



# Washington State Auditor's Office

Independence • Respect • Integrity

## Financial Statements Audit Report

# Public Utility District No. 1 of Mason County

For the period January 1, 2014 through December 31, 2014

Published December 3, 2015

Report No. 1015614





## Washington State Auditor's Office

December 3, 2015

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

### **Report on Financial Statements**

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

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

Sincerely,

A handwritten signature in blue ink that reads "Jan M. Jutte".

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards .....	4
Independent Auditor's Report On Financial Statements .....	6
Financial Section.....	9
About The State Auditor's Office.....	48

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

## **Public Utility District No. 1 of Mason County January 1, 2014 through December 31, 2014**

Board of Commissioners  
Public Utility District No. 1 of Mason County  
Shelton, 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 Mason County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 17, 2015. As discussed in Note 13 to the financial statements, during the year ended December 31, 2014, the District implemented Governmental Accounting Standards Board *Statement No. 65, Items Previously Reported as Assets and Liabilities*.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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



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

## **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 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*.

## **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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

November 17, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Public Utility District No. 1 of Mason County January 1, 2014 through December 31, 2014**

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

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Public Utility District No. 1 of Mason County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

#### **Management's Responsibility 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; this includes 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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Mason County, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 13 to the financial statements, in 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

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 pages 46 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015 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 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

November 17, 2015

## **FINANCIAL SECTION**

### **Public Utility District No. 1 of Mason County January 1, 2014 through December 31, 2014**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Net Position – 2014

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Other Postretirement Benefits – Schedule of Funding Progress – 2014

MASON COUNTY PUBLIC UTILITY DISTRICT #1  
MANAGEMENT DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014

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, 2014. 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 position presents the District's assets and liabilities, with the difference between the two reported as net position. This statement provides information about the amount of investments in resources (assets), and the obligations to creditors (liabilities). The net position increases when revenues exceed expenses.

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

The statement of cash flows provides information about the district's cash receipts and 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.

Mason County PUD #1  
Statement of MDA  
For the Year Ended December 31, 2014

FINANCIAL ANALYSIS

2014 and 2013 Overview of Financial Analysis  
Provided in the Following Table.

Condensed Financial Information for December 31, 2014 and 2013 (In Millions)

Statement of Net Position	2014	2013	% Change
Current Assets and Special Funds	5.84	7.64	-0.24
Net Capital Assets	30.49	28.51	0.07
Total Assets	36.33	36.15	0.00
Current Liabilities	1.47	1.98	-0.26
Non Current Liabilities	11.61	11.77	-0.01
Total Liabilities	13.08	13.75	-0.05
Net Investments in Capital Assets	18.69	16.30	0.15
Restricted for Debt Service	0.79	0.59	0.34
Unrestricted	3.77	5.49	-0.31
Total Net Position	23.25	22.38	0.04
Statement of Revenues, Expenses and Change in Net Position			
Operating Revenues	8.71	8.08	0.08
Operating Expenses	-7.55	-7.25	0.04
Net Operating Income	1.16	0.83	0.40
Non Operating Revenues	0.10	0.04	1.50
Non Operating Expenses	-0.39	-0.41	-0.05
Non Operating Revenue (Expenses)	0.87	-0.36	-3.42
Income before Capital Contributions			
Extraordinary Items	0.87	0.47	0.85
Capital Contributions	0.00	0.00	0.00
Extraordinary Items			
Change in Net Position	0.87	0.47	0.85
Net Position - Beginning of Year	22.38	21.91	0.02
Net Position - End of Year	23.25	22.38	0.04

#### CURRENT ASSETS:

Cash and Cash Equivalents and Investments – This account has decreased by \$870,918 from 2013. The main reason was the District funded almost all capital improvements from General Funds.

Accounts Receivable – Net Sales - This account Decreased by \$31,110 from 2013. This is not considered a material difference.

Accounts Receivable – Other – This account has increased \$44,910 from 2013. The reason is that pole contacts increased in 2014 and were not sent until December of 2014.

Inventories – This account has decreased \$967,482 from 2013. The reason is the substation work order has been closed and the inventory has not been transferred to plant.

Other Current Assets – This account has decreased \$171,811 from 2013. The reasons are that miscellaneous construction was clear to plant.

#### NON-CURRENT ASSETS:

Capital Assets not depreciated – This has decreased by \$591,292 due to closing open work orders and decreasing land & land rights.

