



2020 | ANNUAL REPORT

IN MEMORIAM

With endearment and fond memories, this annual report is dedicated in memory of line foreman,

**Michael J. Ferrier
(1965-2020)**

and his 34 years of public service to the customers of PUD 1.



A TRYING YEAR...

Our 85th year of public service did not go off as we thought it would. It was arguably the most challenging year of our existence, as it likely was for our customers, community, and nation as well. The pandemic may have forced us to change the way we deliver our services, but it did not stop us from continuing to provide safe, reliable and valued utility services to our customers.

The PUD 1 commission took immediate action in March of 2020 to protect our critical workforce and the public we serve. Not only did we close our campus to the public for the first time in 85 years and set up employees to work from home, but we also canceled rate increases and disconnections, allowing customers to set up long term payment plans, and we worked hard to bring in assistance funds to help offset past due utility bills. We know who we work for. It's our job to find a way to keep the lights and water on for our customers when we're faced with unimaginable hardship like we were in 2020. The PUD 1 employees rose to that challenge.

Our employees have rolled with all the changes and new safety protocols and we had a safe and productive workforce all through 2020. As a result of the extra efforts of our workforce, we were able to complete over 77% of our annual strategic work plan, in spite of the pandemic. These ranged from routine maintenance projects to large electric rebuild projects. In addition to the work plan items that were accomplished, we also brought in over \$169,000 in grant funding for customer bill assistance through both the federal CARES Act and FEMA disaster relief funding, as well as for water system planning and a zero-emissions vehicle charging station project in partnership with the Skokomish Tribe. We have an additional \$4.23 million in pending grant applications for 2021.

In 2020, our utility was recognized by several industry associations for our safety culture, our communications, and our commitment to public service as part of our pandemic response plan. As we stated to the news media when we accepted the pandemic response award, our response plan would not have been successful without the input and cooperation of our great employees and the assistance and support of our community. Several local businesses helped us secure items that were in short supply but critical to us continuing our operations, such as chlorine and rubbing alcohol to do our water system testing, and hand sanitizer for our employees, paper products for our facilities, and fuel for our fleet. It is the partnerships that we built with our local suppliers that helped us get through the tough year as well as we did. It was these partnerships that ensured our business continuity and the health and safety of our workforce. We really do have the best customers and neighbors.

Probably the highlight of the year for us was our drive-through customer appreciation event in October. We knew that cancelling was not an option. We all needed some positivity. We needed to celebrate both our 85 years of service and our community's endurance. We hoped that by making the event as contactless as possible, that you would come out and celebrate with us. You did not disappoint. We had record breaking attendance- our best count was over 600 people! Far more than the 300-400 that we normally see at our event. We know that for many customers, that event marked the first time in six or seven months that folks had ventured out of the house for anything other than groceries or doctor appointments. The support was overwhelming and humbling.

While 2021 has ushered in some hope and light at the end of the pandemic tunnel, we know that we are not out of the woods yet. Thank you all for doing your part to help stop this terrible virus and thank you for supporting your public utility district. Here's looking forward to the next 85 years!

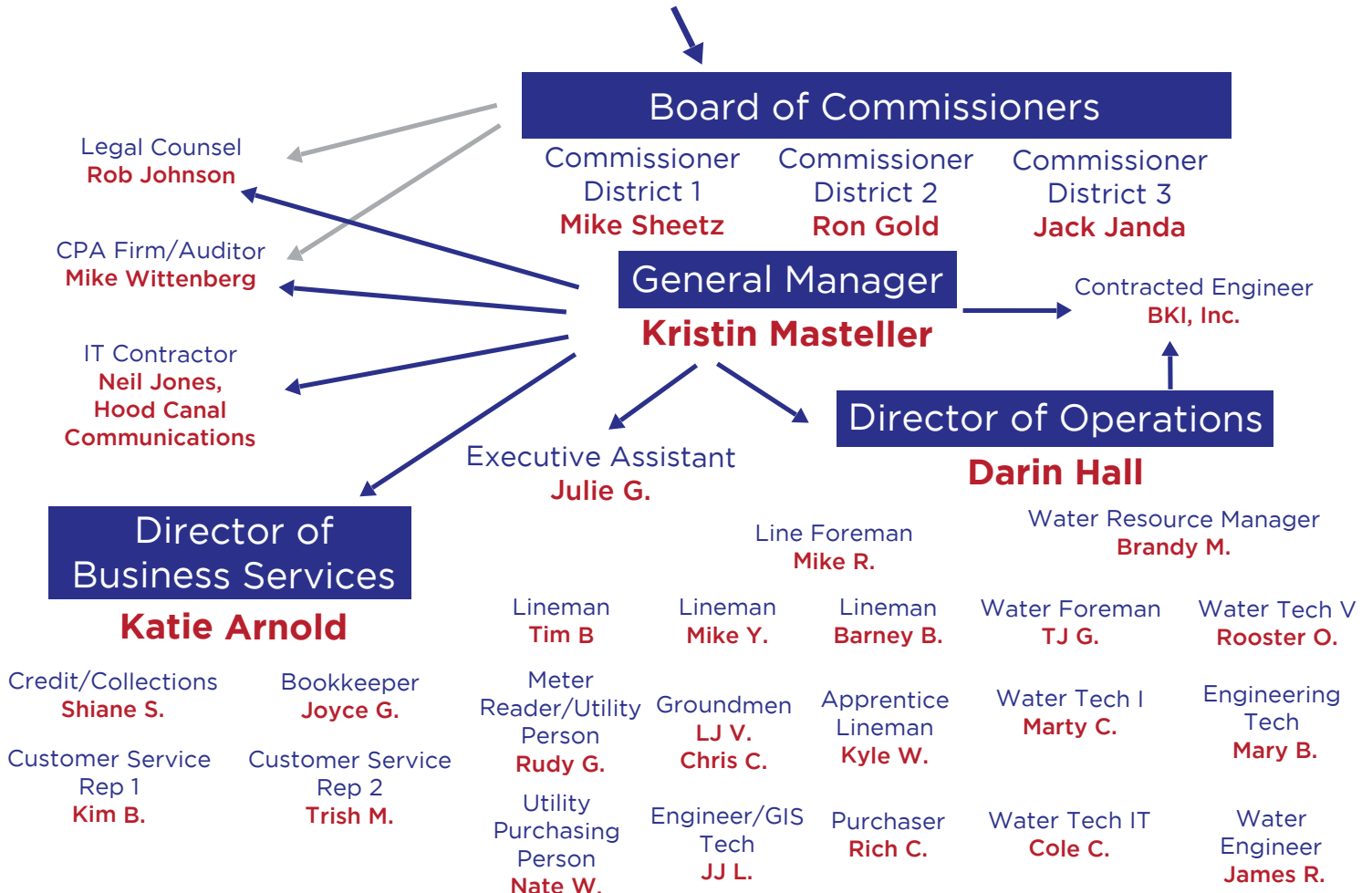
Kristin Masteller
General Manager

Ron Gold
Board President

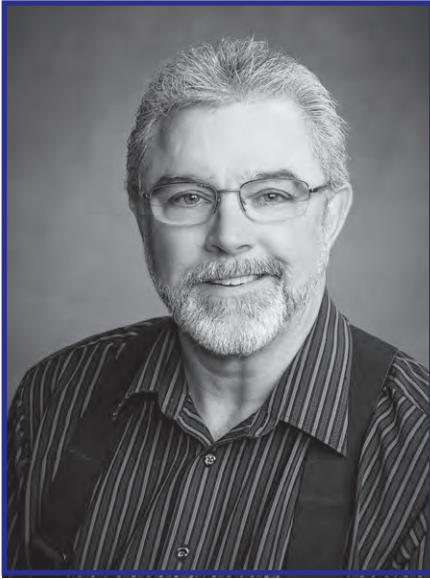
YOUR PUD 1 TEAM



PUD 1 RATEPAYERS



YOUR PUD 1 COMMISSIONERS

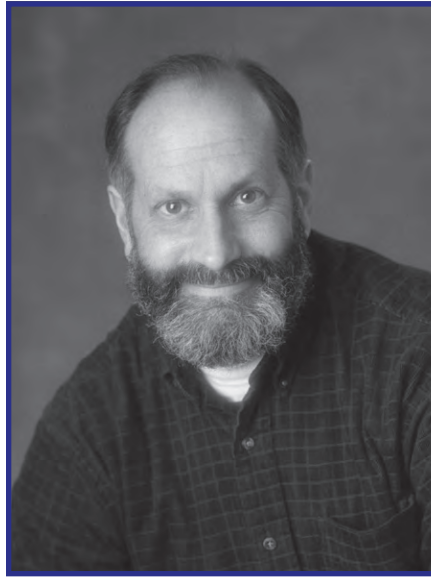


Mike Sheetz

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 2021-2027

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



Jack Janda

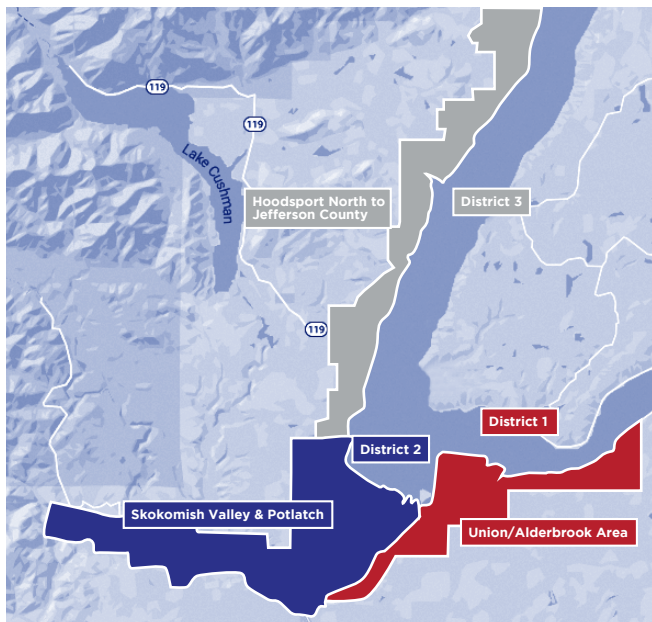
District 3

(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 (360) 490-1800

PUD 1 - ELECTRIC SERVICE DISTRICTS

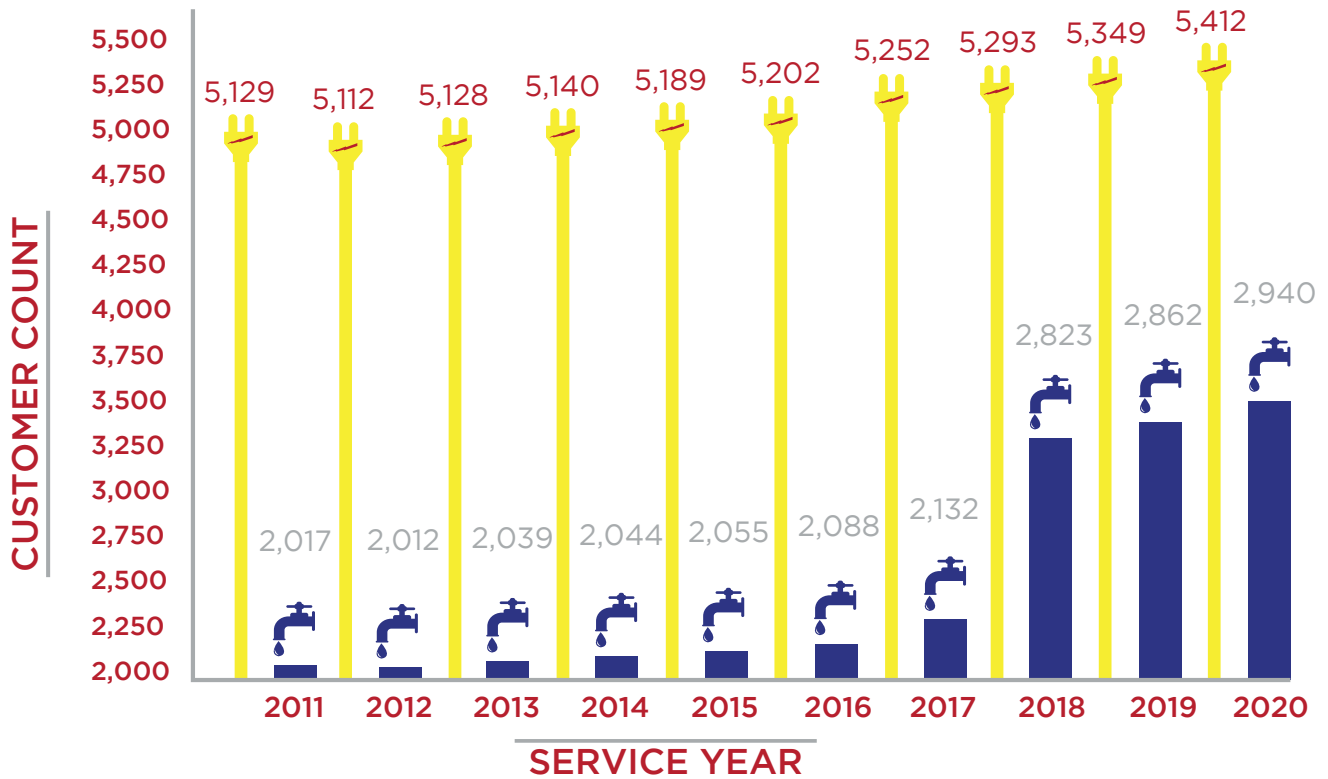


Mason County PUD No. 1 is a publicly owned entity governed by a Board of Commissioners elected by you, our ratepayers. The District is divided into three smaller voting districts and one commissioner is elected from each of these districts. They each serve a six-year term. The commission sets District policy, approves budgets and expenditures, as well as the strategic plan.

