



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

**Financial Statements Audit Report**  
**Public Utility District No. 1 of**  
**Jefferson County**

**For the period January 1, 2015 through December 31, 2015**

**Published February 27, 2017**

**Report No. 1018639**





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

February 27, 2017

Board of Commissioners  
Public Utility District No. 1 of Jefferson County  
Port Townsend, Washington

**Report on Financial Statements**

Please find attached our report on Public Utility District No. 1 of Jefferson 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

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Public Utility District No. 1 of Jefferson County January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Public Utility District No. 1 of Jefferson County. The State Auditor's Office has reviewed the status as presented by the District.

|   |                                    |                                      |
|---|------------------------------------|--------------------------------------|
| <b>Audit Period:</b><br>January 1, 2010 – December 31, 2012   | <b>Report Ref. No.:</b><br>1011579 | <b>Finding Ref. No.:</b><br>2012-001 |
| <b>Finding Caption:</b><br>The District's internal controls over financial accounting and financial statement preparation are inadequate to ensure accurate and complete reporting.   |                                    |                                      |
| <b>Background:</b><br>District management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.<br>The District hired an outside consultant to compile the financial statements and notes. The District did not have adequate procedures in place to ensure the financial statements were accurate, timely, complete, and prepared in accordance with Generally Accepted Accounting Principles (GAAP).<br>In addition, the District lacked procedures to reconcile its year-end cash balances to the bank statements and County Treasurer reports as well as to calculate depreciation correctly.   |                                    |                                      |
| <b>Status of Corrective Action:</b><br><input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid   |                                    |                                      |
| <b>Corrective Action Taken:</b><br><i>The PUD has taken many steps to ensure accurate, timely and complete financial reporting prepared in accordance with GAAP. These include:</i> <ul style="list-style-type: none"> <li>• <i>Installed industry specific accounting software (NISC) which includes a variety of controls such as workflow procedures for invoice approval.</i></li> <li>• <i>Provided training to Accounting, key Operations and IT staff in RUS accounting requirements as well as Plant accounting for municipalities.</i></li> <li>• <i>Provides on-going training to staff in GAAP as well as NISC software.</i></li> <li>• <i>Developed a monthly closing schedule, including assignment of tasks and related due dates.</i></li> <li>• <i>Implemented journal entry approval and sign-off procedures.</i></li> <li>• <i>Filled the Controller position.</i></li> <li>• <i>Recruiting for the vacant CFO position.</i></li> </ul> <p><i>The PUD now verifies cash and check deposits on a daily basis and is reconciling to the bank statements and County Treasurer reports. Significant progress has been made towards reconciling Utility Plant accounts so that depreciation is calculated correctly.</i></p> |                                    |                                      |

|  |                                    |                                      |
|--|------------------------------------|--------------------------------------|
| <b>Audit Period:</b><br>January 1, 2013 - December 31, 2013  | <b>Report Ref. No.:</b><br>1017250 | <b>Finding Ref. No.:</b><br>2013-001 |
| <b>Finding Caption:</b><br>The District's internal controls over accounting and financial statement preparation are inadequate to ensure timely and accurate reporting.  |                                    |                                      |
| <b>Background:</b><br>District management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.<br>During the audit period, we noted the following: <ul style="list-style-type: none"> <li>• Personnel responsible for recording financial transactions did not have the technical knowledge needed to ensure the accounting records were accurate and complete.</li> <li>• Inadequate procedures to ensure financial statements were completed accurately and in accordance with Generally Accepted Accounting Principles (GAAP) as well submitted timely in accordance with state law.</li> <li>• Accounting software was not designed to record transactions in accordance with the District's regulatory accounting requirements.</li> <li>• Inadequate procedures to reconcile its cash balances and activity to the bank statements and reports from the County Treasurer.</li> <li>• Inadequate procedures to ensure that journal entries were performed timely, supported, properly reviewed, and authorized.</li> <li>• Inadequate procedures to ensure capital assets were properly tracked and depreciation was accurately calculated.</li> </ul> |                                    |                                      |
| <b>Status of Corrective Action:</b><br><input type="checkbox"/> Fully Corrected <input checked="" type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid  |                                    |                                      |
| <b>Corrective Action Taken:</b><br><i>The PUD has taken many steps to ensure accurate, timely and complete financial reporting prepared in accordance with GAAP. These include:</i> <ul style="list-style-type: none"> <li>• <i>Installed industry specific accounting software (NISC) which includes a variety of controls such as workflow procedures for invoice approval.</i></li> <li>• <i>Provided training to Accounting, key Operations and IT staff in RUS accounting requirements as well as Plant accounting for municipalities.</i></li> <li>• <i>Provides on-going training to staff in GAAP as well as NISC software.</i></li> <li>• <i>Developed a monthly closing schedule, including assignment of tasks and related due dates.</i></li> <li>• <i>Implemented journal entry approval and sign-off procedures.</i></li> <li>• <i>Filled the Controller position.</i></li> <li>• <i>Recruiting for the vacant CFO position.</i></li> </ul> <p><i>The PUD now verifies cash and check deposits on a daily basis and is reconciling to the bank statements and County Treasurer reports. Significant progress has been made towards reconciling Utility Plant accounts so that depreciation is calculated correctly.</i></p>        |                                    |                                      |

|  |                                    |                                      |
|--|------------------------------------|--------------------------------------|
| <b>Audit Period:</b><br>January 1, 2014 – December 31, 2014  | <b>Report Ref. No.:</b><br>1017248 | <b>Finding Ref. No.:</b><br>2014-001 |
| <b>Finding Caption:</b><br>The District’s internal controls over accounting and financial statement preparation are inadequate to ensure timely and accurate reporting.  |                                    |                                      |
| <b>Background:</b><br>District management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.<br>During the audit period, we noted the following: <ul style="list-style-type: none"> <li>• Personnel responsible for recording financial transactions did not have the technical knowledge needed to ensure the accounting records were accurate and complete.</li> <li>• Inadequate procedures to ensure financial statements were completed accurately and in accordance with Generally Accepted Accounting Principles (GAAP) as well submitted timely in accordance with state law.</li> <li>• Accounting software was not designed to record transactions in accordance with the District’s regulatory accounting requirements.</li> <li>• Inadequate procedures to reconcile its cash balances and activity to the bank statements and reports from the County Treasurer.</li> <li>• Inadequate procedures to ensure that journal entries were performed timely, supported, properly reviewed, and authorized.</li> <li>• Inadequate procedures to ensure capital assets were properly tracked and depreciation was accurately calculated.</li> </ul> |                                    |                                      |
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**Public Utility District No. 1 of Jefferson County  
January 1, 2015 through December 31, 2015**

Board of Commissioners  
Public Utility District No. 1 of Jefferson County  
Port Townsend, 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 Jefferson County, Washington, as of and for the year ended December 31, 2015, 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 7, 2017. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*.

**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.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated February 7, 2017.

## **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, sweeping initial "P".

Pat McCarthy

State Auditor

Olympia, WA

February 7, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Public Utility District No. 1 of Jefferson County January 1, 2015 through December 31, 2015**

Board of Commissioners  
Public Utility District No. 1 of Jefferson County  
Port Townsend, Washington

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

We have audited the accompanying financial statements of Public Utility District No. 1 of Jefferson County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 13.

#### **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 Jefferson County, as of December 31, 2015, 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 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 through 21 and pension plan information on pages 50 through 51 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 7, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

February 7, 2017

## **FINANCIAL SECTION**

### **Public Utility District No. 1 of Jefferson County January 1, 2015 through December 31, 2015**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Notes to Financial Statements – 2015

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability PERS 1 and PERS 2/3 – 2015

Schedule of Employer Contributions PERS 1 and PERS 2/3 – 2015

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **Management's Discussion and Analysis**

As management of Jefferson County PUD #1 (the District), we are providing the District's financial statements and narrative overview and analysis of the financial activities of the District for the calendar year ended December 31, 2015. 2015 was the second full year that the District has owned and operated the electrical facilities in Eastern Jefferson County. As result of the acquisition, the PUD's annual budget went from approximately \$2,000,000 a year to over \$32,000,000 a year, staffing increased from 10 to over 40 FTEs, and the number of customers has increased from 4,000 water connections to an additional 18,500 electrical connections. Prior to 2013 the PUD was audited by the State Auditor's Office (SAO) on a 2-year cycle. Copies of audits can be found at <http://portal.sao.wa.gov/ReportSearch>.

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

Statements included in this Annual Financial Report for 2015 are:

The statement of net position present information on the District's assets, liabilities, and deferred outflows and inflows of resources. This statement provides information about the amount of investments in resources (assets), and the obligations to creditors (liabilities), and items for/which the recognition of these assets and liabilities deferred to a later time period (deferred inflows and outflows of resources). The net position increases when revenues exceed expenses.

