



2019

ANNUAL REPORT

LOOKING AHEAD

This is the first annual report for Mason PUD 1. Given that it's our 85th anniversary in 2020, when this report will officially be released, we thought it would be fitting to showcase the hard work that your utility has put in to ensure that this tremendous public asset is financially viable, provides safe and reliable service, and provides value to our community.

The last 36 months have been hyper-focused on financial stability, long term debt strategy, and planning for the future. During this period, we underwent a comprehensive Cost of Service Analysis for both our power and water businesses. We onboarded a new external District auditor and an internal Treasurer, who were each appointed by your Board of Commissioners. Together, they have worked with the PUD leadership team and the commission to set important financial policies that will ensure that this utility will be better positioned to withstand economic downturns or environmental disasters, and that we don't become overleveraged with debt.

The second focus for us has been on infrastructure. Being the oldest PUD in Washington State means we also have some of the oldest infrastructure. Our ten-year capital improvement plan is intricately tied with our long-term budget forecast. These plans change and flux each year, but the targets remain the same: upgrade and replace our aging electrical infrastructure, improve the reliability of our water systems, and look at the next 50+ years of needs for our campus. This infrastructure undertaking is a balance of cash flow, a vigorous pursuit of grants, and plans to pay off all existing debt before we go out to bond for the next set of large projects. We want to make sure that the costs for all these projects aren't borne by existing customers. It must be a balance between present ratepayers and future ratepayers that will benefit in ensuing years from the work being done today.

Lastly, we have put a lot of effort over the last couple years in building our team. We had quite a bit of turnover for probably the first time in our PUD's history. We took our time to make sure we hired the right people for our team. While a lot of our positions are very technical in nature and require some advanced training and education, we looked specifically for "fit". We wanted to hire good public servants who cared about the mission of our PUD and about doing a good job for the community that employs us. With just 25 employees, we run pretty lean at PUD 1, so we wanted people with new skills and attributes that we didn't currently have so they can elevate us and our work, and they have. This group of industry professionals is second to none. Most of all, they take a lot of pride in serving the citizens of Mason County.

Our goals remain the same- keep the lights on, the water flowing, be safe, and leave this utility in even better shape than when we got it. We continue to strive to provide you all safe, reliable and valued utility services.

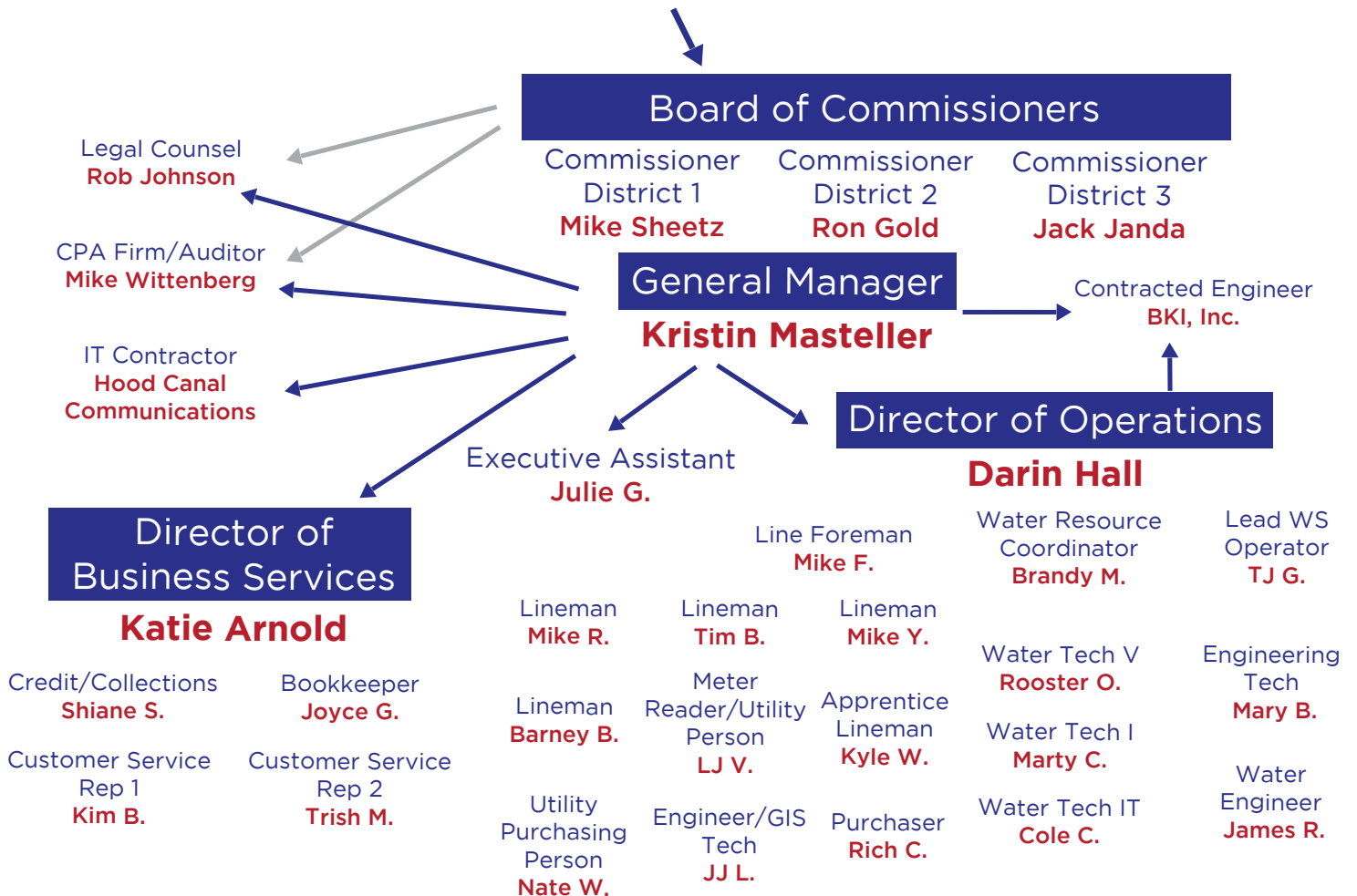
Kristin Masteller
General Manager

Ron Gold
Board President

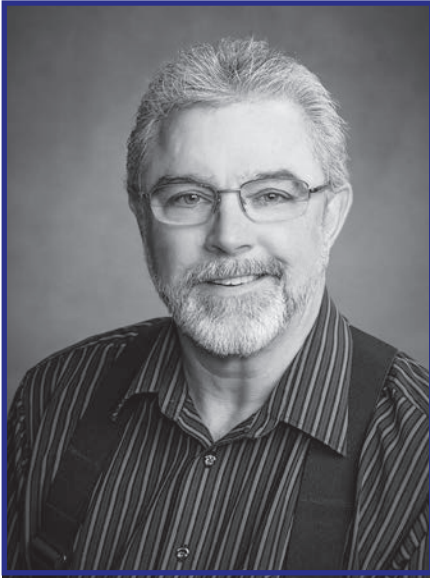
YOUR PUD 1 TEAM



PUD 1 RATEPAYERS



YOUR PUD 1 COMMISSIONERS

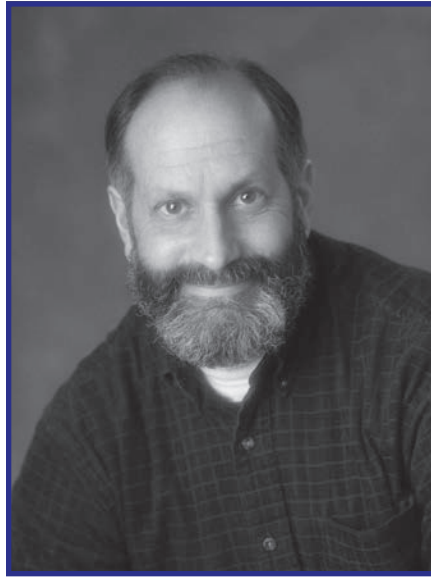


Mike Sheetz

District 1
(Union)

Term 2017-2023

Mike Sheetz is currently serving his first term as Commissioner for the district. Contact Mike Sheetz at (360) 898-7934



Ron Gold

District 2

(Skokomish Valley & Potlatch)

Term 2015-2020

Ron Gold is currently serving his third term as Commissioner for the District. Contact Ron Gold at (360) 490-1560



Jack Janda

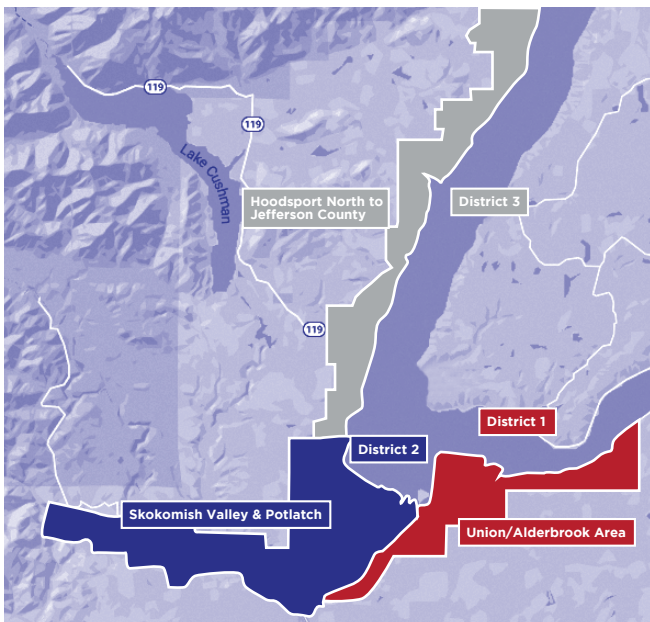
District 3

(Hoodsport to Jefferson Co.)

Term 2019-2024

Jack Janda is currently serving his fourth term as a Commissioner for the District. Contact Jack Janda at (350) 490-1800

PUD 1 - ELECTRIC SERVICE DISTRICTS

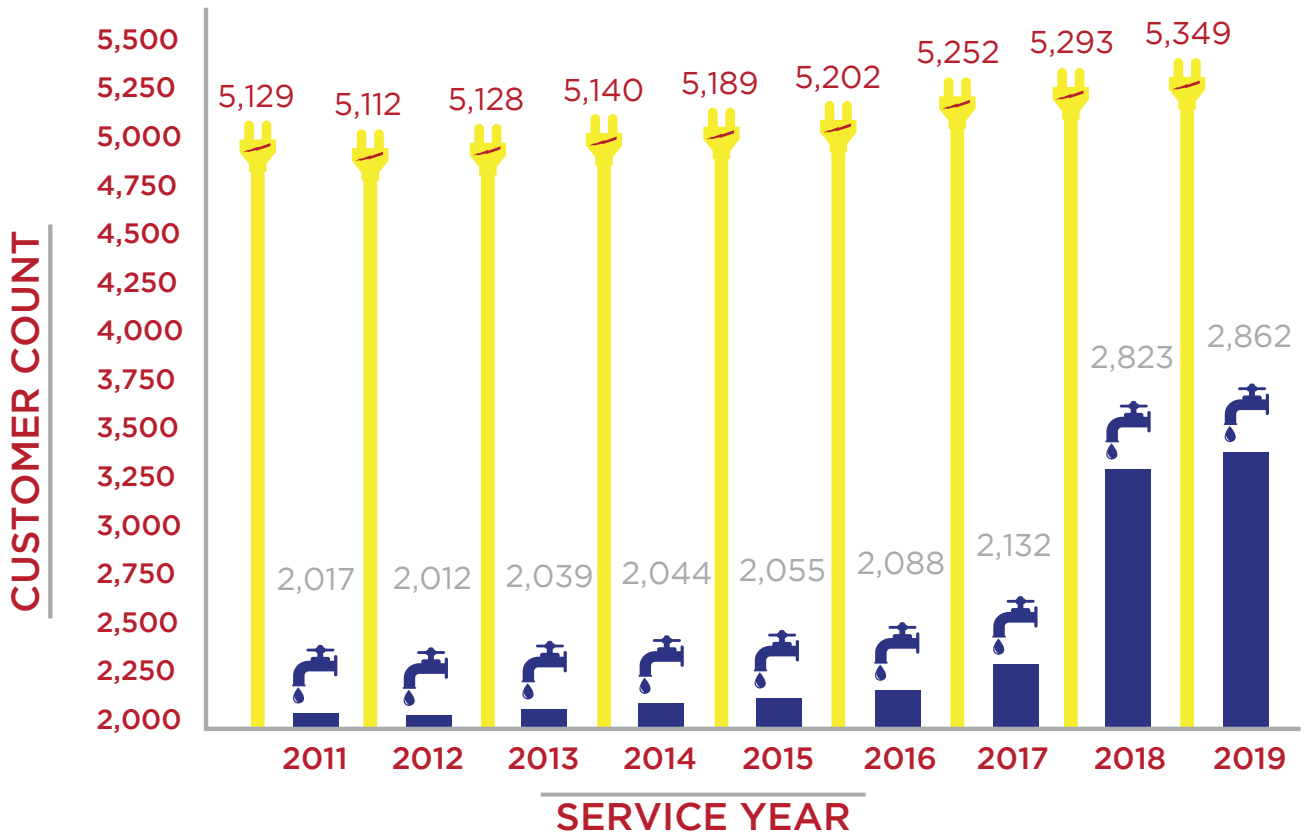


Mason County PUD 1 is a publicly owned entity governed by a Board of Commissioners elected by you, our District rate payers. The District is divided into three districts and one commissioner is elected from each of the three districts. They each serve a six year term. The commission sets District policy, approves budgets and expenditures, as well as the strategic plan.

