Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No 1 of Mason County

For the period January 1, 2017 through December 31, 2017

Published January 28, 2019

Report No. 1023163

Office of the Washington State Auditor
Pat McCarthy

January 28, 2019

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,

Pat McCarthy

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*

Public Utility District No 1 of Mason County
January 1, 2017 through December 31, 2017

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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 22, 2019.

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.

Pat McCarthy

State Auditor

Olympia, WA

January 22, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No 1 of Mason County
January 1, 2017 through December 31, 2017

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, as of and for the year ended December 31, 2017, 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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 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 January 22, 2019 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.

Pat McCarthy

State Auditor

Olympia, WA

January 22, 2019

FINANCIAL SECTION

Public Utility District No 1 of Mason County
January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017
Statement of Revenues, Expenses and Changes in Fund Net Position – 2017
Statement of Cash Flows – 2017
Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – PERS – 2017
Schedule of Proportionate Share of Net Pension Liability – PERS – 2017
Other Post Retirement Benefits – Scheduling of Funding Progress – 2017

Mason County Public Utility District #1

Management Discussion and Analysis

December 31, 2017

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 ending December 31, 2017, with additional comparative data for 2016.

Overview of the Financial Statements

The following Management Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements and accompanying notes, and if applicable, any other supplementary information required as part of the basic financial statements.

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

The basic financial statements, presented for the year ended December 31, 2017, are comprised of:

- **Statement of Net Position:** The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.

- **Statement of Revenue, Expenses, and Changes in Fund Net Position:** This statement provides detail on the revenues and expenses for the year. 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 of its costs through user fees and other charges.

- **Statement of Cash Flows**: The Statement of Cash Flows provides information on the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing.

The Notes to the Financial Statements provided at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the District's financial statements.

Financial Analysis

The District's assets and deferred outflows exceeded liabilities and deferred inflows by $25.4 million at the close of fiscal year 2017. Net position over time may serve as a useful indicator of a government's financial position.

Condensed Financial Information for December 31, 2017 and 2016 (In Thousands)

Statement of Net Position	2017	2016	% Change
Current Assets and Special Funds	5,291.00	5,703.00	-6%
Net Capital Assets	33,565.00	32,690.00	3%
Deferred Outflow of Resources	222.00	375.00	-41%
Total Assets	39,078.00	38,768.00	1%
Current Liabilities	1,299.00	1,437.00	-3%
Non-Current Liabilities	12,018.00	13,501.00	-11%
Total Liabilities	13,317.00	14,938.00	-10%
Deferred Inflows of Resources	321.00	35.00	100%
Net Investments in Capital Assets	22,987.00	21,061.00	11%
Restricted for Customer Deposits	99.00	102.00	-3%
Restricted for Debt Service	541.00	892.00	-23%
Unrestricted	1,813.00	1,740.00	-27%
Total Net Position	25,440.00	23,795.00	7%

The largest portion of the District's net position (90 percent) reflects investments in capital assets (land, buildings, substations, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers. Although the District's investments in capital assets are reported net of related debt, its important to note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

3 percent of the District's net position reflects resources that are subject to external restrictions on how they may be used. Specifically restricted for debt service payments and customer deposits. The remaining 7 percent is unrestricted and may be used to meet the District's ongoing obligations.

The District's overall net position increased by $1.6 million from the prior fiscal year. The reasons for this increase are discussed in the following sections.

Statement of Revenues, Expenses and Change in Net Position

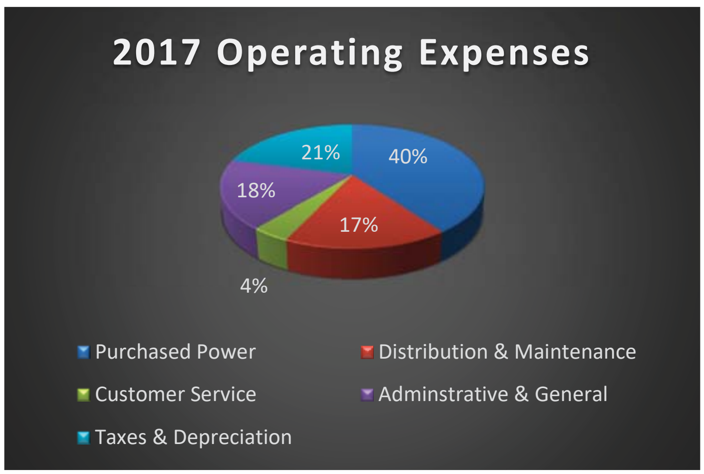
	2017	2016	% Change
Operating Revenues	10,007.00	9,297.00	8%
Operating Expenses	(8,037.00)	(7,925.00)	1%
Net Operating Income	1,970.00	1,372.00	44%
Non-Operating Revenues	180.00	124.00	45%
Non-Operating Expenses	(356.00)	(372.00)	-4%
Net Operating Revenue (Expenses)	1,794.00	1,124.00	60%
Change In Net Position	1,794.00	1,124.00	60%
Net Position - Beginning of Year	23,795.00	22,624.00	5%
Prior Period Changes in Net Position	(149.00)	47.00	-328%
Net Position - End of Year	25,440.00	23,795.00	7%