Capital Assets being Depreciated - This has Increased \$2,570,017 mainly from capital assets constructed in 2014

#### CURRENT LIABILITIES:

Accounts Payable – has decreased \$161,964 this is a normal decrease in the accounts payable from year to year.

Consumer Deposits – This account has increased \$3,227 this is a normal increase in deposits from year to year.

Bonds, Notes and Loans Payable – This account has decreased \$55,027 from 2013. This is due to refunding of the RUS loan.

Other Current Liabilities – This account has increased by \$3,325 from 2013. This is a normal increase from one year to the next.

#### NON-CURRENT LIABILITIES:

Long Term Debt – These accounts have decreased by 506,719 from the year 2013. The decrease in these accounts can be attributed to not borrowing for capital assets and paying off principal in 2014.

Other Non-Current liabilities – This account has increased \$35,169 due to the new OPEB actuarially increase done in 2013. This is a normal increase per year.



Net Position – The Net Position increased only \$866,101 from 2013. This is a normal increase from year to year.

#### OPERATING REVENUES:

Total Operating revenues increased \$633,688, This was due to the cold weather the District had throughout the year compared to the previous year. The District makes more revenue during cold peaks during the year. The District had a rate increase for electric in January 2014.

#### OPERATING EXPENSES:

Cost of Power – Increased \$131,294 this is a normal increase due to cold weather.

Transmission – This account has decreased \$108,495 due to the aerial transmission tree trimming not being performed as it did in 2013.

Distribution Expenses and Maintenance – This account has increased by \$99,029 due mainly to temporary labor employed during out tree trimming maintenance and an increase in tree trimming contract.

Customer Accounts Expense – This account decreased \$18,832 in 2014 which is a normal decrease from 2013.

General Administration – This account increased \$98,443 due mainly to an increase in healthcare costs and pension expense and labor increases.

Taxes – Taxes has increased \$31,283 which is due to increase in Privilege taxes from gross revenue.

Other Operating Expenses – This account has increased \$31,108 due to the one-time charge for the legal fees of refunding the RUS debt.

Total Non-Operating Revenues and Expenses – This account has decreased \$54,813 which was mainly to too the increase in merchandising and jobbing and the reduction of interest expense.

#### TOTAL NET POSITION:

The overall change in net position from 2013 increased \$866,101 mainly due to operating revenue increase from 2013.

Mason County PUD #1  
Statement of Net Position  
December 31, 2014

ASSETS:

Current Assets:

Cash and Cash Equivalents	\$	2,197,450.00
Investments	\$	1,175,547.00
Accounts Receivable (net)	\$	721,938.00
Accounts Receivable (other)	\$	118,183.00
Restricted Assets	\$	789,853.00
Inventories	\$	840,390.00
Other Current Assets	\$	<u>1,503.00</u>
 TOTAL CURENT ASSETS	 \$	 5,844,864.00

Noncurrent Assets

Outflows of Resources

Capital Assets Not Being Depreciated

Land & Land Rights	\$	604,507.00
Construction In Progress	\$	1,529,391.00

Capital Assets Being Depreciated

Transmission	\$	2,873,931.00
Distribution	\$	33,032,543.00
General Plant	\$	5,079,748.00
Less: Accumulated Depreciation	\$	<u>(12,629,694.00)</u>
Total Capital Assets (Net)	\$	28,356,528.00

TOTAL NON CURRENT ASSETS	\$	<u>30,490,426.00</u>
--------------------------	----	----------------------

TOTAL ASSETS	\$	<u><u>36,335,290.00</u></u>
--------------	----	-----------------------------

The Accompanying Notes are an Integral Part of This Statement

Mason County PUD #1  
Statement of Net Position  
December 31, 2014

LIABILITIES

Current Liabilities:

Accounts Payable	\$	573,519.00
Consumer Deposits	\$	95,926.00
Bonds, Notes and Loans Payable	\$	503,246.00
Other Current Liabilities	\$	<u>298,711.00</u>

TOTAL CURRENT LIABILITIES	\$	1,471,402.00
---------------------------	----	--------------

Noncurrent Liabilities:

Accrued Vacation And Holidays	\$	314,939.00
Long Term Debt - Loans	\$	6,962,602.00
Long Term Debt - Bonds	\$	4,161,107.00
Other Noncurrent Liabilities	\$	<u>174,759.00</u>