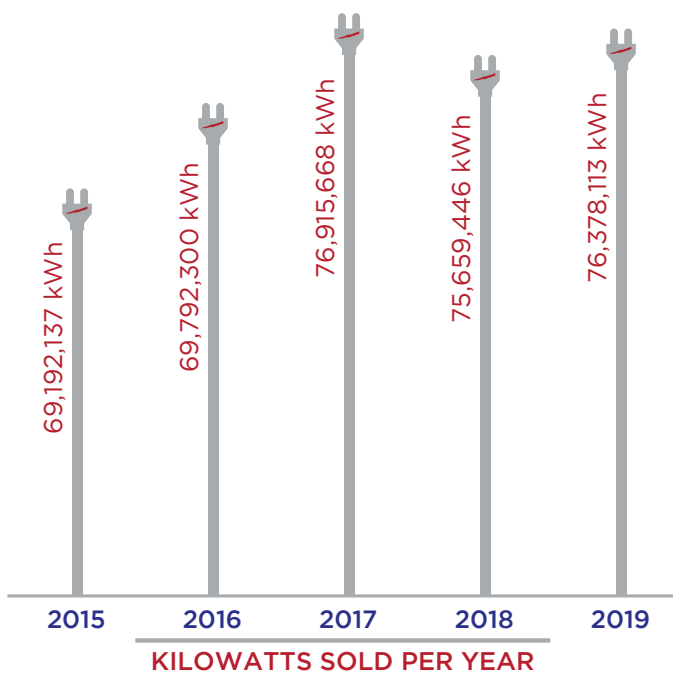
Board of Commissioners meetings are open to the public and held at the District office located at 21971 N. Hwy 101 in Potlatch. Customers and members of the public are encouraged to attend board meetings, which are typically held on the first and third Tuesdays of each month at 1:00 pm. See the "Meetings" section located on our website www.mason-pud1.org, for a complete schedule. Special meetings will be posted on this website and at the front entrance of the District office.

2019 QUICK STATS

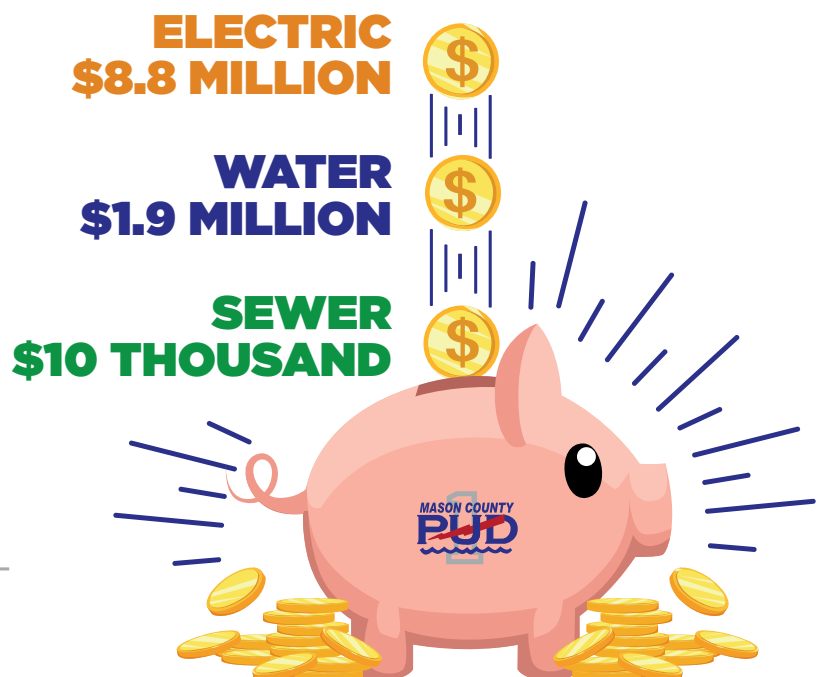
WATER AND ELECTRIC CUSTOMER COUNTS



KILOWATTS SOLD



2019 OPERATING BUDGETS



SAFETY IS NO. 1



44,089 HOURS WORKED IN 2019



1 REPORTABLE INCIDENT
ZERO TIME LOSS

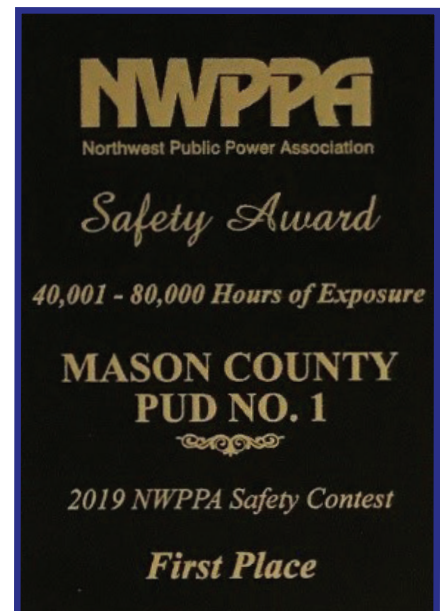


2 SAFETY AWARDS

PUD 1 Received TWO Safety Awards in 2019:

American Public Power Association's 1st place honor for Group C systems - 30,000 - 59,000 worker exposure hours.

Northwest Public Power Association's 1st Place honor for 40,001-80,000 worker exposure hours.



AWARDS AND HONORS

COMMUNICATIONS AWARDS

Northwest Public Power Association's Excellence in Communications awards (Group A <10,000 customers)



FIRST PLACE

Advertising Campaign
(New Water Customer Packets)

Internal Communications
(Strategic Work Plan)

Social Media (Facebook/Twitter)

Wild Card (Water Conservation Kit)



SECOND PLACE

Newsletter (The Connector)

Website

Photography

TJ Goos, Water Operator of the Year
TWICE by both the Washington PUD
Association and Evergreen Rural Water
Association.



PUD 1 General Manager named one
of *Puget Sound Business Journal's* 40
under 40 influential business leaders in
the Seattle/Puget Sound Area in 2019.

PUD 1 IN THE COMMUNITY



Conservation Education at Brinnon Elementary School



Assisting Hood Canal Kiwanis Club with setting the Hood Canal School Bell



Brinnon VFW & Ladies' Auxiliary Parade



Mason County Forest Festival Parade



Kristmastown Kiwanis Christmas Parade

CUSTOMER APPRECIATION EVENT



**RECORD BREAKING ATTENDANCE:
OVER 400 GUESTS!**



ADVOCACY



Meeting with Congressman
Kilmer, Washington, D.C.



PUD Day on the Hill,
Olympia WA



PUD Day on the Hill,
Olympia WA

MEMBERSHIPS

Where we focus our participation and find value in our association:

American Public Power Association
Washington Public Utility Districts Association
Northwest Public Power Association
Water Resource Inventory Area (WRIA 14b & 16)
Northwest River Partners
Evergreen Rural Water Association
Western Electricity Coordinating Council

Energy Northwest
Public Power Council
Washington Public Agencies Group
Mason County Economic Development
Hood Canal Kiwanis
American Water Works Association - PNW Section
Washington Water Utilities Council

PUD 1 ELECTRIC



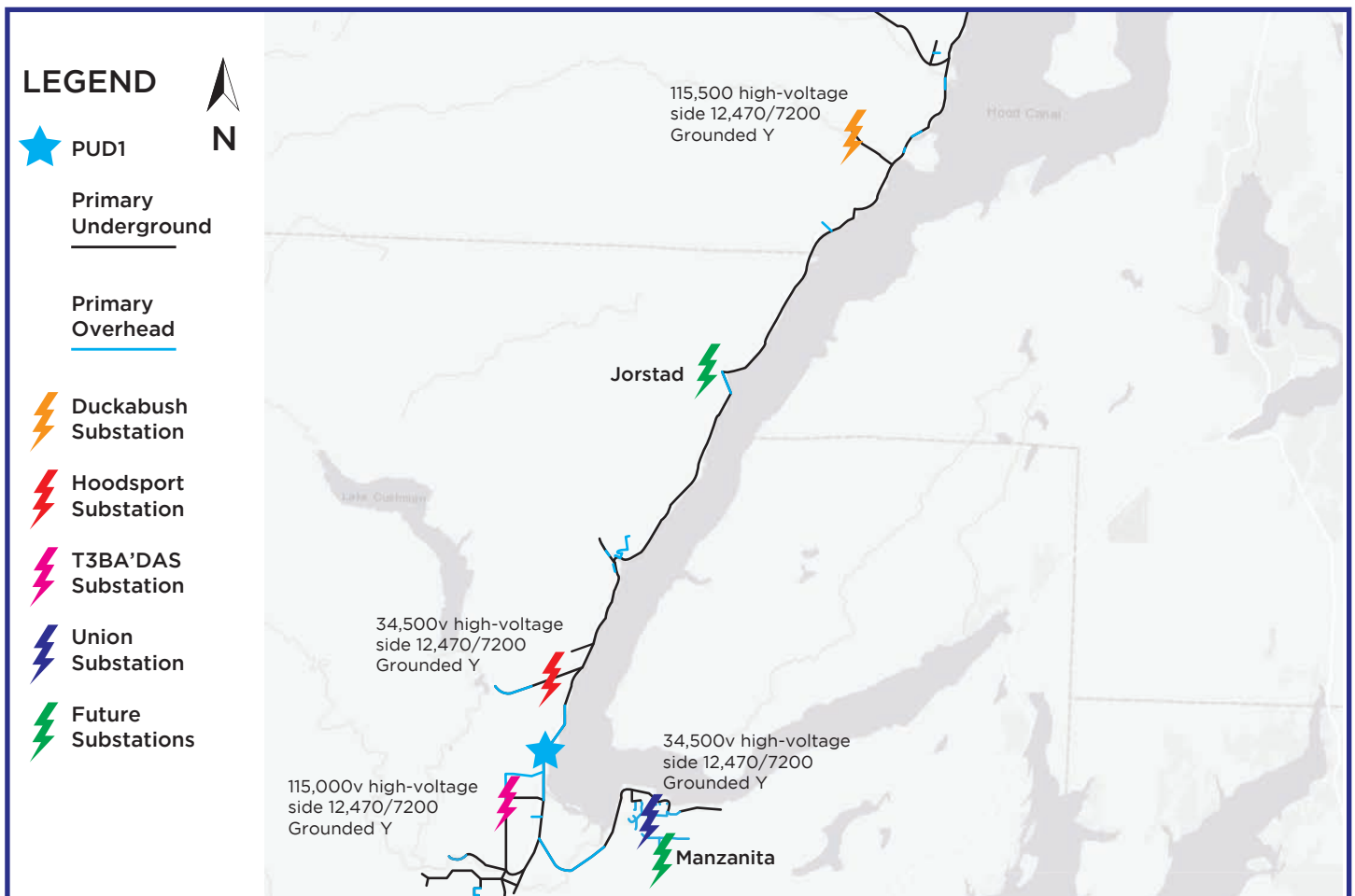
PUD 1 ELECTRIC

INCREASING RELIABILITY

Our outage hours by customer have reduced significantly over the last several years due to increased efforts in reliability projects like vegetation management and infrastructure upgrades. We continue to prioritize high outage areas and tackle trouble spots as they arise, while planning for long term solutions and infrastructure upgrades.

VEGETATION MANAGEMENT

Living in the Olympic Rainforest, and along the Hood Canal, provides some of the world's most pristine scenery, but it also creates challenges for electric reliability. The PUD is not able to underground most of the line along Highway 101 and the rainforest canopy hangs over cliffs above the distribution lines. Tree related outages are inevitable. That being said, the PUD has increased its budget and in-house efforts to trim back the vegetation and remove danger trees to help avoid nuisance outages and wildfires. Those efforts are paying off as we realize savings in overtime costs, poles and wire, and customer outage hours.



PUD 1 ELECTRIC

LINE REBUILDS & CONVERSIONS

A primary focus for operations has been on rebuilding sections of aging underground line in problem areas, as well as overhead-to-underground conversions. Alderbrook, Seamount, Dosewallips, Point Whitney, and Alderney were all completed in 2019 with several more areas scheduled in ensuing years.

