Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Mason County

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

Published March 16, 2017

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Office of the Washington State Auditor
Pat McCarthy

March 16, 2017

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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2015-001 The District's internal controls over accounting and financial statement preparation were inadequate to ensure accurate financial reporting.

Background

It is the responsibility of District management to design, implement and maintain internal controls to ensure financial statements are fairly presented and that provide reasonable assurance regarding the financial reporting's reliability. Our audit identified internal control deficiencies that adversely affected the District's ability to produce reliable and accurate financial statements.

Description of Condition

Our audit identified the following internal control deficiencies that, when taken together, represent a material weakness:

- The District did not have adequate procedures in place to implement new accounting standards correctly.
- The financial statement review process was inadequate to ensure financial information was accurate.
- The District lacked adequate procedures to ensure adjusting journal entries were made for a valid purpose and independently reviewed, and that documentation was retained. The controls were not effective to detect journal entries related to misappropriation in a timely manner.

Cause of Condition

The District contracted with a certified public accounting firm to calculate amounts related to implementation of *Governmental Accounting Standards Board* (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. However, District staff did not interpret or implement the new standard correctly, and the calculations District staff relied on contained errors.

The District did not review the financial statements to ensure accurate preparation and presentation. Management responsible for overseeing journal entries did not adequately monitor activity nor ensure staff consistently followed procedures for retention of journal entry supporting documentation.

Effect of Condition

The material weakness resulted in multiple misstatements on the District's financial statements, including:

- The following misstatements were due to incorrect implementation of GASB Statement No. 68. The District:
    - Misclassified the Cumulative Change in Accounting Principle of $1,743,069 as a Net Pension Asset, and understated the balance by $5,879.
    - Understated deferred Outflow related to pensions by $113,496.
    - Overstated deferred Inflow related to pensions by $14,533.
    - Improperly included the required supplementary information as part of its Notes to the Financial Statements.
- Additional less-significant misstatements ranged from $16,308 to $174,759, and numerous immaterial presentation errors were identified throughout the financial statements.
- Management did not detect journal entries related to misappropriation in a timely manner.

Recommendation

We recommend the District strengthen internal controls over financial reporting, including:

- Provide the resources and training on new accounting standards necessary for staff responsible for preparing financial statements to prepare accurate and complete financial statements.
- Assign an independent review of the financial statements, notes and additional schedules to a person knowledgeable of the reporting requirements to ensure those documents are complete and accurate.
- Review all journal entries to ensure they are for a valid financial purpose, adequately supported and properly reviewed.

District's Response

Thank you for the opportunity to comment on the audit finding for the period of January 1, 2015 through December 31, 2015.

The District concurs with the finding that the internal controls over accounting processes and the preparation of financial statements were inadequate to ensure accurate financial reporting and oversight. We concur that the former District Auditor/Director of Finance did not follow proper accounting procedures to certify that the information on the financial statements was accurate and he did not have the capacity to correctly implement the GASB accounting standards. The District Auditor also did not have financial controls in place for the independent review of journal entries made by his employees to ensure that the entries were valid, which resulted in misappropriation of public resources by one of his employees. The general manager and governing body of the District corrected this by terminating the employment of both the District Auditor and the employee that was misappropriating District resources.

In working closely with the SAO the last half of 2016, the District immediately implemented stronger controls that now require appropriate journal entry supporting documentation as well as a review process by an individual other than the employee making the journal entry. Documentation is also required to verify month-end and year-end GL balancing, which is reviewed by the new independent District Auditor. ***This meets the recommendation by the SAO to ensure that all journal entries are properly reviewed for validity, accuracy and contain supporting documentation.***

The District solicited proposals from outside accounting firms and appointed Michael Wittenberg as the District Auditor. His office now is an independent party that has not only amended 2015's financial reports to ensure their accuracy, they have also implemented new accounting procedures and controls, as well as made recommendations for financial policies for the commission. In working with the in-house bookkeeper, credit & collections person, and payroll officer, the financial statements for year-end 2015 and year-end 2016 are now accurate. ***This meets the recommendation by the SAO to have properly trained staff preparing accurate and complete financial statements.***