The District's total revenue increased by $766 thousand dollars from 2016 to 2017 to $10.2 million. This was mainly due to increased customer consumption in kWh. In 2016 the total kWh consumption was approximately 69.8 million, while in 2017, the total consumption was around 76.9 million, for an overall increase of 7.1 million kWh. The winter months were generally colder in 2017, which in turn generated higher energy usage, therefore increasing district revenue. Other non-operating revenues increased primarily due to an increase in system development fees collected for new water system connections.

In 2017, the District's revenue was primarily residential, making up 81% of the overall revenue for 2017, with general covering 18%, and the remaining 1% made up of other miscellaneous revenue, including street lights.

The District's operating expenses include transmission and distribution, customer services, and administrative and general expenses. Overall, the operating expenses increased by $112 thousand dollars from 2016 to 2017. Approximately 40% of the District's operating expenses are derived from purchased power, with $206 thousand dollars in additional power cost in 2017. As customer consumption increases, the cost of purchased power will also increase. The distribution operating and maintenance increased by $177 thousand dollars in 2017, as additional maintenance projects were completed. Customer and Informational expenses increased by $74 thousand dollars in 2017 and the District's general and administrative costs decreased in 2017 by $307 thousand dollars, primarily due to recognizing the net change in deferred inflows / outflows, and the pension liability for 2017 against pension expense, as per GASB 68 reporting requirements.

In summary, the overall financial condition of the District improved from 2016 to 2017. The total revenues increased by $766 thousand, and total expenses increased by $112 thousand. The district's ending net position was $25.4 million, an increase of $1.6 million in 2017.



Capital Asset and Long-Term Debt Activity

At the end of 2017, the District invested $1.8 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2016 to 2017 was 4%.

Capital Assets (in thousands)

	2017	2016	% Change
Land	921	857	8%
Plant in Service	46,933	44,494	6%
Construction Work in Progress	851	1,530	-56%
Total Capital Assets	48,705	46,881	4%

Construction in progress saw a decrease of over half of 2016's balance at year end. This was due to many work orders that were started at the end of 2016, and not completed until 2017.

Long Term Debt – At the end of 2017, the District had $10.6 million in outstanding debt. The District paid off $720 thousand of water revenue bonds in 2017, in conjunction with regular debt service payments, the overall debt decreased by 9% from 2016 to 2017. More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.

Requests for Information

The financial reports is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the District Accountant at N. 21971 Hwy. 101, Shelton, WA 98584.

Mason County PUD #1
Statement of Net Position
December 31, 2017

ASSETS:

Current Assets:		
Cash and Cash Equivalents		
Cash & Working Funds	$	940,484.00
Investments	$	2,016,629.00
Accounts Receivable (net)	$	909,306.00
Accounts Receivable (other)	$	90,663.00
Inventories	$	693,548.00
TOTAL CURRENT ASSETS	$	4,650,630.00
Noncurrent Assets:		
Restricted Assets		
Debt Service Reserves	$	541,354.00
Customer Deposits	$	99,576.00
Total Restricted Assets	$	640,930.00
Capital Assets Not Being Depreciated:		
Construction In Progress	$	850,919.00
Land & Land Rights	$	920,761.00
Total Capital Assets Not Being Depreciated	$	1,771,680.00
Capital Assets Being Depreciated:		
Distribution	$	38,516,115.00
General Plant	$	5,126,476.00
Transmission	$	3,290,836.00
Less: Accumulated Depreciation	$	(15,140,289.00)
Total Capital Assets Being Depreciated (Net)	$	31,793,138.00
Total Capital Assets	$	33,564,818.00
TOTAL NONCURRENT ASSETS	$	34,205,748.00
TOTAL ASSETS	$	38,856,378.00
Deferred Outflows Of Resources:		
Outflows of Resources Relating to Pensions	$	222,235.00
TOTAL OUTFLOWS OF RESOURCES:	$	222,235.00
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	39,078,613.00