METER AUDITS

We also continued our ongoing meter audit of our CT and 3-Phase meters to ensure they all were working properly and registering all energy usage. We found several meters that were not capturing all energy usage, resulting in loss of revenue for the PUD. The system audit will be completed in 2020 and then scheduled out every five years.

ENGINEERING & PLANNING

Much of 2019 was devoted to engineering infrastructure for the future including our next substation in Union called the Manzanita substation. This sub will replace the old Union substation and is scheduled to be commissioned in 2025, with preliminary work to begin in 2022. The PUD has saved the money in reserves and invested those reserves to pay for the substation construction without having to borrow money. The land was purchased in 2012 and we continue to take steps to prepare it for substation construction.

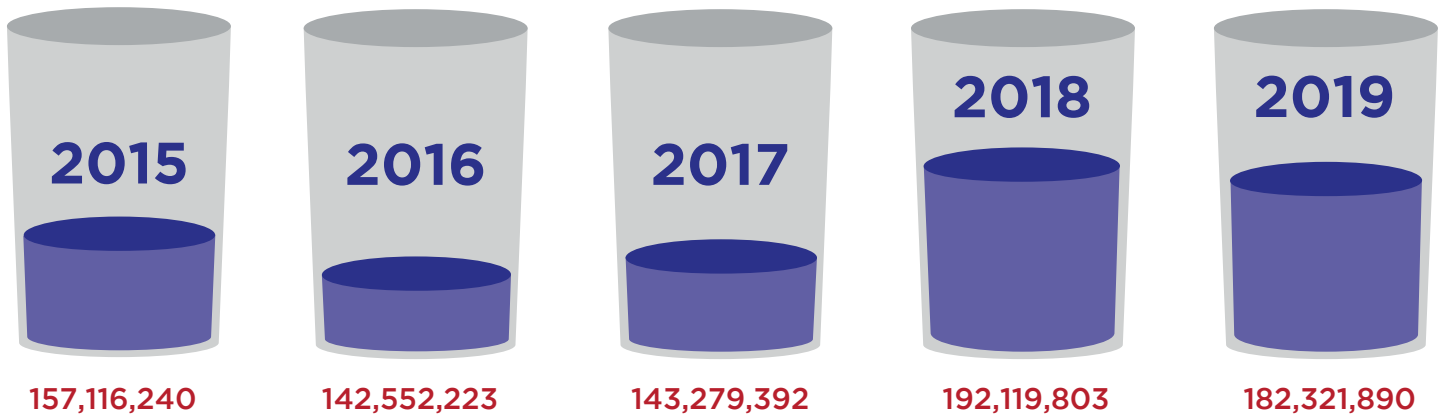
Next in line is the Jorstad substation in Lilliwaup. This substation will help alleviate the issue of distance between Hoodspoint and Duckabush. It will create a break in the long miles of line and enable the PUD to feed customers north and south of Lilliwaup in the event of an outage. This length of line along Highway 101 is our most frequent outage area. Engineering and permitting has begun for this site and construction is slated for 2030. This substation will likely be financed by an electric revenue bond, once the previous revenue bond debt is retired.

Engineering also was conducted to help our T3ba'das Substation in Potlatch pick up more of the load in Union when there's an outage along Highway 106. We also conducted engineering for potential interties with Mason PUD 3 in key areas of our system where both utilities would benefit from added redundancy during outages and to allow for repairs to be made on equipment without taking an outage.

These projects are all related to increased reliability and long-term infrastructure planning. Where feasible, we coordinate projects with our water operations and neighboring telecom companies to share in the costs and convenience of open ditches. This helps save ratepayers money and increases the access and reliability of all utility services in our area.

PUD 1 WATER

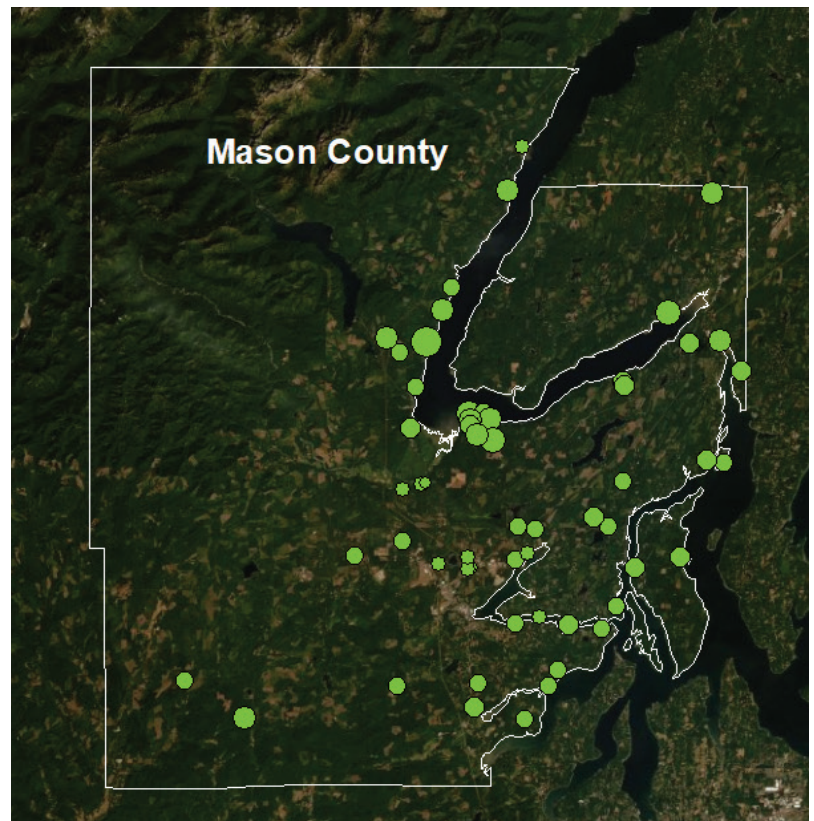
GALLONS OF WATER SOLD



ECONOMIES OF SCALE

The water business has seen a 30% increase in active water accounts since 2011, with almost a quarter of that coming from a large acquisition in 2018. Mason PUD 1 purchased 32 water systems in Mason County from Thurston PUD. This added **655 new active connections** and enabled the PUD to achieve a long sought-after goal of consolidating the water systems' finances. Slow to recover from the recession, this acquisition created enough economies of scale where customers could pay into a general water fund to support capital and maintenance projects for all **73 systems**. Following an extensive Cost of Service Analysis, which was completed at the end of 2019, all water systems moved to one uniformed rate on January 1, 2020. The PUD now conducts the financial management and capital planning of the water business the same as the electric business.

LOCATION OF PUD-OWNED WATER SYSTEMS



PUD 1 WATER

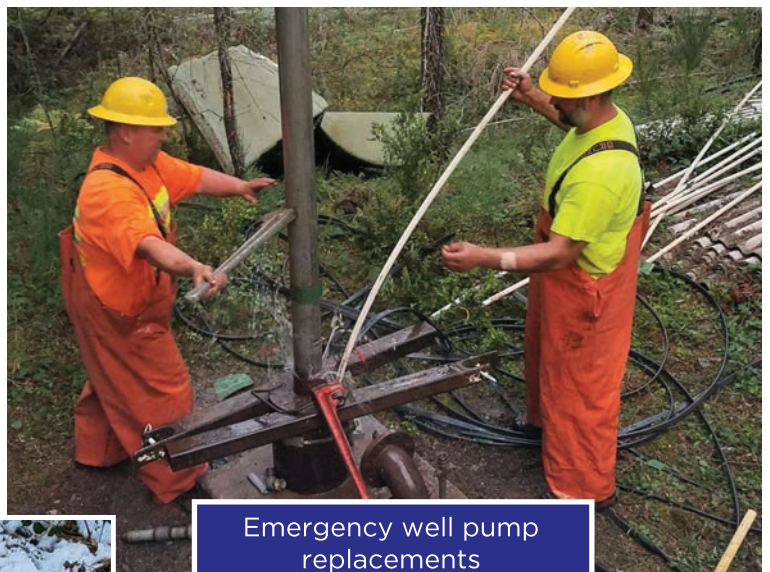
RELIABILITY AND SAFETY

Much like the electric business, the water side has aging critical infrastructure that needs to be replaced. To ensure compliance with state drinking water regulations, the PUD has prioritized several projects to reduce distribution system leakage, ensure maintenance and safety of our reservoirs and pump houses, while continuing to put out the regular fires with emergency leak repairs, adverse sample results, and keep up on our water system planning. In the 251 days that we were open in 2019, our four water technicians responded to 233 service calls, in addition to their scheduled and emergency projects. They are a busy group.

MAJOR PROJECTS

The PUD installed two standby generators at Union Heights and Viewcrest Beach. These systems immediately lose pressure during power outages. Additionally, the board of commissioners budgeted for two more generators to be installed in 2020 and the plan is to continue this for the foreseeable future.

Main line was replaced in Alderney and from Hood Canal to Dalby Rd.



Emergency well pump replacements



Ten reservoirs were cleaned and inspected in 2019: Bellwood A, Cushman Inc (inspected), Hamma Ridge, Harstene Retreat, Highland Park, Hoodsport, Island Lake Manor, Lakewood Heights, Madrona Park, Shadowood, and Vuecrest.

Five well houses were repainted: View Ridge Heights, Union Booster Station, Madrona Park, Island Lake Manor, and Harstene Retreat.

PUD 1 WATER

LONG TERM PLANNING

The PUD reports to both the Washington State Departments of Health and Ecology. They are the two regulatory agencies that oversee the operation of our water business. They regulate our water usage, our water rights, our water use efficiency goals, our water quality metrics, and our water system planning. We are required to do a comprehensive organizational water system plan (Part A) every 10 years. We completed this in 2019. We also completed the following individual (Part B) water system plans: Agate Beach, Viewcrest Beach, Twanoh Heights, Twanoh Terrace and Minerva Terrace.



We continue to work with both state agencies and our local stakeholders on the approval of the Part B Union Regional Water Systems Consolidation Plan, which should be approved in 2020.

These water system planning documents require a lot of resources, both time and financial, to complete every 10 years for our 35 Group A water systems. The PUD continues to examine opportunities to consolidate systems in order to streamline administrative efforts and save on costs.

GROWING THE BUSINESS

The PUD is the first agency of receivership for Mason County, meaning if a system goes into receivership by the state for poor management, the PUD has the first option to acquire the system. Given the escalating regulations and subsequent expense of operating a public water system, the PUD has become very particular about the systems that we are willing to acquire. We must balance the need to grow the business with making prudent long-term investments. The PUD does not typically purchase water systems; however, we are regularly approached by private water systems about acquisition. In 2019, the District acquired the Canal View water system in Brinnon and is undergoing the process to onboard three new systems in early 2020.

PUD 1 WATER

STREAM MONITORING

In 2019, our water department installed stream monitoring stations in three creeks in the Union area. The purpose of this monitoring is to ensure that while the PUD is planning for future growth and development in the Union area, the regulated stream flows for fish habitat are monitored and maintained. With stream monitoring stations located throughout the area, coupled with rain and groundwater monitoring, a comprehensive model can be generated to ensure water sustainability.

Schumacher, Alderbrook and Big Bend creeks have all been equipped with a surface water level staff gauge, mounted on a four foot well point, containing a data logging device that continuously reads the creeks' temperatures and pressure.



Once a month, the data is collected from the loggers and PUD personnel take depth and water flow measurements at different points of the creeks' cross sections.

To augment this data, the District has set up to take monthly ground water measurements, tracking the static levels of three different wells across Union. A rain gauge in Alderbrook tracks rain amounts monthly.

After a year of data collection, a good understanding of the sensitivity and environmental tendencies of the Union streams will help ensure sustainable water design and efficient water use for future generations. The public can access all the data on the PUD's website.



PUD 1 FACILITIES

FACILITIES

The current PUD 1 campus, warehouse, and office building were constructed in 1950's, as was the former manager's house next door to the office. That building now houses our operations staff and the PUD commission meets in the former living room of the house.

Needless to say, the PUD has grown quite a bit in the last 60+ years. Line trucks are much larger than they used to be, and our new trucks barely clear the opening in our warehouse. Our staff has grown over the years. We operate with computers that need temperature-controlled server rooms, and wheelchair accessibility wasn't a consideration in the mid-20th century.

PUD management have been slowly planning for a complete relocation off of the highway onto the upper portion of the PUD 1 campus. Property was purchased in the early 2010's and in 2019 the new vehicle covered storage warehouse went out to bid. It is scheduled for completion in April 2020.

The goal is to relocate the office and operations to the upper campus by 2030. This will provide a safer ingress/egress access for our customers, employees, and crew who drive large trucks and trailers and must pull out into traffic on the highway. It will also allow us to house all staff in one facility with ADA access, a large enough meeting space for public meetings, and room for future growth and buildout as needed.