TOTAL NONCURRENT LIABILITIES	\$	<u>11,613,407.00</u>
------------------------------	----	----------------------

TOTAL LIABILITIES	\$	13,084,809.00
-------------------	----	---------------

NET POSITION

Net Investments in Capital Assets	\$	18,863,471.00
Restricted for Debt Service	\$	789,853.00
Unrestricted	\$	<u>3,597,157.00</u>

TOTAL NET POSITION	\$	<u><u>23,250,481.00</u></u>
--------------------	----	-----------------------------

The Accompanying notes are an integral part of this statement

Mason County PUD#1  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the Year Ended  
December 31, 2014

OPERATING REVENUES:

Sales - Residential	\$	6,929,461.00
Sales - General	\$	1,547,638.00
Sales - Street Lights	\$	92,731.00
Other Revenues	\$	143,312.00

Total Operating Revenues	\$	8,713,142.00
--------------------------	----	--------------

OPERATING EXPENSES:

Cost of Purchased Power	\$	2,806,573.00
Transmission Expense	\$	2,201.00
Distribution & Maintenance Expense	\$	1,119,222.00
Customer Service Expense	\$	211,014.00
Administration:		
General Administration	\$	1,764,328.00
Conservation	\$	(4,549.00)
Depreciation & Amortization	\$	1,016,797.00
Taxes	\$	543,576.00
Other Operating Expenses	\$	87,238.00

Total Operating Expenses	\$	7,546,400.00
--------------------------	----	--------------

OPERATING INCOME (LOSS)	\$	1,166,742.00
-------------------------	----	--------------

NON OPERATING REVENUE(EXPENSES):

Revenue from Merchandising/Jobbing and Contract Work	\$	53,808.00
(Costs and Expenses Merchandising Jobbing and Contract work)	\$	(31,459.00)
Interest and Dividend Income	\$	3,382.00
(Interest Expense and Related Charges)	\$	(361,806.00)
Other Nonoperating Revenues	\$	35,434.00

Total NonOperating Revenues(Expenses)	\$	(300,641.00)
---------------------------------------	----	--------------

CHANGE IN NET POSITION	\$	866,101.00
------------------------	----	------------

Total Net Position	January 1, 2014	\$	22,384,380.00
--------------------	-----------------	----	---------------

Total Net Position	December 31, 2014	\$	23,250,481.00
--------------------	-------------------	----	---------------

The Accompanying Notes are an Integral Part of This Statement

Mason County PUD #1  
Statement of Cash Flows  
For the Year Ended December 31, 2014

**CASH FLOWS from OPERATING ACTIVITIES:**

Receipts from Customers	\$	9,261,337.00
Payment to Suppliers	\$	(3,053,989.00)
Payments to Employees	\$	(2,602,842.00)
Other Receipts or Payments	\$	<u>(543,576.00)</u>
Net Cash Provided(used) by Operating Activities	\$	<u><u>3,060,930.00</u></u>

**CASH FLOWS from CAPITAL FINANCING ACTIVITIES:**

Proceeds from Capital Debt	\$	75,423.00
Acquisition and Construction of Capital Assets	\$	(2,995,521.00)
Principal Paid on Capital Debt	\$	(602,000.00)
Interest Paid on Capital Debt	\$	(361,806.00)
Capital Contributions	\$	30,465.00
Other Receipts (Payments)	\$	82,564.00
Net cash Provided (Used) by Capital and Related Financing Activities	\$	<u>(3,770,875.00)</u>

**CASH FLOWS from INVESTING ACTIVITIES**

Interest and Dividends		
Net Cash Provided by Investing Activities	\$	38,816.00
Net Increase (Decrease) in Cash and cash Equivalents	\$	(671,129.00)
Balances - Beginning of Year	\$	4,833,979.00
Balances - End of Year	\$	<u><u>4,162,850.00</u></u>

Mason County PUD #1  
Statement of Cash Flows  
For the Year Ended December 31, 2014

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (loss)	\$	1,166,742.00
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	\$	1,016,797.00
Other Deductions	\$	87,238.00
<b>Change In Assets and Liabilities</b>		
Receivables - Net	\$	(13,800.00)
Inventories	\$	967,482.00
Accounts and Others Payable	\$	(158,737.00)
Accrued Expenses	\$	(4,792.00)
Net cash Provided by Operating Activities	\$	<u>3,060,930.00</u>

The Accompanying Notes are an Integral Part of This Financial Statement

NOTES TO FINANCIAL STATEMENTS  
2014

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.

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.

## NOTES TO FINANCIAL STATEMENTS

2014

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

### 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, 2014, the treasurer was holding \$4,162,850 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents, restricted funds and Investments.