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

The statement of cash flows provides information about the District's cash receipts and payment of operating expenses, as well as, funds provided and used in investing and financing activities.

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

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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## **District Highlights**

On April 1, 2013, Jefferson PUD purchased all of the electrical assets of Puget Sound Energy, Inc., (PSE) in Eastern Jefferson County. 2015 was the second full year of the operational and financial ownership of the nearly \$76,000,000 of assets, over 18,500 new electrical customers, and the maintenance and operations of an aged electrical system. The PUD's annual budget and revenues increased from roughly \$2,000,000 in 2012 to over \$32,000,000 in 2015. The PUD's accounting system has gone from a cash basis to a government accrual system conforming with FERC and RUS accounting requirements. As a result of the increased requirements, the PUD has had to review and adapt its organization, management, and support systems.

## **Implementation of New Billing and Accounting Software**

In 2015 the PUD installed, implemented and integrated new billing software. Conversion of the accounting software was the second conversion in 3 years, first moving from Quick Books to Springbrook and then to NISC software in late November of 2014. The PUD also installed, converted and implemented the NISC Customer Service and Billing Modules in 2015. The PUD went active with the integrated system in November of 2015.

## **Principal Payments to RUS**

For the first two years of ownership the PUD's USDA-RUS loan for the purchase of the electrical utilities in Eastern Jefferson County had a principal deferment that delayed principal payments. As a result in 2013 and 2014, the PUD had paid interest only on the USDA-RUS loan. In 2015 the PUD began repayment of the principal on the RUS loan.

## **Purchase of Electrical Transmission Lines from Clallam PUD**

In 2015 the PUD completed the transfer of the electrical transmission lines owned by Clallam PUD to Jefferson PUD's ownership. This transfer better aligned the electrical facilities within Jefferson County.

## **Successful Response and Recovery from Three FEMA Declared Storms**

In 2015 the PUD participated in three separate FEMA-declared storms. The storms occurred in August, November and December of 2015. The PUD has submitted for reimbursement from both State and Federal Agencies.

## **Completion of the Sparling Well Upgrade**

The PUD substantially completed the improvements to the Sparling Treatment Plant. This project was financed largely through a Department of Health (DOH) State Revolving Fund Loan.

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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## **Grants for Consolidation of Water Systems**

The PUD has received several DOH consolidation grants: one for evaluation of the Port Ludlow water system, one for consolidation of the Shine Platt water system into the Shine water system and, most recently, is using a grant to determine the feasibility for the consolidation of the Quilcene High School water system into the Quilcene water system.

## **Financial Stability**

Despite the pitfalls of starting up a new electrical utility, the PUD has been able to develop a strong reserve balance, improve system reliability, develop and maintain reasonable electrical rates, while providing Jefferson County citizens with carbon free energy, and successfully promoting conservation and alternative energy. Additionally, the PUD has increased the local job opportunities and has supported the local economy through local contractors, purchases and its taxing contributions. During this same period the PUD has not only maintained its success as a water and sewer utility, but continues to expand that role.

## **Overview of the Financial Statements**

The District is a municipal corporation with financial activities in the areas of electric, water, and sewer. In addition to its enterprise role, the PUD uses its taxing authority to support general fund goals of water and power conservation, and potential telecom roles and responsibilities.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues when earned and expenses when incurred during the year, regardless of when cash is received or paid.

The District's basic financial situation, shown on a comparative format, is presented in the Condensed Statement of Net Position. The Statement shows that despite the travails of acquiring and start-up of a totally new electrical utility with all of the required coordination, expenses, expectations, and legal hurdles, the District has managed to not just maintain but has improved its financial situation.



**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Financial Analysis**

The following information provides analysis of the 2015 and 2014 comparative financial information provided in the following tables.

**CONDENSED STATEMENT OF NET POSITION**

|                                  | 2015                 | 2014                 | 15 - 14<br>Change |
|----------------------------------|----------------------|----------------------|-------------------|
| Current assets                   | \$ 18,557,461        | \$ 21,884,080        | -15%              |
| Noncurrent assets                | 8,031,629            | 985,900              | 715%              |
| Net utility plant                | <u>135,774,467</u>   | <u>137,758,743</u>   | -1%               |
| Total assets                     | <u>162,363,557</u>   | <u>160,628,723</u>   | 1%                |
| Deferred outflows of resources   | <u>476,576</u>       | <u>-</u>             | 100%              |
| Current liabilities              | 8,662,117            | 8,376,993            | 3%                |
| Noncurrent liabilities           | <u>122,589,747</u>   | <u>123,767,496</u>   | -1%               |
| Total liabilities                | <u>131,251,864</u>   | <u>132,144,489</u>   | -1%               |
| Deferred outflows of resources   | <u>367,243</u>       | <u>-</u>             | 100%              |
| Net investment in capital assets | 11,657,564           | 10,749,430           |                   |
| Restricted                       | 3,951,629            | 3,252,278            |                   |
| Unrestricted                     | <u>15,611,833</u>    | <u>14,482,526</u>    |                   |
| Total net position               | <u>\$ 31,221,026</u> | <u>\$ 28,484,234</u> |                   |

**Current and Noncurrent Assets**

**Cash and cash equivalents** - Cash accounts decreased approximately \$1,828,000 from 2014 to 2015. The reasons for the decrease included the unusually warm weather in 2015 which reduced PUD billing revenues, the increased RUS loan principal payments and BPA's increase in the cost of wholesale power. However, the PUD's efforts to maintain low overheads and promote efficient operations mitigated the impact.

**Receivables** - Accounts and Contracts net, decreased by \$92,814 in 2015 as compared to 2014 as a result of the unusually warm weather at the end of 2015. All other receivable balances remained consistent.

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Material and supplies** - Material and supplies increased \$817,800 in 2015. This is normal as the District has continued to determine the items necessary to have on hand for the electric system. This is expected to continue to increase as the District better defines its operational and maintenance needs.

**Accrued Revenues and prepaid expenses** - The District realized no change in prepaid expenses between 2014 and 2015. It recorded \$2,147,309 in Accrued Utility Revenues for unrecorded electric and water sales occurring in December 2015 which were booked at the time of billing the customers in January 2016.

**Noncurrent Assets**

**Long term portion of assessments receivable** - The total assessments receivable was \$2,252,641 as of 12/31/15 of which \$397,641 was the current portion and \$1,855,000 was the long-term portion. This was an overall decrease of \$367,480 from 2014 as customers paid on their assessments.

**Non-utility plant** - This is comprised of \$2,225,000 of land (Peterson Lake) which was acquired for the purpose of conserving state water resources and the protection of the Chimacum Water Basin. In 2015 this asset was reclassified from utility plant to non-utility plant to reflect its intended purpose.

**Restricted cash** - This increased by \$699,351 in 2015 as a result of interest earned and correctly classifying the various cash accounts held with the Jefferson County Treasurer.

**Capital Assets**

**Utility plant** - This increased by approximately \$152,600 in 2015. However, when the Peterson Lake reclassification is excluded, utility plant increased \$2,417,600 as a result of capital improvements.

**Construction Work in Progress** - This account increased by approximately \$2,814,000 in 2015 due to experiencing three separate FEMA-declared storms.

**Accumulated depreciation** - In 2015 this balance increased by approximately \$4,991,021 primarily due to depreciation on electric plant in service and completed construction not classified.

See Note 3 - Utility Plant for additional information.

**Current Liabilities**

**Accounts payable** - Decreased by approximately \$230,200 in 2015 as compared to 2014 due to timing of payables.

**Customer Deposits** - Decreased by approximately \$53,000 due to refunding of deposits and collecting less in deposits during 2015 compared to 2014.

**Accrued liabilities** - There were no significant changes in the balance of accrued liabilities which increased approximately \$174,000.

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Current portion of long-term debt and capital lease** – This represents the total of principal payments due in 2016 for the Public Works Trust Fund debt, capital lease, notes payable and bonds payable.

**Noncurrent Liabilities**

**Public Work Trust Fund & Drinking Water Loans** – In 2015 \$854,521 as drawn on these loans and \$277,875 was paid.

**Notes payable** – Notes payable decreased by \$3,130,277 as the PUD made the required debt payments.

**Bonds payable**- Bonds payable decreased by \$246,179 as the PUD made the required debt payments.

See Note 4 - Long-Term Debt for additional information.

**Other noncurrent liabilities** – Is comprised of the long-term liability for vacation, sick leave and other compensated absences.

**Net pension liability** – This liability represents the District's proportionate share of collective pension liability. See Note 5 - Pension Plans for additional information.