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Net Position
December 31, 2017

LIABILITIES

Current Liabilities:

Accounts Payable	$	550,622.00
Consumer Deposits	$	91,431.00
Current Portion of Bonds, Notes and Loans Payable	$	404,246.00
Other Current Liabilities	$	252,866.00
TOTAL CURRENT LIABILITIES	$	1,299,165.00
Noncurrent Liabilities:		
Accrued Vacation And Holidays	$	427,304.00
Long Term Debt - Loans	$	7,159,146.00
Long Term Debt - Bonds	$	3,014,202.00
OPEB	$	68,085.00
Net Pension Liability	$	1,349,235.00
TOTAL NONCURRENT LIABILITIES	$	12,017,972.00
TOTAL LIABILITIES	$	13,317,137.00
Deferred Inflows of Resources:		
Deferred Inflows Related to Pensions	$	320,813.00
TOTAL DEFERRED INFLOWS OF RESOURCES	$	320,813.00
NET POSITION		
Net Investments in Capital Assets	$	22,987,224.00
Restricted for Customer Deposits	$	99,576.00
Restricted for Debt Service	$	541,354.00
Unrestricted	$	1,812,509.00
TOTAL NET POSITION	$	25,440,663.00
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$	39,078,613.00

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD No. 1
Statement of Revenues, Expenses and Changes in Fund Net Position
December 31, 2017

OPERATING REVENUES:			
Sales - Residential		$	8,061,971.00
Sales - General		$	1,743,084.00
Sales - Street Lights		$	79,742.00
Other Revenues		$	122,987.00
Total Operating Revenues		$	10,007,784.00
OPERATING EXPENSES:			
Cost of Purchased Power		$	3,222,206.00
Transmission Expense		$	7,436.00
Distribution & Maintenance Expense		$	1,294,734.00
Customer Service Expense		$	307,763.00
General Administration		$	1,402,855.00
Depreciation & Amortization		$	1,211,917.00
Taxes		$	585,915.00
Other Operating Expenses		$	4,180.00
Total Operating Expenses		$	8,037,006.00
OPERATING INCOME		$	1,970,778.00
NON-OPERATING REVENUE(EXPENSES):			
Revenue from Merchandising/Jobbing and Contract Work		$	37,620.00
Costs and Expenses Merchandising Jobbing and Contract work		$	(34,399.00)
Interest and Dividend Income		$	24,200.00
Interest Expense and Related Charges		$	(321,318.00)
Other Non-Operating Revenues		$	117,847.00
Total Non-Operating Revenues(Expenses)		$	(176,050.00)
CHANGE IN NET POSITION		$	1,794,728.00
Total Net Position	January 1, 2017	$	23,795,087.00
PRIOR PERIOD CHANGES IN NET POSITION		$	(149,152.00)
Total Net Position	December 31, 2017	$	25,440,663.00

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31, 2017

CASH FLOWS from OPERATING ACTIVITIES:		
Receipts from Customers	$	10,152,909.00
Payments to Suppliers	$	(4,244,376.00)
Payments to Employees	$	(2,294,118.00)
Other Receipts or Payments	$	(464,974.00)
Net Cash Provided(used) by Operating Activities	$	3,149,441.00
CASH FLOWS from CAPITAL FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	$	(2,132,055.00)
Principal Paid on Capital Debt	$	(1,046,749.00)
Interest Paid on Capital Debt	$	(326,695.00)
Net cash Provided (Used) by Capital and Related Financing Activities	$	(3,505,499.00)
CASH FLOWS from INVESTING ACTIVITIES		
Interest and Dividends		
Net Cash Provided by Investing Activities	$	24,200.00
Net Increase (Decrease) in Cash and Cash Equivalents	$	(331,858.00)
Cash and Cash Equivalents Balances - Beginning of Year	$	3,929,902.00
Cash and Cash Equivalents Balances - End of Year	$	3,598,044.00

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31, 2017

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

Operating Income (Loss)	$	1,970,778.00
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	$	1,211,917.00
Other Deductions	$	145,268.00
Change In Assets and Liabilties		
Deferred Credits	$	138,281.00
Receivables - Net	$	(10,342.00)
Inventories	$	89,801.00
Accounts and Other Payable	$	159,015.00
Accrued Expenses	$	(555,277.00)
Net Cash Provided by Operating Activities	$	3,149,441.00

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statements of the district have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

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

   An elected 3-member board of commissioners 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 the 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 revenue and expenses.

