

Washington State Auditor's Office
Accountability Audit Report

Mason County Public Utility District
No. 1

Report Date
September 27, 2012

Report No. 1008635

Issue Date
November 26, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 26, 2012

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

Report on Accountability

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on Mason County Public Utility District No. 1's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Audit Summary

Mason County Public Utility District No. 1 September 27, 2012

ABOUT THE AUDIT

This report contains the results of our independent accountability audit of Mason County Public Utility District No. 1 from January 1, 2011 through December 31, 2011.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- Utility billings/receivables
- Cash-receipting
- Net metering
- Fuel mix disclosure
- Payments/expenditures
- Compliance with grant requirements
- Open public meeting minutes

RESULTS

In the areas we examined, the District's internal controls were adequate to safeguard public assets. The District also complied with state laws and regulations and its own policies and procedures in the areas we examined.

Related Reports

Mason County Public Utility District No. 1 September 27, 2012

FINANCIAL

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements.

FEDERAL GRANT PROGRAMS

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal program, which is listed in the Federal Summary section of the financial statement and single audit report.

Description of the District

Mason County Public Utility District No. 1 September 27, 2012

ABOUT THE DISTRICT

Mason County Public Utility District No. 1 was established in 1934 and became the first operating public utility district in the state of Washington to provide electrical services. The District does not own or operate any generating facilities but purchases all electrical power. In addition, the District operates 34 water systems and one wastewater system. The District serves approximately 5,249 electric, 1,696 water and 18 wastewater customers in Mason and Jefferson counties.

An elected, three-member Board of Commissioners governs the District. Commissioners serve staggered, six-year terms. The Board appoints management to oversee the District's daily operations as well as its 22 employees. For fiscal year 2011, the District operated on annual revenue of approximately \$7.8 million.

ELECTED OFFICIALS

These officials served during the audit period:

Board of Commissioners:

Karl Denison
Ron Gold
Jack Janda

APPOINTED OFFICIALS

General Manager
Director of Finance

Steven Taylor
Gregory Kester

DISTRICT CONTACT INFORMATION

Address: Mason County Public Utility District No. 1
N. 21971 Highway 101
Shelton, WA 98584

Phone: (360) 877-5249

Website: www.masonpud1.org

AUDIT HISTORY

We audit the District annually. The District has been free of findings since we began auditing it in 1941. Management has been responsive to audit recommendations and our audit concerns are often discussed, addressed and resolved before completion of the audit.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

State Auditor
Chief of Staff
Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Performance Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
Public Records Officer
Main number
Toll-free Citizen Hotline

Brian Sonntag, CGFM
Ted Rutt
Doug Cochran
Jerry Pugnetti
Chuck Pfeil, CPA
Larisa Benson
Jim Brittain, CPA
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Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Mason County Public Utility District
No. 1

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008457

Issue Date
September 26, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 26, 2012

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

Report on Financial Statements and Federal Single Audit

Please find attached our report on Mason County Public Utility District No. 1's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Mason County Public Utility District No. 1 January 1, 2011 through December 31, 2011

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Federal Summary

Mason County Public Utility District No. 1 January 1, 2011 through December 31, 2011

The results of our audit of Mason County Public Utility District No. 1 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.850	Rural Electrification Loans and Loans Guarantees (RUS USDA)

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Mason County Public Utility District No. 1 January 1, 2011 through December 31, 2011

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

We have audited the basic financial statements of Mason County Public Utility District No. 1, Mason County, Washington, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated September 21, 2012. The prior year partial comparative information has been derived from the District's 2010 financial statements and, in our report dated October 25, 2011, we expressed an unqualified audit opinion on the 2010 basic financial statements.

We conducted our audits 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 21, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Mason County Public Utility District No. 1
January 1, 2011 through December 31, 2011**

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

COMPLIANCE

We have audited the compliance of Mason County Public Utility District No. 1, Mason County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 21, 2012

Independent Auditor's Report on Financial Statements

Mason County Public Utility District No. 1 January 1, 2011 through December 31, 2011

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

We have audited the accompanying basic financial statements of Mason County Public Utility District No. 1, Mason County, Washington, as of and for the years ended December 31, 2011 and 2010, as listed on page 9. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the District's 2010 financial statements and, in our report dated October 25, 2011, we expressed an unqualified audit opinion on the 2010 basic financial statements.

We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mason County Public Utility District No. 1, as of December 31, 2011 and 2010, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 13 and information on postemployment benefits other than pensions on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is

required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with a large initial "B" and "S".

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 21, 2012

Financial Section

Mason County Public Utility District No. 1 January 1, 2011 through December 31, 2011

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Assets – 2011 and 2010
Statement of Revenues, Expenses and Changes in Fund Equity – 2011 and 2010
Statement of Cash Flows – 2011 and 2010
Notes to Financial Statements – 2011

REQUIRED SUPPLEMENTARY INFORMATION

Information on Postemployment Benefits Other Than Pensions – 2011

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards and Notes – 2011

MASON COUNTY PUBLIC UTILITY DISTRICT #1
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Introduction

As Management of Mason County PUD #1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished.