**CONDENSED STATEMENT OF CHANGES IN REVENUES, EXPENSES, AND NET POSITION**

|   | 2015                 | 2014                 | 15 - 14<br>Change |
|---|----------------------|----------------------|-------------------|
| Operating revenues                          | \$ 34,483,827        | \$ 35,888,641        | -4%               |
| Operating expenses                          | <u>28,303,045</u>    | <u>34,577,033</u>    | -18%              |
| Net operating income (loss)                 | 6,180,782            | 1,311,608            | 371%              |
| Nonoperating revenues (expenses)            | <u>(1,350,096)</u>   | <u>(3,054,955)</u>   | -56%              |
| Change in net position                      | 4,830,686            | (1,743,347)          | -377%             |
| Net position - beginning of year            | 28,484,234           | 30,227,581           | -6%               |
| Change in accounting principle -<br>GASB 68 | <u>(2,093,894)</u>   | <u>-</u>             |                   |
| Net position - end of year                  | <u>\$ 31,221,026</u> | <u>\$ 28,484,234</u> | 10%               |

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Operating Revenues**

The decrease by approximately \$1.4 million was due to a warmer than normal winter in 2015. The PUD adopted PSE rate schedules which maintained revenue production and provided customers with a known, consistent rate structure. The rate structure is very temperature dependent/sensitive with a very low base charge and tiered rates for consumption charges.

**Operating Expenses**

**Purchased power/water** – Purchased power and water decreased approximately \$2,663,800 in 2015 compared to 2014 due to 2014 having some of 2013's power costs booked.

**Operations and maintenance** - Increased by approximately \$270,000 in 2015 as a result of the increased efforts needed to run the electrical division. Costs related to the Water division remain consistent.

**Administrative and general** - This decreased approximately by \$1,788,800 due a number of transactions needed to reconcile balance sheets accounts in 2014. The majority of the adjustments were booked to Miscellaneous General Expenses.

**Taxes** - Reduced by approximately \$765,200 in 2015 compared to 2014 as a result of reconciling the taxes payable accounts as of 1/1/2015 and also a reduction in taxable revenue.

**Depreciation and amortization** - The decrease of approximately \$877,600 in 2015 was due to recording correct percentages for depreciation in 2015. The rates used in 2014 for general plant may not have been applied consistently.

**Nonoperating Revenues/Expenses**

**Interest expense** – This decreased \$329,871 due to the paying down of principal.

**Other nonoperating revenues and expenses** – These increased \$1,375,000 in 2015 and include the following transactions:

|  |           |
|--|-----------|
| Donation of transmission line from Clallam PUD | \$803,000 |
| Donation of plant                              | \$368,400 |
| Contribution in aid of construction - cash     | \$190,000 |

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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**Contacting the District**

This financial report is designed to provide the District's ratepayers, debt holders, and other readers with a general overview of the District's finances and to show the District's accountability for money it receives. If you have questions about this report or need additional information, contact the District's General Manager, Jim Parker at Public Utility District No. 1 of Jefferson County, 310 Four Corners Road, Port Townsend, WA 98368.

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
CONSOLIDATED STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

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**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

|   |                           |
|---|---------------------------|
| <b>CURRENT ASSETS</b>                               |                           |
| Cash and cash equivalents                           | \$ 11,988,439             |
| Receivables   |                           |
| Accounts and contracts, net                         | 2,098,411                 |
| Assessments (current portion)                       | 397,641                   |
| Other   | 117,981                   |
| Materials and supplies                              | 1,807,680                 |
| Accrued revenues and prepaid expenses               | <u>2,147,309</u>          |
| <br>Total current assets                            | <br><u>18,557,461</u>     |
| <b>NONCURRENT ASSETS</b>                            |                           |
| Long term portion of assessments receivable         | 1,855,000                 |
| Non-utility plant                                   | 2,225,000                 |
| Restricted assets                                   |                           |
| Cash  | 3,951,629                 |
| Investments   | <u>-</u>                  |
| <br>Total noncurrent assets                         | <br><u>8,031,629</u>      |
| <b>UTILITY PLANT</b>                                |                           |
| Land and land rights                                | 1,241,815                 |
| Utility plant                                       | 150,783,149               |
| Construction work in progress                       | 3,773,596                 |
| Less accumulated depreciation                       | <u>(20,024,093)</u>       |
| <br>Net Utility plant                               | <br><u>135,774,467</u>    |
| <br>Total assets                                    | <br><u>162,363,557</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>               |                           |
| Deferred pension outflows                           | <u>476,576</u>            |
| <br>Total deferred outflows of resources            | <br><u>476,576</u>        |
| <br>Total assets and deferred outflows of resources | <br><u>\$ 162,840,133</u> |

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
CONSOLIDATED STATEMENT OF NET POSITION  
DECEMBER 31, 2015**

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**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

|  |                              |
|--|------------------------------|
| <b>CURRENT LIABILITIES</b>   |                              |
| Accounts payable   | \$ 3,321,564                 |
| Customer deposits  | 106,400                      |
| Accrued liabilities  | 1,385,258                    |
| Current portion of capital lease<br>and long term debt             | <u>3,848,895</u>             |
| Total current liabilities  | <u>8,662,117</u>             |
| <b>NONCURRENT LIABILITIES</b>                                      |                              |
| PWTF loans payable   | 4,651,850                    |
| Notes payable  | 111,040,116                  |
| Bonds payable  | 4,456,168                    |
| Other noncurrent liabilities                                       | 59,937                       |
| Net pension liability  | <u>2,381,676</u>             |
| Total noncurrent liabilities                                       | <u>122,589,747</u>           |
| Total liabilities  | <u>131,251,864</u>           |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                               |                              |
| Deferred pension inflows   | <u>367,243</u>               |
| Total deferred inflows of resources                                | <u>367,243</u>               |
| <b>NET POSITION</b>  |                              |
| Net investment in capital assets                                   | 11,657,564                   |
| Restricted   | 3,951,629                    |
| Unrestricted   | <u>15,611,833</u>            |
| Total net position   | <u>31,221,026</u>            |
| Total liabilities, deferred inflows of resources, and net position | <u><u>\$ 162,840,133</u></u> |

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2015**

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OPERATING REVENUES

|  |                |
|--|----------------|
| Power sales to retail and commercial customers | \$ 32,002,377  |
| Water sales to retail and commercial customers | 2,035,712      |
| Other charges for service                      | <u>445,738</u> |

|                         |                   |
|-------------------------|-------------------|
| Total operating revenue | <u>34,483,827</u> |
|-------------------------|-------------------|

OPERATING EXPENSES

|                               |                  |
|-------------------------------|------------------|
| Purchased power               | 12,415,931       |
| Purchased water               | 35,257           |
| Operations and maintenance    | 6,762,014        |
| Administrative and general    | 2,118,573        |
| Taxes                         | 1,898,542        |
| Depreciation and amortization | <u>5,072,728</u> |

|                          |                   |
|--------------------------|-------------------|
| Total operating expenses | <u>28,303,045</u> |
|--------------------------|-------------------|

|                                   |                  |
|-----------------------------------|------------------|
| Net operating revenues (expenses) | <u>6,180,782</u> |
|-----------------------------------|------------------|

NONOPERATING REVENUES (EXPENSES)

|   |                  |
|---|------------------|
| Interest expense                          | (3,514,361)      |
| Other non-operating revenues and expenses | <u>2,164,265</u> |

|  |                    |
|--|--------------------|
| Total nonoperating revenues (expenses) | <u>(1,350,096)</u> |
|--|--------------------|

|                        |                  |
|------------------------|------------------|
| CHANGE IN NET POSITION | <u>4,830,686</u> |
|------------------------|------------------|

ACCUMULATED NET POSITION

|                   |            |
|-------------------|------------|
| Beginning of year | 28,484,234 |
|-------------------|------------|

|   |                    |
|---|--------------------|
| Accumulated effect of change in accounting principle (Note 1) | <u>(2,093,894)</u> |
|---|--------------------|

|   |                   |
|---|-------------------|
| Net position, beginning of the year (as adjusted) | <u>26,390,340</u> |
|---|-------------------|

|             |                      |
|-------------|----------------------|
| End of year | <u>\$ 31,221,026</u> |
|-------------|----------------------|

See accompanying notes.