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.



## NOTES TO FINANCIAL STATEMENTS

2014

### 2. Restricted Funds

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	\$ 789,853
---------------	------------

### 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.

The PUD estimates its uncollectable write-offs and expenses it and then writes-off actual uncollectable's to an asset account

### 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.

## NOTES TO FINANCIAL STATEMENTS

2014

7. Other Property and Investments - See Note 2

8. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation. 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.

9. Other Accrued Liabilities

These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt - See Long-Term Debt Note 8

11. Investments – See note 2

### 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.

NOTES TO FINANCIAL STATEMENTS  
2014

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	\$4,162,850	\$4,162,850	\$4,162,850
Investment in Deferred Compensation			
Other Property	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Investments	<u>\$4,162,850</u>	<u>\$4,162,850</u>	<u>\$4,162,850</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.

## NOTES TO FINANCIAL STATEMENTS

2014

Restricted assets shown on the Statement of Net Position include the following investments:

	<u>Amortized Cost</u>	<u>Market</u>
Time Deposits	\$789,853	\$789,853
Other Securities	<u>                    </u>	<u>                    </u>
<b>TOTAL INVESTMENT OF RESTRICTED ASSETS</b>	<u><b>\$789,853</b></u>	<u><b>\$789,853</b></u>

### NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined by the District as assets with individual costs of more than \$1000 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.

# NOTES TO FINANCIAL STATEMENTS

2014

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, 2014 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Utility plant not being depreciated</b>				
Land	\$ 656,110	\$ 922	\$ (52,525)	\$ 604,507
Construction in progress	\$ 2,069,080	\$ 3,350,171	\$ (3,889,860)	\$ 1,529,391
<b>Total not being depreciated</b>	<b>\$ 2,725,190</b>	<b>\$ 3,351,093</b>	<b>\$ (3,942,385)</b>	<b>\$ 2,133,898</b>
<b>Utility plant being depreciated</b>				
Distribution and transmission plant	\$33,080,112	\$3,236,895	\$ (410,533)	\$35,906,474
General plant	\$ 4,610,134	\$ 542,642	\$ ( 73,028)	\$ 5,079,748
<b>Total Utility plant being depreciated</b>	<b>\$37,690,246</b>	<b>\$3,779,537</b>	<b>\$ (483,561)</b>	<b>\$40,986,222</b>
Less accumulated depreciation	\$(11,903,735)	\$ 515,492	\$ (1,241,451)	\$(12,629,694)
<b>Total utility plant being depreciated (net)</b>	<b>\$25,786,511</b>	<b>\$4,295,029</b>	<b>\$ (1,725,012)</b>	<b>\$28,356,528</b>
<b>Total Utility Plant (net)</b>	<b>\$28,511,701</b>	<b>\$ 7,646,122</b>	<b>\$ (5,667,397)</b>	<b>\$30,490,426</b>

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

Asset	Years
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



## NOTES TO FINANCIAL STATEMENTS

2014

### NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects for which authorizations total \$1,529,391. Of the committed balance of 1,529,391, the PUD will be required to raise \$ -0- in future financing.

### NOTE 5 - 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](http://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.

## NOTES TO FINANCIAL STATEMENTS

2014

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. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries, as defined by terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investments earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the director of DRS. During

NOTES TO FINANCIAL STATEMENTS  
2014

DRS Fiscal Year 2013 the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The Monthly Benefit is 2 percent of the average final compensation (AFC) per year of service. But the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to age of 60 consist of temporary life annuity. The benefit amount is \$350 a month, or two-thirds AFC 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 members attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with 5 years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member 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 survivor option. Plan 1 members may



## NOTES TO FINANCIAL STATEMENTS

2014

elect to receive an optional COLA amount (based on the Consumer Price Index), Capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost of living allowance is granted (based on Consumer Price Index), capped at 3 percent annually.

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, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 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 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

NOTES TO FINANCIAL STATEMENTS  
2014

PERS Plan 3 has a dual benefit structure. Employer Contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS 3.

PERS Plan 3 defined contribution retirement benefits are dependant upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal year 2013, PERS Plan 3 employee contributions were 99.0 Million, and plan refunds paid out were 69.4 million

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after 5 years of service, if twelve months of that service are earned after age 44; or after 5 service credit years earned in PERS 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

## NOTES TO FINANCIAL STATEMENTS

2014

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, and were hired before May 1, 2013, 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.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of survivor option. 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 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 a 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 members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies 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 the members covered employment, if found eligible by the Department of Labor and Industries.