The Following Management's Discussion and Analysis is intended to serve as an introduction to the Mason County PUD #1 basic financial statements, the notes to the financial statements and if applicable, any other supplementary information required as part of the basic financial statements.

The district Commissioners adopts an annual budget as a measure of monitoring revenues and controlling expenses. The Commissioners also use the budget as a financial planning tool for the District's future needs.

The statement of net assets presents the District's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the amount of investments in resources (assets), and the obligations to creditors (liabilities). The net assets increase when revenues exceed expenses.

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

The statement of cash flows provides information about the district's cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

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

Financial Analysis

The following information provides analysis of the 2011 and 2010 comparative financial information provided in the following table.

Condensed Financial Information for December 31, 2011 and 2010 (in millions)

2008 to
2010

Statement of Net Assets	2011	2010	2009	%change
Current assets and special funds	7.18	5.00	6.23	43.6 %
Net Capital Assets	26.11	25.31	21.88	3.2 %
Other Noncurrent assets	.16	.15	.19	6.67 %
Total Assets	33.45	30.46	28.30	9.8%
Current Liabilities	1.86	3.52	1.60	(51.8) %
Noncurrent Liabilities	10.48	7.17	7.51	46.4 %
Total Liabilities	12.34	10.69	9.11	15.4%
Invested in Capital Assets, Net of Debt	16.19	15.75	13.89	2.8 %
Restricted	.72	.72	.72	0 %
Unrestricted	4.20	3.29	4.57	27.7 %
Total Net Assets	21.11	19.76	19.18	6.8%

Statement of Revenue, Expenses and Changes in Net Assets

Operating Revenues	7.79	7.13	7.05	9.3 %
Operating Expenses	(6.20)	(6.41)	(6.12)	(3.3) %
Net Operating Income	1.59	.72	.93	121.0 %
Non-operating Revenues	.02	.04	.06	(50.0)%
Non-operating Expenses	(.37)	(.34)	(36)	8.8 %
Non-operating Revenues(Expenses)	(.35)	(.30)	(.30)	16.6 %
Capital Contributions	.10	.17	.53	(41.2)%
Extraordinary Items	.0	0	.32	0%
Change in Net Assets	1.34	.58	1.16	131.0%
Net Assets – Beginning of Year	19.76	19.19	18.03	3.0 %
Net Assets – End of Year	21.11	19.76	19.19	6.8 %

Assets:

Current assets increased by \$2,180,391 dollars during 2011. The main reason for the increase was due to the increase in cash equivalents of \$2,451,569. This was from borrowing from RUS for transmission Line.

Restricted Funds, Accounts receivable – Net, Accounts Receivable – Other all had normal increases (decreases) for the year.

The Districts Material and Supplies decreased by \$345,137 dollars. This is due to transferring water inventory out of electric and into water plant for water.

Deferred charges decreased by \$13,238 this was on account of normal preliminary survey's.

The District had \$26,108,351 invested in capital assets, this was an increase of \$798,727. This is a normal increase due to capital investments in plant. Please see note 4

Liabilities

Current liabilities decreased by \$1,662,437 over the previous year. This was due to payment of \$1,985,000 for our transmission project where principal is due on December 1, 2011. This was accounted for in Current Portion of Long-Term Debt. Accounts Payable, Consumer deposits and Other Current & Accrued Liabilities Increase (decreases) are considered normal.

In 2011, Long-term debt decreased by \$3,312,505. This was because of RUS borrowing on transmission line for the year. Please see note 10

Net Assets

In 2011, Net Assets increased by \$1,343,088 this is due to strong margins for Electric and Water.

Operating Revenue

Operating revenues increased by \$661,361 this increase was caused by a very cold weather year and a 4% rate increase in January of 2011.

Operating Expense

The operating expenses decreased by \$210,511 from 2010. The main components of this increase were due to nominal decrease's in Distribution and Maintenance expenses, Taxes and Other Deductions. These decreases were a normal fluctuation as variable and fixed costs increased and decreased.

Capital Assets and Long-Term Debt Liability

Mason PUD #1 has a loan from Rural Utility Services for capital assets of \$8,550,000 that expires in 2015. Of this loan, the PUD has borrowed \$3,880,000 of long-term debt as of December 31, 2011. The PUD does not anticipate having to borrow more funds to complete the capital assets work plan. The PUD anticipates that the entire work plan will be completed by December 31, 2015.

Other Potential Matters

The PUD has no present or future significant matters to report at this time.