With regard to the GASB 68 implementation, while it is correct that the lack of accuracy in our internal financial statements contributed to errors in the calculations for the pension liability, the misclassification and improperly stated pension amounts were provided by Moss Adams, an independent CPA firm that was hired to produce these reports. They had an inaccuracy in their computations, which led to incorrect data being used by the District. Moss Adams *has since been informed of their error and the GASB 68 has been corrected, revised and resubmitted by Michael Wittenberg's office.* ***This meets the recommendation from the SAO to have a knowledgeable individual perform a review of financial statements and supporting materials to ensure completion and accuracy.***

The District appreciates the time and consideration that the SAO dedicated to determining the root causes of the misappropriations and financial errors, and for making immediate recommendations to fix the weaknesses. It took considerable research from the Auditor in Charge to understand our processes and constraints and develop a new control plan that would be sensitive to our staffing limitations but also ensure compliance. As a result, the majority of the weaknesses surrounding controls and reporting inaccuracies were immediately remedied on the spot. All of our new processes were implemented before the audit process was even completed. We are very pleased and encouraged with these new processes and appreciate the continued feedback from the SAO.

The management and governing board of Mason County PUD No. 1 are very open to recommendations and criticisms when they lead to stronger financial controls and processes to ensure we are protecting our public's resources. We hope in the future that any concerns, no matter how minor, will be openly shared on all levels. We want to have a level of trust not just with our public but also between the SAO and District management. We feel as though that trust was established during this last audit and we again appreciate the work and assistance to help us bring our processes into compliance.

Auditor's Remarks

We appreciate the District's commitment to resolve this finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 - Local Government Accounting – Uniform System of Accounting, states in part:

> The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting, Accounting and Reporting System (BARS) Manual – Accounting, Accounting Principles and Internal Control, Internal Control states in part:

3.1.3.20 Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

3.1.3.30 Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as "management" throughout the rest of this section.

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

- Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.
- Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.
- Correctly accounting for all financial events – Controls should ensure that:
- Only valid transactions are recorded and reported.

- All transactions occurred during the period are recorded and reported.
- Transactions are recorded and reported at properly valued and calculated amounts.
- Recorded and reported transactions accurately reflect legal rights and obligations.
- Transactions are recorded and reported in the account and fund to which they apply.
- Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

3.1.3.160 Controls and processes should generate adequate documentation to demonstrate achievement of objectives. This is not only important for audit, oversight and public records purposes, but also to enable effective monitoring of controls over financial reporting by management.

Government Auditing Standards, December 2011 Revision paragraph 4.23 states:

> **4.23** When performing GAGAS financial audits auditors should communicate in the report on internal control over financial reporting and compliance based upon the work performed (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines material weaknesses and significant deficiencies in its Codification of Statements on Auditing Standards Section 265 as follows:

> **.07** For purposes of generally accepted auditing standards the following terms have the meanings attributed as follows:

> Material weakness. A deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.
>
> Significant deficiency. 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.

Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions states in part:

> 1. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees - both active employees and inactive employees – are provided with pensions. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations and the resources available to satisfy those obligations statements.

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Mason County, Washington, as of and for the year ended December 31, 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 28, 2017. As discussed in Note 12 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*.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2015-001 to be a material weakness.

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*. However, we noted certain matters that we have reported to the management of the District in a separate letter dated February 28, 2017.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit are described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Pat McCarthy

State Auditor

Olympia, WA

February 28, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Mason County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 17.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Mason County, as of December 31, 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 12 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*. Our opinion is not modified with respect to this matter.

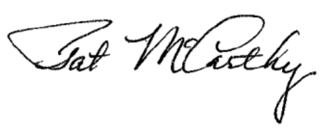
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 18 through 23, information on postemployment benefits other than pensions on page 55 and pension plan information on page 56 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 28, 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 28, 2017

FINANCIAL SECTION

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

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BASIC FINANCIAL STATEMENTS

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REQUIRED SUPPLEMENTARY INFORMATION

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Schedule of Employer Contributions – 2015
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MASON COUNTY PUBLIC UTILITY DISTRICT #1
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Introduction:

As Management of Mason County PUD #1 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished.