**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015**

---

|   |                             |
|---|-----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                             |
| Receipts from customers   | \$ 34,458,660               |
| Payments to suppliers for goods and services                        | (21,762,964)                |
| Payments to employees for services                                  | <u>(2,422,155)</u>          |
| Net cash from operating activities                                  | <u>10,273,541</u>           |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>              |                             |
| Payments received on assessments                                    | 367,480                     |
| Net nonoperating revenues (expenses)                                | <u>(61,653)</u>             |
| Net cash from noncapital financing activities                       | <u>305,827</u>              |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b> |                             |
| Proceeds on new debt  | 854,543                     |
| Principal payments on debt  | (3,866,805)                 |
| Interest paid   | (3,514,361)                 |
| Acquisition and construction of capital assets                      | <u>(5,313,452)</u>          |
| Net cash from capital and related<br>financing activities           | <u>(11,840,075)</u>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                             |
| Receipts of interest  | <u>132,023</u>              |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                      | <b>(1,128,684)</b>          |
| <b>CASH AND CASH EQUIVALENTS</b>                                    |                             |
| Beginning of year   | <u>17,068,752</u>           |
| End of year   | <u><u>\$ 15,940,068</u></u> |
| <b>CASH AND CASH EQUIVALENTS AT YEAR END CONSIST OF</b>             |                             |
| Operating cash in investments                                       | \$ 11,988,439               |
| Restricted cash and investments                                     | <u>3,951,629</u>            |
|   | <u><u>\$ 15,940,068</u></u> |

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1  
OF JEFFERSON COUNTY, WASHINGTON  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2015**

---

|   |                      |
|---|----------------------|
| RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)<br>TO CASH FLOWS FROM OPERATING ACTIVITIES      |                      |
| Net operating revenues (expense)  | \$ 6,180,782         |
| Adjustments to reconcile net operating revenues<br>(expenses) to net cash from operating activities |                      |
| Depreciation and amortization   | 5,072,728            |
| Changes in operating assets and liabilities   |                      |
| Receivables   | (25,167)             |
| Materials and supplies  | (817,799)            |
| Prepaid expenses and other current assets   | (2,623,885)          |
| Accounts payable, customer deposits,<br>and prepayments   | 2,465,571            |
| Accrued compensation, benefits, and taxes   | <u>21,311</u>        |
| Net cash from operating activities  | <u>\$ 10,273,541</u> |

|   |                     |
|---|---------------------|
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES       |                     |
| Contribution in aid of construction                       | \$ 368,404          |
| Acquisition of capital assets                             | <u>803,001</u>      |
| Total noncash investing, capital and financing activities | <u>\$ 1,171,405</u> |

See accompanying notes.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - Summary of Significant Accounting Policies

**Reporting entity** - The District is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity.

The District's reporting entity consists of three primary operating systems. The Electric System distributes electricity to residential and other consumers in Jefferson County. The Water System consists of eleven individual water systems. The Administrative System collects taxes. The District is required by various financing and contractual arrangements to report separately on each system and maintain each system as a separate entity with separate obligations.

**Basis of accounting and presentation** - The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governmental utilities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements. Accounting records are maintained in accordance with methods prescribed by the State Auditor under the authority of Revised Code of Washington, Chapter 43.09; the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) for the Electric System, and the Uniform System of Accounts for Class A and B Water Utilities prescribed by the National Association of Regulatory Utility Commissioners (NARUC) for the Water System.

A summary of other significant accounting policies used in the preparation of the consolidated financial statements follows.

**New accounting standards** - In fiscal year 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB Statement No. 68 establishes standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense essentially equal to their contractually required contribution to the plan.

Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. GASB Statement No. 71 amends GASB Statement No. 68 regarding the deferred outflows of resources for governments whose current-year pension contributions are reported subsequent to the measurement date.

Upon implementation of this standard, the District adjusted beginning net position as of January 1, 2015 by \$2,093,894.

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 1 - Summary of Significant Accounting Policies (continued)**

In November 2013, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, which clarifies accounting treatment and reporting related to the measurement date outlined in Statement No. 68, Accounting and Financial Reporting for Pensions. This statement is an amendment to Statement No. 68 and is effective for financial statements for periods after June 15, 2014. The District is evaluating the impact of the statements on its financial statements.

**Revenue recognition and unbilled revenue** - The Electric System and Water System utilize the accrual basis of accounting where revenues are recognized as earned on rates established by the District's Board of Commissioners. Beginning in 2015 the District began the industry practice of estimating unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31. This estimate is then recorded as unbilled revenue for the current year. Unbilled revenue recorded in 2015 and the related accrued balance as of December 31, 2015, was \$2,147,309.

The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as related to the sale of electric or water to customers and to other services that are usually provided under standard rate schedules or by contractual arrangements. Operating expenses for the District include the cost of sales and services, administrative expenses, utility taxes, and depreciation on capital assets. Nonoperating revenues and expenses include property tax revenues, preliminary public power study costs, regional studies, assessment revenues and expenses, interest income and expense, and other items not usually directly related to the provision of electric, water, or sewer service.

**Receivables and allowance for uncollectible accounts** - All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Assessments receivable represent the future amounts due on improvement district assessments. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers who may be unable to meet their financial obligations, and a reserve based on historical experience of accounts with balances of greater than 90 days past due. The allowance for uncollectible balances as of December 31, 2015 was \$71,500.

**Cash and cash equivalents** - For purposes of the consolidated statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Cash includes cash on hand, demand deposits, and certain short-term investments held in the Jefferson County Treasury. The Jefferson County Treasurer acts as the Treasurer of the District and as such invests cash in excess of current requirements in various interest-bearing securities, which are disclosed as part of the District's investments.

**Restricted assets** - In accordance with bond resolutions, related agreements, and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, bond reserve, and capital additions and are classified as current or noncurrent assets, as appropriate.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - Summary of Significant Accounting Policies (continued)

Because of certain bond covenants, the District is required to establish and maintain prescribed amounts of resources (cash and investments) that can be used only to service outstanding debt. These required reserves are maintained by the County Treasurer in restricted funds attributable to each debt instrument.

**Materials and supplies** - Materials and supplies are recorded at average cost.

**Capital assets and depreciation** - Property, plant, and equipment are stated at cost including an allowance for funds used during construction (AFUDC). Assets with a useful life of more than one year and a cost of more than \$1,000 are capitalized. Where cost could not be determined from available records, estimated historical cost was used to record the estimated value of the assets. Donated assets are recorded at their estimated fair market value at the date of transfer.

Depreciation of exhaustible capital assets used by the District is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives for each major class of depreciable capital assets are as follows:

|                                    |               |
|------------------------------------|---------------|
| Buildings                          | 25 - 30 years |
| Equipment                          | 5 - 10 years  |
| Electric, water, and sewer systems | 25 - 45 years |
| Office and computer equipment      | 3 - 7 years   |

**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 value.

**Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation and outstanding debt balances related to the purchase or construction of capital assets.

**Restricted net position** - Amounts presented as restricted net position are constrained by provisions imposed by external parties and cannot be used for normal operations.

**Unrestricted net position** - Amounts included as unrestricted net position do not meet the definition of either Net investment in capital assets or Restricted net position and are used for normal operations.

**Property tax revenues** - Property taxes are levied and collected by the Jefferson County Treasurer. They are recognized as revenue when collected.

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 1 - Summary of Significant Accounting Policies (continued)**

**Vacation, sick leave, and other compensated absences** - District employees are entitled to certain compensated absences based on their length of employment and subject to union agreements. With minor exceptions, compensated absences either vest or accumulate when they are earned.

**Post-employment health care benefits** - The District does not provide post-employment health care benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the District.

**Accounting estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications** - Certain reclassifications may be made to prior-year financial statements' presentation to conform to the current-year presentation.

**Significant risks and uncertainties** - The District is subject to certain business risks that could have a material impact on future operations and financial performance. These risks include weather and natural-disaster-related disruptions; collective bargaining labor disputes; changing local and national economic conditions; reliability standards issued by the North American Electric Reliability Corporation; federal government regulations and changing federal and state laws; and the financing and completion of significant capital projects.

### **Note 2 - Cash, Deposits, and Investments**

All bank deposits of the District are entirely insured. The Jefferson County Treasurer acts as the Treasurer for the District and as such fully invests funds not needed for current operations. As of December 31, 2015, all investments of the District were invested through the Jefferson County Treasurer's Office, primarily in the State of Washington Investment Pool. The District has no investments in derivative instruments. Investments are valued at cost which is substantially equivalent to their current market value. All investments in certificates of deposit have maturities of one year or less.

Risk management of investment instruments is as follows:

**Interest rate risk** - The District's exposure to fair value losses arising from increasing interest rates is managed by limiting the maturity to between six months and one year.

**Credit risk** - Through its investment policy, the County Treasurer manages credit risk by restricting County investments to obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, primary certificates of deposit issued by qualified public depositories designated by the Washington Public Deposit Protection Commission, and the Washington State local government investment pool. Over 60% of the County Treasurer's investments are in the Washington State investment pool.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 - Cash, Deposits, and Investments (continued)

**Custodial credit risk** - Custodial credit risk is the risk that in the event of a bank failure, the District's (County Treasurer's) deposits may not be recovered. As of December 31, 2015, all investments are insured by either Federal Deposit Insurance or the Washington Public Deposit Protection Commission.

### Note 3 - Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. The District capitalizes assets with costs in excess of \$1,000. Depreciation expense is computed using the straight-line method employing useful lives of 4 to 50 years. Repairs are charged to operating expenses.