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 1

STATEMENT OF NET ASSETS

December 31, 2011 and 2010

ASSETS

<u>Current Assets</u>	<u>2011</u>	<u>2010</u>
Special Funds	720,656	719,359
Cash and Cash Equivalents	5,317,506	2,865,937
Accounts Receivable – Net sales	655,395	670,667
Accounts Receivable – Other	101,190	13,256
Material & Supplies	<u>387,726</u>	<u>732,863</u>
Total Current Assets	7,182,473	5,002,082
 <u>Noncurrent Assets</u>		
Deferred Charges	162,042	148,804
Capital Assets		
Utility Plant in Service	36,447,010	33,215,750
Construction Work in Progress	<u>326,744</u>	<u>2,379,256</u>
Total Utility Plant in Service	36,773,754	35,595,006
Less: Accumulated Depreciation	<u>(10,665,403)</u>	<u>(10,285,382)</u>
Total Capital Assets	26,108,351	25,309,624
Total Noncurrent Assets	26,270,393	25,457,628
Total Assets	<u>33,452,866</u>	<u>30,459,710</u>

The accompanying notes are an integral part of this statement

MASON COUNTY PUBLIC UTILITY DISTRICT # 1

**COMPARATIVE STATEMENT OF NET ASSETS
FOR ELECTRIC, WATER AND SEWER**

December 31, 2011 and 2010

LIABILITIES

Current Liabilities	<u>2011</u>	<u>2010</u>
Accounts Payable	715,062	475,763
Consumer Deposits	84,874	84,631
Other Current & Accrued Liabilities	497,042	576,830
Current Portion Long Term Debt	<u>561,501</u>	<u>2,383,692</u>
Total Current & Accrued Liabilities	1,858,479	3,520,916

Noncurrent Liabilities

Long Term Debt – LOANS	9,459,943	6,051,706
Long Term Debt – BONDS	<u>1,024,556</u>	<u>1,120,288</u>
Total Long Term Debt	10,484,499	7,171,994
TOTAL LIABILITIES	12,342,978	10,692,910

Net Assets

Invested in Capital Assets, Net of Debt Restricted for Debt Service	15,062,351	15,753,938
Unrestricted	<u>5,326,880</u>	<u>3,293,503</u>
Total Net Assets	21,109,888	19,766,800
TOTAL NET ASSETS AND LIABILITIES	<u>33,452,866</u>	<u>30,459,710</u>

The accompanying notes are an integral part of this statement

**MASON COUNTY PUBLIC UTILITY NO. 1
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND EQUITY**

FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

OPERATING REVENUES	2011	2010
Sales – Residential	\$6,159,301	\$5,720,118
Sales - General	1,403,590	1,275,093
Sales – Street Lights	8,968	87,741
Miscellaneous other Revenues	<u>216,310</u>	<u>43,856</u>
Total Operating Revenues	7,788,169	7,126,808
 OPERATING EXPENSES		
Cost of Purchased Power	2,346,453	2,338,724
Transmission Expense	3,796	19,066
Distribution and Maintenance Expense	727,173	930,966
Customer Services Expense	228,040	333,224
Administrative and General	1,506,659	1,432,379
Depreciation	959,124	837,116
Taxes	428,345	473,291
Other Deductions	<u>1,953</u>	<u>47,288</u>
Total Operating Expenses	6,201,543	6,412,054
NET OPERATING INCOME	1,586,626	714,754

The Notes to Financial Statements are an integral part of this statement

MASON COUNTY PUBLIC UTILITY NO. 1

**COMAPRATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN FUND EQUITY FOR ELECTRIC, WATER
AND SEWER**

FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

NON-OPERATING REVENUES (EXPENSES)

Revenue from Merchandising, Jobbing And Contract Work	12,562	11,367
Costs and Expenses of Merchandising, Jobbing and Contract Work	(18,564)	(17,325)
Interest and Dividend Income	5,179	25,464
Interest on Long Term Debt	<u>(348,745)</u>	<u>(327,407)</u>
Total-Non Operating Revenues (Expenses)	(349,568)	(307,901)
Capital Contributions	106,030	170,213
Extraordinary Items	<u>0</u>	<u>0</u>
Changes in Net Assets	1,343,088	577,066
Total Net assets, January 1	19,766,800	19,189,734
Total Net Assets December 31	21,109,888	19,766,800

The Notes to Financial Statements are an integral part of this statement

**MASON COUNTY PUBLIC UTILITY NO. 1
STATEMENT OF CASH FLOWS**

FOR YEARS ENDING DECEMBER 31, 2011 AND 2010

<u>Cash Flows From Operating Activities:</u>	<u>2011</u>	<u>2010</u>
Receipts from customer	7,803,441	6,747,386
Payments to employees	(2,127,978)	(2,268,831)
Payment to suppliers	(2,271,586)	(2,367,823)
Taxes paid	(428,345)	(473,291)
	2,975,532	1,637,441
 <u>Cash Flows From Noncapital Financing Activities:</u>		
Payments on weatherization loans	(0)	(0)
	(0)	(0)
 <u>Cash Flows From Capital Financing Activities:</u>		
Proceeds from issuance of debt	3,965,132	2,130,955
Principal payments on long term debt	(2,474,818)	(540,276)
Interest paid on revenue bonds	(348,745)	(327,407)
Acquisition and construction of capital assets	(1,757,851)	(4,261,749)
Contribution and aid of construction	(30,924)	122,275
Preliminary expense	15,991	(9,909)
	(631,215)	(2,886,111)
 <u>Cash Flows From Investing Activities:</u>		
Interest received on investments	108,549	67,445
	108,549	67,445
Net Increase (Decrease) in Cash	2,452,866	(1,181,222)
Cash and Cash Equivalents at Beginning of Year	3,585,296	4,766,521
Cash and Cash equivalents at End of Year	6,038,162	3,585,296
	6,038,162	3,585,296