NOTES TO FINANCIAL STATEMENTS  
2014

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, 2013:

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Active Plan Members Nonvested	<u>101,191</u>
Total	368,272

Funding 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. 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.



# NOTES TO FINANCIAL STATEMENTS

2014

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2014, are as follows

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	9.21 % **	9.21 % **	9.21 % ***
Employee	6.00 % ****	4.92 % ****	*****

\* The Employer Rates include the employer Administrative expense fee currently set at 0.18%.

\*\* The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% 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 4.92% 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, 2014 were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2014	\$5,876	\$155,061	\$8,337
2013	\$8,647	\$127,287	\$7,039
2012	\$7,434	\$111,346	\$3,981

## NOTES TO FINANCIAL STATEMENTS

2014

### NOTE 6 - 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 7 - 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 \$10,000,000 umbrella policy. No Insurance settlements has exceeded insurance coverage in the past 3 years. The Risk of loss to the PUD is covered by

- Liability Coverage in the amount of \$12,000,000. This Covers all our General Liability, Property Damage, Automobile Coverage, Personal Injury, Medical Payments and Valuable Papers.
- Employee Dishonesty, Money, and Securities in the Amount of \$4,000,000.
- Directors, Officers and Managers Liability and Corporate Indemnification Policy in the amount of \$1,000,000
- Worker Compensation Insurance of \$100,000

NOTES TO FINANCIAL STATEMENTS  
2014

NOTE 8 - LONG-TERM DEBT

A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2014 , including Interest are as follows:

Calendar Year Ending December 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 512,155	\$347,271	\$ 859,426
2016	513,397	334,915	848,312
2017	511,750	318,838	830,588
2018	2,501,484	307,451	2,808,935
2019	506,483	259,015	765,498
2020-2024	2,266,971	1,072,371	3,339,342
2025-2029	1,913,487	743,997	2,657,484
2030-2034	1,653,512	377,414	2,030,926
2035-2039	596,923	163,570	760,493
2040-2044	596,923	78,758	675,681
 Total	 \$11,573,085	 \$4,003,600	 \$15,576,685

There is \$ 759,853 in restricted assets of the PUD. These represent reserve requirements as contained in the Various indentures.

Debt issuance costs are expenses in the period incurred and bonds are displayed net of premium or discount. Annual interest expense is decreased by amortization of debt premium.

The PUD uses a combination of RUS debt, Revenue Bonds and Line of credit for the electrical portion of financing its debt structures The RUS is 2.853% for \$3,531,538. The retirement of the LTD ranges from -

2015-2044 = \$3,581,538 RUS – Treasury, Matures December 31, 2044

## NOTES TO FINANCIAL STATEMENTS

2014

The original amount the District can borrow under the Y-48 Treasury loan is \$8,555,000 which leaves \$4,675,000 un-advanced portion of the loan. The District will not borrow this money in the future.

### The Summary and Range of Materials –

RUS, Bond Loans and Line of Credit were purchased for Electrical Distribution, Transmission and Special Equipment Replacements and Additions. They include - Wire, Transformers, Meters, Conduit and Poles, and other electric equipment.

On June 6<sup>th</sup>, 2014, The District issued 3,585,000 Bond for refinancing the RUS Debt of 5%. The bonds Bear and average interest rate of 2% to 5% and will be redeemed over the next 20 years. This Bond replaces the RUS debt that was to be amortized over the next 28 Years. The total savings over the next 20 years is \$874,000. The bond was sold at a premium of \$55,251.50.

### 2014 Bond –

Balance	Maturity
\$3,525,000	12/01/1933

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 Loans - \$1,666,546

System	Balance	Maturity	Loan Number
Highland Estates	\$ 3,758	07/01/2015	PW-5-95-791-063
Union Water	\$16,833	07/01/2016	PW-5-96-791-033
Hood Canal Water	\$26,462	07/01/2016	PW-5-791-305
Hoodsport Water	\$45,797	07/01/2017	PW-97-791-009
Lake Arrowhead Water	\$319,178	10/01/2021	PW-00-65120-013
Pirates Cove Water	\$78,528	10/01/2021	PW-00-65120-022
Arcadia Estates Water	\$55,550	10/01/2025	PW-05-691-034
Canal Tracts Water	\$102,449	10/01/2025	PW-05-691-037