The original cost of operating property retired or otherwise disposed of and the cost of removal, less salvage, is charged to accumulated depreciation. However, in the case of the sale of a significant operating unit or system, the original cost is removed from the utility plant accounts, accumulated depreciation is charged with the accumulated depreciation related to the property sold, and net gain or loss on disposition is credited or charged to income.

Preliminary costs incurred for proposed projects are deferred pending construction of the asset and included in construction work in process. Costs relating to projects ultimately constructed are transferred to utility plant, whereas charges that relate to abandoned projects are expensed.

In November of 2008 Jefferson County voted to authorize the District to begin operations as an electric utility. This vote led to the 2013 purchase of the electric infrastructure of Jefferson County held by Puget Sound Energy (PSE) for \$103 million. The service territory of this acquisition included approximately 18,000 electric customers.

Following is a summary of 2015 changes in capital assets:

|                                      | <b>2015</b>           |                   |                          |                       |
|--------------------------------------|-----------------------|-------------------|--------------------------|-----------------------|
|                                      | Balance<br>1/1/2015   | Additions         | Transfers &<br>Deletions | Balance<br>12/31/2015 |
| Capital assets not being depreciated |                       |                   |                          |                       |
| Land                                 | \$ 1,201,815          | \$ 40,000         |                          | \$ 1,241,815          |
| Construction in progress             | 959,455               | 2,814,141         |                          | 3,773,596             |
| Capital assets being depreciated     |                       |                   |                          |                       |
| Buildings                            | 932,215               | 80,302            |                          | 1,012,517             |
| Office/computer equipment            | 235,130               | 253,266           |                          | 488,396               |
| Equipment                            | 118,959,962           | 2,252,150         | (193,941)                | 121,018,171           |
| Water and sewer systems              | 30,503,238            | 25,827            | (2,265,000)              | 28,264,065            |
| Less accumulated depreciation        | (15,033,072)          | (5,072,728)       | 81,707                   | (20,024,093)          |
| Totals                               | <u>\$ 137,758,743</u> | <u>\$ 392,958</u> | <u>\$ (2,377,234)</u>    | <u>\$ 135,774,467</u> |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 - Utility Plant (continued)**

The District is required to report plant acquired from PSE using different accounting guidance for financial statement and RUS reporting purposes. Under RUS Bulletin 1767B-1, Uniform System of Accounts – Electric, section 1767.16, electric plant acquired as an operating unit shall be stated at the cost incurred by the person who first devoted the property to utility service.

Electric plant at December 31, 2015 under RUS Bulletin 1767B-1 is as follows:

|                               |                       |
|-------------------------------|-----------------------|
| Land and land rights          | \$ 1,201,815          |
| Utility plant                 | 152,285,593           |
| Construction in progress      | 1,836,602             |
|                               |                       |
| Less accumulated depreciation | <u>(41,900,731)</u>   |
|                               |                       |
| Net utility plant             | <u>\$ 113,423,279</u> |



# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4 - Long-Term Debt

Long-term debt of the District as of December 31, 2015, consists of Revenue Bonds, private debt for the purchase of property, and Public Works Trust Fund & Drinking Water loans. Revenues of the District are pledged to pay related debt. Additionally, all revenue bonds require a portion of cash and cash equivalents to be reserved for future debt retirement. The Jefferson County Treasurer has established sufficient reserves and District management believes that the District is in compliance with all debt covenants. The District has no arbitrage liability with respect to bond issuances. The following tables summarize the District's long term debt obligations as of December 31, 2015.

|  | Issue<br>Date | Issue<br>Amount | Outstanding<br>2015 |
|--|---------------|-----------------|---------------------|
| <b>Rural Utilities Services Federal Financing Bank Loan for the Acquisition of PSE Electrical Plant Assets</b>   |               |                 |                     |
| PUD-JEFF 001-001 - Semi-annual P&I payments of \$1,482,454 maturing December 2041 with interest at 2.728%  | 3/13          | \$ 114,743,000  | \$ 111,770,719      |
| PUD-JEFF 001-002 - Semi-annual P&I payments of \$10,725 maturing December 2041 with interest at 3.433%   | 8/13          | 764,000         | <u>746,152</u>      |
| Subtotal   |               |                 | <u>112,516,871</u>  |
| <b>Public Works Trust Fund &amp; Drinking Water Loans</b>  |               |                 |                     |
| PW-99-691-ELP-301: Sound View Villa - Annual principal payments of \$5,140 plus interest at 5.0% maturing July 2019  | 9/99          | 97,663          | 20,561              |
| PW-00-65120-008: Snow Creek Ranch - Annual principal payments of \$8,272 plus interest 2.5% maturing October 2021  | 3/03          | 157,168         | 49,632              |
| PW-02-691-066: City of Port Townsend - Annual principal payments of \$69,807 plus interest at 1.0% maturing July 2018  | 10/02         | 1,186,719       | 209,421             |
| PW-05-691-024: Beckett Pt - Annual principal payments of \$50,776 plus interest at 0.50% maturing July 2025  | 5/05          | 948,924         | 507,758             |
| PW-05-691-025: Marrowstone Island - Annual principal payments of \$108,806 plus interest at 0.50% maturing July 2015   | 6/06          | 2,000,000       | 1,088,064           |
| DM10-952-018: Sparling Well/Quimper - Annual principal payments of \$48,047 plus interest at 1.0% maturing October 2044. Note includes a debt forgiveness provision. | 8/11          | 1,441,421       | 1,417,397           |
| DM12-952-091: Kala Point - Annual principal payments of \$54,450 plus interest at 1.0% maturing October 2036. Note includes a debt forgiveness provision.            | 11/12         | 1,089,000       | 1,089,000           |
| DM13-952-177: Sparling Water Treatment - Annual principal payments of \$29,108 plus interest at 1.0% maturing October 2037.  | 4/14          | 582,162         | 582,162             |
| 98-78898-021: Kala Point Reservoir & Meters - Annual principal payments of \$11,051 plus interest at 3.35% maturing October 2019.                                    | 10/95         | 212,644         | <u>44,205</u>       |
| Subtotal   |               |                 | <u>5,008,200</u>    |
| <b>Notes Payable</b>   |               |                 |                     |
| Kala Point Water System - Annual principal payments of \$50,000 with 0% interest maturing October 2024.  | 10/12         | 600,000         | 400,000             |
| Peterson Lake Loan - Monthly P&I payments of \$14,329 maturing March 2016 with interest at 6%  | 3/06          | 2,000,000       | <u>1,314,019</u>    |
| Subtotal   |               |                 | <u>1,714,019</u>    |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 - Long-Term Debt (continued)**

|  | Issue<br>Date | Issue<br>Amount | Outstanding<br>2015   |
|--|---------------|-----------------|-----------------------|
| <b>Revenue Bonds for Water &amp; Sewer Systems</b>   |               |                 |                       |
| LUD 11: Bywater Way & Shine - Serial Bonds \$50,000 - \$315,000 due through May 2019 with interest at 5.25%                  | 4/99          | \$ 1,090,000    | \$ 465,000            |
| LUD 14: Marrowstone Island - Serial Bonds \$102,000 - \$173,000 due through March 2026 with interest at 4.15% - 6.75%        | 3/09          | 2,000,000       | 1,455,000             |
| LUD 15: Beckett Point - Annual P&I payments of \$86,509 due through May 2025 with interest at 3.99%                          | 5/08          | 1,053,076       | 233,129               |
| Tri-Area (USDA) - Semi-annual P&I payments of \$82,381 with interest at 4.5% maturing April 2043                             | 4/03          | 3,043,250       | <u>2,583,278</u>      |
| Subtotal   |               |                 | <u>4,736,407</u>      |
| <b>Capital Lease</b>   |               |                 |                       |
| Capital lease for transportation equipment - Monthly P&I payments of \$5,425 maturing April 2016 with interest rate of 3.75% |               |                 | <u>21,532</u>         |
| Total long-term debt and capital lease   |               |                 | <u>123,997,029</u>    |
| <b>Other Long-Term Liabilities</b>   |               |                 |                       |
| Compensated Absences   |               |                 | 283,245               |
| Pension Liability  |               |                 | <u>2,381,676</u>      |
| Total other long-term liabilities  |               |                 | <u>2,664,921</u>      |
| Total long-term liabilities  |               |                 | <u>\$ 126,661,950</u> |