The accompanying notes are an integral part of this statement

**MASON COUNTY PUBLIC UTILITY NO. 1
COMPARATIVE STATEMENT OF CASH FLOWS
FOR ELECTRIC, WATER AND SEWER**

FOR YEARS ENDING DECEMBER 31, 2011 AND 2010

<u>Cash Flows From Operating Activities:</u>	<u>2011</u>	<u>2010</u>
Net Operating Income	1,584,666	714,754
Adjustments to reconcile operating income to net cash Provided by operating activities:		
Depreciation & Amortization	959,124	837,116
Other Deductions	1,953	47,288
Change in assets and liabilities:		
Accounts Receivable – Net Energy Sales	15,272	(154,917)
Accounts Receivable – Other	(119,685)	23,962
Material & Supplies	345,137	176,925
Accounts Payable	239,299	(109,534)
Consumer Deposits	243	(7,725)
Other Current & Accrued Liabilities	(4,329)	92,878
Deferred Compensation	(46,148)	16,694
Total Adjustments	1,390,866	922,687
Net Cash Provided by Operating Activities	\$ 2,975,532	\$1,637,441

The accompanying notes are an integral part of this statement

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Mason County (the PUD) was incorporated on November 6, 1934 and operates under the laws of the state of Washington applicable to a public utility. The accounting and reporting policies of the PUD conform to generally accepted accounting principals (GAAP) as applicable to proprietary funds of governments. The PUD has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or guidance of the Governmental Accounting Standard Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principals. In June 1999, GASB approved Statement 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

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

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

B. Basis of Accounting and Presentation

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

The PUD uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Fixed asset purchases

are capitalized and long-term liabilities are accounted for in the appropriate fund(s).

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

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the PUD's policy to invest all temporary cash surpluses. On December 31, 2011, the treasurer was holding \$5,317,506 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents, and special funds.

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

2. Restricted Assets

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted funds currently include the following:

Special Funds \$720,656

3. Receivables

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

4. Amounts due To and From Other Governmental Units

These accounts include amounts due to or from other governments for grants, entitlements, temporary loans, taxes and charges for services.

5. Inventories

Inventories are valued by the LIFO weighted average method, which approximates the market value.

6. Capital Assets and Depreciation - See Capital Assets Note 4.

7. Other Property and Investments - See note No 2.

8. Custodial Accounts

This account reflects the liability for net monetary assets being held by the PUD in its trustee or agency capacity.

9. Compensated Absences

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

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

10. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

11. Long-Term Debt - See Long-Term Debt Note 10.

12. Deferred Revenues/Credits

This account includes amounts recognized as receivables (assets) but not revenues because the revenue recognition criteria have not been met.

13. Other Credits - See Deferred Debits (or Credits) Note 12.

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the PUD's funds (except as noted below) are obligations of the U. S. Government, the State Treasurer's Investment Pool, or deposits with Washington State banks and savings and loan institutions.

The PUD's deposits and certificates of deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). There are no policy and no custodial credit risks.

The PUD's Investments are all risk Category 1.

	<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in State Treasurer's Inv. Pool	\$5,317,506	\$5,317,506	\$5,317,506
Investment in Deferred Compensation			
Other Property	_____	_____	_____
Total Investments	<u>\$5,317,506</u>	<u>\$5,317,506</u>	<u>\$5,317,506</u>

All temporary investments are stated at cost, which approximates market. Other property and investments are shown on the balance sheet at cost, net of amortized premium or discount.

Management intends to hold the time deposits and securities until maturity.

In accordance with generally accepted accounting principles applicable to regulated industries, reductions in market value are not reflected on the financial statements. Similarly, gains or losses on bond swaps are deferred and amortized over the life of the replacement investment. Other gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

Restricted assets shown on the balance sheet include the following investments:

	<u>Amortized Cost</u>	<u>Market</u>
Time Deposits	\$720,656	\$720,656
Other Securities	_____	_____
TOTAL INVESTMENT OF RESTRICTED ASSETS	<u>\$720,656</u>	<u>\$720,656</u>

NOTE 3 - INTERGOVERNMENTAL GRANTS AND ENTITLEMENT

As of December 31, 2011, There were no Grants or Entitlements

NOTE 4 - CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined by the District as assets with individual costs of more than \$300 and an estimated useful life in excess of 1 year.

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

Utility Plant in Service (and other capital assets) are recorded at cost (where the historical costs are known). Where historical costs are not known, assets are recorded at estimated market value. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 10 to 36 years. The District also uses a clearing account to capitalize a portion of depreciation, which follows guidelines set forth in 7 CFR Part 1767.