# NOTES TO FINANCIAL STATEMENTS

2014

Canal Mutual Water	\$178,095	07/01/2027	PW-07-962-302
Hoodsport Water	\$330,850	10/01/2029	PW-99-65199-035
Madronna Beach	\$ 59,805	10/01/2030	DR-09-952-070
Hood Canal Water	\$449,241	10/01/2031	PC12-951-081

2002 Revenue Bond – \$800,000, Maturity December 1, 2022

Union Water -	\$32,584
Highland Park Water-	\$30,709
Hoodsport Water-	\$52,629
Hood Canal Water-	\$11,112
Lakewood Heights Water-	\$23,203
Hartstene Retreat Water-	\$29,789
Cherry Park Water-	\$28,573
Tiger Lakes Water-	\$10,165
Bayshore Water-	\$21,651
Bay East-	\$36,024
View Ridge heights Water-	\$118,083
Alderbrook Water-	\$387,598
Madronna Sewer-	\$17,880

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.

NOTES TO FINANCIAL STATEMENTS  
2014

	Beginning Balance 01/01/2014	Additions	Reductions	Ending Balance 12/31/2014	Due Within One Year
Bonds Payable:					
Water Revenue Bonds	880,000		80,000	800,000	80,000
2014 Revenue Bonds		3,585,000	60,000	3,525,000	135,000
2014 Bond Premium		55,251	1,381	53,870	2,763
RUS Loans	7,524,506		3,942,967	3,581,539	107,713
PWTF Loans	1,784,195		117,649	1,666,546	177,770
Line of Credit	2,000,000	- 0-	-0-	2,000,000	-0-
OPEB	139,590	35,169		174,759	35,169
Compensated Absences	314,916	22,002	21,979	314,939	
Total Long-term Liabilities	12,643,207	3,697,422	4,223,976	12,116,653	538,415

NOTE 10 - 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

NOTES TO FINANCIAL STATEMENTS  
2014

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 11 - 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

## NOTES TO FINANCIAL STATEMENTS

2014

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 12 – 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.



## NOTES TO FINANCIAL STATEMENTS

2014

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 54 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 March 1, 2013 by Menard Consulting, Inc.

The PUD's annual Post-Retirement healthcare benefit is calculated based on the annual required contribution (ARC) of the employer using the Alternative Measurement Method, 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 Interest on the Net OPEB obligation is \$577 and adjustments to the annual required contributions are \$(1,076). The Amortization period is for 30 Years. The

NOTES TO FINANCIAL STATEMENTS  
2014

amortization period is opened. The following table shows the components of the PUD's annual Post-Retirement -

Cost for the year ended December 31, 2014:

	Dec. 31, 2014	Dec. 31, 2013	Dec. 31, 2012
Annual Required Contribution	\$125,536	\$ 125,536	\$125,536
Contributions made	<u>\$ 90,367</u>	<u>\$ 90,367</u>	<u>\$ 90,367</u>
Net Post-Retirement Obligation	\$ 35,169	\$ 35,169	\$ 35,169
Net OPEB Obligation – December 31, 2012		\$35,169	
Net OPEB Obligation - December 31, 2013		\$35,169	
Net OPEB Obligation - December 31, 2014		\$35,169	

Assumptions

The District used Menard Consulting Inc. Actuaries to provide the method and calculation For the Post retirement benefits . The discount rate used was 2.5% 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)

## NOTES TO FINANCIAL STATEMENTS

2014

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 7.90% grading uniformly over 10 years to a 5% rate. The medical trend rate is based on the 2012 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 2014, 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, 2014, the Actuarial Accrued Liability was \$1,147,497.

Note 13 –

The District implemented GASB Statement No. 65, Items Previously Reported as Assets And Liabilities

