asset)
PERS 1	$777,865
PERS 2/3	($7,899,656)

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

	Proportionate Share 6/30/21	Proportionate Share 6/30/22	Change in Proportion
PERS 1	0.063695%	0.054680%	-0.009015%
PERS 2/3	0.079301%	0.070896%	-0.008405%

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.063394%	0.063695%	0.000301%
PERS 2/3	0.078093%	0.079301%	0.001208%

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* for all plans except LEOFF 1.

Pension Expense

For the year ended December 31, 2022 and 2021, the District recognized pension expense as follows:

	2022	2021
PERS 1	$481,610	($135,122)
PERS 2/3	(878,147)	(1,842,713)
Total	**($396,537)**	**($1,977,835)**

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
Net difference between projected and actual investment earnings on		$252,322
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$194,253	
Total	**$194,253**	**$252,322**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$651,498	$59,522
pension plan investments		1,943,916
Changes of assumptions	1,465,515	383,724
Changes in proportion and differences between contributions and proportionate share of contributions	110,222	133,746
Contributions subsequent to the measurement date	325,843	
Total	**$2,553,078**	**$2,520,908**

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		
pension plan investments		$863,170
Changes of assumptions		
Changes in proportion and differences between contributions and proportionate share of contributions		
Contributions subsequent to the measurement date	$170,342	
Total	**$170,342**	**$863,170**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$383,675	$96,842
Net difference between projected and actual investment earnings on		6,602,257
Changes of assumptions	11,544	561,006
Changes in proportion and differences between contributions and proportionate share of contributions	19,595	188,162
Contributions subsequent to the measurement date	287,089	
Total	**$701,903**	**$7,448,267**

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31		PERS 1
2023		(106,778)
2024		(96,981)
2025		(121,660)
2026		73,097
2027		
Total	**$**	**(252,322)**

Year ended December 31		PERS 2/3
2023		(634,338)
2024		(556,590)
2025		(653,215)
2026		898,414
2027		328,652
Thereafter		323,404
Total	**$**	**(293,673)**

Franklin PUD 401(a) Qualified Plan and 457 Deferred Compensation Plan

The District sponsors and serves as trustee for single-employer defined contribution plans for the purpose of providing retirement income to employees. The plans were established pursuant to Internal Revenue Code (IRC) sections 457(b) and 401(a) and are administered by MissionSquare Retirement (formerly known as ICMA-RC). The District's employer-appointed Deferred Compensation Committee (DCC) operates and oversees the plans in accordance with the Committee's Operating Guidelines.

Plan Description

The plan assets are held in trust for the exclusive benefit of the plan participants and their beneficiaries. Plan participants include permanent District employees, retirees, and those who have separated but have elected to keep assets in the plan. The District's Commission may alter, amend or terminate the plans. There are no forfeitures of member assets.

Employees may select one of three plan options upon accepting employment with the District, which direct the employer contributions for deposit to either the 401(a) or the 457(b) plan. Employees who have not made a plan election are automatically enrolled to receive employer contributions into the 401(a) plan. The 401(a) plan had 126 and 130 participants as of December 31, 2022 and 2021, respectively. The 457(b) plan had 134 participants as of December 31, 2022 and 2021.

Contributions: Employees may contribute to the plans up to the pretax compensation limit as defined in the plan documents. Employees eligible to participate in the plans are regular, permanent employees of the District. The District contributes 3% of regular employee wages to the plan for each eligible employee. The District made contributions of $260,929 and $262,996 in 2022 and 2021, respectively. Employees made contributions of $518,312 and $480,634 to the 457 and 401(a) Plans in 2022 and 2021, respectively.

NOTE 7 - HEALTH BENEFIT PLANS

HRA VEBA

The District makes a monthly $50 contribution on behalf of each regular, full-time employee into a Health Reimbursement Agreement (HRA) account. Employees who elect to participate in a District provided wellness program receive a $150 per month contribution into their account. In addition, the District makes annual contributions to employee HRA accounts for those employees who enroll in the District's consumer directed health plan (CDHP). The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries. The plan is administered by HRA VEBA Trust.