The following Management Discussion and Analysis is intended to serve as an introduction to the Mason County PUD #1 basic financial statements, the notes to the financial statements and if applicable, any other supplementary information required as part of the basic financial statements.

The District Commissioners adopts an annual budget as a measure of monitoring revenues and controlling expenses. The commissioners also use the budget as a financial planning tool for the District's future needs.

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

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

The Statement of Cash Flows provides information about the District's cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

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

FINANCIAL ANALYSIS

2015 and 2014 Overview of Financial Analysis
Provided in the Following Table.

Condensed Financial Information for December 31, 2015 and 2014 (In Millions)

Statement of Net Position	2015	2014	% Change
Current Assets and Special Funds	5.65	5.84	-3%
Net Capital Assets	33.86	30.49	11%
Deferred Outflow of Resources	1.19	0.00	100%
Total Assets	40.70	36.33	12%
Current Liabilities	1.46	1.47	-1%
Non Current Liabilities	13.84	11.61	19%
Total Liabilities	15.30	13.08	17%
Deferred Inflows of Resources	2.61	0.00	100%
Net Investments in Capital Assets	20.00	18.86	6%
Restricted for Debt Service	0.88	0.79	11%
Unrestricted	3.18	3.60	-12%
Total Net Position	24.06	23.25	3%
Statement of Revenues, Expenses and Change in Net Position			
Operating Revenues	8.80	8.71	1%
Operating Expenses	-7.76	-7.55	3%
Net Operating Income	1.04	1.16	-10%
Non Operating Revenues	0.13	0.10	30%
Non Operating Expenses	-0.41	-0.39	5%
Non Operating Revenue (Expenses)	0.76	0.87	-13%
Income before Capital Contributions Extraordinary Items	0.76	0.87	-13%
Capital Contributions Extraordinary Items	0.05	0.00	0%
Change In Net Position	0.81	0.87	-7%
Net Position - Beginning of Year	23.25	22.38	4%
Net Position - End of Year	24.06	23.25	3%

ASSETS:

Current Assets:
Cash and Cash Equivalents - This account has increased by $209,742 dollars from 2014 to 2015. The increase was due to monthly transfers to reserves which increased the funds throughout the year.

Investments - This account has decreased by $445,595 dollars from 2014 to 2015. The decrease was due to having to use this investment for general funds. The 2015 consumer consumption was down. This was due to the warm weather during our peak months.

Accounts Receivable (Net) - This account has increased by $53,433 dollars from 2014 to 2015. This is a normal increase as the Districts raised rates by 5%.

Accounts Receivable (Other) - This account has increased by $33,655 dollars from 2014-2015. The increase was for tax increases from the Department of Revenue for pole contacts rentals. And increases for pole attachments.

Restricted Assets - This account has increased by $90,987 dollars from 2014 to 2015. The increase was due to funding an additional year for debt reserves to long term debt.

Inventories - This account has decreased by $159,104 dollars from 2014 to 2015. The decrease was due to closing of open workorders for 2015.

Other Current Assets - This account has increased by $16,749 dollars from 2014 to 2015. The Increase was due to an investigation into an ARC flash study. The amount will be expensed or capitalized in the year 2016.

Capital Assets Not being Depreciated:
Land and Land Rights - This account increased by $252,132 dollars from 2014 to 2015. The reason
was the purchase of the Sheldon property in 2015 which was 10 acres. This is for future development of the main campus.

Construction In Progress - This account decreased by $325,207 dollars from 2014 to 2015. The decrease was due to closing of workorders.

Capital Assets Being Depreciated:
Transmission - This account increased by $421,722 dollars from 2014 to 2015. The increase was due to the transmission rebuild being completed.

Distribution - This account increased by $2,583,353 dollars from 2014 to 2015. The increase is normal for the year as the District replaces poles,wire,tranformers,water mains, etc..

General Plant - This account decreased from $585,112 dollars from 2014 to 2015. This was because of reclassifying well houses and booster stations from general plant to distribution.

Capital Assets Being Depreciated (continued):

Accumulated Depreciation - This account has increased by $717,999 dollars from 2014 to 2015. This is a normal increase for the year due to depreciating capital assets.

Deferred Outflow Of Resources:

Outflows of Resources Relating to Pensions - This was the initial entry for implementation of GASB 68 pension. The amount was $119,085.