ENERGY PORTFOLIO

ENERGY PORTFOLIO

Mason PUD 1's energy comes primarily from hydroelectric power that is generated by Bonneville Power Administration. 11% of the hydropower though is generated right here in Mason County at an independent hydro project in Lilliwaup.

While other energy sources, like nuclear, are starting to expand, hydropower remains the backbone of the power grid in the Pacific Northwest, and provides our region with clean, renewable energy to power our homes and economies.

In 2016, PUD 1 launched our first Community Solar project. The 19.25 kilowatt project is sited atop the warehouse on the lower campus. In 2019, we announced our Community Solar II project, which will be commissioned in Spring 2020 and is sited atop the new vehicle storage warehouse on the upper campus.

In addition to solar, the PUD also has installed an electric vehicle (EV) charging station at the PUD office for public use.

2018 FUEL MIX SUMMARY

2018's DATA REPORTED IN 2019



HYDRO 86.47%



NUCLEAR 10.75%



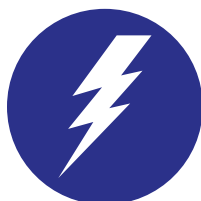
COAL 0%



NATURAL GAS 0.01%



BIOMASS 0%



OTHER 2.77%

FINANCE AND ADMINISTRATION

CUSTOMER SERVICE

Our customer service team changed over 2018-19, with new faces now greeting the public. In addition to our fantastic new additions, we rolled out some new features in iVUE for our customers.

- ACH payments
- SmartHub Messenger- get texts and notices sent right to your phone or email
- Go Paperless and Get \$5 Back campaign



QUICK STATS

\$43,573 energy rebates were issued in 2019 to customers who made approved upgrades to their homes and businesses.

\$8,055 was paid out in bill credits to 1,611 participants who chose to receive paperless statements. By going paperless, these customers saved the PUD just over **\$16,000** in printing and shipping costs. We split those savings with the participating customers.

\$5,500+ was donated by generous PUD 1 customers in 2019 to help 37 low-income households with their power and water bills.

The Community Solar I project generated 21,132 kWh in 2019 resulting in **\$1,711.40** issued as bill credits to our project participants and **\$24,097.20** in incentive payments from Washington State. This incentive program continues through June 2020.

COST OF SERVICE ANALYSIS

The District recently commissioned a Cost of Service Analysis (COSA) with FCS Group. The purpose of the study was to provide a rate forecast and financial plan, targeting cost of service and revenue sufficiency. The electric and water cost of service studies were conducted sequentially — the study period for the electric utility was over a 10-year forecast (2018 – 2027) while the study period for the water utility included a 20-year forecast (2019 – 2038). The differences in the forecast periods between the rate studies were based on timing for initial rate increases, capital funding needs for each utility, and feedback from PUD staff and Board of Commissioners. The water study also included updates to the PUD system development fees.

FINANCE AND ADMINISTRATION

FINANCIAL POLICIES

- The Board of Commissioners sets the financial policies for the District with recommendations from the District Auditor, District Treasurer and General Manager. In 2018 and 2019, several financial policies were implemented in coordination with the COSA and recommendations from the Washington State Auditor's Office. Here are a few highlights:

- **Reserve Funding**

- Funding of 5 days of Cash on Hand, to reach the policy goal of 90 days. These operating reserve funds are invested in the Local Government Investment Pool and earned an average of 2% in 2019. Their purpose is to provide cash flow to the PUD in the instance of an economic recession or disaster event that would prohibit the PUD from being able to collect revenue for a period of time (up to 90 days). The cash on hand ensures BPA power bills can be paid, we can make payroll for our employees, keep our fleet rolling, and purchase necessary supplies.
- Funding of Debt Reserves - 1% of the budgeted revenue is earmarked specifically towards paying down the District's long-term debt. This funding, in addition to the interest earned by investing the balances in the Local Government Investment Pool, will help the District pay off its debt 5-10 years faster than the original amortization schedule shows.

- **Debt Policy**

The purpose of this policy is to ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the District. Adherence to the policy is essential to ensure that the District maintains a sound debt position and protects the credit quality of its obligations.

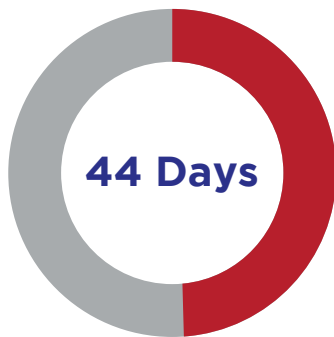
- **Investment Policy**

This policy directs the PUD to: invest public funds in a manner which will minimize risk, meet daily cash flow demands, conform to all state and local statutes governing the investment of public funds, and provide a market rate of return through budgetary and economic cycles.

LGIP INVESTMENT ACTIVITY 2019

	1/1/2019	Transfer In	Interest Earned	Transfers Out	12/31/2019
TOTAL ALL FUNDS	\$3,415,647.10	\$2,147,652.00	\$84,698.94	-\$1,544,313.61	\$4,103,684.43

FINANCE AND ADMINISTRATION



Days Cash On Hand

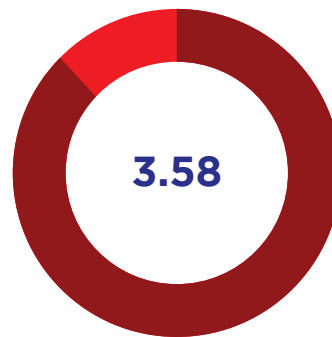
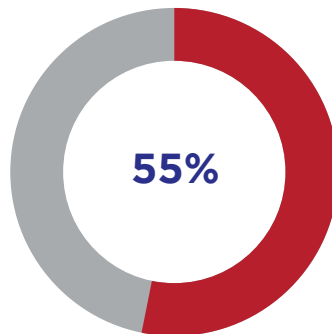
Goal: 90 Days
2019: 44 Days

Debt to Equity Ratio

Goal: Less than 50%

2019: 55%

- This metric helps us track our debt service to ensure that the PUD is not overleveraged.



TIER

Goal: 2.0
2019: 3.58

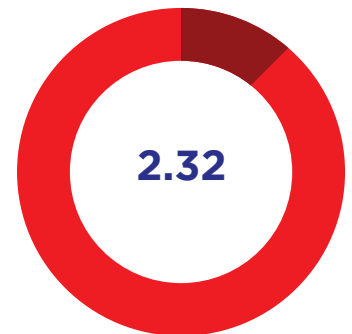
- Must keep TIER at 1.25 to comply with bond covenants.

Debt Service Coverage

Goal: 2.0

2019: 2.32

- Must maintain DSC at 1.25 to comply with bond covenants.

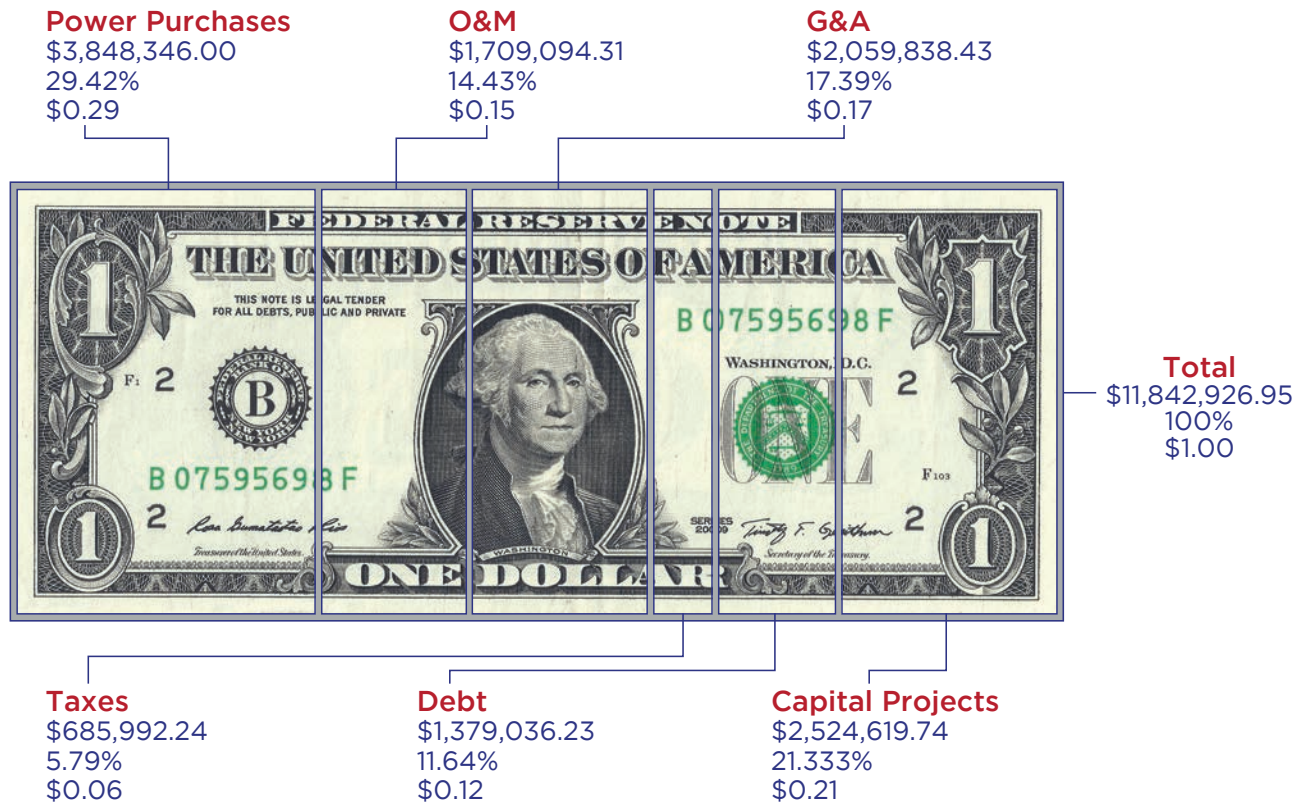


GRANTS

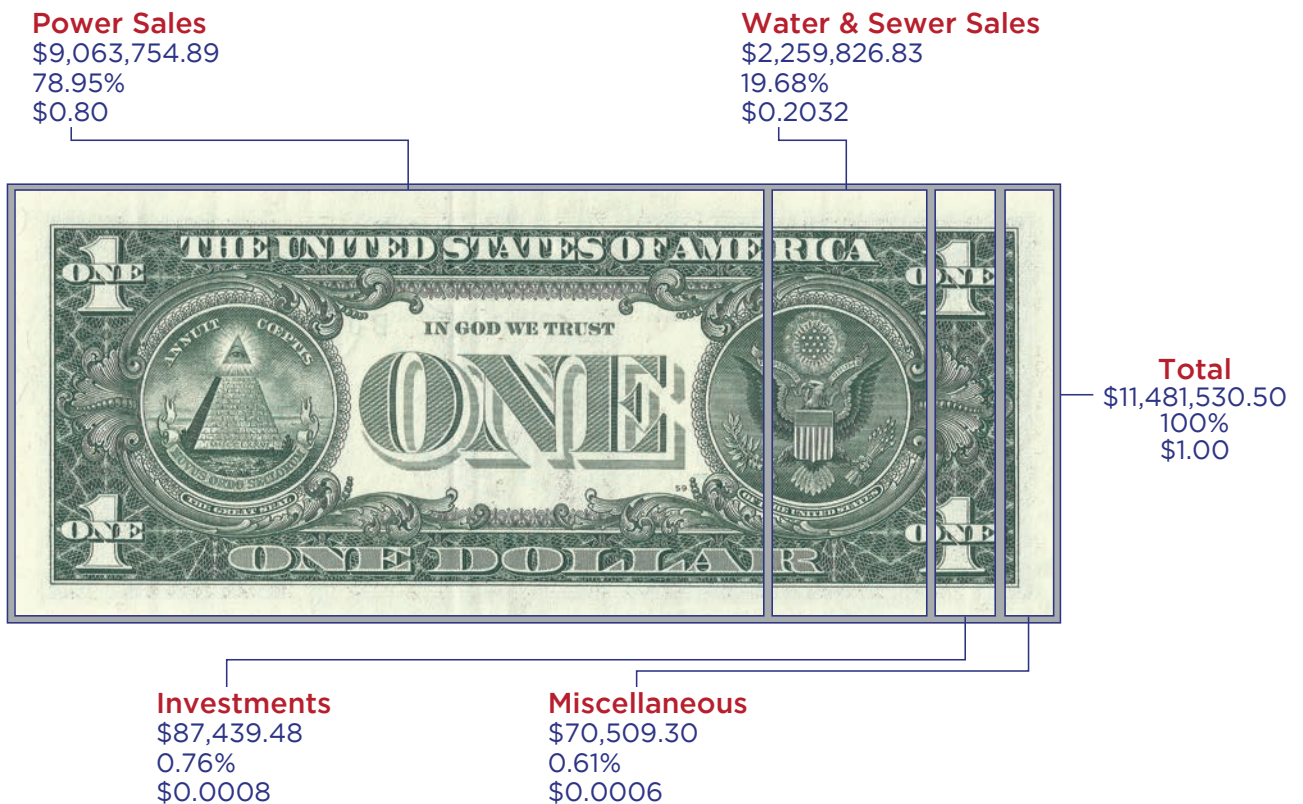
The District vigorously pursues grants and low-cost financing to assist in tackling capital improvement and strategic workplan projects. This includes funding from Department of Health, Department of Ecology, FEMA, Bonneville Environmental Foundation, and local grant makers.