PAID FAMILY MEDICAL LEAVE ACT SELF-INSURANCE

The District administers a voluntary plan for paid medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family & Medical Leave Program for either family leave benefit, medical leave benefit, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis. For qualifying Family Leave, District employees participate in the program provided by the State of Washington. The District paid $111,741 and $122,295 in claims during 2022 and 2021, respectively. District employees pay no premium for this benefit.

NOTE 8 - POWER SUPPLY

Bonneville Power Administration (BPA)

The District obtains power from BPA under a long-term power purchase agreement. BPA supplies the District's power under a Block and Slice Power Sale Agreement, which extends from October 1, 2011 through September 30, 2028. The Block product provides power in monthly amounts ranging between 50 average megawatts (aMW) to 81 aMW. Monthly Block purchase amounts are fixed, but are shaped to the District's monthly power requirements. The Slice product provides the District 0.78% of the output of the federal system. The District's share of the Slice product is expected to be 75 aMW, but may vary considerably based on water conditions within the Northwest. Depending upon hydroelectric generating conditions and market prices, the District expects to procure between 90% and 95% of its total energy resources from BPA on an average annual basis.

Beginning October 1, 2011, BPA changed its rate-making methodology to a tiered rate approach. Each preference customer received a High Water Mark (HWM) based on its 2010 load that defined its right to buy power at a Tier 1 rate. The Tier 1 rate is based on the cost of the existing federal system. HWMs are translated into "Tier 1 Cost Allocators" (TOCAs) which, when multiplied by the estimated costs of the federal system, determine their power costs. There is an additional monthly load shaping charge (or credit) for Block and Load Following products, determined by the shape of customers' loads when compared to the shape of the federal system. If a preference customer wants to buy more BPA power beyond their HWM, it will be sold by BPA at a Tier 2 rate set to fully recover BPA's cost to serve the additional power. Preference customers also have the option of serving some, or all, of their above-HWM load with non-federal resources. At this time the District has no plans to buy Tier 2 power from BPA.

BPA is required by federal law to recover all of its costs through the rates that it charges its customers. The rate provisions for the Block product include a cost recovery adjustment clause (CRAC). The CRAC allows BPA to raise rates to collect sufficient funds to pay costs. A dividend distribution clause (DDC) results in dollars being returned to customers, in the form of future power rate decrease, if excess dollars are collected.

Beginning December 2019, BPA implemented a surcharge to power rates to increase its cash reserves. This surcharge was $41,435 per month . The collection of this surcharge was terminated with the June 2020 billings to minimize cost impacts caused by COVID. As a result of higher than expected revenues BPA is returning excess reserves collected through monthly credits beginning with the December 2022 invoice continuing through September 2023. Franklin will receive a total of $4,126,563 in credit as a result of these reserve returns.

Pursuant to the Slice product rate provisions, the District is subject to additional charges or credits from BPA if BPA's actual costs deviate from budgeted amounts. The Slice product is not subject to the CRAC or DDC; but rather, the District pays its share of cost increases or receives its share of cost decreases through an annual true-up mechanism. The District's share of the true-up was approximately ($302,529) and $106,726 in 2022 and 2021, respectively.

Beginning in April 2013, the District receives a monthly $50,000 credit on its power bill for participation in the BPA Prepay Program. This program allowed customers to purchase blocks of prepaid credits for the future delivery of power in order to help BPA fund improvements to its infrastructure. The District purchased one block of prepay credits in the amount of $6.8 million for the period April 2013 through September 2028. Total monthly credits received by the District will be $9.3 million, and will result in a net present value savings of approximately $1.1 million.

The District also entered into a contract with BPA for transmission service effective May 31, 1997, which provides point-to-point transmission capacity to help meet the District's annual system peak load. The transmission contract extends through September 30, 2031.

Frederickson Project

The District had an agreement with Frederickson Power, L.P. for the purchase of 30 MW of contract capacity from the Frederickson combined-cycle natural gas-fired combustion turbine project station near Tacoma, Washington. The agreement expired September 1, 2022. The District was able to economically dispatch the plant each day based on spot market power and gas prices. Power costs included a capacity charge and fixed and variable operation and maintenance charges indexed to performance and escalation factors. The District was responsible for supplying natural gas to Frederickson Power, L.P. at Huntingdon, British Columbia on days that the plant was generating power. Natural gas was supplied to the Frederickson Project via the Northwest Pipeline. A proportionate share of the cost of this transportation was passed-through to the District each month. This resource was replaced by a power supply contract with Powerex beginning in January 2023. Refer to Note 15- Subsequent Events.