C. Assets, Liabilities, Fund Balance, Net Position

   1. Cash and Cash Equivalents

      It is the PUD's policy to invest all temporary cash surpluses, in excess of the operating reserve in the Washington State Treasurer's Investment Pool. At December 31, 2017, the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

treasurer was holding $2,547,983.28 in short term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents, restricted assets, and investments in various funds.

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

2. Investments – See Note 2, Deposits and Investments.

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 contract receivables consist of amounts owed on open accounts from private individuals or organizations for goods and services rendered.

   The PUD writes off accounts deemed to be uncollectible to the bad debt expense account.

4. Inventories
Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time the individual inventory items are consumed. The reserve for inventory is equal to the ending amount of inventory to indicate that a portion of the balance is not available for future expenditures. A comparison market value is not necessary.

   Inventories are expensed using the FIFO reporting method, where the inventory acquired first is expensed, over time.

5. Restricted Assets
These accounts contain resources for debt service and customer deposits. Specific debt service reserve requirements are described in Note 8, Long-Term Debt.

   The restricted assets of the district are composed of the following:

Cash and Investments – Debt Service	$541,354
Cash and Investments – Customer Deposits	$99,577

6. Capital Assets and Depreciation – See Note 3.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

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

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

9. Other Accrued Liabilities
   These accounts consist of accrued wages and accrued employee benefits.

10. Long-Term Debt – See Note 8.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits
   Cash on hand at December 31, 2017 was $1,040,060.81.

   Custodial credit risk for deposits is the risk that, in event of a failure of a depository institution, the district would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The district's deposits and certificates of deposit 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). Therefore, there are no policy and no custodial credit risks.

B. Investments

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

   Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

requirements set forth by the GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption rates on participant withdrawals.

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, r other than quoted prices that are note observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2017, the district had the following investments measured at fair value:

		Fair Value Measurement Using		
Investments by Fair Value Level	**12/31/2017**	**Quoted Price in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Class A Equity Investment	$ 10,000.00	$ 10,000.00	$ -	$ -
Investments measured at amortized cost				
State Local Government Investment Pool (LGIP)	$2,547,983.00			
Total Investments in Statement of Net Position	**$2,557,983.00**			

NOTE 3- CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined by the PUD as assets with individual costs of more than $2,500 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) or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

NOTE 3- CAPITAL ASSETS AND DEPRECIATION (continued)

Capital asset activity for the year ended December 31, 2017 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant Not Being Depreciated				
Land	$ 856,639.00	$ 64,122.00	$ 0.00	$ 920,761.00
Construction in Progress	$ 1,529,916.00	$ 3,252,206.00	$ (3,931,203.00	$ 850,919.00
Total Utility Plant Not Being Depreciated	**$ 2,386,555.00**	**$ 3,316,328.00**	**$ (3,931,203.00**	**$ 1,771,680.00**
Utility Plant Being Depreciated				
Distribution and Transmission Plant	$ 39,565,342.00	$ 2,549,396.00	$ (307,787.00)	$ 41,806,951.00
General Plant	$ 4,928,965.00	$ 232,263.00	$ (34,752.00)	$ 5,126,476.00
Total Utility Plant Being Depreciated	**$ 44,494,307.00**	**$ 2,781,659.00**	**($342,539.00)**	**$ 46,933,427.00**
Less Accumulated Depreciation	$ (14,231,642.00)	$1,211,917.00	($303,270.00)	$ (15,140,289.00)
Total Utility Plant Being Depreciated (Net)	**$ 30,262,665.00**	**$ 1,569,742.00**	**($39,269.00)**	**$ 31,793,138.00**
Total Utility Plant (Net)	**$ 32,649,220.00**	**$ 4,886,070.00**	**($3,970,472.00**	**$ 33,564,818.00**

NOTE 4-CONSTRUCTION IN PROGRESS

Construction in progress represents costs on projects for which authorizations total $850,919.00. Of the committed balance of $850,919.00, the PUD will be required to raise $0.00 in future financing.

NOTE 5 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	($1,349,235)
Pension assets	$0.00
Deferred outflows of resources	$222,235
Deferred inflows of resources	($320,813)
Pension expense/expenditures	$20,199

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) which 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 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

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

NOTE 5 – PENSION PLANS (Continued)

<u>Contributions</u>

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

NOTE 5 – PENSION PLANS (Continued)

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee***
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	**11.18%**	**6.00%**
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	**12.70%**	**6.00%**

* For employees participating in JBM, the contribution rate was 12.26%.