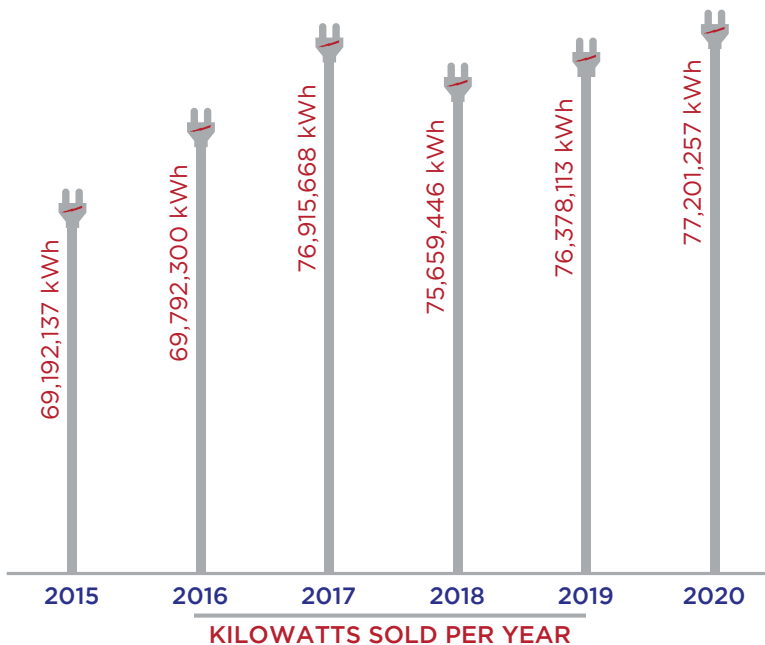
Board of Commissioners meetings are open to the public and held virtually during the pandemic. Customers and members of the public are encouraged to attend board meetings, which are typically held the first and third Tuesdays of each month at 1:00 p.m. Customers may call into the meetings until the PUD office is reopened to the public. The call-in number is listed on the PUD's homepage at www.mason-pud1.org or can be provided by calling the PUD office. Board packets and special meeting announcements are also posted on the homepage of the website for public viewing.

2020 QUICK STATS

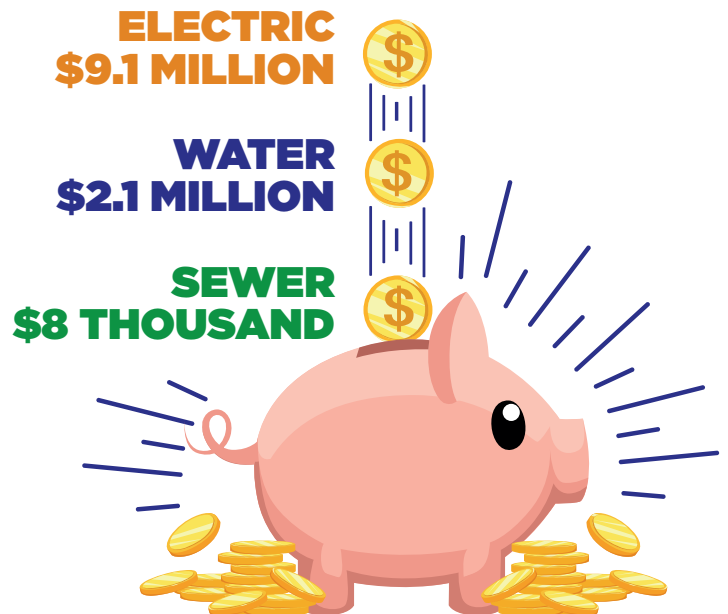
WATER AND ELECTRIC CUSTOMER COUNTS



KILOWATTS SOLD



2020 OPERATING BUDGETS



SAFETY IS OUR NO. 1 PRIORITY



50,527 HOURS WORKED IN 2020



2 REPORTABLE INCIDENTs
ZERO TIME LOSS



3 SAFETY AWARDS

PUD 1 Received THREE Safety Awards in 2020:

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.

Federated Rural Electric Association
"No Time Loss" Award



AWARDS AND HONORS

COMMUNICATIONS AWARDS

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



FIRST PLACE

Wild Card
(Dam Proud T-Shirts)



SECOND PLACE

Newsletter (The Connector)



THIRD PLACE

Advertising Campaign
(Customer Appreciation Event)

American Water Works Association's Pacific Northwest Section "Excellence in Communications" awards:

- Electronic Communications for the PUD's social media platforms
- Internal Communications for the PUD's "2019 Strategic Work Plan"
- Strategic Communications for the PUD's "Cross Connection Control" campaign
- Wild Card for the PUD's "New Customer Onboarding" campaign.



American Public Power Association's Excellence in Public Power Communications Awards

(Class D: Gross revenues of less than \$75 million)

Award of Merit for Print & Digital Communications

Newsletter & Social Media



AT&T and Government Technology Magazine

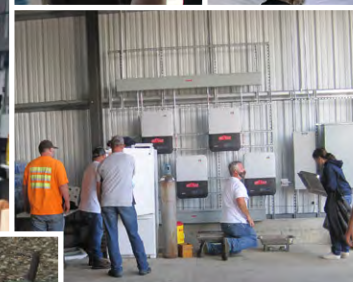
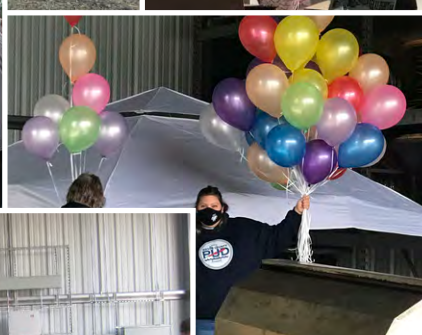
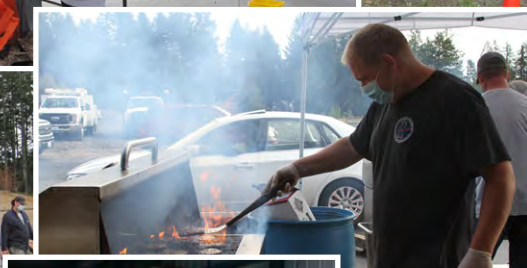
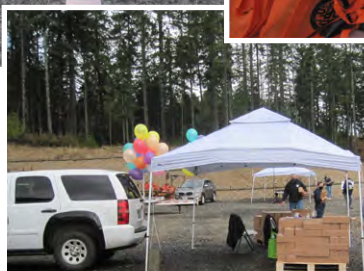
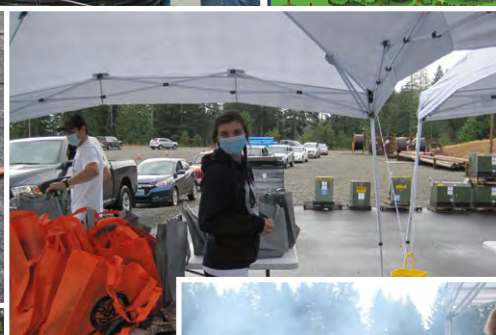
Technology Innovation Award for Special Purpose Districts

Operational Excellence- "PUD 1 Pandemic Response Plan"

MASON COUNTY PUD 1

CUSTOMER AND COMMUNITY APPRECIATION EVENT!

During a challenging year, the PUD 1 team got creative to host a Customer Appreciation drive thru event safely for the community.



DRIVE THRU CUSTOMER APPRECIATION EVENT



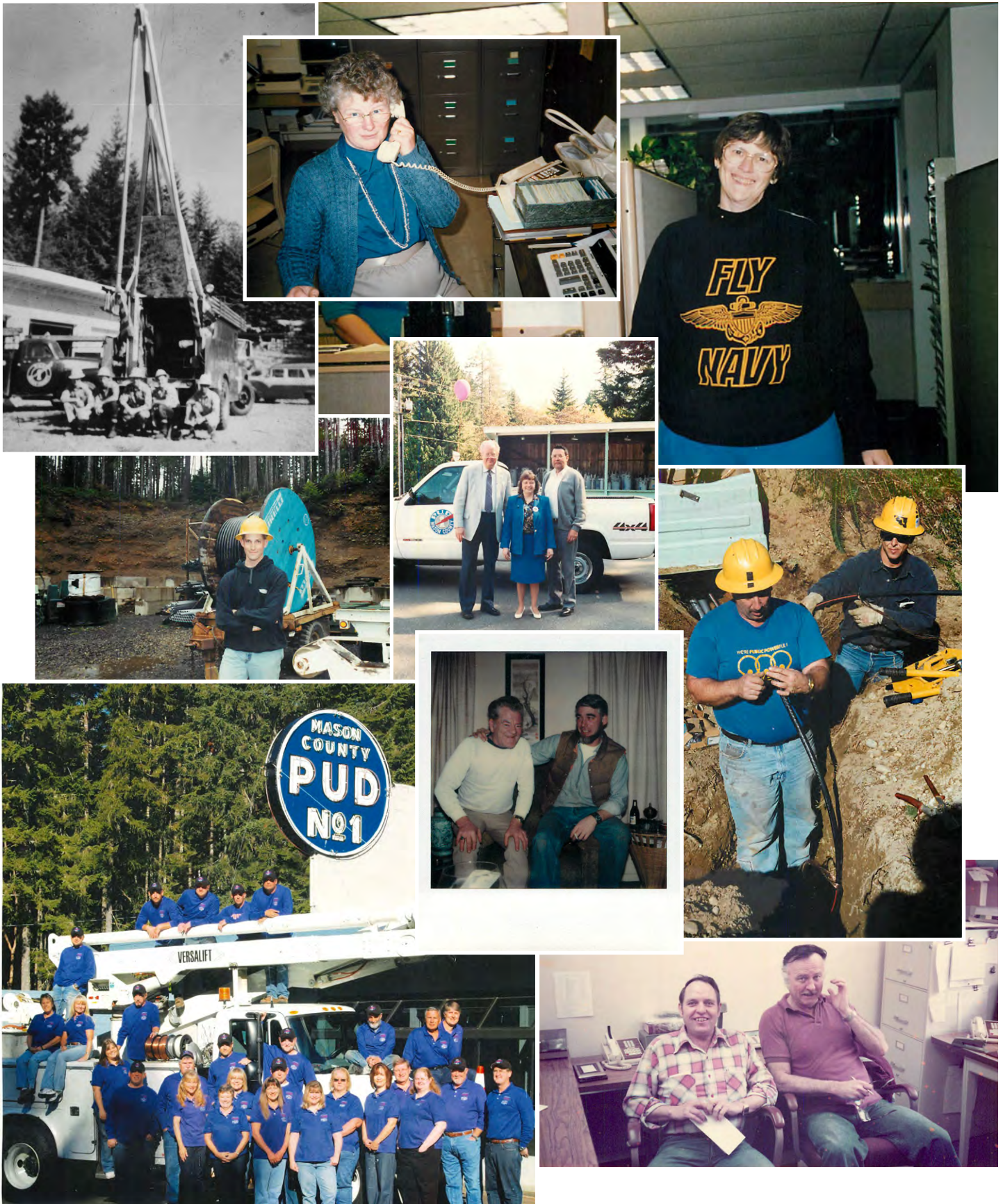
Celebrating 85 Years...