LIABILITIES:

Current Liabilities:
Accounts Payable - This account Increased by $43,959 dollars from 2014 to 2015. This is due to a number of accounts that make up accounts payable increasing by year end. This is a normal increase.

Consumer Deposits - This account has decreased by $7600 dollars from 2014 to 2015. The decrease is due to consumers that we have refunded their deposits due to good payment history.

Bonds, Notes and Loans Payable - This account increased by $10,151 from 2014 to 2015. This is a small increase and is considered normal as principal payments will increase from year to year.

Other Current Liabilities - These accounts has decreased by $61,468 from 2014 to 2015. This is considered normal for the year as these accounts increase or decrease at year end.

Non-Current Liabilities:
Accrued Vacation and Holidays - This account has increase by $41,486 from 2014 to 2015. This is normal as employees save vacation time more in one year to the next.

Long Term Debt - loans - This account has increased by $694,933 from 2014 to 2015. This is due to the borrowing from Key bank a $1,000,000 from the Districts line of credit. The difference is the principal payments for all the loans.

Long Term Debt - Bonds - This account decreased by $218,619 dollars from 2014 to 2015. This was due to principal payments made in 2015.

OPEB - This account increased by $68,085 dollars from 2014 to 2015. This is due to the new 3 year actuarial study completed in 2015.

Net Pension Liability - This adjustment was for the initial accounting for GASB 68. The amount was $1,597,084 dollars.

Other Non-Current Assets - These accounts increased by $48,998 from 2014 to 2015. This was the increase to contribution in aid of construction.

Deferred Inflows of Resources:
Deferred Inflows related to Pensions: This is part of the initial accounting for GASB 68. The amount is $260,801.

LIABILITIES CONTINUED:

Net Position:

Net Investments in Capital Assets - This account has increased by $1,142,424 from 2014 to 2015.
The main reason is the capital assets less LTD and debt service has increased more than the District borrowed.

Restricted for Debt Service - This account has increased by $90,987 from 2014 to 2015. The increase in debt service from bonds and Line of credit added to the restriction.

Unrestricted - This account has decreased by $419,311 dollars from 2014 to 2015. This is a normal increase due to the Increase in net investments and restricted for debt service

OPERATING REVENUES:

Total Operating Revenues - This account increased by $91,656 dollars from 2014 to 2015.
The slight increase is due to a decrease in sales consumption even though the District had a 5% increase in basic service charges.

OPERATING EXPENSES:

Cost of Purchased Power - This account has increased by $32,955 dollars from 2014 to 2015.
Even though we purchased less power from BPA they had a 7.7% rate increase on
October 1, 2015.

Transmission Expense - This account has increased by $11,719 dollars from 2014 to 2015.
This increase is due to labor increase in maintenance.

Distribution and Maintenance Expense - This account increased $622 dollars from 2014 to 2015 the budget for 2015 was the same as 2014.

Customer Service Expense - This account has increased by $54,800 from 2014 to 2015.
This was mainly caused by a increase in meter reading expenses and uncollectable accounts.

Administration - This account has increased by $24,075 from 2014 to 2015. This a normal
from numerous accounts from ordinary inflation.

Depreciation and Amortization - This account has increased by $100,372 dollars from
to 2015. The increase was due to due the addition of capital assets in 2015.

Taxes - This account has increased by $2,592 dollars from 2014 to 2015. This is a normal
increase
as revenues and employee taxes were about the same from 2014 to 2015.

Other Operating Expenses - This account has decreased by $16,111 dollars from 2014 to 2015.
In 2014 we had refunded the RUS bonds and had to write off bond fees.

NON-OPERATING REVENUE:

Merchandising and Jobbing Revenue and (Expenses) - The net increase for these 2 accounts
was $16,764 dollars from 2014 to 2015. The increase was due to more merchandise and
jobbing sales for 2015.

Interest and Dividend Income - This account has increased by $1,683 dollars from 2014 to 2015.
This was due to holding short-term investments longer than in 2014.

Interest Expense and Related Charges - The interest expense for these accounts have decreased
$6,365 dollars from 2014 to 2015. The decrease was due to refunding bonds and larger principal
payments for water debt. This occurred even with the District borrowing $1,000,000 from line of credit.