- In 2019, six water capital projects were submitted to Department of Health's Drinking Water State Revolving Fund program, with five receiving funding totaling almost **\$600,000**.
- Three of those five projects were awarded principal forgiveness, meaning the PUD will not have to repay them, which is a savings of **\$555,078** for water ratepayers. The other two loans that did not qualify for principal forgiveness were declined by the PUD this time around.
- **4** projects were submitted to FEMA's Hazard Mitigation Grant program to proactively mitigate potential hazards before disasters occur. The PUD is in the queue for review.
- **\$24,387.43** was also submitted to FEMA for disaster declaration events, resulting in a reimbursement of **\$21,339.00** to the PUD's general fund to offset both General & Administrative costs (G&A) as well as Operations & Maintenance costs (O&M).
- The PUD received **\$50,000** from Bonneville Environmental Foundation to support the Community Solar II project. The grant funds funded a portion of the project for a low-income program where qualified customers can receive the output benefits from the project without having to pay to subscribe. Every four years it rotates and 10 new qualifying low-income customers are chosen to participate. This will occur for the next 20 years.

How PUD 1 Spends a Dollar of Its Revenue



Source of PUD 1's Revenues



AUDITED FINANCIAL INFORMATION

Mason County Public Utility District #1 Overview of the Status of Budget 2019 Status of Budget

	2019 Actuals	2019 Budget	% of Annual Budget
Revenue	11,511,400.10	10,804,634.00	107%
<u>Expenditures</u>			
Distribution Operating & Maintenance	1,707,087.75	1,620,610.61	105%
Energy Services	3,484,346.22	3,469,177.00	101%
General & Administrative	2,199,030.90	2,331,621.30	94%
Tax, Depreciation, & Interest	2,722,333.00	2,633,425.00	103%
TOTAL EXPENDITURES	10,112,797.87	10,054,833.91	101%
NET OPERATING MARGINS	1,398,602.23	749,800.09	187%

As of December 31, 2019, the District's total revenue was 7% higher, collecting \$706,766 more than what was budgeted for 2019. A few key factors that played into the additional revenue collected include the following components:

1. Kilowatt hour sales (kWh) increased slightly from 2018 to 2019. In 2018, the total kWh sales were approximately 78 million, while in 2019, total sales were around 78.9 million, for an overall increase of just under one million kWh.
2. In July 2018, the District purchased 32 water systems from Thurston County PUD. When the 2019 budget was developed, the District was not able to properly predict the revenue from the new system so a very conservative estimate based on data from Thurston PUD was utilized for budgetary purposes. After a full year of operating the additional systems, as well as completing a Cost of Service Analysis, the District had a better understanding of the projected consumption revenue, when developing the 2020 budget.
3. Other non-operating revenues increased primarily due to an increase in system development fees collected for new water system connections.
4. The rate of return for the District's invested funds with the Local Government Investments Pool (LGIP) maintained an average of 2%. With the stability in the rate of return, in

AUDITED FINANCIAL INFORMATION

addition to increased funds invested in the LGIP, the District saw an increase of \$58,000, dollars in interest and dividend income for 2019.

The District's operating expenses include purchased power, transmission and distribution, customer services, and administrative and general expenses. The Distribution Operating & Maintenance ended the year 5% higher than what was budgeted for 2019. This was in part due to normal operation and maintenance of the 32 new water systems in 2018. The winter snowstorm in February of 2019 also contributed to the increased expense over budget due to the amount of overtime spent to repair outages. The Energy Services (purchased power costs) was just over 1% of the budget, which coincides with the increase in kWh consumption for the year. General & Administrative expenses ended the year 6% under budget. These savings are largely attributed to various cost-savings efforts by District staff on regular goods and services and also service contracts.

How is the Net Operating Margin Allocated?

The Net Operating Margin for 2019 was 87% higher than 2019's budget. It's important for the District's commission and customers to understand what the Net Operating Margin is used for. The income statement does not include the principle portion of the District's debt service, or any of the designated reserve funding approved through the budget. It also only includes a portion of the capitalized construction work plan, which is depreciated over a period of time. Here are the key components of how the Net Operating Margin is allocated:

1. At the end of 2019, the District invested just over \$2.5 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2018 to 2019 was 5%.
2. The District plans to construct the Manzanita Substation in 2025, without adding additional debt to the District's portfolio. Because the District plans to pay for the substation through general cash flow, and not debt, the District has determined that it needs to fund a designated reserve with \$342,000 each year. As of the end of 2019, the balance in the fund is just over \$1.6 million.
3. At the end of 2019, the District had \$15.8 million in outstanding debt, an overall decrease of \$791,000. With the 2019 budget, the District approved 1% of the overall rate increase to go specifically towards paying down long-term debt. With that 1%, the District was able to fund \$109,062 into the debt reserves fund. With the 1% funding of the reserves each year, in conjunction with the interest earned on the balance of the funds, being invested in the LGIP, the District plans to be able to pay off its debt by 2030, which is five to ten years earlier than the debt tables show.

AUDITED FINANCIAL INFORMATION

4. The District has a policy goal to reach 90 days general cash on hand, not including the designated reserves, by 2025. To reach this goal, the District budgeted to fund five days a year, which equates to approximately \$100,000 annually that is set aside. Cash on Hand is a savings account, of sorts, that ensures that the District can continue to make payroll and cover operating expenses if there is a catastrophic event or severe economic downturn that limits the PUD's ability to collect revenue. In this case, the board-set policy goal is to be able to cash flow operations for up to three months.

Requests for Information

This financial synopsis 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 Katie Arnold, District Treasurer at N. 21971 Hwy. 101, Shelton, WA 98584 or (360) 877-5249.



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, 2018 through December 31, 2018

Published February 24, 2020

Report No. 1025760





**Office of the Washington State Auditor
Pat McCarthy**

February 24, 2020

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 black ink that reads "Pat McCarthy".

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	49

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, 2018 through December 31, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 18, 2020. As discussed in Note 12 to the financial statements, during the year ended December 31, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

February 18, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Mason County January 1, 2018 through December 31, 2018

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

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, 2018, 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 12 to the financial statements, in 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and required supplementary information listed on page 10 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 February 18, 2020 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

February 18, 2020

FINANCIAL SECTION

Public Utility District No. 1 of Mason County January 1, 2018 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Notes to Financial Statements – 2018

REQUIRED SUPPLEMENTARY INFORMATION

Information on Postemployment Benefits Other Than Pensions – 2018

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2018

Mason County Public Utility District #1

Management Discussion and Analysis

December 31, 2018

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, 2018, with additional comparative data for 2017.

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, 2018, 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 \$25.5 million at the close of fiscal year 2018. Net position over time may serve as a useful indicator of a government's financial position.

Condensed Financial Information for December 31, 2018 and 2017 (In Thousands)

Statement of Net Position	2018	2017	% Change
Current Assets and Special Funds	10,094.00	5,291.00	90%
Net Capital Assets	36,315.00	33,565.00	8%
Deferred Outflow of Resources	333.00	222.00	50%
Total Assets	46,742.00	39,078.00	19%
Current Liabilities	1,742.00	1,299.00	34%
Non-Current Liabilities	18,768.00	12,018.00	56%
Total Liabilities	20,510.00	13,317.00	54%
Deferred Inflows of Resources	711.00	321.00	121%
Net Investments in Capital Assets	23,554.00	22,987.00	2%
Restricted for Customer Deposits	77.00	99.00	-22%
Restricted for Debt Service	963.00	541.00	82%
Unrestricted	116.00	1,813.00	-50%
Total Net Position	25,521.00	25,440.00	.32%

The largest portion of the District's net position (93 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.

4 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 3 percent is unrestricted and may be used to meet the District's ongoing obligations.

The District's overall net position increased by \$83 thousand 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

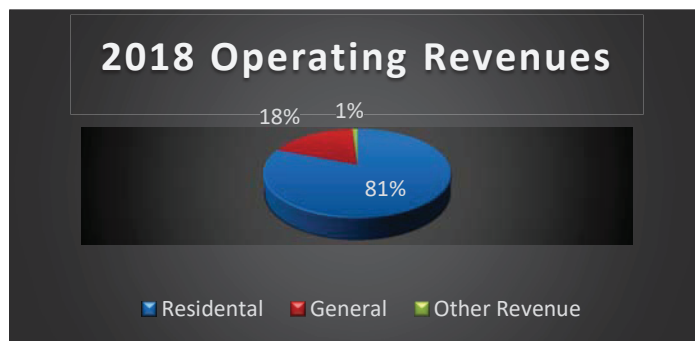
	2018	2017	% Change
Operating Revenues	10,267.00	10,007.00	3%
Operating Expenses	(8,654.00)	(8,037.00)	8%
Net Operating Income	1,613.00	1,970.00	-18%
Non-Operating Revenues	277.00	180.00	54%
Non-Operating Expenses	(492.00)	(356.00)	-38%
Net Operating Revenue (Expenses)	1,398.00	1,794.00	-22%
Change In Net Position	1,398.00	1,794.00	-22%
Net Position - Beginning of Year	25,440.00	23,795.00	7%
Prior Period Changes in Net Position	(1,317.00)	(149.00)	784%
Net Position - End of Year	25,521.00	25,440.00	.3%

The District's total revenue increased by \$357 thousand dollars from 2017 to 2018 to \$10.5 million. The customer consumption in kWh decreased from 2017 to 2018. In 2017 the total kWh consumption was approximately 76.9 million, while in 2018, the total consumption was around 75.6 million, for an overall decrease of 1.3 million kWh. The overall weather was generally milder in 2018 compared to 2017. The District has also been working with its rate payers to promote energy efficiency. While the electric consumption decreased for 2018, the water consumption increased. In July 2018, the District purchased 32 additional water systems from Thurston County. The overall consumption from 2017 to 2018 increased by approximately 79.6 million cubic feet. Other non-operating revenues increased primarily due to an increase in system development fees collected for new water system connections. In addition, the District's invested funds with the Local Government Investments Pool (LGIP) saw the rate of return increasing from 2016 at 1.27% as of yearend, to 2.37% at the end of 2018. With the increase in the rate of return, in addition to increased funds invested in the LGIP, the District saw an increase of \$37 thousand dollars in interest and dividend income for 2018.

Effective in 2018, the Governmental Accounting Standards Board (GASB) implemented a new requirement with regards to Other Post Employment Benefit costs recognized on a government's financial statements (GASB 75). Instead of recognizing the net OPEB liability, as was required prior to 2018, the District must now recognize the full OPEB liability. This change in GASB requirement resulted

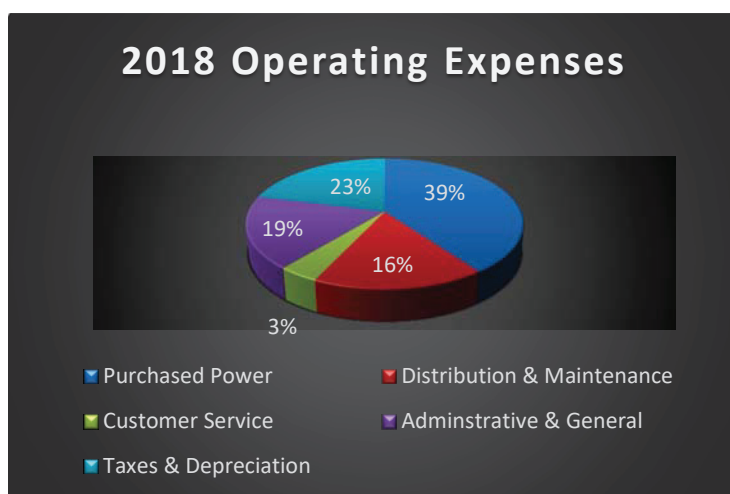
in an adjustment to the District's Net Position of \$1.3 million dollars. In addition to recognizing the full OPEB Liability, the District must also recognize Deferred Outflows and Inflows, similar to GASB 68 for Pensions.

In 2018, the District's revenue was primarily residential, making up 81% of the overall revenue for 2018, with general covering 17%, and the remaining 2% made up of other miscellaneous revenue, including street lights.