During the years ended December 31, 2015, the following changes occurred in the District's long-term debt:

|                               | Beginning<br>Balance<br>1/1/2015 | Additions           | Reductions          | Ending<br>Balance<br>12/31/2015 | Due Within<br>One Year |
|-------------------------------|----------------------------------|---------------------|---------------------|---------------------------------|------------------------|
| RUS Loans                     | \$ 115,507,000                   | \$ -                | \$ 2,990,129        | \$ 112,516,871                  | \$ 3,045,069           |
| Public Works Trust Fund loans | 4,431,554                        | 854,521             | 277,875             | 5,008,200                       | 356,350                |
| Notes payable                 | 1,854,167                        | -                   | 140,148             | 1,714,019                       | 145,705                |
| Bonds payable                 | 4,982,586                        | -                   | 246,179             | 4,736,407                       | 280,239                |
| Capital leases payable        | 234,006                          | -                   | 212,474             | 21,532                          | 21,532                 |
| Sub-total                     | <u>127,009,313</u>               | <u>854,521</u>      | <u>3,866,805</u>    | <u>123,997,029</u>              | <u>3,848,895</u>       |
| Compensated absences          | 265,058                          | 18,187              | -                   | 283,245                         | 223,308                |
| Pension liability             | <u>2,093,894</u>                 | <u>287,782</u>      | <u>-</u>            | <u>2,381,676</u>                | <u>-</u>               |
| Total long-term<br>debt       | <u>\$ 129,368,265</u>            | <u>\$ 1,160,490</u> | <u>\$ 3,866,805</u> | <u>\$ 126,661,950</u>           | <u>\$ 4,072,203</u>    |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 - Long-Term Debt (continued)**

Scheduled maturities and interest on long-term debt are as follows:

|                  | Electric<br>System    | Water<br>System      | Combined<br>as of<br>12/31/2015 |
|------------------|-----------------------|----------------------|---------------------------------|
| <b>Principal</b> |                       |                      |                                 |
| 2016             | \$ 3,066,601          | \$ 782,294           | \$ 3,848,895                    |
| 2017             | 3,157,439             | 797,589              | 3,955,028                       |
| 2018             | 3,247,109             | 829,574              | 4,076,683                       |
| 2019             | 3,317,436             | 967,248              | 4,284,684                       |
| 2020             | 3,404,835             | 651,672              | 4,056,507                       |
| 2021 - 2025      | 18,416,419            | 3,404,979            | 21,821,398                      |
| 2026 - 2030      | 20,971,947            | 1,292,845            | 22,264,792                      |
| 2031 - 2035      | 23,882,421            | 1,181,766            | 25,064,187                      |
| 2036 - 2040      | 27,197,428            | 952,709              | 28,150,137                      |
| 2041 - 2043      | 5,876,772             | 597,945              | 6,474,717                       |
|                  | <u>\$ 112,538,408</u> | <u>\$ 11,458,621</u> | <u>\$ 123,997,029</u>           |
| <b>Interest</b>  |                       |                      |                                 |
| 2016             | \$ 2,927,645          | \$ 368,982           | \$ 3,296,627                    |
| 2017             | 2,815,275             | 323,470              | 3,138,745                       |
| 2018             | 2,725,604             | 322,092              | 3,047,696                       |
| 2019             | 2,655,278             | 277,901              | 2,933,179                       |
| 2020             | 2,567,878             | 251,037              | 2,818,915                       |
| 2021 - 2025      | 11,447,150            | 941,814              | 12,388,964                      |
| 2026 - 2030      | 8,891,621             | 493,830              | 9,385,451                       |
| 2031 - 2035      | 5,981,147             | 344,344              | 6,325,491                       |
| 2036 - 2040      | 2,666,140             | 187,244              | 2,853,384                       |
| 2041 - 2043      | 95,945                | 50,739               | 146,684                         |
|                  | <u>\$ 42,773,683</u>  | <u>\$ 3,561,453</u>  | <u>\$ 46,335,136</u>            |

**Note 5 - Pension Plans**

Substantially all of the 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.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 5 - Pension Plans (continued)

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](http://www.drs.wa.gov).

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions*, for the year 2015:

| Aggregate Pension Amounts – All Plans |    |           |
|---------------------------------------|----|-----------|
| Pension liabilities                   | \$ | 2,381,676 |
| Pension assets                        |    | 0         |
| Deferred outflows of resources        |    | 476,576   |
| Deferred inflows of resources         |    | 367,243   |
| Pension expense/expenditures          |    | 485,264   |

### 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 composed 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 2% 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.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 5 - Pension Plans (continued)

#### Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. 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%. 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 2015 were as follows:

| <u>PERS Plan 1</u>               |                 |                 |
|----------------------------------|-----------------|-----------------|
| <u>Actual Contribution Rates</u> | <u>Employer</u> | <u>Employee</u> |
| January through June 2015        | 9.21%           | 6.00%           |
| July through December 2015       | 11.18%          | 6.00%           |

The District's actual contributions to the plan were \$134,157 for the year ended December 31, 2015.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 3% 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 5% 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 3% 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 is earned after age 44.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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% and escalate to 15% 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%. 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 2015 were as follows:

| <u>PERS Plan 2/3</u>             | <u>Employer</u> | <u>Employee 2</u> | <u>Employee 3</u> |
|----------------------------------|-----------------|-------------------|-------------------|
| <u>Actual Contribution Rates</u> |                 |                   |                   |
| January through June 2015        | 9.21%           | 4.92%             | Varies            |
| July through December 2015       | 11.18%          | 6.12%             | Varies            |

The District's actual contributions to the plan were \$172,658 for the year ended December 31, 2015.

#### Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. 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.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 5 - Pension Plans (continued)**

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

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

- The OSA updated demographic assumptions, consistent with the changes from the 2007-2012 Experience Study Report, used when valuing the PERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the 2007-2012 Experience Study Report.

### **Discount Rate**

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

To determine that rate, an asset sufficiency test included an assumed 7.7% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7% except LEOFF 2, which has assumed 7.5%). Consistent with the long-term expected rate of return, a 7.5% 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 employers, whose rates include a component for the PERS 1 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 7.5% was used to determine the total liability.

### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5% was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5% approximately equals the median of the simulated investment returns over a 50-year time horizon.

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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, 2015, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

| Asset Class     | Target Allocation | Percent Long-Term Expected Real Rate of Return Arithmetic |
|-----------------|-------------------|---|
| Fixed income    | 20.00%            | 1.70%   |
| Tangible assets | 5.00%             | 4.40%   |
| Real estate     | 15.00%            | 5.80%   |
| Global equity   | 37.00%            | 6.60%   |
| Private equity  | 23.00%            | 9.60%   |
|                 | 100.00%           |   |

**Sensitivity of NPL**

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate.

|          | 1% Decrease<br>6.50% | Current<br>Discount Rate<br>7.50% | 1% Increase<br>8.50% |
|----------|----------------------|-----------------------------------|----------------------|
| PERS 1   | \$ 1,540,518         | \$ 1,265,310                      | \$ 1,028,656         |
| PERS 2/3 | 3,264,312            | 1,116,366                         | (528,236)            |

**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.



**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 - Pension Plans (continued)**

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

At December 31, 2015, the District reported a total pension liability of \$2,381,676 for its proportionate share of the net pension liabilities as follows:

|          | <u>Liability (or Asset)</u> |
|----------|-----------------------------|
| PERS 1   | \$ 1,265,310                |
| PERS 2/3 | 1,116,366                   |

At December 31, 2015, the District's proportionate share of the collective net pension liabilities was as follows:

|          | <u>Proportionate<br/>Share 6/30/14</u> | <u>Proportionate<br/>Share 6/30/15</u> | <u>Change in<br/>Proportion</u> |
|----------|--|--|---------------------------------|
| PERS 1   | 0.0202030%                             | 0.0241890%                             | 0.0039860%                      |
| PERS 2/3 | 0.0260120%                             | 0.0312440%                             | 0.0052320%                      |

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*.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2015, the District recognized pension expense as follows:

|          | <u>Pension Expense</u> |
|----------|------------------------|
| PERS 1   | \$ 301,978             |
| PERS 2/3 | 183,286                |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 - Pension Plans (continued)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>PERS 1</u>   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Difference between expected and actual experience   | \$ -                                      | \$ -                                     |
| Net difference between projected and actual investment earnings on pension plan investments         | -   | 69,226                                   |
| Changes of assumptions  | -   | -  |
| Changes in proportion and difference between contributions and proportionate share of contributions | -   | -  |
| Contributions subsequent to the measurement date  | <u>81,419</u>                             | <u>-</u>                                 |
|   | <u>\$ 81,419</u>                          | <u>\$ 69,226</u>                         |

| <u>PERS 2/3</u>   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Difference between expected and actual experience   | \$ 118,670                                | \$ -                                     |
| Net difference between projected and actual investment earnings on pension plan investments         | -   | 298,017                                  |
| Changes of assumptions  | 1,799                                     | -  |
| Changes in proportion and difference between contributions and proportionate share of contributions | 168,348                                   | -  |
| Contributions subsequent to the measurement date  | <u>106,340</u>                            | <u>-</u>                                 |
|   | <u>\$ 395,157</u>                         | <u>\$ 298,017</u>                        |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 5 - Pension Plans (continued)**

| <u>Combined 1 and PERS 2/3</u>  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Difference between expected and actual experience   | \$ 118,670                                | \$ -                                     |
| Net difference between projected and actual investment earnings on pension plan investments         | -   | 367,243                                  |
| Changes of assumptions  | 1,799                                     | -  |
| Changes in proportion and difference between contributions and proportionate share of contributions | 168,348                                   | -  |
| Contributions subsequent to the measurement date  | <u>187,759</u>                            | <u>-</u>                                 |
|   | <u>\$ 476,576</u>                         | <u>\$ 367,243</u>                        |