HARRY POZORSKI - JERRY KESTER
1981



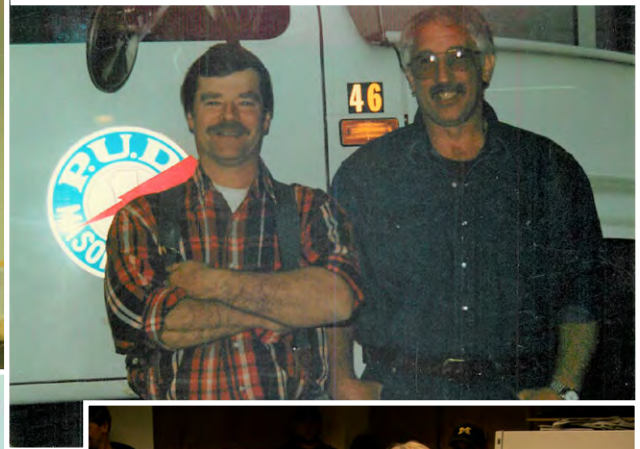
Celebrating 85 Years...



Celebrating 85 Years...



Celebrating 85 Years...



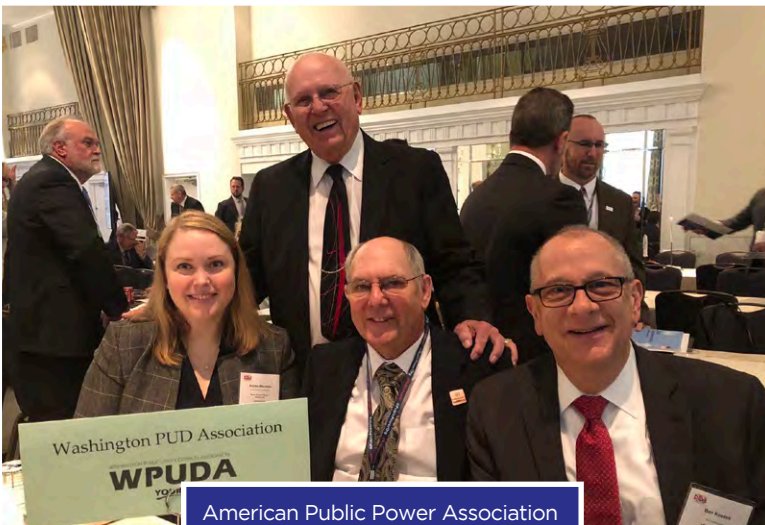
ADVOCACY



Meeting with Congressman Kilmer, Washington, D.C.



Congressional Staff Briefing on Energy Resource Adequacy, Washington, D.C.



American Public Power Association Legislative Rally, Washington, D.C.



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 Council
Hood Canal Kiwanis
American Water Works Association - PNW Section
Washington Water Utilities Council

PUD 1 ELECTRIC



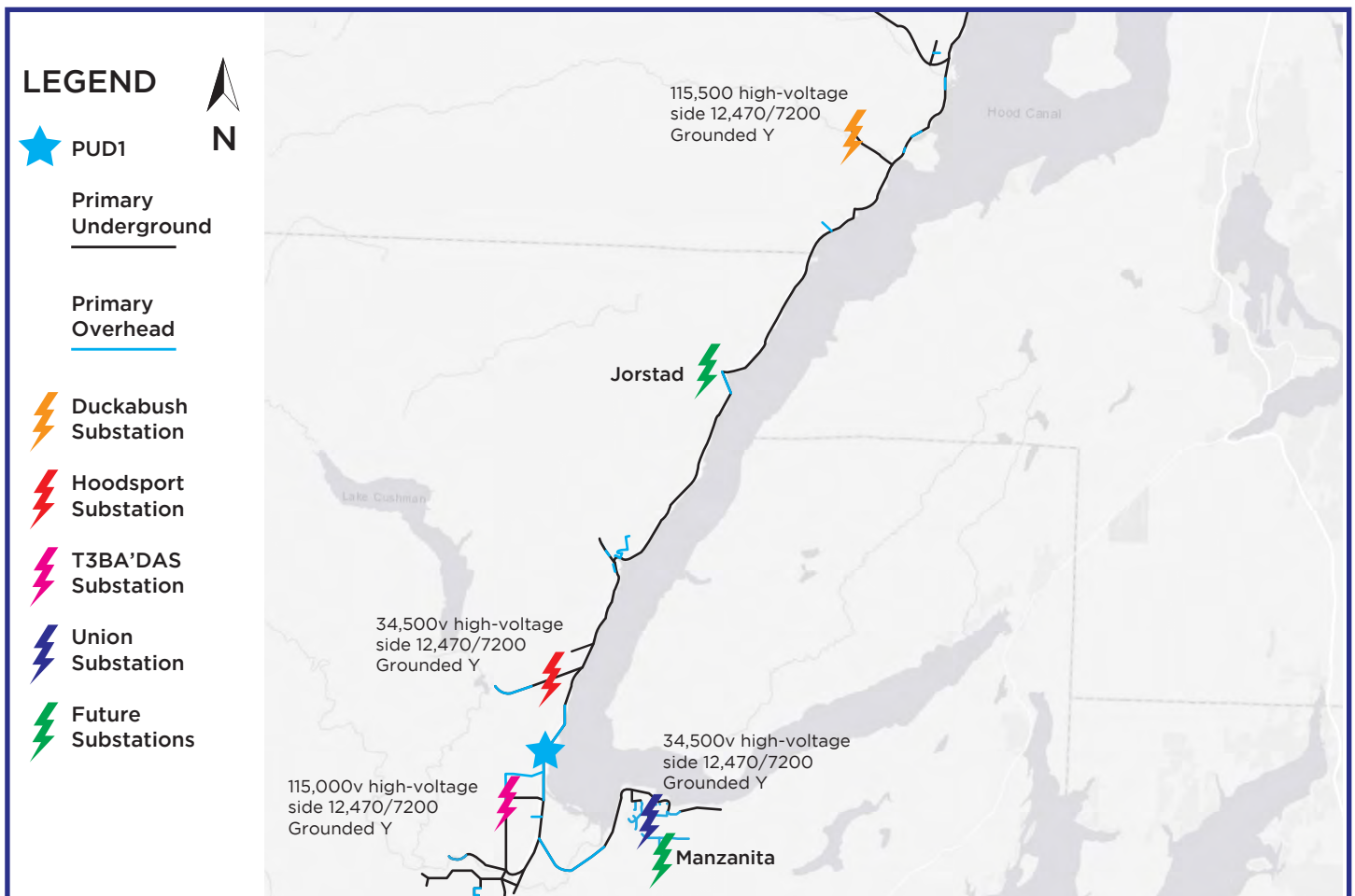
PUD 1 ELECTRIC

INCREASING RELIABILITY

Our outage hours by customer continue to trend downward annually 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.

VEGETATION MANAGEMENT

Working in the Olympic Rainforest and along the Hood Canal, we have some of the world's most pristine scenery as our daily backdrop, 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 power 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. Those efforts are paying off as we realize savings in overtime costs, poles, and wire, as well as customer outage hours. The pandemic forced us to move all our vegetation management in house in 2020, however extra funds were budgeted for contractors in 2021 to catch up for the



PUD 1 ELECTRIC

missed year. The crew was able to tackle Skokomish Valley Road, Wa-Wa Point and Tog Road in Brinnon, in addition to other smaller services and tap lines that needed attention throughout the system.

LINE REBUILDS & CONVERSIONS

Our annual work plans have had an emphasis on rebuilding sections of aging underground line in problem areas, as well as completing overhead-to-underground conversions. In 2020, Point Whitney overhead line was converted to underground and Timber Tides and Foothills Park underground lines were replaced. Overhead rebuilds were completed for the Hoodsport tap, Weed Road tap and the end of the Skokomish Valley Road. Pole replacements were also completed in Duckabush and Hoodsport to change out leaning poles.

Two major electric projects were also started in the Union area at the end of 2020 and wrapped up in early 2021. The first project was an overhead line conversion to underground from the PUD's property at the corner of Manzanita and Dalby Road to the PUD's current Union Substation. This section of overhead transmission and distribution lines is in a steep area that is difficult to access during wet or snowy conditions. When trees fell in that area it would take hours for our crews to make repairs since vehicles cannot access that section of line. By converting it to underground, we eliminated the tree issue. Also, while the ditch was open, we preemptively installed water main and partnered with Hood Canal Communications to lay fiber conduit so when properties in that area are developed, the infrastructure is already there. This is the first phase of this project. Wire still needs to be pulled and the former transmission portion of it will not be decommissioned until the new Manzanita Substation is built. This new substation will shorten outages that occur because the PUD will have the ability to feed it from other subs on our system.



Pt. Whitney Rebuild



Overhead to underground conversion in Union

The second major project was a transmission rebuild and new distribution feeder from Manzanita down to Highway 106 in Union. This transmission line is fed from BPA's Potlatch Substation near Lake Cushman, down across the tide flats, and up the hill to the Union Substation. The old smaller line was replaced with much larger transmission poles and line, and parallels Tacoma Power's transmission line. This work not only improves reliability, but it is part

PUD 1 ELECTRIC



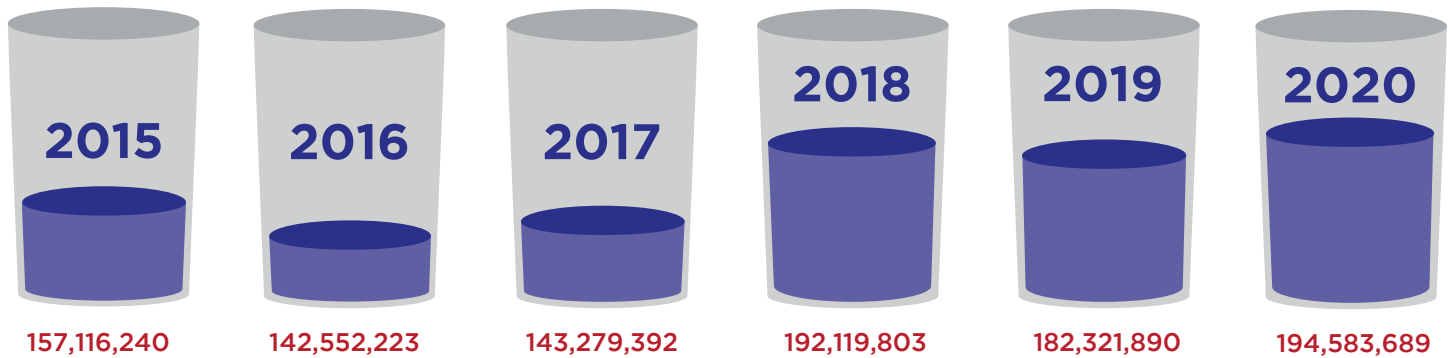
Line rebuild from Manzanita to Hwy 106 in Union

of the groundwork that needs to be done to be ready for the new Manzanita Substation that is scheduled to begin construction sometime between 2023 and 2025. The Manzanita Substation will replace the old Union Substation. These projects all are part of our phased long-term planning to accommodate future growth in the Union area and increase reliability by replacing our aging infrastructure. Also, once all the projects, including the new substation, are complete it will eliminate over two miles of transmission line that runs cross country and difficult to repair.



PUD 1 WATER

GALLONS OF WATER SOLD



NEW SYSTEMS

Two new water systems joined PUD 1 in 2020. Bel Aire Cove, a Group A system, and Two Jackies, a Group B system, added 41 additional connections, bringing the total to 2,940 water accounts.