NOTE 14 - SEGMENT REPORTING  
ASSETS

	2014 <u>ELECTRIC</u>	2014 <u>WATER</u>	2014 <u>SEWER</u>	<u>Total</u>
<b>CURRENT ASSETS</b>				
Cash And Cash Equivalents	\$2,203,835.00	-\$6,039.00	-\$346.00	\$2,197,450.00
Investments	\$1,078,225.00	\$83,122.00	\$14,200.00	\$1,175,547.00
Accounts Receivable - Net Sales	\$582,407.00	\$139,477.00	\$54.00	\$721,938.00
Accounts Receivable - Other	\$121,417.00	(\$3,234.00)	\$0.00	\$118,183.00
Restricted Assets	\$497,345.00	\$287,013.00	\$5,495.00	\$789,853.00
Inventories	\$554,145.00	\$281,171.00	\$5,074.00	\$840,390.00
Other Current Assets	-\$121.00	\$1,627.00	\$0.00	\$1,506.00
Total Current Assets	\$5,037,253.00	\$783,137.00	\$24,477.00	\$5,844,867.00
<b>NON-CURRENT ASSETS</b>				
Capital Assets Not Being Depreciated				
Land and Land Rights	\$550,760.00	\$42,246.00	\$11,501.00	\$604,507.00
Construction in Progress	\$886,803.00	\$642,529.00	\$59.00	\$1,529,391.00
Capital Assets Being Depreciated				
Transmission	\$2,873,931.00	\$0.00	\$0.00	\$2,873,931.00
Distribution	\$22,992,042.00	\$9,987,479.00	\$53,020.00	\$33,032,541.00
General Plant	\$4,147,012.00	\$932,738.00	\$0.00	\$5,079,750.00
Less: Accumulated Depreciation	(\$9,874,866.00)	(\$2,741,776.00)	(\$13,052.00)	(\$12,629,694.00)
Total Capital Assets (net)	\$20,138,119.00	\$8,178,441.00	\$39,968.00	\$28,356,528.00
Total Non-Current Assets	\$21,575,682.00	\$8,863,216.00	\$51,528.00	\$30,490,426.00
Total Assets	\$26,612,935.00	\$9,646,353.00	\$76,005.00	\$36,335,293.00
<b>LIABILITIES</b>				
	2014 <u>ELECTRIC</u>	2014 <u>WATER</u>	2014 <u>SEWER</u>	<u>Total</u>
<b>Current Liabilities</b>				
Accounts Payable	\$573,519.00	\$0.00	\$0.00	\$573,519.00
Consumer Deposits	\$81,670.00	\$14,256.00	\$0.00	\$95,926.00
Bonds, Notes and Loans Payable	\$245,476.00	\$255,370.00	\$2,400.00	\$503,246.00
Other Current Liabilities	\$233,551.00	\$63,722.00	\$1,441.00	\$298,714.00
Total Current & Accrued Liabilities	\$1,134,216.00	\$333,348.00	\$3,841.00	\$1,471,405.00
<b>Non-Current Liabilities</b>				
OPEB	\$174,759.00	\$0.00	\$0.00	\$174,759.00
Accrued Vacation & Holidays	\$314,939.00	\$0.00	\$0.00	\$314,939.00
Long-Term Debt - LOANS	\$6,914,933.00	\$1,488,776.00	\$0.00	\$8,403,709.00
Long-Term Debt - OTHER	\$2,000,000.00	\$704,520.00	\$15,480.00	\$2,720,000.00
Total Long-Term Debt	\$9,404,631.00	\$2,193,296.00	\$15,480.00	\$11,613,407.00
TOTAL LIABILITIES	\$10,538,847.00	\$2,526,644.00	\$19,321.00	\$13,084,812.00
<b>Net Position</b>				
Net Investments in Capital Assets	\$12,415,271.00	\$6,414,550.00	\$33,650.00	\$18,863,471.00
Restricted For Debt Service	\$497,345.00	\$287,013.00	\$5,495.00	\$789,853.00
Unrestricted	\$3,318,826.00	\$254,039.00	\$24,292.00	\$3,597,157.00
Total Net Position	\$16,231,442.00	\$6,955,602.00	\$63,437.00	\$23,250,481.00
TOTAL NET POSITION AND LIABILITIES	\$26,770,289.00	\$9,482,246.00	\$82,758.00	\$36,335,293.00
the accompanying notes are an integral part of this statement				