Other Non-Operating Revenues - This account increased by $42,555 dollars from 2014 to 2015.
This was mainly due to water and electric contribution and aid of construction.

Mason County PUD #1
Statement of Net Position
December 31, 2015

ASSETS:

Current Assets:		
Cash and Cash Equivalents	$	2,506,932.00
Investments	$	730,952.00
Accounts Receivable (net)	$	775,371.00
Accounts Receivable (other)	$	151,838.00
Inventories	$	681,286.00
Other Current Assets	$	1,944.00
TOTAL CURENT ASSETS	$	4,848,323.00
Noncurrent Assets:		
Restricted Assets	$	781,100.00
Capital Assets Not Being Depreciated:		
Land & Land Rights	$	856,639.00
Construction In Progress	$	1,220,492.00
Total Capital Assets Not Being Depreciated	$	2,077,131.00
Capital Assets Being Depreciated:		
Transmission	$	3,295,653.00
Distribution	$	35,615,896.00
General Plant	$	4,494,636.00
Less: Accumulated Depreciation	$	(13,347,693.00)
Total Capital Assets Being Depreciated (Net)	$	30,058,492.00
Total Capital Assets	$	32,135,623.00
TOTAL NONCURRENT ASSETS	$	32,916,723.00
TOTAL ASSETS	$	37,765,046.00
Deferred Outflows Of Resources:		
Outflows of Resources Relating to Pensions	$	232,581.00
TOTAL OUTFLOWS OF RESOURCES:	$	232,581.00
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	37,997,627.00

The Accompanying Notes are an Integral Part of This Statement

LIABILITIES

Current Liabilities:

Accounts Payable	$	617,478.00
Consumer Deposits	$	88,326.00
Current Portion of Bonds, Notes and Loans Payable	$	513,397.00
Other Current Liabilities	$	237,243.00
TOTAL CURRENT LIABILITIES	$	1,456,444.00
Noncurrent Liabilities:		
Accrued Vacation And Holidays	$	356,425.00
Long Term Debt - Loans	$	7,657,535.00
Long Term Debt - Bonds	$	3,942,488.00
OPEB	$	68,085.00
Net Pension Liability	$	1,597,084.00
Other Non-Current Liabilities	$	48,998.00
TOTAL NONCURRENT LIABILITIES	$	13,670,615.00
TOTAL LIABILITIES	$	15,127,059.00
Deferred Inflows of Resources:		
Deferred Inflows Related to Pensions	$	246,268.00
TOTAL DEFERRED INFLOWS OF RESOURCES	$	246,268.00
NET POSITION		
Net Investments in Capital Assets	$	20,005,895.00
Restricted for Debt Service	$	781,100.00
Unrestricted	$	1,837,305.00
TOTAL NET POSITION	$	22,624,300.00
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$	37,997,627.00

The Accompanying notes are an integral part of this statement

Mason County PUD#1
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended
December 31, 2015

OPERATING REVENUES:			
Sales - Residential		$	6,988,985.00
Sales - General		$	1,591,117.00
Sales - Street Lights		$	94,906.00
Other Revenues		$	129,791.00
Total Operating Revenues		$	8,804,799.00
OPERATING EXPENSES:			
Cost of Purchased Power		$	2,839,528.00
Transmission Expense		$	13,920.00
Distribution & Maintenance Expense		$	1,119,844.00
Customer Service Expense		$	265,814.00
Administration:			
General Administration		$	1,664,159.00
Conservation		$	(2,455.00)
Depreciation & Amortization		$	1,117,169.00
Taxes		$	546,168.00
Other Operating Expenses		$	71,127.00
Total Operating Expenses		$	7,635,274.00
OPERATING INCOME (LOSS)		$	1,169,525.00
NON-OPERATING REVENUE(EXPENSES):			
Revenue from Merchandising/Jobbing and Contract Work		$	96,868.00
(Costs and Expenses Merchandising Jobbing and Contract work)		$	(57,755.00)
Interest and Dividend Income		$	5,065.00
(Interest Expense and Related Charges)		$	(355,441.00)
Other Non-Operating Revenues		$	77,989.00
Total Non-Operating Revenues(Expenses)		$	(233,274.00)
CHANGE IN NET POSITION		$	936,251.00
Total Net Position	January 1, 2015	$	23,250,481.00
CUMULATIVE EFFECT OF THE CHANGE IN ACCOUNTING PRINCIPLE		$	(1,737,191.00)
PRIOR PERIOD CHANGES IN NET POSITION		$	174,759.00
Total Net Position	December 31, 2015	$	22,624,300.00