The District's operating expenses include purchased power, transmission and distribution, customer services, and administrative and general expenses. Overall, the operating expenses increased by \$615 thousand dollars from 2017 to 2018. Approximately 40% of the District's operating expenses are derived from purchased power, with \$146 thousand dollars in additional power cost in 2018. The distribution operating and maintenance increased by \$24 thousand dollars in 2018, as additional maintenance projects were completed. Customer and Informational expenses decreased by \$76 thousand dollars in 2018 and the District's general and administrative costs increased in 2018 by \$198 thousand dollars. With the additional water systems purchased in 2018, the District brought on two additional staff members in the water department. With the added staff, and increased cost to maintain the water systems, as well as general cost of living increases, the District saw a rise in its costs from 2017 to 2018.

In summary, the overall financial condition of the District improved from 2017 to 2018. The total revenues increased by \$357 thousand, and total expenses increased by \$752 thousand. The district's ending net position was \$25.5 million, an increase of \$100 thousand. The minimal increase was due to the District restating its prior net position to recognize the change in GASB 75 OPEB requirements.



Capital Asset and Long-Term Debt Activity

At the end of 2018, the District invested just under \$3 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2017 to 2018 was 6%.

Capital Assets (in thousands)

	2018	2017	% Change
Land	1,046	921	14%
Plant in Service	49,931	46,933	6%
Construction Work in Progress	563	851	-34%
Total Capital Assets	51,540	48,705	6%

Construction in progress saw a decrease of over half of 2017's balance at year end. This was due to many work orders that were started at the end of 2017, and not completed until 2018.

Long Term Debt – At the end of 2018, the District had \$16.9 million in outstanding debt, an overall increase of \$6.3 million. The District sold \$3 million in bonds for the water department, to purchase the 32 water systems from Thurston County, in addition to making much needed capital improvements to the now 72 waters systems the District owns. The District also sold \$7 million in bonds for the electric department. \$3 million of that bond paid off the District's Line of Credit, with the rest being earmarked towards capital improvement projects scheduled for 2019 and 2020. 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, 2018

ASSETS:

Current Assets:

Cash and Cash Equivalents		
Cash & Working Funds	\$	4,477,385.00
Investments	\$	2,551,251.00
Accounts Receivable (net)	\$	968,037.00
Accounts Receivable (other)	\$	125,463.00
Inventories	\$	915,204.00
Prepayments	\$	15,693.00

TOTAL CURRENT ASSETS	\$	9,053,033.00
-----------------------------	----	---------------------

Noncurrent Assets:

Restricted Assets		
Debt Service Reserves	\$	963,051.00
Customer Deposits	\$	77,131.00
Total Restricted Assets	\$	1,040,182.00

Capital Assets Not Being Depreciated:

Construction In Progress	\$	562,603.00
Land & Land Rights	\$	1,045,751.00
Total Capital Assets Not Being Depreciated	\$	1,608,354.00

Capital Assets Being Depreciated:

Distribution	\$	38,761,578.00
General Plant	\$	7,878,227.00
Transmission	\$	3,290,836.00
Less: Accumulated Depreciation	\$	(15,223,620.00)
Total Capital Assets Being Depreciated (Net)	\$	34,707,021.00

Total Capital Assets	\$	36,315,375.00
-----------------------------	----	----------------------

TOTAL NONCURRENT ASSETS	\$	37,355,557.00
--------------------------------	----	----------------------

TOTAL ASSETS	\$	46,408,590.00
---------------------	----	----------------------

Deferred Outflows Of Resources:

Outflows of Resources Relating to OPEB	\$	148,968.00
Outflows of Resources Relating to Pensions	\$	184,313.00

TOTAL OUTFLOWS OF RESOURCES:	\$	333,281.00
-------------------------------------	----	-------------------

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$	46,741,871.00
--	----	----------------------

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Net Position
December 31, 2018

LIABILITIES

Current Liabilities:

Accounts Payable	\$	714,036.00
Consumer Deposits	\$	82,076.00
Current Portion of Bonds, Notes and Loans Payable	\$	803,683.00
Other Current Liabilities	\$	<u>141,817.00</u>

TOTAL CURRENT LIABILITIES	\$	1,741,612.00
----------------------------------	----	--------------

Noncurrent Liabilities:

Accrued Vacation And Holidays	\$	409,569.00
Long Term Debt - Loans	\$	3,871,722.00
Long Term Debt - Bonds	\$	12,267,333.00
OPEB	\$	1,281,728.00
Net Pension Liability	\$	<u>937,313.00</u>

TOTAL NONCURRENT LIABILITIES	\$	<u>18,767,665.00</u>
-------------------------------------	----	----------------------

TOTAL LIABILITIES	\$	20,509,277.00
--------------------------	----	---------------

Deferred Inflows of Resources:

Deferred Inflows Related to OPEB	\$	244,297.00
Deferred Inflows Related to Pensions	\$	<u>466,589.00</u>

TOTAL DEFERRED INFLOWS OF RESOURCES	\$	<u>710,886.00</u>
--	----	-------------------

NET POSITION

Net Investments in Capital Assets	\$	23,553,970.00
Restricted for Customer Deposits	\$	77,131.00
Restricted for Debt Service	\$	963,051.00
Unrestricted	\$	<u>927,556.00</u>

TOTAL NET POSITION	\$	<u>25,521,708.00</u>
---------------------------	----	----------------------

TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$	<u><u>46,741,871.00</u></u>
--	----	-----------------------------

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, 2018

OPERATING REVENUES:

Sales - Residential	\$	8,271,660.00
Sales - General	\$	1,785,734.00
Sales - Street Lights	\$	73,237.00
Other Revenues	\$	<u>136,628.00</u>
Total Operating Revenues	\$	10,267,259.00

OPERATING EXPENSES:

Cost of Purchased Power	\$	3,368,842.00
Transmission Expense	\$	1,113.00
Distribution & Maintenance Expense	\$	1,318,596.00
Customer Service Expense	\$	231,963.00
General Administration	\$	1,602,032.00
Depreciation & Amortization	\$	1,332,335.00
Taxes	\$	628,648.00
Other Operating Expenses	\$	<u>170,029.00</u>
Total Operating Expenses	\$	<u>8,653,558.00</u>

OPERATING INCOME	\$	1,613,701.00
------------------	----	--------------

NON-OPERATING REVENUE(EXPENSES):

Revenue from Merchandising/Jobbing and Contract Work	\$	55,202.00
Costs and Expenses Merchandising Jobbing and Contract work	\$	(52,288.00)
Interest and Dividend Income	\$	61,976.00
Interest Expense and Related Charges	\$	(440,374.00)
Other Non-Operating Revenues	\$	<u>159,922.00</u>
Total Non-Operating Revenues(Expenses)	\$	<u>(215,562.00)</u>

CHANGE IN NET POSITION	\$	1,398,139.00
------------------------	----	--------------

Total Net Position	January 1, 2018	\$	25,440,662.00
--------------------	-----------------	----	---------------

CUMULATIVE EFFECT OF THE CHANGE IN ACCOUNTING PRINCIPLE	\$	(1,369,156.00)
PRIOR PERIOD CHANGES IN NET POSITION	\$	<u>52,063.00</u>

Total Net Position	December 31, 2018	\$	<u><u>25,521,708.00</u></u>
--------------------	-------------------	----	-----------------------------

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31, 2018

CASH FLOWS from OPERATING ACTIVITIES:

Receipts from Customers	\$	10,173,728.00
Payments to Suppliers	\$	(5,165,123.00)
Payments to Employees	\$	(2,270,977.00)
Other Receipts or Payments	\$	<u>(7,193.00)</u>
Net Cash Provided(used) by Operating Activities	\$	<u>2,730,435.00</u>

CASH FLOWS from CAPITAL FINANCING ACTIVITIES:

Proceeds from Capital Debt	\$	9,998,331.00
Purchases of Capital Assets	\$	(4,220,563.00)
Principal Paid on Capital Debt	\$	(3,633,188.00)
Interest Paid on Capital Debt	\$	<u>(476,217.00)</u>
Net cash Provided (Used) by Capital and Related Financing Activities	\$	<u>1,668,363.00</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest and Dividends		
Net Cash Provided by Investing Activities	\$	61,976.00
Net Increase (Decrease) in Cash and Cash Equivalents	\$	4,460,774.00
Cash and Cash Equivalents Balances - Beginning of Year	\$	<u>3,598,044.00</u>
Cash and Cash Equivalents Balances - End of Year	\$	<u><u>8,058,818.00</u></u>

The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31, 2018

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

Operating Income (Loss)	\$	1,613,701.00
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	\$	1,332,335.00
Other Deductions	\$	175,112.00
Change In Assets and Liabilities		
Accounts and Other Payable	\$	(59,834.00)
Inventories	\$	(221,655.00)
Prepayments	\$	(15,693.00)
Receivables - Net	\$	(93,531.00)
Net Cash Provided by Operating Activities	\$	<u>2,730,435.00</u>

The Accompanying Notes Are An Integral Part Of This Statement

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, 2018, the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

treasurer was holding \$3,274,176.39 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	\$963,051
Cash and Investments – Customer Deposits	\$77,131

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, 2018 was \$4,487,434.

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, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2018, the district had the following investments measured at fair value:

Investments by Fair Value Level	12/31/2018	Fair Value Measurement Using		
		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	\$ -	\$ -
<hr/>				
Investments measured at amortized cost				
State Local Government Investment Pool (LGIP)	\$ 3,274,176.39			
<hr/>				
Total Investments in Statement of Net Position	\$ 3,284,176.39			

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.

Capital asset activity for the year ended December 31, 2018 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant Not Being Depreciated				
Land	\$ 920,761.00	\$ 124,990.00	\$ 0.00	\$ 1,045,751.00
Construction in Progress	\$ 850,919.00	\$ 3,318,243.00	\$(3,606,559.00)	\$ 562,603.00
Total Utility Plant Not Being Depreciated	\$ 1,771,680.00	\$ 3,443,233.00	\$(3,606,559.00)	\$ 1,608,354.00
Utility Plant Being Depreciated				
Distribution and Transmission Plant	\$ 40,363,214.00	\$ 3,037,953.00	\$(1,348,753.00)	\$ 42,052,414.00
General Plant	\$ 6,570,213.00	\$ 1,459,111.00	\$ (151,097.00)	\$ 7,878,227.00
Total Utility Plant Being Depreciated	\$ 46,933,427.00	\$ 4,497,064.00	\$(1,499,850.00)	\$ 49,930,641.00
Less Accumulated Depreciation	\$ (15,140,289.00)	\$(1,688,279.00)	\$1,604,948.00	\$ (15,223,620.00)
Total Utility Plant Being Depreciated (Net)	\$ 31,793,138.00	\$ 2,808,785.00	\$ 105,098.00	\$ 34,707,021.00
Total Utility Plant (Net)	\$ 33,564,818.00	\$ 6,252,018.00	\$(3,501,461.00)	\$ 36,315,375.00

NOTE 4-CONSTRUCTION IN PROGRESS

Construction in progress represents costs on projects for which authorizations total \$562,603.00. Of the committed balance of \$562,603.00, 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 for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	(\$937,313)
Pension assets	\$0.00
Deferred outflows of resources	\$184,313
Deferred inflows of resources	(\$466,589)
Pension expense/expenditures	\$28,485

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)

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary 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 2018 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
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 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

NOTE 5 – PENSION PLANS (Continued)

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 2018 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2/3*
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 18.45%.

The district's actual PERS plan contributions were \$103,465 to PERS Plan 1 and \$153,243 to PERS Plan 2/3 for the year ended December 31, 2018.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. 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 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

NOTE 5 – PENSION PLANS (Continued)

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 changes in methods and assumptions since the last valuation.

- Lowered the valuation interest rate from 7.70% to 7.50% for all systems except LEOFF 2. For LEOFF 2 the valuation interest rate was lowered from 7.50% to 7.40%.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.
- Modified how the valuation software calculates benefits paid to remarried duty-related death survivors of LEOFF 2 members.
- Updated the trend that the valuation software uses to project medical inflation for LEOFF 2 survivors of a duty-related death, and for certain LEOFF 2 medical-related duty disability benefits.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 members. Therefore, the long-term expected rate of return of 7.4 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 7.4 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.

NOTE 5 – PENSION PLANS (Continued)

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, 2018, 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	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the PUD's proportionate share of the net pension liability calculated using the discount rate of 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$772,778	\$628,818	\$504,119
PERS 2/3	\$1,099,611	\$240,403	\$(464,051)

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.