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

- With a benefit that is reduced by three percent for each year before age 65; or

- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three

NOTE 5 – PENSION PLANS (Continued)

percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a

choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2/3***
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	**11.18%**	**6.12%**
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	**12.70%**	**7.38%**

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The district's actual PERS plan contributions were $91,298 to PERS Plan 1 and $128,046 to PERS Plan 2/3 for the year ended December 31, 2017.

NOTE 5 – PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation

- **Salary increases**: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.

- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.

- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan

NOTE 5 – PENSION PLANS (Continued)

members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the PUD's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the PUD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$846,368	$694,774	$563,462
PERS 2/3	$1,763,186	$654,461	$(253,975)

NOTE 5 – PENSION PLANS (Continued)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the district reported a total pension liability of $1,349,235 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$694,774
PERS 2/3	$654,461
TOTAL	$1,349,235

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	%.0.016798	%.014642	%.002156
PERS 2/3	%.021523	%.018836	%.002687

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

NOTE 5 – PENSION PLANS (Continued)

Pension Expense

For the year ended December 31, 2017, the PUD recognized pension expense as follows:

	Pension Expense
PERS 1	$(70,647)
PERS 2/3	$90,846
TOTAL	$20,199

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	$
Net difference between projected and actual investment earnings on pension plan investments	$	$(25,927)
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$48,114	$
TOTAL	$48,114	$(25,927)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$66,312	$(21,524)
Net difference between projected and actual investment earnings on pension plan investments	$0	$(174,464)
Changes of assumptions	$6,952	$
Changes in proportion and differences between contributions and proportionate share of contributions	$29,212	$(98,899)
Contributions subsequent to the measurement date	$71,645	$
TOTAL	$174,121	$(294,886)

Deferred outflows of resources related to pensions resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended

NOTE 5 – PENSION PLANS (Continued)

December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2018	$(17,525)
2019	$5,533
2020	$(1,285)
2021	$(12,650)
2022	
Thereafter	
Total	$(25,927)

Year ended December 31:	PERS 2/3 Deferred Outflows	PERS 2/3 Deferred Inflows
2018	$47,730	$(115,294)
2019	$38,788	$(25,482)
2020	$7,587	$(37,326)
2021	$5,896	$(91,764)
2022	$5,896	$(15,698)
Thereafter	$7,665	$(20,408)
Total	$113,562	($305,972)

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 assets held in the deferred compensation plan are 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 have 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 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.
- Workers Compensation Insurance of $100,000.

NOTE 8 – LONG-TERM DEBT

Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2017 including interest are as follows:

Calendar Year Ending December 31, 2017:

Year	Principal	Interest	Total
2018	3,401,484	295,285	3,696,769
2019	406,484	230,376	636,860
2020	411,484	220,919	632,403
2021-2025	1,900,156	950,578	2,850,734
2026-2030	1,913,367	641,238	2,554,605
2031-2035	1,393,349	276,290	1,669,639
2036-2040	596,923	112,817	709,740
2041-2045	507,383	28,935	506,473
TOTAL	$10,530,630	$2,756,438	$13,257,223

Debt issuance costs are expensed 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 a Line of Credit for the electrical division for the financing of its debt instruments.

RUS, Bond Loans and the Line of Credit were purchased for electrical distribution, transmission and special equipment replacement and additions. They include wire, transformers, meters, conduit, and poles, and other electrical equipment.

On June 6th, 2014, the PUD issued a $3,585,000 bond for refinancing the RUS debt of 5%. The bonds bear an 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 and has a current balance of $3,115,000 and a maturity date of December 01, 2033.

The PUD has Public Works Trust Fund Loans (PWTF) for its water systems. The PWTF interest rate averages 1% over 20 years.

PWTF Loans- $1,162,400:

System	Balance	Maturity	Loan Number
Lake Arrowhead Water	$182,387	10/01/2021	PW-00-65120-013
Pirates Cove Water	$44,874	10/01/2021	PW-00-65120-022

NOTE 8 – LONG TERM DEBT (Continued)

Arcadia Estates Water	$40,400	10/01/2025	PW-05-691-034
Canal Tracts Water	$74,509	10/01/2025	PW-05-691-037
Canal Mutual Water	$136,996	07/01/2027	PW-07-962-302
Hoodsport Water	$264,680	10/01/2029	PW-99-65199-035
Madrona Beach	$48,591	10/01/2030	DR-09-952-070
Hood Canal Water	$369,963	10/01/2031	PC12-951-081

In 2017, the district paid off the 2002 Revenue Bond - $635,000 with an original maturity mate of December 1, 2022.