Energy Northwest

Energy Northwest is a municipal corporation and a joint operating agency of the State of Washington. It has the authority to acquire, construct and operate works, plants, and facilities for the generation and transmission of electric power and energy. The membership of Energy Northwest consists of twenty-three public utility districts, including the District, and five cities, all located in the State of Washington. The District is a participant in Nuclear Project Nos. 1 and 3, Columbia Generating Station, the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project. Columbia Generating Station, the Packwood Lake Hydroelectric Project and the Nine Canyon Wind Project are operating; Nuclear Project Nos. 1 and 3 have been terminated.

The District, Energy Northwest and BPA have entered into separate "net billing agreements" with respect to Energy Northwest's Project No. 1, Columbia Generating Station and 70% ownership share of Project No. 3. Under terms of these agreements, the District has purchased from Energy Northwest and, in turn, assigned to BPA a maximum of capability of each project. BPA is unconditionally obligated to pay the District and the District is unconditionally obligated to pay Energy Northwest, the pro rata share of the total annual costs of each project, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output. The District's respective shares may be increased by not more than 25% upon default of other public agency participants.

Packwood Lake Hydroelectric Project

The District is a 10.5% participant in Energy Northwest's 27 MW Packwood Project (the Project), located in the Cascade Mountains south of Mount Rainier. The Project, having satisfied all of the requirements for relicensing with the Federal Energy Regulatory Commission, was issued a new forty-year license on October 1, 2018. Energy Northwest recognizes revenues equal to expenses for each period. No net revenue or loss is recognized, and no equity is accumulated. Accordingly, no investment for the joint venture is reflected on the District's statement of net position. The participants entered into new Power Sales Contracts with Energy Northwest effective October 1, 2011. The participants' Agreements obligate the 12 participants to pay annual costs and receive excess revenues. The District uses their share of the energy, approximately 1 aMW, to serve customer load.

Nine Canyon Wind Project

The Nine Canyon Wind Project is another Energy Northwest generation project. It is located in the Horse Heaven Hills area southwest of Kennewick. The District has a contract for 2.01 MW of Phase I capacity and 8 MW of Phase III capacity. Nine Canyon has a capacity factor of 29% and the District receives approximately 2.88 aMW.

White Creek Wind Project

The District entered into a 20-year Purchase Agreement with LL&P Wind Energy, Inc., a wholly-owned subsidiary of Lakeview Light and Power. The District purchases all of the energy and associated environmental attributes produced from 10 MW of the White Creek Wind Project's (White Creek) capacity. White Creek has a capacity factor of 30% and the District receives approximately 3 aMW. During the first contract year (2008) the price of energy delivered to the District was $51.97 per MWH; the price will increase by 2% annually during the term of the contract. The environmental attributes included in that price includes any and all credits, benefits, emissions reductions, offset and allowances attributable to the White Creek as a renewable energy resource.

Esquatzel Hydroelectric Project

The District contracted with Green Energy Today, LLC in 2011 to acquire the output from a small conduit hydroelectric project in Pasco, Washington, known as the Esquatzel Project. The Esquatzel Project generates approximately .5 aMW of electricity annually from return water flowing out of an agricultural canal that drains into the Columbia River. Water is diverted from the canal into a penstock and through a turbine with a generating capacity of 1 MW. The Esquatzel Project generally generates electricity year-round. The District's agreement with Green Energy Today, LLC is for a 20-year term, with a first right of refusal for two additional 10-year periods.

Conservation / Energy Services

Conservation funding is available from BPA under the Energy Efficiency Incentive (EEI) program in two year blocks. The District also budgets for self-funded conservation projects. Under EEI, utilities request reimbursement from BPA after conservation dollars have been spent on eligible projects. EEI funds rebate incentives for residential energy efficiency upgrades including: weatherization, heat pumps, compact fluorescent lamps, and Energy Star appliances. The EEI Funds also provide incentives for industrial, irrigation and commercial accounts for cost-effective energy savings.