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, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

|            | <u>PERS 1</u>      | <u>PERS 2/3</u>   | <u>Combined</u>    |
|------------|--------------------|-------------------|--------------------|
| 2016       | \$ (26,830)        | \$ (31,399)       | \$ (58,229)        |
| 2017       | (26,830)           | (31,399)          | \$ (58,229)        |
| 2018       | (26,830)           | (31,399)          | \$ (58,229)        |
| 2019       | 11,263             | 84,997            | \$ 96,260          |
| 2020       | -                  | -                 | -                  |
| Thereafter | <u>-</u>           | <u>-</u>          | <u>-</u>           |
|            | <u>\$ (69,227)</u> | <u>\$ (9,200)</u> | <u>\$ (78,427)</u> |

**Note 6 - Insurance and Risk Management**

The District is a member of the Public Utility Risk Management Services (PURMS) Self- Insurance fund. PURMS is a public entity risk pool organized December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.200, and interlocal government agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 6 - Insurance and Risk Management (continued)**

PURMS consists of 19 members. The risks shared by the members are defined in the Self Insurance Agreement (SIA). PURMS consists of three pools for liability, property and health and welfare coverage. The pools operate independently of one another and all members do not participate in all pools. The District participates in the liability, property and health and welfare pools.

The pools are governed by a Board of Directors comprised of one designated representative from each participating member. The administrator and elected Administrative Committee conduct the business of the pools.

The pools are fully funded by its current and former members. Members that withdraw from the fund are still responsible for their share of the assessments for occurrences while they were members. Likewise terminated members continue to receive coverage for the time they were members.

Each of PURMS Risk Pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools, and bi-annually, the State Risk Manager performs its own audit of PURMS' Risk Pools. Finally, on an annual basis, PURMS engages the services of the Washington State Auditor's Office to perform a claims audit for each of the Risk Pools.

**Liability risk pool** - The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million, per occurrence, of excess general liability insurance and \$35 million, per occurrence, of professional liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million, per occurrence, is also maintained over the first layer of \$35 million. The fund maintains \$35 million in directors' and officers' liability coverage with a retention of \$500,000. The deductible is \$250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The District paid assessments in 2015 totaling \$40,659. The current designated reserve level is \$3 million.

**Property risk pool** - The majority of the property in the property pool has a self-insured retention of \$250,000 per property loss. Certain classes of property have higher retention requirements up to \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level. The deductible varies but for most classes of property is \$250.

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000.

**Health and welfare risk pool** - The District participates in the PURMS Health and Welfare Risk Pool. PURMS provides health and welfare insurance coverage for the Employees of each of its Members participating in the Health & Welfare Risk Pool ("H&W Pool") in accordance with the terms of the Health & Welfare Coverage of the SIA ("H&W Coverage") and the terms of each Member's respective Coverage Booklet provided to its Employees.

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **Note 6 - Insurance and Risk Management (continued)**

The H&W Pool's operations are financed by assessments of its participants. Each month, each Participant of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W Claims for such Member's Employees ("H&W Claims Costs"); and (b) for such Member's share of Shared H&W Costs. "Shared H&W Costs" consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, PPO Charges and Shared H&W Claims.

The exposure of each Participant is limited by two different pairs of stop-loss points. For 2015, the Individual Stop Loss Point was \$250,000 per Employee and the Aggregate Stop Loss Point was \$17,037,729 for the combined Claims Costs of the Employees of all Participants of the H&W Pool.

Insurance settlements have not exceeded insurance coverage in the past three years.

### **Note 7 - Commitments and Contingencies**

**Power supply contracts** - The District has a power purchase contract with the Bonneville Power Administration (BPA) to provide the District's power supply through September 30, 2028.

**Union contract** - The District employs approximately 75% of its workforce under collective bargaining agreements. The contract with IBEW Local 77 covers the electrical operations and expires in May 2016. The office and water staff are covered under a contract with Local Labor 252 which ends in December, 2016.

**Legal** - In the normal course of business, the District is party to claims and matters of litigation. The ultimate outcome of these matters cannot presently be determined; however, in the opinion of management of the District, the District insurance policies and reserves are adequate for all known or pending claims and the resolution of these matters will not have a material adverse effect on the District's financial position, results of operations, or liquidity.

The District participates in a number of federal and state assisted programs. These grants are subject to audit, which could result in requests for reimbursement to the grantor agencies for disallowed expenditures. District management believes that such disallowances, if any, will be immaterial.

### **Note 8 - Participation in Northwest Open Access Network, Inc. (NoaNet)**

The District, along with nine other Washington State public entities, is a member of Northwest Open Access Network, Inc. (dba NoaNet), a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fibers leased from BPA throughout Washington. The network began commercial operation in January 2001.

# **PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## **Note 8 – Participation in Northwest Open Access Network, Inc. (NoaNet), continued**

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of startup funds advanced by founding members and the initial costs of construction and commissioning. The NoaNet members and several former NoaNet members have entered into a repayment agreement under which they are responsible for debt payments to the extent that NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations. Should such conditions exist, the District's responsibility share is 0.14%. The outstanding debt balance was \$2,790,000 as of December 31, 2015.

In 2012, NoaNet established a nonrevolving line of credit in the amount of \$5 million for capital financing of sale opportunities. In September 2014, NoaNet established an additional line of credit in the amount of \$1 million on which an additional draw in the amount of \$1 million was taken during the year, bringing the total balance to \$2 million. Both the 2012 and 2014 lines of credit were subsequently refinanced through a \$13 million line of credit established in December 2014, which had a balance outstanding of \$6,309,245 as of December 31, 2015. NoaNet can assess its members for their percentage share of principal and interest on the line of credit. The District's percentage is 0.21% and no assessments were charged in 2015.

NoaNet incurred a net loss from operations of \$5,236,199. This operating loss, partially offset by interest revenue but increased by interest expense, reduced net position of \$87,441,886 in 2014 to \$82,051,774 in 2015. NoaNet financial results for 2015 are estimated; however, any variance will not have a material impact on the District's financial position.

Financial and operating information regarding NoaNet may be obtained from the NoaNet Financial Center, 5802 Overlook Ave NE, Tacoma, WA 98422.

# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9 - Segment Reporting

#### ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

|  | Electric<br>Division  | Water<br>Division    | Administrative<br>Division | Consolidated<br>Total<br>Year Ended<br>December 31,<br>2015 |
|--|-----------------------|----------------------|----------------------------|---|
| <b>CURRENT ASSETS</b>                                  |                       |                      |                            |   |
| Cash and cash equivalents                              | \$ 9,279,325          | \$ 72,923            | \$ 2,636,191               | \$ 11,988,439   |
| Receivables  |                       |                      |                            |   |
| Accounts and contracts, net                            | 2,009,882             | 88,529               | -                          | 2,098,411   |
| Assessments (current portion)                          | -                     | 397,641              | -                          | 397,641   |
| Other  | 117,981               | -                    | -                          | 117,981   |
| Materials and supplies                                 | 1,799,809             | 7,871                | -                          | 1,807,680   |
| Prepaid expenses and other                             | 2,120,216             | 27,093               | -                          | 2,147,309   |
| <b>Total current assets</b>                            | <b>15,327,213</b>     | <b>594,057</b>       | <b>2,636,191</b>           | <b>18,557,461</b>   |
| <b>NONCURRENT ASSETS</b>                               |                       |                      |                            |   |
| Long term portion of assessments receivable            | -                     | 1,855,000            | -                          | 1,855,000   |
| Non-Utility Plant                                      |                       |                      | 2,225,000                  | 2,225,000   |
| Restricted assets                                      |                       |                      |                            |   |
| Cash   | 1,095,609             | 2,856,020            | -                          | 3,951,629   |
| Investments  | -                     | -                    | -                          | -   |
| <b>Total noncurrent assets</b>                         | <b>1,095,609</b>      | <b>4,711,020</b>     | <b>2,225,000</b>           | <b>8,031,629</b>  |
| <b>UTILITY PLANT</b>                                   |                       |                      |                            |   |
| Land and land rights                                   | 1,201,815             | 40,000               | -                          | 1,241,815   |
| Utility plant  | 122,306,166           | 28,476,983           | -                          | 150,783,149   |
| Construction work in progress                          | 1,836,602             | 1,936,994            | -                          | 3,773,596   |
| Less accumulated depreciation                          | (11,921,304)          | (8,102,789)          | -                          | (20,024,093)  |
| <b>Net Utility plant</b>                               | <b>113,423,279</b>    | <b>22,351,188</b>    | <b>-</b>                   | <b>135,774,467</b>  |
| <b>Total assets</b>                                    | <b>129,846,101</b>    | <b>27,656,265</b>    | <b>4,861,191</b>           | <b>162,363,557</b>  |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                  |                       |                      |                            |   |
| Deferred pension outflows                              | 400,132               | 76,444               | -                          | 476,576   |
| <b>Total deferred outflows of resources</b>            | <b>400,132</b>        | <b>76,444</b>        | <b>-</b>                   | <b>476,576</b>  |
| <b>Total assets and deferred outflows of resources</b> | <b>\$ 130,246,233</b> | <b>\$ 27,732,709</b> | <b>\$ 4,861,191</b>        | <b>\$ 162,840,133</b>                                       |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Note 9 - Segment Reporting (continued)**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