PWTF and Water Bond Loans were purchased for water distribution, transmission and meter replacement and additions, including piping, pumps, well houses, reservoirs, wells and many other water related equipment.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Water Revenue Bonds	720,000		720,000	0.00	
2014 Revenue Bonds	3,255,000		140,000	2,970,000	145,000
2014 Bond Premium	52,489		5,525	44,202	2,762
RUS Loans	3,372,615		119,385	3,133,845	119,385
PWTF Loans	1,314,765		152,365	1,025,301	137,099
Line of Credit	3,000,000			3,000,000	
OPEB	68,085			68,085	
Net Pension Liability	1,985,798		636,563	1,349,235	
Accrued Vacation & Holidays	358,554	68,750		427,304	
Total Non-Current Liabilities	**14,127,306**	**68,750**	**1,773,838**	**12,017,972**	**404,246**

NOTE 9 – 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 probably 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 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 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The PUD belongs to the State of Washington's Public Employees Benefits Board (PEBB), a program which 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 and 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 PUD funding policy and status is a pay as you go. The PUD pays employees a portion of the premium cost based on years of service at retirement according the following schedule:

Years of service	%	Years of service	%	Years of Service	%
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 February 26, 2016 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 $1,055 and adjustments to the annual required contributions are ($1,742). The amortization period is for 30 years. The amortization period is opened. The following table shows the components of the PUD's annual post retirement obligations for the years ended:

	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2015
Annual Required Contribution	$147,232	$147,232	$ 147,232
Contributions made	$ 79,147	$ 79,147	$ 79,147
Net Post-Retirement Obligation	$ 68,085	$ 68,085	$ 68,085

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Net OPEB Obligation - December 31, 2015	$68,085
Net OPEB Obligation - December 31, 2016	$68,085
Net OPEB Obligation – December 31, 2017	$68,085

Assumptions

The District used Menard Consulting Inc. Actuaries to provide the method and calculation for the post retirement benefits. The discount rate used was 3.0% 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 not valued. 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 2017, 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, 2017, the Actuarial Accrued Liability was $1,366,365.

NOTE 11 –PRIOR PERIOD ADJUSTMENTS

During the review of 2017, management determined that there were errors in the accrued payroll liability accounts, resulting in a reduction of $1,765. It was also discovered that work orders were not closed properly. General engineering costs should have been expensed in prior years, for a reduction of $108,607. Additionally, two specific work orders should have been capitalized in prior years, resulting in an adjustment to accumulated depreciation of $41,429 and therefore reducing net equity by the same. Lastly, interest on the sewer division was improperly accrued, resulting in an increase in net equity by $2,649.

NOTE 12 - SEGMENT REPORTING

	2017	2017	2017	
CURRENT ASSETS	Electric	Water	Sewer	TOTALS
Cash and Cash Equivalents				
Cash & Working Funds	$ 653,793.00	$ 279,113.00	$ 7,578.00	$ 940,484.00
Investments	$ 1,867,525.00	$ 128,950.00	$ 20,154.00	$ 2,016,629.00
Accounts Receivable - Net Sales	$ 746,420.00	$ 162,831.00	$ 55.00	$ 909,306.00
Accounts Receivable - Other	$ 60,083.00	$ 30,172.00	$ 408.00	$ 90,663.00
Inventories	$ 562,291.00	$ 126,979.00	$ 4,278.00	$ 693,548.00
Total Current Assets	$ 3,890,112.00	$ 728,045.00	$ 32,473.00	$ 4,650,630.00
NON-CURRENT ASSETS				
Restricted Assets				
Debt Service	$ 541,354.00	$ -	$ -	$ 541,354.00
Customer Deposits	$ 78,125.00	$ 21,451.00	$ -	$ 99,576.00
Total Restricted Assets	$ 619,479.00	$ 21,451.00	$ -	$ 640,930.00
Capital Assets Not Being Depreciated				
Land and Land Rights	$ 878,515.00	$ 42,246.00	$ -	$ 920,761.00
Construction in Progress	$ 753,725.00	$ 94,879.00	$ 2,315.00	$ 850,919.00
Capital Assets Being Depreciated				
Transmission	$ 3,290,836.00	$ -	$ -	$ 3,290,836.00
Distribution	$ 26,301,032.00	$ 12,150,560.00	$ 64,523.00	$ 38,516,115.00
General Plant	$ 4,848,497.00	$ 277,979.00	$ -	$ 5,126,476.00
Less: Accumulated Depreciation	$ (11,744,844.00)	$ (3,381,657.00)	$ (13,788.00)	$ (15,140,289.00)
Total Capital Assets Being Depreciated (Net)	$ 22,695,521.00	$ 9,046,882.00	$ 50,735.00	$ 31,793,138.00
Total Capital Assets	$ 24,327,761.00	$ 9,184,007.00	$ 53,050.00	$ 33,564,818.00
Total Non-Current Assets	$ 24,947,240.00	$ 9,184,007.00	$ 53,050.00	$ 34,205,748.00
Total Assets	$ 28,837,352.00	$ 9,933,503.00	$ 85,523.00	$ 38,856,378.00
Outflows of Resources Relating to Pensions	$ 222,235.00	$ -	$ -	$ 222,235.00
Total Assets and Deferred Outflows of Resources	$ 29,059,587.00	$ 9,933,503.00	$ 85,523.00	$ 39,078,613.00
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 550,622.00	$ -	$ -	$ 550,622.00
Consumer Deposits	$ 76,700.00	$ 14,731.00	$ -	$ 91,431.00
Bonds, Notes and Loans Payable	$ 267,147.00	$ 137,099.00	$ -	$ 404,246.00
Other Current Liabilities	$ 249,372.00	$ 3,494.00	$ -	$ 252,866.00
Total Current & Accrued Liabilities	$ 1,143,841.00	$ 155,324.00	$ -	$ 1,299,165.00
Non-Current Liabilities:				
Accrued Vacation and Holidays	$ 427,304.00	$ -	$ -	$ 427,304.00
Long Term Debt - Loans	$ 6,133,846.00	$ 1,025,300.00	$ -	$ 7,159,146.00
Long Term Debt - Bonds	$ 3,014,202.00	$ -	$ -	$ 3,014,202.00
OPEB	$ 68,085.00	$ -	$ -	$ 68,085.00
Net Pension Liability	$ 1,349,235.00	$ -	$ -	$ 1,349,235.00
Total Non-Current Liabilties	$ 10,992,672.00	$ 1,025,300.00	$ -	$ 12,017,972.00
Total Liabilities	$ 12,136,513.00	$ 1,180,624.00	$ -	$ 13,317,137.00
Deferred Inflow Related to Pensions	$ 320,813.00	$ -	$ -	$ 320,813.00
Net Position				
Net Investments in Capital Assets	$ 14,912,566.00	$ 8,021,608.00	$ 53,050.00	$ 22,987,224.00
Restricted for Customer Deposits	$ 78,125.00	$ 21,451.00	$ -	$ 99,576.00
Restricted for Debt Service	$ 541,354.00	$ -	$ -	$ 541,354.00
Unrestricted	$ 1,070,216.00	$ 709,820.00	$ 32,473.00	$ 1,812,509.00
Total Net Position	$ 16,602,261.00	$ 8,752,879.00	$ 85,523.00	$ 25,440,663.00
TOTAL NET POSITION, LIABILITIES AND DEFERRED	$ 29,059,587.00	$ 9,933,503.00	$ 85,523.00	$ 39,078,613.00

NOTE 12 - SEGMENT REPORTING (CONTINUED)

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION	2017 ELECTRIC	2017 WATER	2017 SEWER	TOTAL
OPERATING REVENUES				
Sales - Residential	$ 6,529,930.00	$ 1,521,962.00	$ 10,079.00	$ 8,061,971.00
Sales - General	$ 1,743,084.00	$ -	$ -	$ 1,743,084.00
Sales - Street Lights	$ 79,126.00	$ 616.00	$ -	$ 79,742.00
Miscellaneous Other Revenues	$ 112,718.00	$ 10,269.00	$ -	$ 122,987.00
Total Operating Revenues	$ 8,464,858.00	$ 1,532,847.00	$ 10,079.00	$ 10,007,784.00
OPERATING EXPENSES				
Cost of Purchased Power	$ 3,125,264.00	$ 96,567.00	$ 375.00	$ 3,222,206.00
Transmission Expenses	$ 7,436.00	$ -		$ 7,436.00
Distribution & Maintenance Expense	$ 936,171.00	$ 357,598.00	$ 965.00	$ 1,294,734.00
Customer Service Expense	$ 267,639.00	$ 40,124.00	$ -	$ 307,763.00
Administrative and General	$ 1,196,159.00	$ 206,646.00	$ 50.00	$ 1,402,855.00
Depreciation	$ 941,206.00	$ 270,711.00	$ -	$ 1,211,917.00
Taxes	$ 507,265.00	$ 78,262.00	$ 388.00	$ 585,915.00
Other Deductions	$ 4,180.00	$ -		$ 4,180.00
Total Operating Expenses	$ 6,985,320.00	$ 1,049,908.00	$ 1,778.00	$ 8,037,006.00
NET OPERATING INCOME	$ 1,479,538.00	$ 482,939.00	$ 8,301.00	$ 1,970,778.00
NON-OPERATING REVENUE (EXPENSES)				
Revenue from Merchandising, Jobbing And Contract Work	$ 20,115.00	$ 17,505.00	$ -	$ 37,620.00
Costs and Expenses of Merchandising, Jobbing and Contract Work	$ (31,998.00)	$ (2,401.00)	$ -	$ (34,399.00)
Interest and Dividend Income	$ 21,815.00	$ 2,195.00	$ 190.00	$ 24,200.00
Other Revenues	$ -	$ 117,847.00	$ -	$ 117,847.00
Interest on Long-Term Debt	$ (305,773.00)	$ (15,281.00)	$ (264.00)	$ (321,318.00)
Total Non-Operating Revenue (Expenses)	$ (295,841.00)	$ 119,865.00	$ (74.00)	$ (176,050.00)
Change In Net Position	$ 1,183,697.00	$ 602,804.00	$ 8,227.00	$ 1,794,728.00
Total Net Posisiton January 1	$ 15,570,367.00	$ 8,150,074.00	$ 74,646.00	$ 23,795,087.00
Prior Period Change in Net Position	$ (151,801.00)	$ -	$ 2,649.00	$ (149,152.00)
Total Net Position December 31	$ 16,602,263.00	$ 8,752,878.00	$ 85,522.00	$ 25,440,663.00