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated				
Land	\$ 1,273,709	\$ 348,825	\$ 2,405	\$ 1,620,129
Construction in progress	\$ 2,379,256	\$1,762,112	\$3,814,623	\$ 326,745
Total not being depreciated	\$ 3,652,965	\$2,110,937	\$3,817,028	\$ 1,946,874
Utility plant being depreciated				
Distribution and transmission plant	\$27,783,163	\$6,184,927	\$3,202,648	\$30,765,442
General plant	\$ 3,879,596	\$ 194,936	\$ 13,094	\$ 4,061,438
Total Utility plant being depreciated	\$31,662,759	\$6,379,863	\$3,215,742	\$34,826,880
Less accumulated depreciation	\$ 10,285,382	\$1,113,084	\$ 733,062	\$ 10,665,424
Total utility plant being depreciated (net)	\$21,377,377	\$5,266,779	\$2,482,680	\$24,161,476
Total Utility Plant (net)	\$25,030,342	\$7,377,716	\$6,299,708	\$26,108,350

Capital Assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	33
Building Improvements	33
Vehicles	10
General Plant	33
Electrical Transmission	36
Electrical Distribution	33
Water Transmission	33
Water Distribution	33
Sewer Distribution	33

NOTE 5 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects for which authorizations total \$326,745. Of the committed balance of 326,745, the PUD will be required to raise \$ -0- in future financing.

NOTE 6 - PENSION PLANS

Substantially all PUD full-time and qualifying employees participate in one of the following statewide retirement systems administered by the Washington Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, Accounting for Pensions by State and Local Government Employers and No. 50 Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education programs retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have an irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. This option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than 5 years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer contributions.

PERS plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at age 55 with 25 years of service. The annual benefit is two percent of the average

final compensation (AFC) per year of service, capped at 60 percent. (the AFC is based on the greatest compensation during any 24 eligible consecutive compensation months.) This annual benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or have 20 years of service and have been retired 25 years. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased three percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to 55, the allowance amount is 2 percent of the AFC for each year of the service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance was granted at age 66 based upon years of service times the COLA amount. This benefit was eliminated by the legislature, effective July 1, 2011. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

PERS Plan 2 who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer Contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years worth of service; or after five years of service, if twelve month of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon contributions and the results of investments activities. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3 the monthly benefit amount is 1 percent of the AFC per Year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of survivor option. There is no cap on years of service credit, and cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually

PERS Plan 2 and Plan 3 members may have up to 10 years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. And can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at a normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of said member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Nonvested	<u>51,005</u>
Total	262,285

Finding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5% for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two are graduated rates dependent on the employee's age.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	7.25 % **	7.25 % **	7.25 % ***
Employee	6.00 % *****	4.64 % *****	*****

* The Employer Rates include the employer Administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3

*** Plan 3 defined benefit portion only.

***** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

***** Variable from 5.0% Minimum to 15% Maximum based on selected by PERS 3 member.

Both PUD and the employees made required contributions. The PUD's required contributions for the years ended December 31, 2011 were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2010	\$5,974	\$96,005	\$3,981
2009	\$4,975	\$76,387	\$3,168
2008	\$6,379	\$95,290	\$3,564

NOTE 7 - DEFERRED COMPENSATION PLAN

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

NOTE 8 - RISK MANAGEMENT

The PUD purchases their liability insurance from Federated Rural Insurance Corporation. The PUD maintains a \$2,000,000 all risk blanket with a \$8,000,000 umbrella policy. No Insurance settlements has exceeded insurance coverage in the past 3 years.

NOTE 9 - SHORT-TERM DEBT - None

NOTE 10 - LONG-TERM DEBT

A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2011 , including Interest are as follows:

Calender Year Ending December 31, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 561,501	\$394,276	\$ 955,777
2013	557,730	374,364	932,094
2014	537,039	356,808	893,847
2015	524,198	335,323	859,521
2016	496,160	320,060	816,220
2017-2021	2,253,476	1,358,855	3,612,331
2022-2026	1,663,600	991,505	2,655,105
2027-2031	1,579,208	695,539	2,274,747
2032-2036	1,471,274	377,651	1,848,925
2037-2041	1,021,543	128,803	1,150,346
2042-2046	372,245	18,085	390,330
2047-2051	8,026	511	8,537
Total	\$11,046,000	\$5,351,780	\$16,397,780

There is \$ 720,656 in restricted assets of the PUD. These represent reserve requirements as contained in the Various indentures.

Unamortized debt issue costs are recorded as deferred charges and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount.

The PUD uses RUS debt and Revenue Bonds for the electrical portion of financing its debt structures. The RUS long-term rate is 5% for \$4,245,896 and 2.853% for \$3,880,000 and its average coupon rate for the bonds are 5.016449%. The retirement of the LTD ranges from -

2012-2040 = \$4,245,896 RUS
 2012-2045 = \$3,880,000 RUS/TREASURY
 2012 = \$20,000 BOND

The Summary and Range of Materials –

RUS and Bond Loans were purchased for electrical Distribution, Transmission and Special Equipment replacements and additions. They include - Wire, Transformers, Meters, Conduit and Poles, and many other electric equipment

The District uses a combination of Public Works Trust Fund Loans (PWTF) and Revenue Bonds for It’s water systems. The PWTF rate is an average of 1% for 20 years and its average coupon rate for water bonds are 4% for 20 years.

PWTF and Water Bond Loan were purchased for water Distribution, Transmission and Meters replacement and additions. They include - Piping, Pumps, Well Houses, Reservoirs, wells and many other water related equipment.

The remaining balances for each account are –

PWTF Loans - \$1,730,554
 2002 Water Revenue Bond - \$1,035,000
 2009 Water Revenue Bond – \$65,298

	Beginning Balance 01/01/2011	Additions	Reductions	Ending Balance 12/31/2011	Due Within One Year
Bonds Payable:					
Revenue Bonds	1,211,000	0	90,702	1,120,298	90,742

RUS Loans	4,476,956	3,880,000	231,059	8,125,897	294,676
PWTF Loans	1,972,730	0	242,177	1,730,553	171,083
Anticipation Note	<u>1,895,000</u>	<u>0</u>	<u>1,895,000</u>	<u>0</u>	<u>0</u>
Total Long-term Liabilities	9,555,686	3,880,000	2,458,938	10,976,748	556,501
OPEB	46,168	23,084		69,252	23,084

NOTE 11 - CONTINGENCIES AND LITIGATION

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

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

NOTE 12 - SEGMENT REPORTING

ASSETS

	2011 ELECTRIC	2011 WATER	2011 SEWER	Total
CURRENT ASSETS				
Special Funds	\$448,631.00	\$266,374.00	\$5,652.00	\$720,657.00
Cash And Cash Equivalents	\$4,714,315.00	\$579,108.00	\$24,082.00	\$5,317,505.00
Accounts Receivable - Net Sales	\$525,442.00	\$129,899.00	\$54.00	\$655,395.00
Accounts Receivable - Other	\$97,100.00	\$4,090.00		\$101,190.00
Material & Supplies	\$263,169.00	\$119,482.00	\$5,075.00	\$387,726.00
Total Current Assets	\$6,048,657.00	\$1,098,953.00	\$34,863.00	\$7,182,473.00
NON-CURRENT ASSETS				
Deferred Charges	\$160,833.00	\$1,717.00	-\$508.00	\$162,042.00
Capital Assets				
Utility Plant in Service	\$25,844,039.00	\$10,542,936.00	\$60,035.00	\$36,447,010.00
Construction Work in Progress	\$285,283.00	\$41,402.00	\$59.00	\$326,744.00
Total Utility Plant in Service	\$26,129,322.00	\$10,584,338.00	\$60,094.00	\$36,773,754.00
Less: Accumulated Depreciation	(\$8,546,390.00)	(\$2,109,909.00)	(\$9,104.00)	(\$10,665,403.00)
Total Capital Assets	\$17,582,932.00	\$8,474,429.00	\$50,990.00	\$26,108,351.00
Total Non-Current Assets	\$17,743,765.00	\$8,476,146.00	\$50,482.00	\$26,270,393.00
Total Assets	\$23,792,422.00	\$9,575,099.00	\$85,345.00	\$33,452,866.00

	2011 ELECTRIC	2011 WATER	2011 SEWER	Total
LIABILITIES				
Current Liabilities				
Accounts Payable	\$715,027.00	\$35.00	\$0.00	\$715,062.00
Consumer Deposits	\$73,525.00	\$11,349.00	\$0.00	\$84,874.00
Other Current & Accrued Liabilities	\$482,266.00	\$14,683.00	\$93.00	\$497,042.00
Current Portion of Long-Term Debt	\$314,676.00	\$244,725.00	\$2,100.00	\$561,501.00
Total Current & Accrued Liabilities	\$1,585,494.00	\$270,792.00	\$2,193.00	\$1,858,479.00
Non-Current Liabilities				
Long-Term Debt - LOANS	\$7,831,220.00	\$1,559,471.00	\$0.00	\$9,390,691.00
Long-Term Debt - BONDS	\$69,252.00	\$1,001,726.00	\$22,830.00	\$1,093,808.00
Total Long-Term Debt	\$7,900,472.00	\$2,561,197.00	\$22,830.00	\$10,484,499.00
TOTAL LIABILITIES	\$9,485,966.00	\$2,831,989.00	\$25,023.00	\$12,342,978.00
Net Assets				
Invested In Capital Assets, Net of Debt Restricted For Debt Service	\$10,069,659.00	\$5,668,507.00	\$28,160.00	\$15,766,326.00
Unrestricted	\$448,631.00	\$266,374.00	\$5,652.00	\$720,657.00
	\$4,504,279.00	\$97,596.00	\$21,030.00	\$4,622,905.00
Total Net Assets	\$15,022,569.00	\$6,032,477.00	\$54,842.00	\$21,109,888.00
TOTAL NET ASSETS AND LIABILITIES	\$24,508,535.00	\$8,864,466.00	\$79,865.00	\$33,452,866.00

the accompanying notes are an integral part of this statement

NOTE 12 - SEGMENT REPORTING

STATEMENT OF REVENUE, EXPENSES AND
AND CHANGES IN FUND EQUITY

	2011 ELECTRIC	2011 WATER	2011 SEWER	TOTAL
OPERATING REVENUES				
Sales Residential	\$ 4,975,580.00	\$1,174,500.00	\$9,221.00	\$ 6,159,301.00
Sales - General	\$ 1,403,590.00	\$0.00	\$0.00	\$ 1,403,590.00
Sales Street Lights	\$ 8,968.00	\$0.00	\$0.00	\$ 8,968.00
Miscellaneous Other revenues	\$ 200,154.00	\$16,155.00	\$1.00	\$ 216,310.00
Total Operating Revenues	\$ 6,588,292.00	\$ 1,190,655.00	\$ 9,222.00	\$ 7,788,169.00
OPERATING EXPENSES				
Cost of Purchased Power	\$ 2,274,633.00	\$71,565.00	\$255.00	\$ 2,346,453.00
Transmission Expenses	\$ 3,796.00	\$0.00	\$0.00	\$ 3,796.00
Distribution & Maintenance Expense	\$ 464,639.00	\$260,358.00	\$2,176.00	\$ 727,173.00
Customer Services Expense	\$ 162,712.00	\$65,328.00	\$0.00	\$ 228,040.00
Administrative and General	\$ 1,316,494.00	\$190,158.00	\$7.00	\$ 1,506,659.00
Depreciation	\$ 728,231.00	\$229,698.00	\$1,195.00	\$ 959,124.00
Taxes	\$ 364,678.00	\$63,327.00	\$340.00	\$ 428,345.00
Other Deductions	\$ 1,953.00	\$0.00	\$0.00	\$ 1,953.00
Total Operating Expenses	\$ 5,317,136.00	\$ 880,434.00	\$ 3,973.00	\$ 6,201,543.00
NET OPERATING INCOME	\$ 1,271,156.00	\$ 310,221.00	\$ 5,249.00	\$ 1,586,626.00
NON-OPERATING REVENUE (EXPENSES)				
Revenue From Merchandising, Jobbing And Contract Work	\$ 12,006.00	\$556.00	\$0.00	\$ 12,562.00
Costs and Expenses of Merchandising, Jobbing and Contract Work	\$ (16,907.00)	(\$1,657.00)	\$0.00	\$ (18,564.00)
Interest and Dividend Income	\$ 3,819.00	\$1,316.00	\$44.00	\$ 5,179.00
Interest on Long-Term Debt	\$ (266,550.00)	(\$80,644.00)	(\$1,553.00)	\$ (348,747.00)
Total Non-Operating Revenues (Expenses)	\$ (267,632.00)	\$ (80,429.00)	\$ (1,509.00)	\$ (349,570.00)
Capital Contributions	\$ 4,390.00	\$101,642.00	\$0.00	\$ 106,032.00
Change In Net Assets	\$ 1,007,914.00	\$ 331,434.00	\$ 3,740.00	\$ 1,343,088.00
Total Net Assets January 1	\$ 14,014,654.00	\$5,701,043.00	\$51,103.00	\$ 19,766,800.00
Total Net Assets December 31	\$ 15,022,568.00	\$ 6,032,477.00	\$ 54,843.00	\$ 21,109,888.00

NOTE 13 - DEFERRED DEBIT

In accordance with generally accepted accounting principles for regulated businesses, the PUD has deferred costs of \$162,042 in 2011, which will be amortized on the Straight Line method over 10 years. These costs resulted from amortization of debt discount and preliminary investigation charges. These charges would have been included in net income for 2010 in non-regulated businesses, but for ratemaking purposes they are treated as applicable to future periods.

NOTE 14 - OTHER DISCLOSURES

Major Contracts

- A. Nuclear Projects 1, 2, 3, 4 and 5: The PUD has entered into “net billing agreements” with the Washington Public Power Supply System (Supply System) and the Bonneville Power Administration (BPA). Under terms of these agreements, the PUD has purchased a maximum capability of the Supply System’s Nuclear Projects 1 and 2 and the Supply System’s 70 percent ownership share of its Nuclear Project 3 respectively, and has sold this capability to BPA. BPA is unconditionally obligated to pay the PUD, and the PUD is unconditionally obligated to pay the Supply system, the pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects’ output.

Nuclear Project 1 is approximately 63 percent complete and is in an extended construction delay and all systems are being maintained in condition to resume construction at any time.

Nuclear Project 3 is approximately 75.2 percent complete and in an extended construction delay. The delay is expected to last until an assured source of funding can be obtained.

The PUD also entered into “participants’ agreements” with the Supply System. Under terms of these agreements, the PUD had purchased a maximum of 0.156 percent of the

capability of Nuclear Projects 4 and 5 and participants were unconditionally obligated to pay the Supply system their pro rata share of the total annual costs of the projects, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output.