NOTE 5 – PENSION PLANS (Continued)

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

At June 30, 2018, the district reported a total pension liability of \$937,313 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$628,818
PERS 2/3	\$308,495
TOTAL	\$937,313

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	% .014642	%.014080	% (.000562)
PERS 2/3	% .018836	%.018068	% (.000768)

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 2018. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2018, 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 2018, the state of Washington contributed 39.30 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.70 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, 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, 2018, the PUD recognized pension expense as follows:

	Pension Expense
PERS 1	\$31,592
PERS 2/3	\$(3,107)
TOTAL	\$28,485

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, 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	\$	\$(24,989)
Changes of assumptions	\$	\$
Changes in proportion and differences between contributions and proportionate share of contributions	\$	\$
Contributions subsequent to the measurement date	\$53,092	\$
TOTAL	\$53,092	\$(24,989)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$37,813	\$(54,012)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(189,307)
Changes of assumptions	\$3,609	\$(87,795)
Changes in proportion and differences between contributions and proportionate share of contributions	\$11,564	\$(110,486)
Contributions subsequent to the measurement date	\$78,234	\$
TOTAL	\$131,221	\$(441,600)

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, 2019. 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
2019	\$1,093
2020	\$(5,463)
2021	\$(16,392)
2022	\$(4,227)
2023	
Thereafter	

Year ended December 31:	PERS 2/3 Deferred Outflows	PERS 2/3 Deferred Inflows
2019	\$26,999	\$(66,933)
2020	\$7,323	\$(88,928)
2021	\$5,656	\$(141,146)
2022	\$5,656	\$(68,182)
2023	\$5,656	\$(41,155)
Thereafter	\$1,696	\$(35,257)

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.
- Public Official Bond for the Treasurer in the amount of \$1,000,000.

NOTE 8 – LONG-TERM DEBT

Long-Term Debt

The District issues a combination of RUS Bonds and Revenue Bonds for both electric and water divisions. The Bonds were purchased for electrical distribution, transmission and special equipment replacement and additions. They include wire, transformers, meters, conduit, and poles, and other electrical equipment. 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.

The revenue bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Electric System RUS Revenue Bonds	2045	2.853%	3,880,000	119,385
Electric System Revenue Bonds 2014	2014-2033	3.00%	3,585,000	150,000
Electric System Revenue Bonds 2018	2019-2038	4.00%	6,730,000	225,000
Water System Revenue Bonds 2018	2032	3.44%	3,000,000	163,000

Revenue bond debt service requirements to maturity are as follows:

Calendar Year Ending December 31, 2018:

Year	Principal	Interest	Total
2019	794,484	585,015	1,379,499
2020	815,484	560,951	1,376,435
2021	800,637	515,778	1,316,415
2022	777,612	510,436	1,288,048
2023	798,612	484,349	1,282,961
2024	850,458	473,321	1,323,779
2025	791,765	426,830	1,218,595
2026-2030	4,549,141	1,642,049	6,191,190
2031-2035	3,797,349	758,656	4,556,005
2036-2040	596,923	208,892	805,815
2041-2045	507,384	28,935	536,319
TOTAL	\$15,079,849	\$6,195,212	\$21,275,061

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.

At December 31, 2018 the District has \$113,325 available in debt service funds to service the revenue bonded debt. Restricted assets contain \$989,350 in reserves required by bond indentures.

NOTE 8 – LONG TERM DEBT (continued)

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 \$2,970,000 and a maturity date of December 01, 2033.

On July 24, 2018, the PUD issued \$6,730,000 in revenue bonds to pay off the \$3,000,000 Key Bank Line of Credit, and use the remaining funds for infrastructure construction. The bonds bear an average interest rate of 4%, sold at a premium of \$268,331.25, and has a current balance of \$6,730,000, with a maturity date of December 01, 2038. These revenue bonds are tax-exempt, and must follow the federal arbitrage regulations. The arbitrage yield for these bonds is 3.358627%.

On April 27, 2018, the PUD issued a \$3,000,000 bond to purchase 32 water systems from Thurston County PUD for \$1,191,357.80, with the remaining funds to be used for infrastructure improvements. The bond bears an interest rate of 3.44%, with a maturity date of 12/01/2032. The balance of the bond at yearend is \$2,802,000. These revenue bonds are tax-exempt, and must follow the federal arbitrage regulations. The arbitrage yield for these bonds is 3.4395%.

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

At December 31, 2018 the balance of the PWTF Loans was \$1,024,206, detailed as follows:

<u>System</u>	<u>Balance</u>	<u>Maturity</u>	<u>Loan Number</u>
Lake Arrowhead Water	\$134,742	10/01/2021	PW-00-65120-013
Pirates Cove Water	\$33,310	10/01/2021	PW-00-65120-022
Arcadia Estates Water	\$35,350	10/01/2025	PW-05-691-034
Canal Tracts Water	\$65,195	10/01/2025	PW-05-691-037
Canal Mutual Water	\$123,296	07/01/2027	PW-07-962-302
Hoodsport Water	\$243,921	10/01/2029	PW-99-65199-035
Madrona Beach	\$44,853	10/01/2030	DR-09-952-070
Hood Canal Water	\$343,538	10/01/2031	PC12-951-081

NOTE 8 – LONG TERM DEBT (continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2018 Water Revenue Bonds	0.00	3,000,000	198,000	2,639,000	163,000
2014 Revenue Bonds	2,970,000		145,000	2,675,000	150,000
2014 Bond Premium	44,202		2,762	38,678	2,762
RUS Loans	3,133,845		149,231	2,865,229	119,385
PWTF Loans	1,025,301		138,194	750,008	137,099
Line of Credit	3,000,000		3,000,000	0.00	
2018 Electric Revenue Bonds	0.00	6,730,000		6,505,000	225,000
2018 Bond Premium	0.00	268,331		261,894	6,437
OPEB	68,085	1,213,643		1,281,728	
Net Pension Liability	1,349,235		411,922	937,313	
Accrued Vacation & Holidays	427,304		17,735	409,569	
Total Non-Current Liabilities	12,017,972	11,211,974	4,062,844	18,363,419	803,683

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 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASB 75 for the year 2018:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$1,281,728
OPEB assets	\$0.00
Deferred outflows of resources	\$148,968
Deferred inflows of resources	\$244,297
OPEB expense/expenditures	\$87,948

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

NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS
(continued)

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 and there are no assets that accumulate in a qualifying trust. The PUD pays employees a portion of the premium cost based on years of service at retirement according the following schedule:

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

Employees covered by benefit terms – At December 31, 2018, the following employees were covered by the benefit terms:

Participants	
Active Employees	28
Inactive Employees Entitled to But Not Yet Receiving Benefits	0
Inactive Employees Currently Receiving Benefits	<u>4</u>
TOTAL	32
Average Ages	
Active Employees	46.8
Inactive Employees Entitled to But Not Yet Receiving Benefits	----
Inactive Employees Currently Receiving Benefits	63.8
Average Service	
Active Employees	11.5

NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS
(continued)

Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances as of 12/31/2017 ⁽¹⁾	\$1,374,458	\$0	\$1,374,458
Changes for the year:			
Service Cost	\$49,285	\$0	\$49,285
Interest on Total OPEB Liability	48,477	0	48,477
Changes of benefit terms	0	0	0
Difference Between Expected & Actual Experience	14,022	0	14,022
Changes of Assumptions and Other Inputs	(238,452)	0	(238,452)
Contributions – Employer	0	0	0
Contributions - Active & Inactive Employees	0	0	0
Net Investment Income	0	0	0
Benefit Payments ⁽²⁾	(85,349)	0	(85,349)
Administrative Expenses	0	0	0
Other Changes	<u>119,286</u>	<u>0</u>	<u>119,286</u>
Net Changes	(\$92,730)	\$0	(\$92,730)
Balances as of 12/31/2018	\$1,281,728	\$0	\$1,281,728

(1) Fiscal Year 2015 valuation calculated two years later using a 3.35% Discount Rate index as of 12/31/2017.

(2) Includes the Implicit Rate Subsidy.

Menard consulting prepared the actuarial valuation on January 1, 2019, for 2018, using the alternative measurement method. The following assumptions were updated, to comply with GASB 75.

- The Discount Rate and Actuarial Cost Method were changed to comply with the GASB 75 standard.
- The mortality assumption was changed from the RP-2000 Combined Mortality Table for males and females with mortality improvement projected to 2015 using Scale AA to the RP-2014 Combined Annuitant Mortality Table for males and females.
- The turnover assumption was changed from age-based turnover rates in GASB 45 to Table T5 from the Pension Actuary's Handbook.
- The Election at Retirement assumption for those active employees not receiving a retiree healthcare subsidy from the District was changed from 100% to 0%.
- The liability as of 12/31/2017 reflects the starting Fiscal Year 2018 balance under GASB 75 rules.

NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS
(continued)

OPEB Expense

Service Cost	\$47,554
Interest on Service Cost	<u>1,731</u>
Total	\$49,285
Interest Cost	48,477
Difference Between Expected & Actual Experience	1,309
Changes of Assumptions and Other Inputs	<u>(11,123)</u>
Total	\$87,948

Deferred Outflows/Inflows of Resources

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected & Actual Experience	\$12,713	\$0
Changes of Assumptions	136,255	244,297
Net Difference Between Projected & Actual Earnings on OPEB Plan Investments	<u>0</u>	<u>0</u>
Total	\$148,968	\$244,297

NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS
(continued)

Significant Assumptions

Health Care Trend Rates	
Initial Health Care Cost Trend Rate	
- HMO Medical Plan	6.60%
- PPO Medical Plan	7.10%
- Dental Plan	3.70%
- Vision Plan	2.60%
Ultimate Health Care Cost Trend Rate	
- Medical Plans	5.00%
- Dental & Vision Plans	Not Applicable ⁽¹⁾
Fiscal Year the Ultimate Rate is Reached	Fiscal Year 2028
Additional Information	
Valuation Date	January 1, 2018
Measurement Date	December 31, 2018
Actuarial Cost Method	Entry Age Normal (AMM)
Discount Rate	3.64%
Inflation Rate	3.00%
Salary Rate Increase	3.50%
Funded Ratio	0.00%
(Fiduciary Net Position as a percentage of Total OPEB Liability)	
Covered Payroll	\$1,963,561
Net OPEB Liability as a Percentage of Covered Payroll	65.28%

(1) Trend rates constant for all years.

Discount Rate

The District does not have a dedicated Trust to pay retiree healthcare benefits. Per GASB 75, the discount rate should be a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

A rate of 3.64% is used, which is the S&P Municipal Bond 20 Year High-Grade Rate Index as of December 31, 2018.

NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS
(continued)

Difference Between Expected & Actual Experience

Changes of Assumptions

Change in Discount Rate

Total OPEB Liability, New Assumption	\$1,281,728
Total OPEB Liability, Prior Assumption	<u>1,308,240</u>
Difference	(\$26,513)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2018 - 2027:	(\$2,475)
Fiscal Year 2028:	(\$1,766)

Change in Trend Rates

Total OPEB Liability, New Assumption	\$1,281,728
Total OPEB Liability, Prior Assumption	<u>1,250,732</u>
Difference	\$30,995
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2018 - 2027:	\$2,893
Fiscal Year 2028:	\$2,065

Change in Mortality Assumption

Total OPEB Liability, New Assumption	\$1,281,728
Total OPEB Liability, Prior Assumption	<u>1,281,806</u>
Difference	(\$78)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2018 - 2027:	(\$7) Fiscal
Year 2028:	(\$5)

Change in Termination Rates

Total OPEB Liability, New Assumption	\$1,281,728
Total OPEB Liability, Prior Assumption	<u>1,412,994</u>
Difference	(\$131,266)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2018 - 2027:	(\$12,252)
Fiscal Year 2028:	(\$8,745)

Other Changes

Total OPEB Liability, New	\$1,281,728
Total OPEB Liability, Prior	<u>1,162,442</u>
Difference	\$119,286
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2018 - 2027:	\$11,134
Fiscal Year 2028:	\$7,947

Net Difference Between Projected & Actual Earnings on OPEB Plan Investments

Not applicable.

Future Deferred Outflows/Inflows of Resources

Fiscal Year Ending:	Outflows	Inflows
December 31, 2019	\$15,336	\$25,150
December 31, 2020	15,336	25,150
December 31, 2021	15,336	25,150
December 31, 2022	15,336	25,150
December 31, 2023	15,336	25,150
December 31, 2024	15,336	25,150
December 31, 2025	15,336	25,150
December 31, 2026	15,336	25,150
December 31, 2027	15,336	25,150
December 31, 2028	10,947	17,952

NOTE 10 – DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS
(continued)

The following presents the total OPEB liability of the District calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1 – percentage point lower (5.8%) or 1 – percentage point higher (7.8%) than the current rate.

Health Care Trend			
	<u>1% Increase</u>	<u>Valuation Rate</u>	<u>1% Decrease</u>
Net OPEB Liability	\$1,476,097	\$1,281,728	\$1,123,197
Change	15.16%		(12.37%)

The following presents the total OPEB liability of the District calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1- percentage point lower (2.5%) or 1- percentage point higher (4.5%) than the current rate.