Required Supplementary Information

Mason County PUD #1
Schedule of Employer Contributions
As of December 31, 2017

Last 10 Fiscal Years *	2017		2016		2015		2014		2013	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contribution	91,298.00	128,046.00	92,567.00	120,913.00	0.00	190,334.00	5,876.00	163,398.00	8,335.00	125,530.00
Contributions in relation to the statutorily or Contractually required Contributions	(91,298.00)	(128,046.00)	(92,567.00)	(120,913.00)	0.00	(190,334.00)	(5,876.00)	(163,398.00)	(8,335.00)	(125,530.00)
Contribution deficiency (excess)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Covered employer payroll	1,861,852.00	1,861,852.00	1,941,779.00	1,941,779.00		1,956,229.00	63,803.00	1,774,135.00	102,109.00	1,531,525.00
Contributions as a percentage of covered employee payroll	5%	7%	5%	6%	0%	10%	9%	9%	8%	8%

*As this is a newly adopted standard, information is only available for the last 4 years

Mason County PUD #1
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2017

Last 10 Fiscal Years	2017		2016		2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's Proportion of Net Pension Liability	0.014642%	0.018836%	0.016798%	0.021523%	0.016220%	0.020952%	0.017656%	0.019682%
Employer's Proportionate Share of Net Pension Liability	694,774.00	654,461.00	902,132.00	1,083,666.00	848,457.00	748,627.00	889,429.00	397,844.00
Covered Payroll	2,007,654.00	2,007,654.00	2,008,066.00	2,008,066.00	0	1,871,695.00	112,638.00	1,694,622.00
Employer's Proportionate Share of Net Pension Liability as a Percentage of Covered Employee Payroll	35%	33%	45%	54%	0%	40%	789.63%	23.48%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	61%	91%	57%	86%	59.10%	89.20%		

*As this is a newly adopted standard, information is only available for the last 4 years

Required Supplementary Inforamtion
Other Post Retirement Benefits
Schedule of Funding Progress (December 31, 2017)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2011	0	$ 967,845.00	$ 967,845.00	0%	$ 1,640,596.00	59.00%
12/31/2012	0	$ 1,147,497.00	$ 1,147,497.00	0%	$ 1,703,702.00	67.40%
12/31/2013	0	$ 1,147,497.00	$ 1,147,497.00	0%	$ 1,777,913.00	64.50%
12/31/2014	0	$ 1,147,497.00	$ 1,147,497.00	0%	$ 1,906,000.00	60.22%
12/31/2015	0	$ 1,366,365.00	$ 1,366,365.00	0%	$ 1,956,229.00	69.84%
12/31/2016	0	$ 1,366,365.00	$ 1,366,365.00	0%	$ 1,956,229.00	69.84%
12/31/2017	0	$ 1,366,365.00	$ 1,366,365.00	0%	$ 1,956,229.00	69.84%

*Based on Projected unit credit actuarial cost method

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	
Public Records requests	PublicRecords@sao.wa.gov
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Toll-free Citizen Hotline	(866) 902-3900
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