On January 22, 1982, the Supply System Board of Directors adopted a resolution terminating Nuclear Projects 4 and 5. Under the participants' agreement for Nuclear Projects 4 and 5, the obligations of the participants to pay the total annual costs of Nuclear Projects 4 and 5, including debt service on bonds and costs of termination, commenced January 25, 1983. At that time, the PUD's share of termination costs amounted to \$140,229. Its share of the bond principal was \$3,510,000. Its share of total debt service, including interest, which is to be paid over the years 1983 to 2018, was \$10,479,456.

On June 15, 1983, the Washington State Supreme Court ruled that the Washington participants in the Supply System's Nuclear Projects 4 and 5 did not have the authority to enter into the participant's agreement. Because of the Washington State Supreme Court decision, the financial statements of the PUD do not reflect any liability for Nuclear Projects 4 and 5

Note 15 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Employees are eligible for reimbursement of medical, dental coverage provided that they retire from active employment with the PUD with 15 or more years of service. Employee retiree coverage continues for a maximum of 10 years. The elected Commissioners are eligible for payment of Post-Retirement benefits based on 18 years of service. They are not eligible for a

percentage of employment by year and must serve 18 years to receive 100 percent for 10 years. The District funding policy and status is pay as you go.

The District pays employee a portion of the premium costs based on years of service at retirement according to the following schedule:

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

The PUD’s OPEB was calculated on May 7, 2010 by Lockstone Advisors, LLC

The PUD’s annual Post-Retirement healthcare benefit is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize unfunded liabilities over a 30 year period. The following table shows the components of the PUD’s annual Post-Retirement cost for the year ended December 31, 2011:

	December 31, 2010	December 31, 2011
Annual Required Contribution	\$107,694	\$ 89,249
Contributions made	<u>\$ 87,610</u>	<u>\$ 66,165</u>
Net Post-Retirement Obligation	\$ 23,084	\$ 23,084
Net OPEB Obligation – December 31, 2009	\$23,084	
Net OPEB Obligation - December 31, 2010	\$23,084	
Net OPEB Obligation - December 31, 2011	\$23,084	

Assumptions

The District used Lockstone Advisors, LLC Actuaries to provide the method and calculation for the Post retirement benefits. The discount rate used was 3% for cash flows from the valuation date. The discount rate is used for expected long-term yield on investments to pay benefits.

The mortality rate used was the RP-2000 combined Mortality Table for males and females. The Mortality table reflects recent rates developed by the Society of Actuaries with a Generally accepted projection of future mortality improvement. (Paragraph 34d GASB 45)

Disability rates for the individuals that are being valued are from generally accepted assumption and actuarial practice. The turnover assumptions were taken from the default turnover assumptions based on paragraph 35b, Table 1 of GASB 45. The retirement average age was 65.

The healthcare estimated future annual increases in premiums was estimated at an initial rate of 10.5% grading uniformly over 10 years to a 5% rate. The medical trend rate is based on the 2010 Health Plan Cost Trend Survey. The grading period and ultimate trend rates were selected using a generally accepted range (Paragraph 34f of GASB 45. For 2011, there were no changes for post retirement benefits.

The Actuarial calculations reflect a long-term perspective. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far

into the future, and that actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future.

As of December 31, 2011, the Actuarial Accrued Liability was \$967,845.

Note 16 – Subsequent Events

There are no major subsequent events to report after December 31, 2011.

Required Supplementary Information
Other Postemployment Benefits
Schedule of Funding Progress (December 31, 2011)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2009	\$ -	\$ 967,845	\$ 967,845	0%	\$ 1,556,213	62.20%
12/31/2010	\$ -	\$ 967,845	\$ 967,845	0.0%	\$ 1,623,443	59.6%
12/31/2011	\$ -	\$ 967,845	\$ 967,845	0.0%	\$ 1,640,596	59.0%
12/31/2012	\$ -	\$ -	\$ -	0.0%	\$ -	0.0%

* Based in projected unit credit actuarial cost method

N/A Indicates data not available

Source: Aon Consulting

Schedule of Employer Contributions

Fiscal Year Ending	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2008	\$ 1,803,238	\$ 925,870	194.8%
12/31/2009	\$ 1,275,646	\$ 878,308	145.2%
12/31/2010	\$ 1,071,372	\$ 793,721	135.0%

**Mason County Public Utility District No. 1
Schedule for Federal Financial Assistance
For the Fiscal Year Ended December 31, 2011**

Grantor Agency/Program Title	CFDA #	Direct Current Year Expenditure
Department of Agriculture/ Rural Electrification Loans and Loans Guarantees (RUS USDA)	10.850	\$ 3,880,000
TOTAL FEDERAL AWARDS EXPENDED		\$ 3,880,000

Notes to the Schedule of expenditures of Federal Awards

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the district's financial statements. The district uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

Note 2 – RUS Loans 10.850

The district was approved by the Rural Electrification loan program to receive a loan totaling \$8,555,000 to make electrical system improvements. The amount listed includes loan proceeds received during the year for outstanding loan fund balances available from prior years.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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