|   | Electric<br>Division  | Water<br>Division    | Administrative<br>Division | Consolidated<br>Total<br>Year Ended<br>December 31,<br>2015 |
|---|-----------------------|----------------------|----------------------------|---|
| <b>CURRENT LIABILITIES</b>  |                       |                      |                            |   |
| Accounts payable  | \$ 3,319,742          | \$ -                 | \$ 1,822                   | \$ 3,321,564  |
| Customer deposits   | 104,300               | 2,100                | -                          | 106,400   |
| Accrued liabilities   | 1,267,024             | 118,234              | -                          | 1,385,258   |
| Current portion of capital lease<br>and long term debt                | 3,066,601             | 686,588              | 95,706                     | 3,848,895   |
| Total current liabilities   | <u>7,757,667</u>      | <u>806,922</u>       | <u>97,528</u>              | <u>8,662,117</u>  |
| <b>NONCURRENT LIABILITIES</b>   |                       |                      |                            |   |
| PWTF loans payable  | -                     | 4,651,850            | -                          | 4,651,850   |
| Notes payable   | 109,471,801           | 350,000              | 1,218,315                  | 111,040,116   |
| Bonds payable   | -                     | 4,456,168            | -                          | 4,456,168   |
| Other noncurrent liabilities  | 59,937                | -                    | -                          | 59,937  |
| Net pension liability   | 1,999,652             | 382,024              | -                          | 2,381,676   |
| Total noncurrent liabilities  | <u>111,531,390</u>    | <u>9,840,042</u>     | <u>1,218,315</u>           | <u>122,589,747</u>  |
| Total liabilities   | <u>119,289,057</u>    | <u>10,646,964</u>    | <u>1,315,843</u>           | <u>131,251,864</u>  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                  |                       |                      |                            |   |
| Deferred pension inflows  | 308,337               | 58,906               | -                          | 367,243   |
| Total deferred inflows of resources                                   | <u>308,337</u>        | <u>58,906</u>        | <u>-</u>                   | <u>367,243</u>  |
| <b>NET POSITION</b>   |                       |                      |                            |   |
| Net investment in capital assets                                      | 884,877               | 12,086,708           | (1,314,021)                | 11,657,564  |
| Restricted  | 1,095,609             | 2,856,020            | -                          | 3,951,629   |
| Unrestricted  | 8,668,353             | 2,084,111            | 4,859,369                  | 15,611,833  |
| Total net position  | <u>10,648,839</u>     | <u>17,026,839</u>    | <u>3,545,348</u>           | <u>31,221,026</u>   |
| Total liabilities, deferred inflows of<br>resources, and net position | <u>\$ 130,246,233</u> | <u>\$ 27,732,709</u> | <u>\$ 4,861,191</u>        | <u>\$ 162,840,133</u>                                       |



# PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9 - Segment Reporting (continued)

#### CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

|  | Electric<br>Division | Water<br>Division | Administrative<br>Division | Consolidated<br>Total<br>Year Ended<br>December 31,<br>2015 |
|--|----------------------|-------------------|----------------------------|---|
| <b>OPERATING REVENUES</b>                                      |                      |                   |                            |   |
| Power sales to retail and commercial customers                 | \$ 32,002,377        | \$ -              | \$ -                       | \$ 32,002,377   |
| Water sales to retail and commercial customers                 | -                    | 2,035,712         | -                          | 2,035,712   |
| Other charges for service                                      | 348,528              | 96,935            | 275                        | 445,738   |
| <b>Total operating revenue</b>                                 | <b>32,350,905</b>    | <b>2,132,647</b>  | <b>275</b>                 | <b>34,483,827</b>   |
| <b>OPERATING EXPENSES</b>                                      |                      |                   |                            |   |
| Purchased power  | 12,412,060           | 39,128            | -                          | 12,451,188  |
| Operations and maintenance                                     | 5,827,057            | 934,957           | -                          | 6,762,014   |
| Administrative and general                                     | 1,602,065            | 318,131           | 198,377                    | 2,118,573   |
| Taxes  | 1,791,311            | 107,231           | -                          | 1,898,542   |
| Depreciation and amortization                                  | 4,459,424            | 613,304           | -                          | 5,072,728   |
| <b>Total operating expenses</b>                                | <b>26,091,917</b>    | <b>2,012,751</b>  | <b>198,377</b>             | <b>28,303,045</b>   |
| <b>Net operating revenues (expenses)</b>                       | <b>6,258,988</b>     | <b>119,896</b>    | <b>(198,102)</b>           | <b>6,180,782</b>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                        |                      |                   |                            |   |
| Taxes  | -                    | -                 | 530,993                    | 530,993   |
| System development fees/Contribution in<br>Aid of Construction | 533,798              | 91,385            | -                          | 625,183   |
| Public power preliminary costs                                 | -                    | -                 | -                          | -   |
| Assessment interest income                                     | -                    | -                 | -                          | -   |
| Investment interest income                                     | 13,640               | 115,652           | 2,731                      | 132,023   |
| Timber harvest tax and other                                   | -                    | -                 | 63,711                     | 63,711  |
| Interest expense   | (3,132,135)          | (300,428)         | (81,798)                   | (3,514,361)   |
| Gain/(Loss) on transfer of property                            | 812,355              | -                 | -                          | 812,355   |
| Other nonoperating revenues (expenses)                         | -                    | -                 | -                          | -   |
| <b>Total nonoperating revenues (expenses)</b>                  | <b>(1,772,342)</b>   | <b>(93,391)</b>   | <b>515,637</b>             | <b>(1,350,096)</b>  |
| <b>CHANGE IN NET POSITION</b>                                  | <b>4,486,646</b>     | <b>26,505</b>     | <b>317,535</b>             | <b>4,830,686</b>  |
| <b>ACCUMULATED NET POSITION</b>                                |                      |                   |                            |   |
| Beginning of year  | 7,920,226            | 17,336,195        | 3,227,813                  | 28,484,234  |
| Prior year change in accounting principle                      | (1,758,033)          | (335,861)         | -                          | (2,093,894)   |
| Net position, beginning of the year (as adjusted)              | 6,162,193            | 17,000,334        | 3,227,813                  | 26,390,340  |
| End of year  | \$ 10,648,839        | \$ 17,026,839     | \$ 3,545,348               | \$ 31,221,026   |

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**AS OF JUNE 30**

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|   | 2015         |              |
|---|--------------|--------------|
|   | PERS 1       | PERS 2/3     |
| Employer's proportion of the net pension liability (asset)  | 0.0241890%   | 0.0312440%   |
| Employer's proportionate share of the net pension liability   | \$ 1,265,310 | \$ 1,116,366 |
| Employer's covered employee payroll   | \$ -         | \$ 3,012,708 |
| Employer's proportionate share of the net pension liability as a percentage of covered employee payroll | N/A          | 37.06%       |
| Plan fiduciary net position as a percentage of the total pension liability                              | 59.10%       | 89.20%       |

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

**PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS AS OF DECEMBER 31**

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|  | 2015             |                     |
|--|------------------|---------------------|
|  | PERS 1           | PERS 2/3            |
| Statutorily or contractually required contributions                                  | \$ 134,157       | \$ 172,658          |
| Contributions in relation to the statutorily or contractually required contributions | <u>(134,157)</u> | <u>(172,658)</u>    |
| Contribution deficiency (excess)   | <u>\$ -</u>      | <u>\$ -</u>         |
| Covered employer payroll   | <u>\$ -</u>      | <u>\$ 3,025,349</u> |
| Contributions as a percentage of covered employee payroll                            | N/A              | 5.71%               |

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

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

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

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