Energy Independence Act (I-937)

The citizens of Washington State passed Initiative 937 in November, 2006, now codified in the Revised Code of Washington Chapter 19.285 as the Energy Independence Act (the Act), which mandates renewable energy and conservation targets for the State's utilities with more than 25,000 customers. As of December 31, 2016 the District crossed this customer threshold. The Esquatzel, Nine Canyon and White Creek contracts will provide some of the renewable energy the District will need to comply with the Act's targets in the future.

NOTE 9 - RISK MANAGEMENT

The District maintains the following insurance coverage:

Coverage	Limit
Buildings and Personal Property	$123,400,000
General Liability	$2,000,000
Electromagnetic Field Liability	$500,000
Umbrella Liability	$15,000,000
Directors, Officers & Mgrs. Liability	$10,000,000
Employee Theft Liability	$4,000,000
Crime/Faithful Performance	$2,000,000
Forgery or Alteration	$2,000,000
Computer Fraud/Funds Transfer	$4,000,000
E&O Technology	$3,000,000

The District has not paid insurance settlements in excess of coverage in any of the past three years.

NOTE 10 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. d.b.a. NOANET

The District, along with eight other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from BPA, throughout Washington. The network began commercial operation in January 2001. NoaNet recorded a decrease in net position (unaudited) of $1,639,075 and a decrease of $2,923,199 for 2022 and 2021, respectively.

NOANET FINANCIAL GUARANTEE

In December 2020, current Members of NoaNet entered into a Repayment Agreement to guarantee the 10-year, $24,775,000 Telecommunications Network Revenue Bonds (2020 Bonds) issued by NoaNet to finance capital improvements and other expenses, repay loans and a line of credit, fund a reserve account, and pay bond issuance costs. The 2020 Bonds will become due beginning in December 2021 through December 2030 with interest due semi-annually at rates ranging from 0.591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed pursuant to RCW chapters 24.06 and 39.34 and Title 54. Under the Repayment Agreement, each guarantor acknowledged and agreed that it is a guarantor of the payment of the principal and interest on the 2020 Bonds and was liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's agreed upon percentage interest. The District's guarantee was 10 percent of the outstanding Bonds.

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

The District's outstanding guarantee is $2,013,500 and $2,253,000 as of December 2022 and 2021 respectively. The District reports no investment or liability account balance reflecting NoaNet membership. NoaNet's Annual Report may be obtained by writing to: Northwest Open Access Network, Chief Financial Officer, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335.

NOTE 11 – TELECOMMUNICATIONS SERVICES

The District installed and continues to build out a fiber optic backbone system in its service area to provide wholesale telecommunication services and for internal use by the electric system. The District has connected its fiber optic system to Noanet's fiber optic communications system. Broadband coverage is also being extended through the development of a wireless network to deliver high-speed Internet service.

The following is a summary of Broadband activities for 2022 and 2021:

Broadband	2022	2021
Operating Revenues		
Drop Fees	$121,015	$87,458
Fiber Transport charges	1,254,797	1,264,249
Dark Fiber	420,675	420,244
WiFi Transport	600	600
Collocation Rental	276,437	264,848
Miscellaneous Broadband Services	164,128	119,319
Total Operating Revenues	**$2,237,652**	**$2,156,718**
Operating Expenses		
Labor and Benefits	329,693	307,182
Supplies	2,183	4,451
Professional Services	81,888	78,179
Other Charges	141,550	164,117
Hardware and Fiber Maintenance	92,663	73,176
Administration and General	162,240	
Taxes	10,807	
Depreciation	896,162	878,247
Total Operating Expenses	**$1,717,186**	**$1,505,352**
Capital Contributions	$1,467	
Capital Investment		
Current	1,385,863	957,005
Cumulative (since 2000)	$25,042,647	$23,656,784

The above are included in summarized amounts within the District's financial statements.

NOTE 12 – SPECIAL ITEM

During 2021, the District completed the sale of turbine equipment that was presented as an Asset Held for Sale on the Statement of Net Position since 2013. An agreement was signed with the purchaser in August 2021, with final delivery taking place in February 2022. The sale resulted in a loss on the sale of the assets in the amount of $592,699 and is presented as a Special Item on the Statement of Revenues, Expenses and Changes in Net Position. In 2022, the District returned unspent Federal Grant Funds to the Washington State Department of Commerce in conjunction with the Residential Utility Arrearage Grant Funding. Refer to Note 14 – Grant Awards.