Discount Rate			
	<u>1% Increase</u>	<u>Valuation Rate</u>	<u>1% Decrease</u>
Net OPEB Liability	\$1,155,023	\$1,281,728	\$1,425,410
Change	(9.89%)		11.21%

Expected Cash Flows:

<u>Fiscal Year</u>	<u>Estimated Benefit Payments</u>
2018	\$85,349
2019	90,399
2020	95,483
2021	73,295
2022	39,032
2023	40,649
2024	50,994
2025	52,790
2026	47,900
2027	17,268
2028	10,168

The projection of future cash flows is based on a closed group valuation. It does not take into account the impact of future new hires. It also includes the Implicit Rate Subsidy.

NOTE 11 –PRIOR PERIOD ADJUSTMENTS

During the review of 2018, management determined that payments received prior to 2011 towards customer accounts that were considered uncollectible, were credited to the “Uncollectable Write-Offs” asset account, rather than applied to accounts receivable. This resulted in a prior period adjustment for \$28,759 on the water division, and -\$80,822 on the electric division.

NOTE 12 – ACCOUNTING AND REPORTING CHANGES

The District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than pensions. This Statement was implemented by the District for the Postretirement Health Plan. The District’s financial statements were impacted by the implementation of the standard. Detailed notes related to the net OPEB liability, deferred outflows, deferred inflows, and OPEB expense can be seen in Note 10 – Defined Benefit Other Postemployment Benefit (OPEB) Plans. The implementation also resulted in a direct adjustment to net position related to a change in accounting principle of expenses prior to 2018. This adjustment can be seen in the Statement of Revenue, Expenses and Changes in Net Position.

NOTE 13 - SEGMENT REPORTING				
	2018	2018	2018	
	Electric	Water	Sewer	TOTALS
CURRENT ASSETS				
Cash and Cash Equivalents				
Cash & Working Funds	\$ 2,595,862.00	\$ 1,903,627.00	\$ 4,195.00	\$ 4,503,684.00
Investments	\$ 2,338,836.00	\$ 156,479.00	\$ 29,637.00	\$ 2,524,952.00
Accounts Receivable - Net Sales	\$ 810,221.00	\$ 157,762.00	\$ 54.00	\$ 968,037.00
Accounts Receivable - Other	\$ 386,421.00	\$ (256,614.00)	\$ (4,344.00)	\$ 125,463.00
Inventories	\$ 756,022.00	\$ 147,785.00	\$ 11,397.00	\$ 915,204.00
Prepayments	\$ 15,693.00	\$ -	\$ -	\$ 15,693.00
Total Current Assets	\$ 6,903,055.00	\$ 2,109,039.00	\$ 40,939.00	\$ 9,053,033.00
NON-CURRENT ASSETS				
Restricted Assets				
Debt Service	\$ 963,051.00	\$ -	\$ -	\$ 963,051.00
Customer Deposits	\$ 62,883.00	\$ 14,248.00	\$ -	\$ 77,131.00
Total Restricted Assets	\$ 1,025,934.00	\$ 14,248.00	\$ -	\$ 1,040,182.00
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 878,515.00	\$ 167,236.00	\$ -	\$ 1,045,751.00
Construction in Progress	\$ 259,167.00	\$ 303,149.00	\$ 287.00	\$ 562,603.00
Capital Assets Being Depreciated				
Transmission	\$ 3,290,836.00	\$ -		\$ 3,290,836.00
Distribution	\$ 26,464,478.00	\$ 12,244,079.00	\$ 53,021.00	\$ 38,761,578.00
General Plant	\$ 5,966,563.00	\$ 1,900,162.00	\$ 11,502.00	\$ 7,878,227.00
Less: Accumulated Depreciation	\$ (11,511,935.00)	\$ (3,695,961.00)	\$ (15,724.00)	\$ (15,223,620.00)
Total Capital Assets Being Depreciated (Net)	\$ 24,209,942.00	\$ 10,448,280.00	\$ 48,799.00	\$ 34,707,021.00
Total Capital Assets	\$ 25,347,624.00	\$ 10,918,665.00	\$ 49,086.00	\$ 36,315,375.00
Total Non-Current Assets	\$ 26,373,558.00	\$ 10,918,665.00	\$ 49,086.00	\$ 37,355,557.00
Total Assets	\$ 33,276,613.00	\$ 13,041,952.00	\$ 90,025.00	\$ 46,408,590.00
Outflows of Resources Relating to Pensions	\$ 184,313.00	\$ -	\$ -	\$ 184,313.00
Outflows of Resources Relating to OPEB	\$ 148,968.00	\$ -	\$ -	\$ 148,968.00
Total Outflows of Resources	\$ 333,281.00	\$ -	\$ -	\$ 333,281.00
Total Assets and Deferred Outflows of Resources	\$ 33,609,894.00	\$ 13,041,952.00	\$ 90,025.00	\$ 46,741,871.00
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 711,990.00	\$ 2,046.00	\$ -	\$ 714,036.00
Consumer Deposits	\$ 67,941.00	\$ 14,135.00	\$ -	\$ 82,076.00
Bonds, Notes and Loans Payable	\$ 503,584.00	\$ 300,099.00	\$ -	\$ 803,683.00
Other Current Liabilities	\$ 138,462.00	\$ 3,243.00	\$ 112.00	\$ 141,817.00
Total Current & Accrued Liabilities	\$ 1,421,977.00	\$ 319,523.00	\$ 112.00	\$ 1,741,612.00
Non-Current Liabilities:				
Accrued Vacation and Holidays	\$ 409,569.00	\$ -	\$ -	\$ 409,569.00
Long Term Debt - Loans	\$ 2,984,615.00	\$ 887,107.00	\$ -	\$ 3,871,722.00
Long Term Debt - Bonds	\$ 9,628,333.00	\$ 2,639,000.00	\$ -	\$ 12,267,333.00
OPEB	\$ 1,281,728.00	\$ -	\$ -	\$ 1,281,728.00
Net Pension Liability	\$ 937,313.00	\$ -	\$ -	\$ 937,313.00
Total Non-Current Liabilities	\$ 15,241,558.00	\$ 3,526,107.00	\$ -	\$ 18,767,665.00
Total Liabilities	\$ 16,663,535.00	\$ 3,845,630.00	\$ 112.00	\$ 20,509,277.00
Deferred Inflow Related to Pensions	\$ 466,589.00	\$ -	\$ -	\$ 466,589.00
Deferred Inflow Related to OPEB	\$ 244,297.00	\$ -	\$ -	\$ 244,297.00
Total Inflows of Resources	\$ 710,886.00	\$ -	\$ -	\$ 710,886.00
Net Position				
Net Investments in Capital Assets	\$ 14,603,547.00	\$ 8,901,338.00	\$ 49,085.00	\$ 23,553,970.00
Restricted for Customer Deposits	\$ 62,883.00	\$ 14,248.00	\$ -	\$ 77,131.00
Restricted for Debt Service	\$ 963,231.00	\$ -	\$ -	\$ 963,231.00
Unrestricted	\$ 605,812.00	\$ 280,736.00	\$ 40,828.00	\$ 927,376.00
Total Net Position	\$ 16,235,473.00	\$ 9,196,322.00	\$ 89,913.00	\$ 25,521,708.00
TOTAL NET POSITION, LIABILITIES AND DEFERRED	\$ 33,609,894.00	\$ 13,041,952.00	\$ 90,025.00	\$ 46,741,871.00

NOTE 13 - SEGMENT REPORTING (CONTINUED)						
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION			2018 ELECTRIC	2018 WATER	2018 SEWER	TOTAL
OPERATING REVENUES						
Sales - Residential			\$ 6,548,761.00	\$ 1,714,605.00	\$ 6,715.00	\$ 8,270,081.00
Sales - General			\$ 1,785,734.00	\$ 7,400.00	\$ -	\$ 1,793,134.00
Sales - Street Lights			\$ 73,055.00	\$ 182.00	\$ -	\$ 73,237.00
Miscellaneous Other Revenues			\$ 120,840.00	\$ 9,967.00	\$ -	\$ 130,807.00
Total Operating Revenues			\$ 8,528,390.00	\$ 1,732,154.00	\$ 6,715.00	\$ 10,267,259.00
OPERATING EXPENSES						
Cost of Purchased Power			\$ 3,245,387.00	\$ 123,066.00	\$ 389.00	\$ 3,368,842.00
Transmission Expenses			\$ 1,113.00	\$ -	\$ -	\$ 1,113.00
Distribution & Maintenance Expense			\$ 954,059.00	\$ 364,323.00	\$ 214.00	\$ 1,318,596.00
Customer Service Expense			\$ 153,606.00	\$ 78,357.00	\$ -	\$ 231,963.00
Administrative and General			\$ 1,243,484.00	\$ 358,548.00	\$ -	\$ 1,602,032.00
Depreciation			\$ 990,983.00	\$ 340,016.00	\$ 1,336.00	\$ 1,332,335.00
Taxes			\$ 539,639.00	\$ 88,650.00	\$ 359.00	\$ 628,648.00
Other Deductions			\$ 149,319.00	\$ 20,710.00	\$ -	\$ 170,029.00
Total Operating Expenses			\$ 7,277,590.00	\$ 1,373,670.00	\$ 2,298.00	\$ 8,653,558.00
NET OPERATING INCOME			\$ 1,250,800.00	\$ 358,484.00	\$ 4,417.00	\$ 1,613,701.00
NON-OPERATING REVENUE (EXPENSES)						
Revenue from Merchandising, Jobbing And Contract Work			\$ 22,259.00	\$ 32,943.00	\$ -	\$ 55,202.00
Costs and Expenses of Merchandising, Jobbing and Contract Work			\$ (39,445.00)	\$ (12,843.00)	\$ -	\$ (52,288.00)
Interest and Dividend Income			\$ 57,148.00	\$ 4,337.00	\$ 491.00	\$ 61,976.00
Other Revenues			\$ 22.00	\$ 159,900.00	\$ -	\$ 159,922.00
Interest on Long-Term Debt			\$ (369,238.00)	\$ (70,619.00)	\$ (517.00)	\$ (440,374.00)
Total Non-Operating Revenue (Expenses)			\$ (329,254.00)	\$ 113,718.00	\$ (26.00)	\$ (215,562.00)
Change In Net Position			\$ 921,546.00	\$ 472,202.00	\$ 4,391.00	\$ 1,398,139.00
Total Net Posisiton January 1			\$ 16,602,262.00	\$ 8,752,878.00	\$ 85,522.00	\$ 25,440,662.00
Cummulative Effect of the Change in Accounting Principle			\$ (1,369,156.00)	\$ -	\$ -	\$ (1,369,156.00)
Prior Period Change in Net Position			\$ 80,822.00	\$ (28,759.00)	\$ -	\$ 52,063.00
Total Net Position December 31			\$ 16,235,474.00	\$ 9,196,321.00	\$ 89,913.00	\$ 25,521,708.00

Mason County PUD No 1
Schedule of Changes in Total OPEB Liability and Related Ratios
OPEB
For the year ended December 31 2018
Last 10 Fiscal Years*

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total OPEB liability - beginning	\$ 1,374,458									
Service cost	49,285									
Interest	48,477									
Changes in benefit terms	0									
Differences between expected and actual experience	14,022									
Changes of assumptions	(238,452)									
Benefit payments	(85,349)									
Other changes	119,287									
Total OPEB liability - ending	<u>1,281,728</u>									
Covered-employee payroll**	1,963,561									
Total OPEB liability as a % of covered payroll	65.28%									

Notes to Schedule:

* Until a full 10-year trend is compiled, only information for those years available is presented.
No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Required Supplementary Information

Mason County PUD #1
Schedule of Employer Contributions
As of December 31, 2018
Last 10 Fiscal Years *

	2018		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	PERS 1	PERS 2/3
Statutorily or contractually required contribution	103,465.00	153,243.00	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	(103,465.00)	(153,243.00)	(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	0.00	0.00
Covered employer payroll	2,043,194.00	2,043,194.00	1,861,852.00	1,861,852.00	1,941,779.00	1,941,779.00	1,956,229.00	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%	8%	5%	7%	5%	6%	0%	10%	9%	9%	8%	8%

*As this is a newly adopted standard, information is only available for the last 5 years

Mason County PUD #1
Schedule of Proportionate Share of the Net Pension Liability
As of June 30, 2018
Last 10 Fiscal Years

	2018		2017		2016		2015		2014	
	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
Employer's Proportion of Net Pension Liability	0.014080%	0.018068%	0.014642%	0.018836%	0.016798%	0.021523%	0.016220%	0.020952%	0.017656%	0.019682%
Employer's Proportionate Share of Net Pension Liability	628,818.00	308,495.00	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	1,957,988.00	1,957,988.00	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	32%	16%	35%	33%	45%	54%	0%	40%	789.63%	23.48%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.22%	95.77%	61%	91%	57%	86%	59.10%	89.20%		

*As this is a newly adopted standard, information is only available for the last 5 years

ABOUT THE STATE AUDITOR'S OFFICE

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

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
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov