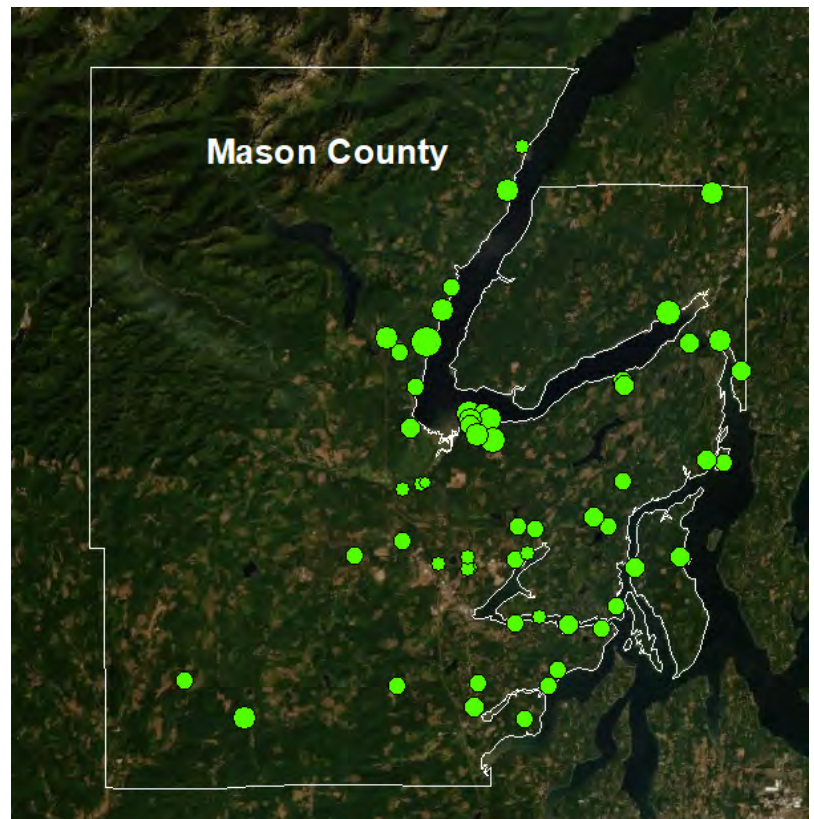
Group A systems have 15 or more service connections or serve 25 or more people at least 60 days out of the year. Group B systems are smaller than the Group A. This brings the District's total to 73 owned water systems and three managed systems.

WATER SYSTEM PLANNING

Union Regional, Agate Beach and Viewcrest Beach water system plans were all approved in 2020.

The District received a \$30,000 grant from Department of Health to conduct a feasibility study for the consolidation of Island Lake Manor, Cherry Park, Springwood and Woodland Manor water systems. This will occur in 2021 and determine if the consolidation is feasible and an option that the PUD wants to consider.

LOCATION OF PUD-OWNED WATER SYSTEMS



PUD 1 WATER

WATER PROJECTS

Much like the electric business, the water side also struggles with aging infrastructure that needs to be upgraded and 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 day-to-day fires with emergency leak repairs, adverse sample results, and keep up on our maintenance schedule. In the 252 days that the PUD was open in 2020, our four water technicians responded to 424 service calls in addition to their scheduled projects. They are a very busy group.

View Ridge Heights, Hamma Ridge, Enchantment and Ripplewood water systems all had leak detection and repairs done to them in 2020. Lake Arrowhead water system also received a Washington State Drinking Water State Revolving Fund (DWSRF) grant in the amount of \$162,019 to replace a section of mainline that has high distribution leakage. That project will be completed in 2021.

Two more DWSRF grants were awarded for manganese treatment systems for Bay East for \$88,559 and Lake Arrowhead for \$304,500. These projects will also occur in 2021.

We also repaired well houses at Wonderland, Woodland and Hellickson water systems, and removed danger trees and installed well head protection for the newly acquired Canal View system. Woodland and Wonderland also had their captive air tanks replaced with bladder tanks.

Island Lake Manor, Rainbow Lake and Bel Aire Cove received water treatment upgrades, which automated the chlorination systems. This allows for more accurate chlorination and reads, and saves valuable employee time driving to those sites for daily chlorine checks.



Well pump replacements



Well pump replacements

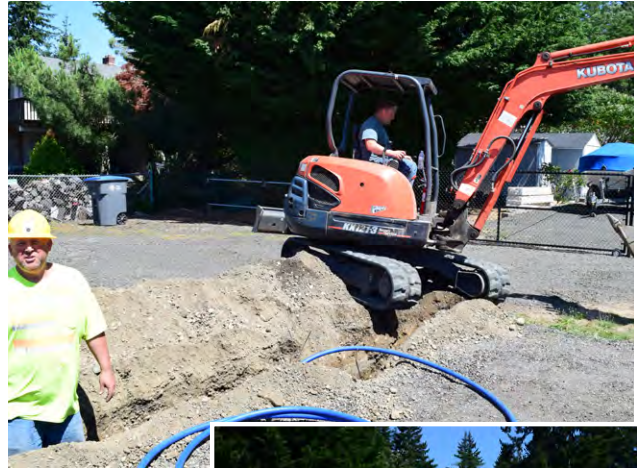
PUD 1 WATER

Highland Park, Springwood and Union water systems all had well pumps replaced in 2020.

Canal Mutual, Hood Canal, Lakewood Heights, Pirate's Cove, Tiger Lake, Twanoh Heights, Union, and View Ridge Heights all had their reservoirs cleaned and inspected.

Island Lake Manor, Madrona Park, New Pine Acres, Wonderland and Bellwood B. systems all had failing source meters replaced.

An 8" water main was installed from Manzanita Road to Dalby Rd. in Union in coordination with an electric line replacement project, for future property development.



STREAM MONITORING

A year's worth of stream monitoring data from the PUD's three monitoring stations at Schumacher, Alderbrook and Big Bend creeks is now available through a link on the PUD website:

<https://mason-pud1.org/water-monitoring/>. Thank you to our friends at Kitsap PUD for generously hosting our data on their site and for all the guidance in getting our monitoring program running.



Taking stream flow measurements
at Schumacher Creek

RENEWABLE ENERGY PROJECTS

COMMUNITY SOLAR II

In May of 2020, the PUD commissioned our second community solar project. Community Solar II was developed at customer request, after the success of the first community solar project in 2016. At over 50 kilowatts, Community Solar II is more than twice the size of Community Solar I. In addition to the 965 units purchased by 41 customers, 500 units were paid for with a \$50,000 grant from

Bonneville Environmental Foundation to fund a low-income program. This is the second project PUD 1 has worked on with BEF. Their grant enabled 10 low-income households to enroll in the solar program and those customers will receive the solar benefits until 2024, when 10 new participants will be drawn from a prequalified list. Over the life of the system, up to 50 low-income households will go through this program over the next 20 years. It is an innovative way to ensure people at all income levels can take part in clean energy projects.

The Community Solar II was unveiled at a drive-in ribbon cutting in July 2020 at the PUD's new warehouse that the array was sited upon. After construction delays and rescheduling due to the pandemic, persistence paid off as over two dozen customers, community members, and employees came together under proper safety guidelines to celebrate the new solar array. The generation for both projects can be tracked online at solar.mason-pud1.org.



ENERGY PORTFOLIO

Washington State PUDs are longstanding leaders in clean energy, with many having fuel mixes that are already 95-98% carbon free.

Despite the reduction in state incentives for community and rooftop solar, PUD 1 still gets strong interest from our customer base for solar and other renewable energy projects, which motivates the District to make these opportunities available for ratepayers. PUD 1 has several of renewable energy projects on our system.

In addition to the two community solar projects, and three privately-owned hydroelectric projects, the District also has invested in electric vehicle charging at the PUD and has partnered with local businesses and the Skokomish Tribe to expand it through the PUD's service area.

The PUD and Skokomish Tribe received a grant from Bonneville Environmental Foundation for more than \$23,000 to install four zero-emission vehicle charging stations between Twin Totems and the Lucky Dog Casino. These stations will be operational in early 2021.



EV charger at the
PUD 1 office

2019* FUEL MIX SUMMARY



HYDRO 84%



NUCLEAR 10.88%



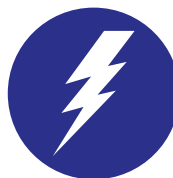
COAL 0%



NATURAL GAS 0%



BIOMASS 0%



OTHER 5.12%

**2019's data reported in 2020*

CLEAN ENERGY ACTION PLAN

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 1 CLEAN ENERGY ACTION PLAN

RCW 19.405.040 requires that all retail sales of electricity to Washington retail electric customers be greenhouse gas neutral by January 1, 2030. Table 1 below shows PUD 1's projected retail sales. PUD 1 purchases approximately 95 percent of its power supply from the Bonneville Power Administration (BPA). The other 5 percent is provided by two small privately owned hydroelectric resources located in PUD 1 service territory. According to BPA's 2016-19 Fuel Mix Reports, BPA's power supply was 96.7 percent carbon-free during the most recent four-year historic period. The remaining 3.3 percent of BPA power was provided by "non-specified purchases", which are purchases made from another system without knowledge of the specific fuel type.

PUD 1's current power contract with BPA expires at the end of September 2028. PUD 1 is hopeful that BPA's post-2028 contract will include an option to purchase 100 percent carbon-free power from BPA. If BPA provides such an option, PUD 1 may purchase 100 percent carbon-free power from BPA. If this comes to pass, PUD 1's power supply will be 100 percent carbon-free and PUD 1 will be in compliance with CETA without acquiring any additional resources or pursuing an alternative compliance option under CETA.

TABLE 1: CALCULATION OF 2030-32 REC PURCHASE REQUIREMENTS TO BECOME NET-GREENHOUSE GAS NUETRAL

	CY30	CY31	CY32
Resources (MWh)			
Customer Owned Resource (Hydro)	4,730	4,730	4,743
BPA Tier 1	75,099	75,099	75,099
BPA Tier 2	4,709	5,055	5,625
Total Resources	84,539	84,884	85,468
Carbon-Free Resources (MWh)			
Customer Owned Resource (Hydro)	4,730	4,730	4,743
BPA Tier 1 ⁽¹⁾	72,621	72,621	72,621
BPA Tier 2 ⁽¹⁾	4,554	4,888	5,440
Total	81,906	82,239	82,804
Calculation of REC Requirements			
Retail Sales (MWh)	82,849	83,187	83,759
Retail Sales minus Carbon-Free Resources (MWh)	943	947	955
BPA Tier 1 RECs ⁽²⁾	987	987	990
Remaining REC Purchase Requirements ⁽³⁾	0	0	0

(1) Assumes BPA power is 96.7 percent carbon-free.

(2) Projected BPA Tier 1 RECs associated with BPA's incremental hydro generation allocated to PUD1.

(3) "Retail Sales minus Carbon-Free Resources" minus BPA Tier 1 RECs.

FINANCE AND ADMINISTRATION

CUSTOMER SERVICE

Our customer service team went remote for the very first time in our PUD's history. To ensure that administrative staff was available to assist the public and keep the business functions going during the pandemic, we set up virtual remote workstations at employees' homes that replicated their office workstations. We moved our customer encounters online and over the phone, but still offered notary services and other in-person transactions by appointment, in the parking lot, donning masks and gloves.

Some new features were rolled out in 2020 including:

- Auto pay using customer bank accounts
- Now accepting American Express cards



Customer Service Rep's home workstation

QUICK STATS

\$51,045 in energy rebates were issued in 2020 to customers who made approved upgrades to their homes and businesses.

\$6,300 was paid out in bill credits to 1,260 participants who chose to receive paperless statements. By going paperless, these customers saved the PUD approximately **\$12,600** in printing and shipping costs. We split those savings with the participating customers by applying a \$5 bill credit in October.

\$6,607 was donated by generous PUD 1 customers in 2020 to help **44** low-income households with their power and water bills. This was an increase of over **\$1,100** from 2019, allowing us to assist **7** more families than last year.

Community Solar I project generated 21,505 kWh in 2020, resulting in **\$1,726.60** issued as bill credits to our project participants and **\$23,220** in incentive payments from Washington State. This incentive program closed in June of 2020.

The new Community Solar II project generated 14,193 kWh between May and December, resulting in **\$1,988.55** in incentive payments and **\$2,957.44** in bill credits for 51 customers.

\$93,898.47 was disbursed to customers for bill assistance including: **\$56,000** in CARES Act funding, **\$28,097.53** in LIHEAP assistance, and **\$9,800.94** from various programs to help low-income households and those struggling with COVID-19 related financial hardships.

FINANCE AND ADMINISTRATION

RATE DELAY AND BUDGET AMENDMENTS

Cost of Service Analysis (COSA) that was completed in 2019 helped us create a new rate schedule for power and water starting in 2020. Due to the pandemic, the power rate schedule and increase that was slated for April 1, 2020 was delayed for a year, along with the 2020 year-end water rate increase.

The PUD board of commissioners voted to delay any new rate schedule implementations until April 1, 2021, with the intent to evaluate the local economic factors again before that date.

To offset the loss in revenue, the PUD management team cut 4% of the 2020 operating budget including travel and training budget, temporary workers for summer construction projects, and delaying fleet replacements.

FINANCIAL POLICIES

- The Board of Commissioners sets the financial policies for the District with recommendations from the District Auditor, District Treasurer and General Manager. Several financial policies have been implemented 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 annually, to reach the policy goal of 90 days. These operating reserve funds are invested in the Local Government Investment Pool (LGIP) and earned an average of 0.5% in 2020. This is far less than the 2% average earned interest in pre-pandemic 2019, when the economy was stronger. The purpose of this cash-on-hand is to provide cash flow to the PUD in the instance of an economic recession, like we have seen in 2020 with the pandemic. It ensures that the PUD's power bill from BPA can be paid, that we can make payroll for our employees, keep our fleet rolling, and purchase necessary materials and supplies, even when we are not able to collect revenue for an extended period of time.
 - Funding of Debt Reserves- 1% of the budgeted revenue is earmarked specifically toward paying down the District's long-term debt. This funding, in addition to the interest earned by investing the balances in the LGIP, will help the District pay off its debt almost 10 years sooner than the original amortization schedule, creating a savings of about \$464,700 in interest expense, or about 4% of our operating budget.
 - **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

FINANCE AND ADMINISTRATION

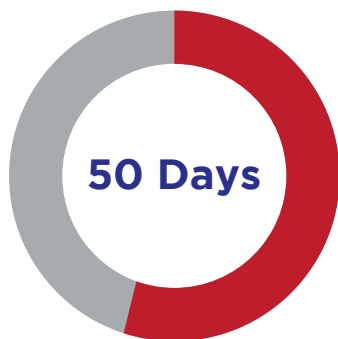
to the policy is essential to ensure that the District maintains a sound debt position and protects the credit quality of its obligations.

■ 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 though budgetary and economic cycles.

LGIP INVESTMENT ACTIVITY 2020

	1/1/2020	Transfer In	Interest Earned	Transfers Out	12/31/2020
TOTAL ALL FUNDS	\$4,103,684.43	\$2,346,948.00	\$27,467.91	-\$1,595,449.90	\$4,882,650.44



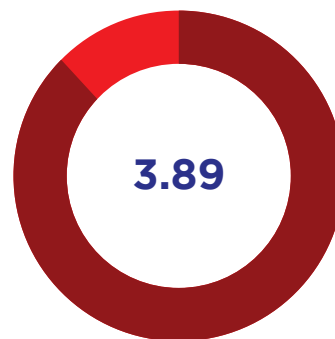
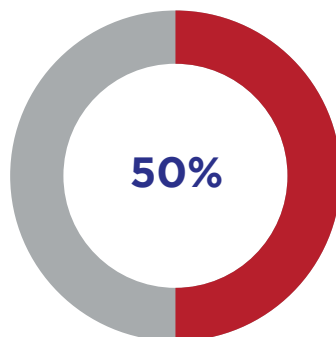
Days Cash On Hand

Goal: 90 Days
2020: 50 Days
2019: 44 Days

Debt to Equity Ratio

Goal: Less than 50%
2020: 50%
2019: 55%

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



TIER

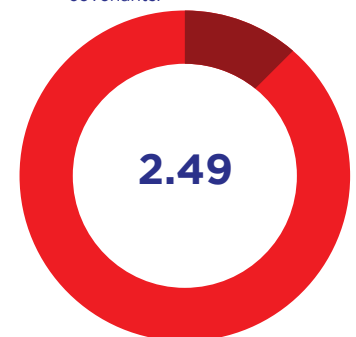
Goal: 2.0 (minimum)
2020: 3.89
2019: 3.58

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

Debt Service Coverage

Goal: 2.0 (minimum)
2020: 2.49
2019: 2.32

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



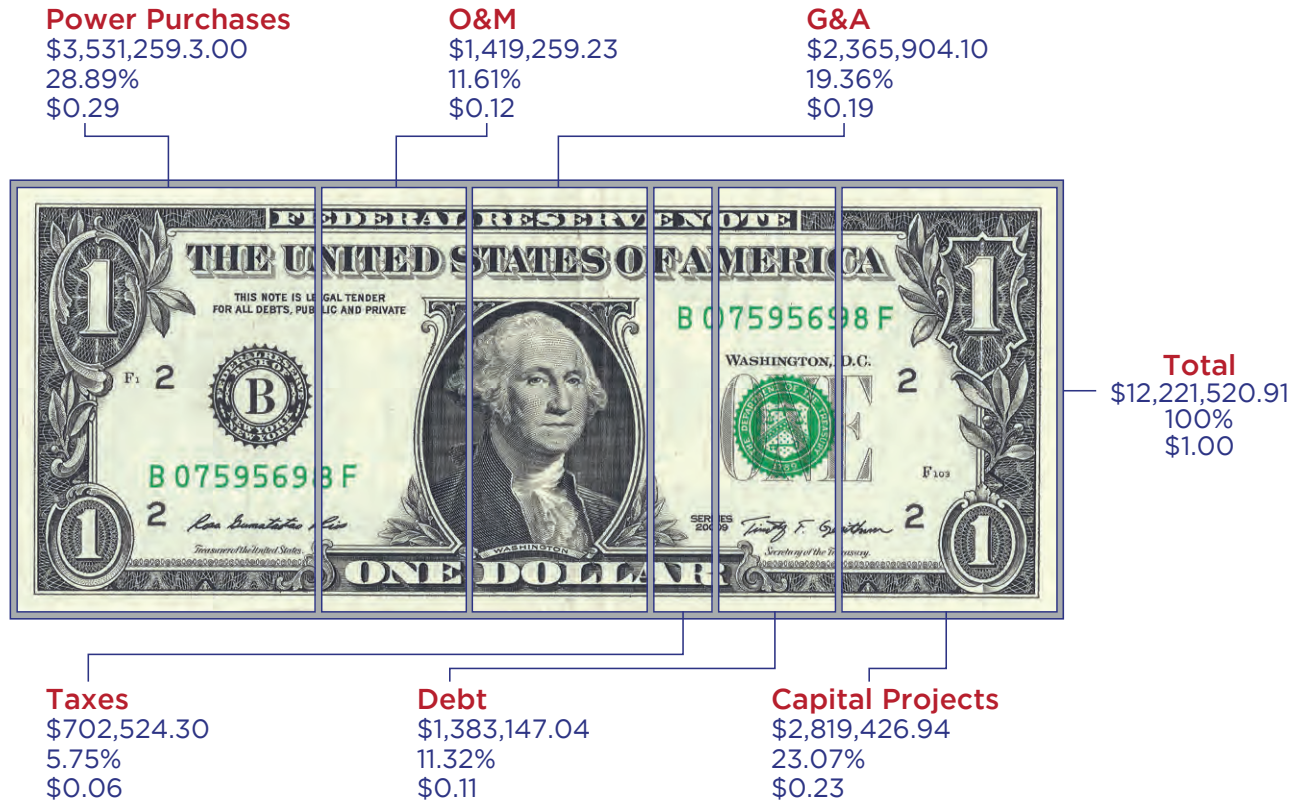
FINANCE AND ADMINISTRATION

GRANTS

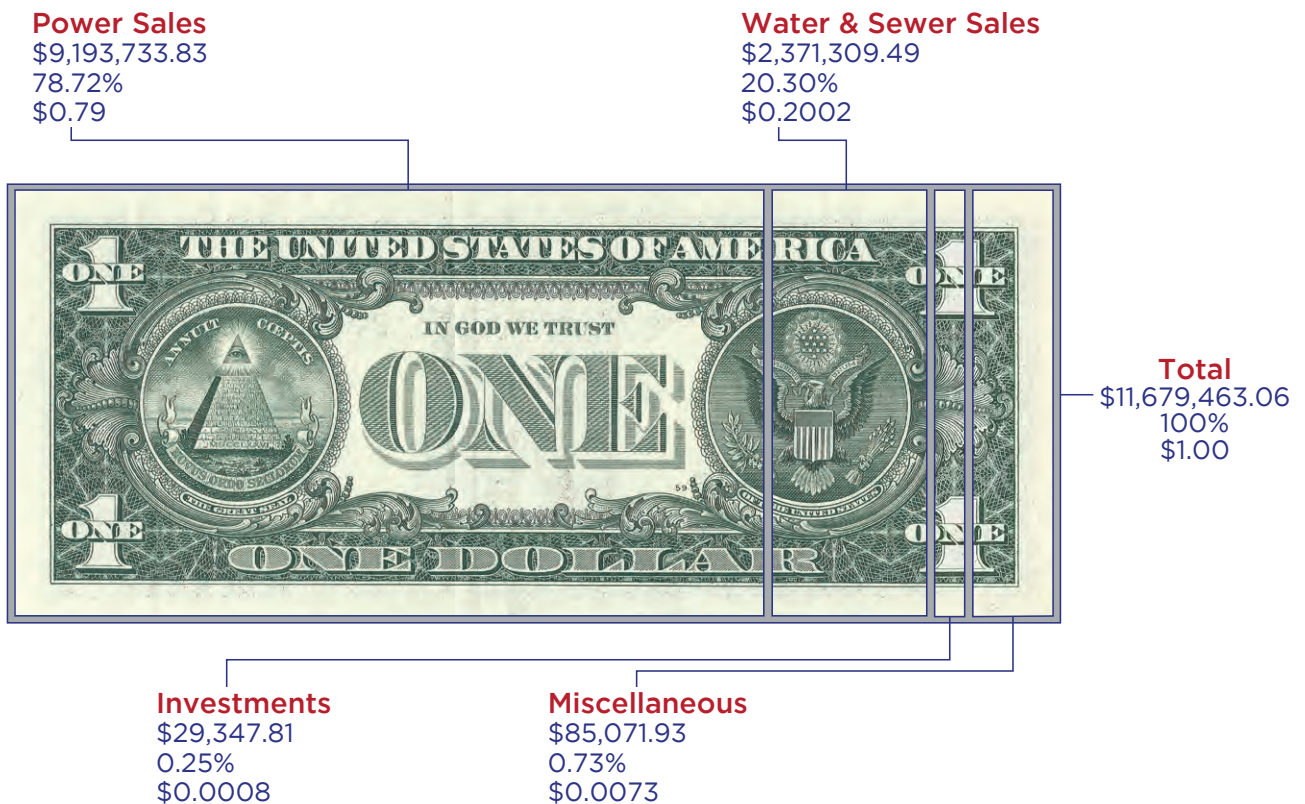
The District vigorously pursues grants and low-cost financing to assist in tackling capital improvement and strategic workplan projects. This includes funding from Department of Health, Department of Ecology, FEMA, Bonneville Power Administration, and other grant makers.

- In 2020, six water capital projects were submitted to Department of Health's Drinking Water State Revolving Fund program, with two receiving funding totaling just over **\$2.5 million**.
- The two projects were awarded 50% principal forgiveness, meaning the PUD will not have repay that portion, resulting in a savings of **\$1.25 million** for water ratepayers.
- A **\$30,000** grant was awarded for the purpose of a water system consolidation feasibility study for the systems the PUD owns in the Shelton city limits.
- **Two** 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.
- \$81,053.46 was also submitted to FEMA for disaster declaration events, resulting in a reimbursement of **\$60,790.10** to the PUD's general fund to offset both General and Administrative costs (G&A) as well as Operations & Maintenance costs (O&M) resulting from the PUD's storm outage response.
- The PUD received a **\$23,000** grant from Bonneville Environmental Foundation to install four Level 2 zero emissions vehicle charging stations at the Skokomish Tribe's Lucky Dog Casino.

How PUD 1 Spends a Dollar of Its Revenue



Source of PUD 1's Revenues



STATUS OF THE BUDGET

Mason County Public Utility District #1
Overview of the Status of Budget
2020
Status of Budget as of December 31, 2020

	2020 Actuals	2020 Budget	% of Annual Budget
Revenue	11,679,463.00	11,255,267.00	104%
<u>Expenditures</u>			
Distribution Operating & Maintenance	1,419,255.00	1,575,746.00	90%
Energy Services	3,531,259.00	3,537,410.00	100%
General & Administrative	2,365,904.00	2,391,151.00	99%
Tax, Depreciation, & Interest	2,765,039.00	2,780,139.00	100%
TOTAL EXPENDITURES	10,081,457.00	10,284,446.00	98%
NET OPERATING MARGINS	1,598,006.00	970,821.00	165%

The District's total revenue was 4% higher, collecting \$424,196 more than what was budgeted for 2020. A few key factors that played into the additional revenue collected include the following components:

1. Kilowatt hour sales (kWh) increased slightly from 2019 to 2020. In 2019, the total kWh sales were approximately 78.9 million, while in 2020, total sales were around 79.6 million, for an overall increase of just at 700 thousand kWh.
2. Water Usage increased slightly from 2019 to 2020. In 2019, the total water consumed was approximately 9.7 million cubic feet, while in 2020 the total was 9.9 million cubic feet, for an overall increase of 257 thousand cubic feet.
3. Other non-operating revenues increased primarily due to an increase in system development fees collected for new water system connections.

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 10% lower than what was budgeted for 2020. This was in part due to construction work projects allocated to work orders that are capitalized. Because of the COVID Pandemic, the District also re-balanced its budget and was able to

STATUS OF THE BUDGET

enact various cost saving measures to ensure the District remained solvent and moved throughout the year cautiously because so much was unknown with the state of the economy. The Energy Services (purchased power costs) was just at 100% of the budget. General & Administrative expenses ended the year 1% 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 2020 was 65% higher than 2020'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 2020, the District invested just over \$2.8 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2019 to 2020 was 6%.
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 2020, the balance in the fund is just over \$2 million.
3. At the end of 2020, the District had \$15.3 million in outstanding debt, an overall decrease of \$822,000. With the 2020 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 \$127,768 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 shows.
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.

STATUS OF THE BUDGET

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, 2019 through December 31, 2019

Published March 1, 2021

Report No. 1027851



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

March 1, 2021

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

Americans with Disabilities

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

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INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 1 of Mason County January 1, 2019 through December 31, 2019

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, 2019, 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 22, 2021.

As discussed in Note 12 to the financial statements, during the year ended December 31, 2019, the District implemented Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*.

As discussed in Note 13 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 13.

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 style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

February 22, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Public Utility District No. 1 of Mason County January 1, 2019 through December 31, 2019

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, 2019, 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, 2019, 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 2019, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. Our opinion is not modified with respect to this matter.

As discussed in Note 13 to the 2019 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the District is unknown. Management's plans in response to this matter are also described in Note 13. 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 22, 2021 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.

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

Pat McCarthy

State Auditor

Olympia, WA

February 22, 2021

FINANCIAL SECTION

Public Utility District No. 1 of Mason County January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Fund Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2019

Schedule of Proportionate Share of Net Pension Liability – PERS 1 and PERS 2/3 – 2019

Schedule of Changes in Total OPEB Liability and Related Ratios – OPEB – 2019

Mason County Public Utility District #1

Management Discussion and Analysis

December 31, 2019

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, 2019, with additional comparative data for 2018.

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 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 basic financial statements, presented for the year ended December 31, 2019, 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 \$27 million at the close of fiscal year 2019. Net position over time may serve as a useful indicator of a government's financial position.

Condensed Financial Information for December 31, 2019 and 2018 (In Thousands)

Statement of Net Position	2019	2018	% Change
Current Assets and Special Funds	9,588	10,094	-5%
Net Capital Assets	37,526	36,315	4%
Deferred Outflow of Resources	427	333	29%
Total Assets	47,541	46,742	2%
Current Liabilities	1,897	1,742	9%
Non-Current Liabilities	17,815	18,768	-5%
Total Liabilities	19,712	20,510	-3%
Deferred Inflows of Resources	809	711	14%
Net Investments in Capital Assets	24,401	23,554	4%
Restricted for Customer Deposits	83	77	8%
Restricted for Debt Service	960	989	-3%
Unrestricted	1,574	901	75%
Total Net Position	27,018	25,521	6%

The largest portion of the District's net position (90 percent) reflects investments in capital assets (land, buildings, substations, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers. Although the District's investments in capital assets are reported net of related debt, it's 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 6 percent is unrestricted and may be used to meet the District's ongoing obligations.

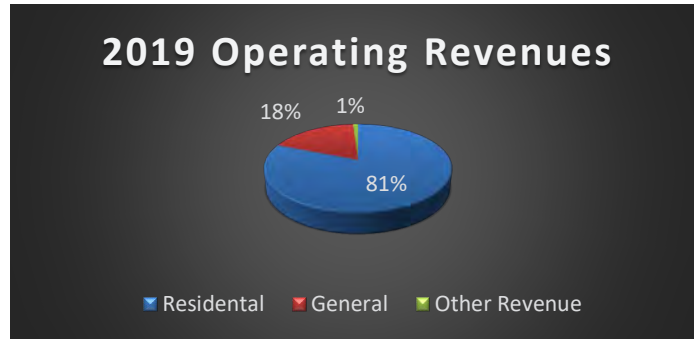
The District's overall net position increased by just over \$1.5 million from the prior fiscal year. The reasons for this increase are discussed in the following sections.

Statement of Revenues, Expenses and Change in Net Position

	2019	2018	% Change
Operating Revenues	11,083	10,267	8%
Operating Expenses	(9,358)	(8,654)	9%
Net Operating Income	1,725	1,613	7%
Non-Operating Revenues	414	277	50%
Non-Operating Expenses	(643)	(492)	31%
Net Operating Revenue (Expenses)	(229)	(215)	7%
Change In Net Position	1,497	1,398	7%
Net Position - Beginning of Year	25,521	25,440	1%
Prior Period Changes in Net Position	0	(1,317)	-100%
Net Position - End of Year	27,018	25,521	6%

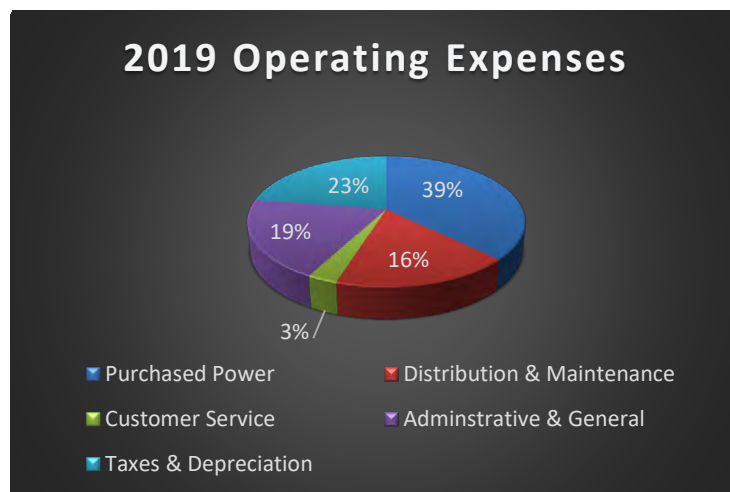
The District's total revenue increased by \$953 thousand dollars from 2018 to 2019 to \$11.5 million. The customer consumption in kWh increased from 2018 to 2019. In 2018 the total kWh consumption was approximately 78 million, while in 2019, the total consumption was around 78.9 million, for an overall increase of just under 1 million kWh. While the electric business consumption was up in 2019, the water consumption decreased. The overall consumption from 2018 to 2019 decreased by approximately 9.7 million gallons. 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 1.8% at the end of 2019. With the increase in the rate of return, in addition to increased funds invested in the LGIP, the District saw an increase of \$25 thousand dollars in interest and dividend income for 2019.

In 2019, the District's revenue was primarily residential, making up 81% of the overall revenue for 2019, with general covering 18%, and the remaining 1% 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 \$693 thousand dollars from 2018 to 2019. Approximately 38% of the District's operating expenses are derived from purchased power, with \$115 thousand dollars in additional power cost in 2019. The distribution operating and maintenance increased by \$300 thousand dollars in 2019, as additional maintenance projects were completed, in addition to overtime costs associated with a severe winter storm that took place in February 2019. Customer and Informational expenses decreased by just under \$2 thousand dollars in 2019 and the District's general and administrative costs increased in 2019 by \$227 thousand dollars. With the additional water systems purchased in 2018, the District added a third position in 2019 that hadn't previously been filled since 2016. For these reasons, as well as general cost of living increases, the District saw a rise in its costs from 2018 to 2019.

In summary, the overall financial condition of the District improved from 2018 to 2019. The total revenues increased by \$953 thousand, and total expenses increased by \$844 thousand. The district's ending net position was \$27 million, an increase of \$1.5 million.



Capital Asset and Long-Term Debt Activity

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%.

Capital Assets (in thousands)

	2019	2018	% Change
Land	1,046	1,046	0%
Plant in Service	51,898	49,931	4%
Construction Work in Progress	1,119	563	99%
Total Capital Assets	54,064	51,540	5%

Construction in progress saw a significant increase of almost double 2018's balance at year end. The District was in the process of completing the covered warehouse storage project that was started in the Fall of 2019, and not slated to be completed until the Spring of 2020.

Long Term Debt – At the end of 2019, the District had \$16.1 million in outstanding debt, an overall decrease of \$544 thousand. The District did not acquire new debt in 2019 and is actively working towards paying its debt off faster than the amortization schedules show. In 2019, the District allocated 1% of its revenue from rates towards paying down long-term debt. The additional 1% funded each year will allow the District to pay off its current debt 5-10 years faster. 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 are 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, 2019

ASSETS:

Current Assets:

Cash and Cash Equivalents		
Cash & Working Funds	\$	3,356,004
Investments	\$	3,154,043
Accounts Receivable (net)	\$	991,008
Accounts Receivable (other)	\$	189,170
Inventories	\$	844,515
Prepayments	\$	10,976
TOTAL CURRENT ASSETS	\$	8,545,716

Noncurrent Assets:

Restricted Assets		
Debt Service Reserves	\$	959,644
Customer Deposits	\$	82,825
Total Restricted Assets	\$	1,042,469

Capital Assets Not Being Depreciated:

Construction In Progress	\$	1,119,368
Land & Land Rights	\$	1,046,551
Total Capital Assets Not Being Depreciated	\$	2,165,919

Capital Assets Being Depreciated:

Distribution	\$	40,441,401
General Plant	\$	8,165,460
Transmission	\$	3,290,836
Less: Accumulated Depreciation	\$	(16,537,701)
Total Capital Assets Being Depreciated (Net)	\$	35,359,996

Total Capital Assets	\$	37,525,915
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TOTAL NONCURRENT ASSETS	\$	38,568,384
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TOTAL ASSETS	\$	47,114,100
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Deferred Outflows Of Resources:

Outflows of Resources Relating to ARO's	\$	6,000
Outflows of Resources Relating to OPEB	\$	164,304
Outflows of Resources Relating to Pensions	\$	256,299
TOTAL OUTFLOWS OF RESOURCES:	\$	426,603

TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$	47,540,703
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The Accompanying Notes Are An Integral Part Of This Statement

Mason County PUD #1
Statement of Net Position
December 31, 2019

LIABILITIES

Current Liabilities:

Accounts Payable	\$	677,703
Consumer Deposits	\$	80,428
Current Portion of Bonds, Notes and Loans Payable	\$	828,210
Other Current Liabilities	\$	<u>311,648</u>

TOTAL CURRENT LIABILITIES	\$	1,897,989
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Noncurrent Liabilities:

Accrued Vacation And Holidays	\$	426,862
Asset Retirement Obligations	\$	6,000
Long Term Debt - Loans	\$	3,619,300
Long Term Debt - Bonds	\$	11,694,606
OPEB	\$	1,271,914
Net Pension Liability	\$	<u>796,265</u>

TOTAL NONCURRENT LIABILITIES	\$	<u>17,814,947</u>
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TOTAL LIABILITIES	\$	19,712,936
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Deferred Inflows of Resources:

Deferred Inflows Related to OPEB	\$	269,447
Deferred Inflows Related to Pensions	\$	<u>539,938</u>

TOTAL DEFERRED INFLOWS OF RESOURCES	\$	<u>809,385</u>
--------------------------------------------	-----------	-----------------------

NET POSITION

Net Investments in Capital Assets	\$	24,401,471
Restricted for Customer Deposits	\$	82,825
Restricted for Debt Service	\$	959,644
Unrestricted	\$	<u>1,574,442</u>

TOTAL NET POSITION	\$	<u>27,018,382</u>
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TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$	<u><u>47,540,703</u></u>
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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, 2019

OPERATING REVENUES:

Sales - Residential	\$	8,933,718
Sales - General	\$	1,917,775
Sales - Street Lights	\$	60,802
Other Revenues	\$	<u>171,191</u>
Total Operating Revenues	\$	11,083,486

OPERATING EXPENSES:

Cost of Purchased Power	\$	3,489,573
Transmission Expense	\$	25,472
Distribution & Maintenance Expense	\$	1,619,328
Customer Service Expense	\$	230,254
General Administration	\$	1,835,058
Depreciation & Amortization	\$	1,457,926
Taxes	\$	<u>700,605</u>
Total Operating Expenses	\$	<u>9,358,216</u>

OPERATING INCOME	\$	1,725,270
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NON-OPERATING REVENUE(EXPENSES):

Revenue from Merchandising/Jobbing and Contract Work	\$	105,722
Costs and Expenses Merchandising Jobbing and Contract work	\$	(64,294)
Interest and Dividend Income	\$	87,439
Interest Expense and Related Charges	\$	(578,414)
Other Non-Operating Revenues	\$	<u>220,951</u>
Total Non-Operating Revenues(Expenses)	\$	<u>(228,596)</u>

CHANGE IN NET POSITION	\$	1,496,674
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Total Net Position	January 1, 2019	\$	<u>25,521,708</u>
Total Net Position	December 31, 2019	\$	<u><u>27,018,382</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, 2019

CASH FLOWS from OPERATING ACTIVITIES:

Receipts from Customers	\$ 11,181,135
Payments to Suppliers	\$ (5,410,240)
Payments to Employees	<u>\$ (2,455,603)</u>
Net Cash Provided(used) by Operating Activities	<u>\$ 3,315,292</u>

CASH FLOWS from CAPITAL FINANCING ACTIVITIES:

Proceeds from Capital Debt	\$ -
Purchases of Capital Assets	\$ (2,524,620)
Principal Paid on Capital Debt	\$ (800,622)
Interest Paid on Capital Debt	<u>\$ (583,791)</u>
Net cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (3,909,033)</u>

CASH FLOWS from INVESTING ACTIVITIES

Interest and Dividends	
Net Cash Provided by Investing Activities	<u>\$ 87,439</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (506,302)
Cash and Cash Equivalents Balances - Beginning of Year	<u>\$ 8,058,818</u>
Cash and Cash Equivalents Balances - End of Year	<u><u>\$ 7,552,516</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, 2019

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

Operating Income (Loss)	\$	1,725,270
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	\$	1,457,926
Other Deductions	\$	(34,014)
Change In Assets and Liabilities		
Accounts and Other Payable	\$	149,143
Inventories	\$	(70,689)
Prepayments	\$	(4,717)
Receivables - Net	\$	<u>92,373</u>
Net Cash Provided by Operating Activities	\$	<u><u>3,315,292</u></u>

The Accompanying Notes Are An Integral Part Of This Statement

NOTES TO FINANCIAL STATEMENTS

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, 2019, the

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

treasurer was holding \$4,103,687 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	\$959,644
Cash and Investments – Customer Deposits	\$82,825

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, 2019 was \$7,551,516.

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, 2019, the district had the following investments measured at fair value:

Investments by Fair Value Level	12/31/2019	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	\$ 10,000	\$ -	\$ -
<hr/>				
Investments measured at amortized cost				
State Local Government Investment Pool (LGIP)	\$ 4,103,687			
<hr/>				
Total Investments in Statement of Net Position	\$ 4,113,687			

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, 2019 is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility Plant Not Being Depreciated				
Land	\$ 1,045,751	\$ 800	\$ 0	\$ 1,046,551
Construction in Progress	\$ 562,603	\$ 2,830,531	\$ (2,273,766)	\$ 1,119,368
Total Utility Plant Not Being Depreciated	\$ 1,608,354	\$ 2,831,331	\$ (2,273,766)	\$ 2,165,919
Utility Plant Being Depreciated				
Distribution and Transmission Plant	\$ 42,052,414	\$ 1,999,848	\$ (320,025)	\$ 43,732,237
General Plant	\$ 7,878,227	\$ 408,365	\$ (121,132)	\$ 8,165,460
Total Utility Plant Being Depreciated	\$ 49,930,641	\$ 2,408,213	\$ (441,157)	\$ 51,897,697
Less Accumulated Depreciation	\$ (15,223,620)	\$ 512,986	\$ (1,827,067)	\$ (16,537,701)
Total Utility Plant Being Depreciated (Net)	\$ 34,707,021	\$ 2,921,199	\$ (2,268,224)	\$ 35,359,996
Total Utility Plant (Net)	\$ 36,315,375	\$ 5,752,530	\$ (4,541,990)	\$ 37,525,915

NOTE 4-CONSTRUCTION IN PROGRESS

Construction in progress represents costs on projects for which authorizations total \$1,119,368. Of the committed balance of \$1,119,368, the PUD will be required to raise \$0.00 in future financing.

NOTE 5 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$796,265
Pension assets	\$0.00
Deferred outflows of resources	\$256,299
Deferred inflows of resources	\$539,938
Pension expense/expenditures	\$129,825

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) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – June 2019		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July – December 2019		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	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.

NOTE 5 – PENSION PLANS (CONTINUED)

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2019		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.83%	7.41%
July – December 2019		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

* For employees participating in JBM, the contribution rate was 18.53% to 19.75%.

The district's actual PERS plan contributions were \$105,246 to PERS Plan 1 and \$164,262 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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 *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

NOTE 5 – PENSION PLANS (CONTINUED)

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

Mortality rates were 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.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

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, 2019, 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%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$751,861	\$600,375	\$468,941
PERS 2/3	\$1,502,400	\$195,890	(\$876,187)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2019, the district reported a total pension liability of \$796,265 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$600,375
PERS 2/3	\$195,890

NOTE 5 – PENSION PLANS (CONTINUED)

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	.014080%	.015613%	.001533%
PERS 2/3	.018068	.020167	.002099

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 2019. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2019, 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 2019, the state of Washington contributed 39.57 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.43 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the district recognized pension expense as follows:

	Pension Expense
PERS 1	\$94,591
PERS 2/3	\$35,234
TOTAL	\$129,825

NOTE 5 – PENSION PLANS (CONTINUED)**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2019, 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	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(40,110)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$50,246	\$0
TOTAL	\$50,426	\$(40,110)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$56,123	\$(42,115)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(285,136)
Changes of assumptions	\$5,016	\$(82,189)
Changes in proportion and differences between contributions and proportionate share of contributions	\$60,831	\$(90,386)
Contributions subsequent to the measurement date	\$83,902	\$0
TOTAL	\$205,872	\$(499,826)

Deferred outflows of resources related to pensions resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2020. 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
2020	\$(8,855)
2021	\$(20,974)
2022	\$(7,485)
2023	\$(2,797)
2024	\$0
Thereafter	\$0
TOTAL	\$(40,110)

NOTE 5 – PENSION PLANS (CONTINUED)

Year ended December 31:	PERS 2/3
2020	\$(96,652)
2021	\$(156,668)
2022	\$(75,227)
2023	\$(45,060)
2024	\$(15,457)
Thereafter	\$11,207
TOTAL	\$(377,856)

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:

NOTE 8 – LONG TERM DEBT (continued)

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
Electric System RUS Revenue Bonds	2045	2.853%	3,880,000	83,869
Electric System Revenue Bonds 2014	2014-2033	3.00%	3,585,000	155,000
Electric System Revenue Bonds 2018	2019-2038	4.00%	6,730,000	235,000
Water System Revenue Bonds 2018	2032	3.44%	3,000,000	169,000

Revenue bond debt service requirements to maturity are as follows:

Calendar Year Ending December 31, 2019:

Year	Principal	Interest	Total
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	\$14,285,365	\$5,610,197	\$19,895,562

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, 2019 the District has \$184,947 available in debt service funds to service the revenue bonded debt. Restricted assets contain \$959,644 in reserves required by bond indentures.

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 \$2,820,000 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 \$6,505,000, 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%.

NOTE 8 – LONG TERM DEBT (continued)

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 \$2,639,000. 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, 2019 the balance of the PWTF Loans was \$890,168, detailed as follows:

System	Balance	Maturity	Loan Number
Lake Arrowhead Water	\$89,828	10/01/2021	PW-00-65120-013
Pirates Cove Water	\$22,207	10/01/2021	PW-00-65120-022
Arcadia Estates Water	\$30,300	10/01/2025	PW-05-691-034
Canal Tracts Water	\$55,882	10/01/2025	PW-05-691-037
Canal Mutual Water	\$109,597	07/01/2027	PW-07-962-302
Hoodsport Water	\$223,594	10/01/2029	PW-99-65199-035
Madrona Beach	\$41,650	10/01/2030	DR-09-952-070
Hood Canal Water	\$317,111	10/01/2031	PC12-951-081

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2018 Water Revenue Bonds	2,802,000		163,000	2,639,000	169,000
2014 Revenue Bonds	2,970,000		150,000	2,820,000	155,000
2014 Bond Premium	44,201		2,763	41,438	2,763
RUS Loans	3,104,000		119,385	2,984,615	119,385
PWTF Loans	1,024,205		134,037	890,168	136,099
2018 Electric Revenue Bonds	6,730,000		225,000	6,505,000	235,000
2018 Bond Premium	268,331		6,437	261,894	10,963
OPEB	1,281,728		9,814	1,271,914	
Net Pension Liability	937,313		141,048	796,265	
Accrued Vacation & Holidays	409,569	17,293		426,862	
Asset Retirement Obligation	0.00	6,000		6,000	
Total Non-Current Liabilities	19,571,347	23,293	951,484	18,643,156	828,210

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 2019:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	\$1,271,914
OPEB assets	\$0.00
Deferred outflows of resources	\$164,304
Deferred inflows of resources	\$269,447
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.

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%

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

Employees covered by benefit terms – At December 31, 2019, 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

Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances as of 12/31/2018 ⁽¹⁾	\$1,281,728	\$0	\$1,281,728
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	(155,535)	0	(155,535)
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	(\$9,814)	\$0	(\$9,814)
Balances as of 12/31/2019	\$1,271,914	\$0	\$1,271,914

(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 12/31/2018 reflects the starting Fiscal Year 2019 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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected & Actual Experience	\$12,713	\$0
Changes of Assumptions	151,591	269,447
Net Difference Between Projected & Actual Earnings on OPEB Plan Investments	<u>0</u>	<u>0</u>
Total	\$164,304	\$269,447

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, 2019.

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	\$1,271,914
Total OPEB Liability, Prior Assumption	<u>1,281,728</u>
Difference	(\$9,814)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2019 - 2027:	(\$2,475) Fiscal
Year 2028	(\$1,766)

Change in Trend Rates

Total OPEB Liability, New Assumption	\$1,271,914
Total OPEB Liability, Prior Assumption	<u>1,281,728</u>
Difference	(\$9,814)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2019 - 2027:	\$2,893
Fiscal Year 2028:	\$2,065

Change in Mortality Assumption

Total OPEB Liability, New Assumption	\$1,271,914
Total OPEB Liability, Prior Assumption	<u>1,281,728</u>
Difference	(\$9,814)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2019 - 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)

Net Difference Between Projected & Actual Earnings on OPEB Plan InvestmentsOther Changes

Total OPEB Liability, New	\$1,271,914
Total OPEB Liability, Prior	<u>1,281,728</u>
Difference	(\$9,814)
Average Expected Remaining Service Lives	10.71 years

Amortization Schedule

Fiscal Years 2019 - 2027:	\$11,134
Fiscal Year 2028:	\$7,947

Future Deferred Outflows/Inflows of Resources

Fiscal Year Ending:	Outflows	Inflows
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	\$1,271,914	\$1,425,410
Change	(9.89%)		11.21%

Expected Cash Flows:

<u>Fiscal Year</u>	<u>Estimated Benefit Payments</u>
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 –ASSET RETIREMENT OBLIGATIONS (ARO)

The District has identified one asset retirement obligation within its water department. The ARO is a well located in the Twanoh Terrace water system. This well was damaged in 2001, due to the Nisqually Earthquake. Within the next five years, the Twanoh Terrace system will be consolidated with the Twanoh Heights water system, and will then share the well currently used only by Twanoh Heights. At that time, the Twanoh Terrace well will be decommissioned, pursuant to WAC 173-160-381, regulated by Department of Ecology. The District contracted with an engineering firm to determine the cost of the obligation, which was established using the current value. There are no legally required funding provisions associated with this ARO, and because the cost to decommission the well is nominal, the District does not have assets restricted for payment of the liability.

NOTE 12—ACCOUNTING AND REPORTING CHANGES

The District implemented GASB Statement No. 83, Certain Asset Retirement Obligations. The District's financial statements were impacted by the implementation of the standard. Detailed notes related to the ARO liability, and deferred outflows can be seen in Note 11 – Asset Retirement Obligations (ARO).

NOTE 13 –SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay at home unless they are leaving for an essential function.

On March 13, 2020, the District closed its facilities to the public. Departments were also split into two teams, with an alternating work schedule of one week on and one week off, to limit the exposure to the virus. Because the PUD is considered an essential business, it was important that groups were isolated so that in the event of an exposure, one team would still be available to provide service. The employees who are at home on their off week are considered on call and must be available to return to work, if needed.

The Commissioners voted to delay the impending electric rate increase that was set to take effect April 1, 2020, with a new effective date of July 1, 2020. Due to this rate increase deferral, the District anticipates a 2% revenue reduction of approximately \$82,000. Staff has reviewed the 2020 budget to make necessary cuts to the budgeted expenditures to help offset the loss in revenue. Staff is monitoring the cash flow of the District, and plans to work with customers to setup a 6 month payment plan for all past due accounts, once the Governor has lifted the moratorium on disconnects.

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

NOTE 14 - SEGMENT REPORTING				
	2019	2019	2019	
	Electric	Water	Sewer	TOTALS
CURRENT ASSETS				
Cash and Cash Equivalents				
Cash & Working Funds	\$ 2,004,375	\$ 1,347,434	\$ 4,195	\$ 3,356,004
Investments	\$ 2,887,994	\$ 235,723	\$ 30,326	\$ 3,154,043
Accounts Receivable - Net Sales	\$ 820,092	\$ 170,862	\$ 54	\$ 991,008
Accounts Receivable - Other	\$ 346,614	\$ (145,544)	\$ (11,900)	\$ 189,170
Inventories	\$ 666,652	\$ 159,717	\$ 18,146	\$ 844,515
Prepayments	\$ 10,976	\$ -	\$ -	\$ 10,976
Total Current Assets	\$ 6,736,703	\$ 1,768,192	\$ 40,821	\$ 8,545,716
NON-CURRENT ASSETS				
Restricted Assets				
Debt Service	\$ 959,644	\$ -	\$ -	\$ 959,644
Customer Deposits	\$ 61,933	\$ 20,892	\$ -	\$ 82,825
Total Restricted Assets	\$ 1,021,577	\$ 20,892	\$ -	\$ 1,042,469
Capital Assets Not Being Depreciated				
Land and Land Rights	\$ 878,515	\$ 168,036	\$ -	\$ 1,046,551
Construction in Progress	\$ 1,118,636	\$ 673	\$ 59	\$ 1,119,368
Capital Assets Being Depreciated				
Transmission	\$ 3,290,836	\$ -	\$ -	\$ 3,290,836
Distribution	\$ 27,247,817	\$ 13,133,920	\$ 59,664	\$ 40,441,401
General Plant	\$ 6,022,414	\$ 2,131,544	\$ 11,502	\$ 8,165,460
Less: Accumulated Depreciation	\$ (12,464,006)	\$ (4,056,634)	\$ (17,061)	\$ (16,537,701)
Total Capital Assets Being Depreciated (Net)	\$ 24,097,061	\$ 11,208,830	\$ 54,105	\$ 35,359,996
Total Capital Assets	\$ 26,094,212	\$ 11,377,539	\$ 54,164	\$ 37,525,915
Total Non-Current Assets	\$ 27,115,789	\$ 11,377,539	\$ 54,164	\$ 38,568,384
Total Assets	\$ 33,852,492	\$ 13,166,623	\$ 94,985	\$ 47,114,100
Outflows of Resources Relating to ARO's	\$ -	\$ 6,000	\$ -	\$ 6,000
Outflows of Resources Relating to Pensions	\$ 256,299	\$ -	\$ -	\$ 256,299
Outflows of Resources Relating to OPEB	\$ 164,304	\$ -	\$ -	\$ 164,304
Total Outflows of Resources	\$ 420,603	\$ 6,000	\$ -	\$ 426,603
Total Assets and Deferred Outflows of Resources	\$ 34,273,095	\$ 13,166,623	\$ 94,985	\$ 47,540,703
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 675,154	\$ (7,917)	\$ -	\$ 667,237
Consumer Deposits	\$ 59,673	\$ 31,222	\$ -	\$ 90,895
Bonds, Notes and Loans Payable	\$ 523,111	\$ 305,099	\$ -	\$ 828,210
Other Current Liabilities	\$ 309,498	\$ 1,636	\$ 514	\$ 311,648
Total Current & Accrued Liabilities	\$ 1,567,436	\$ 330,040	\$ 514	\$ 1,887,523
Non-Current Liabilities:				
Accrued Vacation and Holidays	\$ 426,862	\$ -	\$ -	\$ 426,862
Asset Retirement Obligations	\$ -	\$ 6,000	\$ -	\$ 6,000
Long Term Debt - Loans	\$ 2,865,231	\$ 754,069	\$ -	\$ 3,619,300
Long Term Debt - Bonds	\$ 9,224,606	\$ 2,470,000	\$ -	\$ 11,694,606
OPEB	\$ 1,271,914	\$ -	\$ -	\$ 1,271,914
Net Pension Liability	\$ 796,265	\$ -	\$ -	\$ 796,265
Total Non-Current Liabilities	\$ 14,584,878	\$ 3,230,069	\$ -	\$ 17,814,947
Total Liabilities	\$ 16,152,314	\$ 3,560,109	\$ 514	\$ 19,702,470
Deferred Inflow Related to Pensions	\$ 539,938	\$ -	\$ -	\$ 539,938
Deferred Inflow Related to OPEB	\$ 269,447	\$ -	\$ -	\$ 269,447
Total Inflows of Resources	\$ 809,385	\$ -	\$ -	\$ 809,385
Net Position				
Net Investments in Capital Assets	\$ 15,239,609	\$ 9,107,699	\$ 54,163	\$ 24,401,471
Restricted for Customer Deposits	\$ 61,933	\$ 20,892	\$ -	\$ 82,825
Restricted for Debt Service	\$ 959,644	\$ -	\$ -	\$ 959,644
Unrestricted	\$ 1,050,211	\$ 483,923	\$ 40,308	\$ 1,574,442
Total Net Position	\$ 17,311,397	\$ 9,612,514	\$ 94,471	\$ 27,018,382
TOTAL NET POSITION, LIABILITIES AND DEFERRED	\$ 34,273,096	\$ 13,172,623	\$ 94,985	\$ 47,530,237

NOTE 14 - SEGMENT REPORTING (CONTINUED)							
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION				2019 ELECTRIC	2019 WATER	2019 SEWER	TOTAL
OPERATING REVENUES							
Sales - Residential				\$ 6,872,620	\$ 2,052,047	\$ 9,051	\$ 8,933,718
Sales - General				\$ 1,917,775	\$ -	\$ -	\$ 1,917,775
Sales - Street Lights				\$ 60,802	\$ -	\$ -	\$ 60,802
Miscellaneous Other Revenues				\$ 140,873	\$ 30,318	\$ -	\$ 171,191
Total Operating Revenues				\$ 8,992,070	\$ 2,082,365	\$ 9,051	\$ 11,083,486
OPERATING EXPENSES							
Cost of Purchased Power				\$ 3,343,436	\$ 145,559	\$ 578	\$ 3,489,573
Transmission Expenses				\$ 25,472	\$ -	\$ -	\$ 25,472
Distribution & Maintenance Expense				\$ 1,127,312	\$ 489,499	\$ 2,517	\$ 1,619,328
Customer Service Expense				\$ 174,394	\$ 55,860	\$ -	\$ 230,254
Administrative and General				\$ 1,312,093	\$ 522,965	\$ -	\$ 1,835,058
Depreciation				\$ 1,004,457	\$ 452,133	\$ 1,336	\$ 1,457,926
Taxes				\$ 594,827	\$ 105,429	\$ 349	\$ 700,605
Total Operating Expenses				\$ 7,581,991	\$ 1,771,445	\$ 4,780	\$ 9,358,216
NET OPERATING INCOME				\$ 1,410,079	\$ 310,920	\$ 4,271	\$ 1,725,270
NON-OPERATING REVENUE (EXPENSES)							
Revenue from Merchandising, Jobbing And Contract Work				\$ 60,253	\$ 45,468	\$ -	\$ 105,722
Costs and Expenses of Merchandising, Jobbing and Contract Work				\$ (47,051)	\$ (17,243)	\$ -	\$ (64,294)
Interest and Dividend Income				\$ 81,894	\$ 4,857	\$ 689	\$ 87,439
Other Revenues				\$ 45,598	\$ 175,353	\$ -	\$ 220,951
Interest on Long-Term Debt				\$ (474,848)	\$ (103,164)	\$ (402)	\$ (578,414)
Total Non-Operating Revenue (Expenses)				\$ (334,154)	\$ 105,271	\$ 287	\$ (228,596)
Change In Net Position				\$ 1,075,925	\$ 416,191	\$ 4,558	\$ 1,496,674
Total Net Posisiton January 1				\$ 16,235,474	\$ 9,196,321	\$ 89,913	\$ 25,521,708
Total Net Position December 31				\$ 17,311,399	\$ 9,612,512	\$ 94,471	\$ 27,018,382

Required Supplementary Information

Mason County PUD #1
Schedule of Employer Contributions
As of December 31, 2019
Last 10 Fiscal Years *

	2019		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	PERS 1	PERS 2/3
Statutorily or contractually required contribution	105,246	164,262	103,465	153,243	91,298	128,046	92,567	120,913	-	190,334	5,876	163,398	8,335	125,530
Contributions in relation to the statutorily or contractually required Contributions	(105,246)	(164,262)	(103,465)	(153,243)	(91,298)	(128,046)	(92,567)	(120,913)	-	(190,334)	(5,876)	(163,398)	(8,335)	(125,530)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered employer payroll	2,127,984	2,127,984	2,043,194	2,043,194	1,861,852	1,861,852	1,941,779	1,941,779	1,956,229	63,803	1,774,135	102,109	1,531,525	8%
Contributions as a percentage of covered employee payroll	5%	8%	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, 2019
Last 10 Fiscal Years

	2019		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	PERS 1	PERS 2/3
Employer's Proportion of Net Pension Liability	0.015613%	0.020167%	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	600,375	195,890	628,818	308,495	694,774	654,461	902,132	1,083,666	848,457	748,627	889,429	397,844
Covered Payroll	2,110,364	2,110,364	1,957,988	1,957,988	2,007,654	2,007,654	2,008,066	2,008,066	-	1,871,695	112,638	1,694,622
Employer's Proportionate Share of Net Pension Liability as a Percentage of Covered Employee Payroll	28%	9%	32%	16%	35%	33%	45%	54%	0%	40%	789.63%	23.48%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	67.12%	97.77%	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 6 years

Mason County PUD No 1
Schedule of Changes in Total OPEB Liability and Related Ratios
OPEB
For the year ended December 31 2019
Last 10 Fiscal Years*

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Total OPEB liability - beginning										
Service cost	\$ 1,374,458	\$ 1,281,728								
Interest	49,285	0								
Changes in benefit terms	48,477	0								
Differences between expected and actual experience	0	0								
Changes of assumptions	14,022	0								
Benefit payments	(238,452)	(9,814)								
Other changes	(85,349)	0								
	119,287	0								
Total OPEB liability - ending	<u>1,281,728</u>	<u>1,271,914</u>								
Covered-employee payroll**	1,963,561	2,127,984								
Total OPEB liability as a % of covered payroll	65.28%	59.77%								

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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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