NOTE 14- SEGMENT REPORTING

STATEMENT OF REVENUE, EXPENSES AND  
AND CHANGES IN FUND NET POSITION

	2014 ELECTRIC	2014 WATER	2014 SEWER	TOTAL
<b>OPERATING REVENUES</b>				
Sales Residential	\$ 5,602,552.00	\$1,317,688.00	\$9,221.00	\$ 6,929,461.00
Sales - General	\$ 1,547,638.00	\$0.00	\$0.00	\$ 1,547,638.00
Sales Street Lights	\$ 92,731.00	\$0.00	\$0.00	\$ 92,731.00
Miscellaneous Other revenues	\$ 130,574.00	\$12,738.00	\$0.00	\$ 143,312.00
<b>Total Operating Revenues</b>	<b>\$ 7,373,495.00</b>	<b>\$ 1,330,426.00</b>	<b>\$ 9,221.00</b>	<b>\$ 8,713,142.00</b>
<b>OPERATING EXPENSES</b>				
Cost of Purchased Power	\$ 2,720,665.00	\$85,908.00	\$0.00	\$ 2,806,573.00
Transmission Expenses	\$ 2,201.00	\$0.00	\$0.00	\$ 2,201.00
Distribution & Maintenance Expense	\$ 855,103.00	\$260,150.00	\$3,969.00	\$ 1,119,222.00
Customer Services Expense	\$ 169,460.00	\$41,554.00	\$0.00	\$ 211,014.00
Administrative and General	\$ 1,523,435.00	\$236,317.00	\$30.00	\$ 1,759,782.00
Depreciation	\$ 779,562.00	\$235,899.00	\$1,336.00	\$ 1,016,797.00
Taxes	\$ 456,978.00	\$86,243.00	\$355.00	\$ 543,576.00
Other Deductions	\$ 87,238.00	\$0.00	\$0.00	\$ 87,238.00
<b>Total Operating Expenses</b>	<b>\$ 6,594,642.00</b>	<b>\$ 946,071.00</b>	<b>\$ 5,690.00</b>	<b>\$ 7,546,403.00</b>
<b>NET OPERATING INCOME</b>	<b>\$ 778,853.00</b>	<b>\$ 384,355.00</b>	<b>\$ 3,531.00</b>	<b>\$ 1,166,739.00</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>				
Revenue From Merchandising, Jobbing And Contract Work	\$ 47,250.00	\$6,561.00	\$0.00	\$ 53,811.00
Costs and Expenses of Merchandising, Jobbing and Contract Work	\$ (29,500.00)	(\$1,959.00)	\$0.00	\$ (31,459.00)
Interest and Dividend Income	\$ 2,636.00	\$716.00	\$30.00	\$ 3,382.00
Other Revenues				
Interest on Long-Term Debt	\$ (299,530.00)	(\$61,002.00)	(\$1,274.00)	\$ (361,806.00)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>\$ (279,144.00)</b>	<b>\$ (55,684.00)</b>	<b>\$ (1,244.00)</b>	<b>\$ (336,072.00)</b>
<b>Income Before Contributions Extra Ordinary Items</b>	<b>\$ 499,709.00</b>	<b>\$ 328,671.00</b>	<b>\$ 2,287.00</b>	<b>\$ 830,667.00</b>
Capital Contributions	\$ -	\$35,434.00	\$0.00	\$ 35,434.00
<b>Change In Net Position</b>	<b>\$ 499,709.00</b>	<b>\$ 364,105.00</b>	<b>\$ 2,287.00</b>	<b>\$ 866,101.00</b>
<b>Total Net Postion January 1</b>	<b>\$ 15,731,734.00</b>	<b>\$6,591,496.00</b>	<b>\$61,150.00</b>	<b>\$ 22,384,380.00</b>
<b>Total Net Position December 31</b>	<b>\$ 16,231,443.00</b>	<b>\$ 6,955,601.00</b>	<b>\$ 63,437.00</b>	<b>\$ 23,250,481.00</b>

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

**Required Supplementary Information**  
**Other Post retirement Benefits**  
**Schedule of Funding Progress (December 31, 2014)**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2010	\$ -	\$ 967,845.00	\$ 967,845.00	0%	\$ 1,623,443.00	59.60%
12/31/2011	\$ -	\$ 967,845.00	\$ 967,845.00	0%	\$ 1,640,596.00	59.00%
12/31/2012	\$ -	\$ 1,147,497.00	\$ 1,147,497.00	0%	\$ 1,703,702.00	67.40%
12/31/2013	\$ -	\$ 1,147,497.00	\$ 1,147,497.00	0%	\$ 1,777,913.00	64.50%
12/31/2014	\$ -	\$ 1,147,497.00	\$ 1,147,967.00	0%	\$ 1,906,000.00	60.22%

\* Based on Projected unit credit actuarial cost method

# Mason County PUD #1

## Schedule of State Financial Assistance

For the Year Ended December 31, 2014

<u>Grantor</u>	<u>Program Title</u>	<u>Identification Number</u>	<u>Amount</u>
PWTF	Water Rehabilitation Project	PWSID 34050M	\$ 75,423.00
Legislative Jobs Grant	Water Rehabilitation Project	PWSID 10995	\$ 109,150.00
		Grand Total	\$ 184,573.00

## 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.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

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.

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 as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>