NOTE 13 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel, and non-essential activities.

The District took measures to limit the spread of the virus including adopting remote work for certain employees, closure of public spaces, and increased sanitation measures. The District re-opened to the public in March 2021, with most safety measures remaining in place. The emergency proclamation for the State of Washington was lifted on October 28, 2022.

NOTE 14 – GRANT AWARDS

AMERICAN RESCUE PLAN ACT (ARPA)

In March 2021 the American Rescue Plan Act was signed into law, and the City of Pasco was allocated approximately $17.4 million in grant funding. The City of Pasco entered into agreement with the District to utilize $1 million of the funds to allocate portions of the funding to City of Pasco residents experiencing several financial hardships due to the COVID-19 emergency in the form of a Utility Assistance Program administered by the District. The District was a subrecipient of this funding.

The agreement specified that the $1 million was to be allocated equally between the District and the City of Pasco for Utility Assistance for their respective customers. The amount received is presented as Federal and State Grant Revenue in the Nonoperating section on the District’s Statement of Revenues, Expenses and Changes in Net Position. The amount allocated to the City Pasco and applied to District customer account balances is shown as Federal and State Grant Expense.

FEDERAL EMERGENCY MANAGEMENT ACT (FEMA)

In February 2021, a federal disaster was declared for a wildfire that took place in September 2020. This fire destroyed certain electric distribution assets owned by the District. The District has applied for and received approval for public assistance through the Washington State Department of Military and Federal Emergency Management Agency (FEMA) to partially reimburse the cost of labor, material, contract labor and other expenses incurred to restore power and rebuild/replace the assets lost. Recovery from the disaster includes the undertaking of projects designed to prevent similar disasters in the future. Funding for the projects was provided

75% by FEMA, 12.5% by Washington State Department to the Military Emergency Management Division, and 12.5% by the District. The District recorded Federal and State Grant Revenue in the amount of $291,292 related to FEMA projects in 2021. Of this amount, $9,995 was received in 2021 with the remainder paid in January 2022. In April 2022 the federal cost share was changed from 75% to 90%, resulting in $5,957 of additional cost reimbursement to the District. The funds received were reported as Federal Grant Revenue.

RESIDENTIAL UTILITY ARREARAGE GRANT

In November 2022 the District was awarded of $341,345 as a subrecipient of the State and Local Fiscal Recovery Funds (SLFRF) provided by the US Department of Treasury and administered by the Washington State Department of Commerce – Energy Division. The purpose of the grant was to provide funding for public and private water, sewer, garbage, electric, and natural gas utilities to address low-income customer arrearages compounded by the COVID-19 pandemic and the related economic downturn that were accrued between March 1, 2020, and December 31, 2021. The District awarded funds to qualifying customers based on the criteria set forth in the grant agreement. In total, $51,079 of the funding was applied to customer accounts and recorded as Federal Grant Expense within the Statement of Revenues, Expenses and Changes in Net Position. The District returned unspent grant funds on December 30, 2022. Refer to Note 12 - Special Item.

NOTE 15 – SUBSEQUENT EVENTS

POWER SUPPLY AGREEMENT WITH POWEREX

The District commenced a Power Supply contract with Powerex, a wholly owned subsidiary of BC Hydro, effective January 1, 2023 through December 31, 2028. This contract supplies the District with 40 MW July through September, and 25 MW for the remaining months each calendar year.

WASHINGTON CAP AND TRADE

In 2021, the Washington Legislature adopted a package of legislative and budget proposals to establish a comprehensive, market-based program to reduce carbon pollution from both in-state electricity generation and electricity imports coming into the state beginning January 1, 2023. The cap-and-invest program sets a limit, or cap, on overall carbon emissions in the state and requires businesses to obtain allowances equal to their covered greenhouse gas emissions. These allowances can be obtained through quarterly auctions hosted by Ecology or bought and sold on a secondary market. Given the District's fuel mix of non-carbon energy, it is expected that the District will be excess in allocation and receive benefit.

NOANET FINANCING

On April 4, 2023 the District executed a repayment agreement with NoaNet to provide $700,000 of financing towards NoaNet's $10.4 million unfunded pension liability. NoaNet will repay the amount over 10 years beginning May 1, 2024 with final payment due May 1, 2034. The financing accrues interest at a variable rate based on the average Washington LGIP 30-day yield for the previous 12 month period.

AMERICAN RESCUE PLAN ACT (ARPA) CAPITAL GRANT AWARD

In May 2023 the District was awarded $4.9 million in grant funding through the State Broadband Office to construct Fiber to the Home (FTTH) in Connell and Basin City. The project will bring affordable and reliable high-speed internet service to these areas which have historically been unserved or underserved.

REQUIRED SUPPLEMENTARY INFORMATION

As of June 30, 2022 | Last 10 Fiscal Years*

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

PERS Plan 1	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.054680%	0.063695%	0.063394%	0.067011%	0.071672%	0.073408%	0.076313%	0.075912%	0.079646%
District's proportionate share of the net pension liability (asset)	$1,522,492	$777,865	$2,238,151	$2,576,811	$3,200,896	$3,483,267	$4,098,368	$3,970,904	$4,012,205
Covered payroll	$8,951,154	$9,599,892	$9,297,855	$9,030,505	$8,995,977	$8,782,843	$8,640,630	$8,269,970	$8,110,199
District's proportionate share of the net pension liability as a percentage of covered payroll	17.01%	8.10%	24.07%	28.53%	35.58%	39.66%	47.43%	48.02%	49.47%
Plan fiduciary net position as a percentage of the total pension liability	76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%	61.19%

PERS Plan 2 & 3	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.070896%	0.079301%	0.078093%	0.080700%	0.083158%	0.085880%	0.088890%	0.075912%	0.079646%
District's proportionate share of the net pension liability (asset)	($2,629,377)	($7,899,656)	$998,765	$783,871	$1,419,849	$2,983,919	$4,475,541	$3,187,453	$1,795,150
Covered payroll	$8,925,954	$9,484,772	$9,101,618	$8,773,360	$8,624,717	$8,419,679	$8,279,471	$7,921,255	$7,585,236
District's proportionate share of the net pension liability (asset) as a percentage of covered payroll	(29.46%)	(83.29%)	10.97%	8.93%	16.46%	35.44%	54.06%	40.24%	23.67%
Plan fiduciary net position as a percentage of the total pension liability	106.73%	91.42%	97.22%	97.77%	93.29%	90.97%	85.82%	89.20%	93.29%

Notes: *Until a full 10-year trend is compiled, only information for those years available is presented.

REQUIRED SUPPLEMENTARY INFORMATION

As of June 30, 2022 | Last 10 Fiscal Years*

SCHEDULES OF EMPLOYER CONTRIBUTIONS

PERS Plan 1	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$359,027	$398,725	$475,287	$462,217	$493,987	$455,221	$435,891	$392,546
Contributions in relation to the statutorily or contractually required contributions	(359,027)	(398,725)	(475,287)	(462,217)	(493,987)	(455,221)	(435,891)	(392,546)
Contribution deficiency (excess)	0	0	0	0	0	0	0	0
Covered payroll	$9,564,662	$9,103,780	$9,659,765	$9,072,975	$9,203,426	$8,801,724	$8,666,873	$8,516,494
Contributions as a percentage of covered payroll	3.75%	4.38%	4.92%	5.09%	5.37%	5.17%	5.03%	4.61%

PERS Plan 2 & 3	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	$608,313	$646,278	$752,902	$686,799	$661,198	$581,381	$517,463	$457,619
Contributions in relation to the statutorily or contractually required contributions	(608,313)	(646,278)	(752,902)	(686,799)	(661,198)	(581,381)	(517,463)	(457,619)
Contribution deficiency (excess)	0	0	0	0	0	0	0	0
Covered payroll	$9,564,662	$9,019,796	$9,506,322	$8,910,291	$8,822,218	$8,435,389	$8,306,014	$8,156,162
Contributions as a percentage of covered payroll	6.36%	7.17%	7.92%	7.71%	7.49%	6.89%	6.23%	5.61%

Notes: *Until a full 10-year trend is compiled, only information for those years available is presented.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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