The Accompanying Notes are an Integral Part of This Statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31. 2015

CASH FLOWS from OPERATING ACTIVITIES:		
Receipts from Customers	$	8,432,112.00
Payment to Suppliers	$	(2,708,052.00)
Payments to Employees	$	(2,674,069.00)
Other Receipts or Payments	$	(546,168.00)
Net Cash Provided(used) by Operating Activities	$	2,503,823.00
CASH FLOWS from CAPITAL FINANCING ACTIVITIES:		
Proceeds from Capital Debt	$	1,068,085.00
Acquisition and Construction of Capital Assets	$	(2,746,069.00)
Principal Paid on Capital Debt	$	(513,535.00)
Interest Paid on Capital Debt	$	(355,441.00)
Capital Contributions	$	49,090.00
Other Receipts (Payments)	$	(86,426.00)
Net cash Provided (Used) by Capital and Related Financing Activities	$	(2,584,296.00)
CASH FLOWS from INVESTING ACTIVITIES		
Interest and Dividends		
Net Cash Provided by Investing Activities	$	58,756.00
Net Increase (Decrease) in Cash and cash Equivalents	$	(21,717.00)
Cash and Cash Equivalents Balances - Beginning of Year	$	4,162,849.00
Cash and Cash Equivalents Balances - End of Year	$	4,141,132.00

The Accompanying notes are an integral part of this statement

Mason County PUD #1
Statement of Cash Flows
For the Year Ended December 31. 2015

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

Operating Income (loss)	$	1,169,525.00
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	$	1,117,169.00
Other Deductions	$	71,124.00
Change In Assets and Liabilities		
Receivables - Net	$	(87,088.00)
Inventories	$	159,104.00
Accounts and Others Payable	$	73,989.00
Accrued Expenses	$	-
Net cash Provided by Operating Activities	$	2,503,823.00

The Accompanying Notes are an Integral Part of This Financial Statement

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Public Utility District No. 1 of Mason County (the PUD) was incorporated on November 6, 1934 and operates under the laws of the state of Washington applicable to a public utility.

A. Reporting Entity

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

An elected 3-member board governs the PUD. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The PUD has no component units.

B. Basis of Accounting and Presentation

The accounting records of the PUD are maintained in accordance with methods prescribed by the United States Department of Agriculture, Rural Utilities Services (RUS) and the State Auditor under the authority of Chapter 43.09 RCW. The PUD uses the Uniform System of Accounts - Electric, RUS Bulletin 1767B-1.

The PUD uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate fund(s).

The PUD distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the PUD's principal ongoing operations. The principal operating revenues of the PUD are charges to customers for power, water and sewer. Operating expenses for the PUD include cost of operations and Maintenance, administrative and customer service, depreciation, taxes and debt amortization. All revenues and expenses not meeting this definition are reported as non-operating revenues and expense

C. Assets, Liabilities and Equities

1. Cash and Cash Equivalents

It is the PUD's policy to invest all temporary cash surpluses. On December 31, 2015, the treasurer was holding $4,018,984 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents, restricted funds and Investments.

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

2. Restricted Funds

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Restricted funds currently include the following:

Special Funds	$ 781,100

3. <u>Receivables</u>

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consists of amounts owed on open account from private individuals or organizations for goods and services rendered.

The PUD writes off actual uncollectable to an expense account

5. <u>Inventories</u>

Inventories are valued by the weighted average method, which approximates the market value.

6. <u>Capital Assets and Depreciation</u> - See Capital Assets Note 3.

7. <u>Other Property and Investments</u> - See Note 2

8. <u>Compensated Absences</u>

Compensated absences are absences for which employees will be paid, such as vacation. The PUD records unpaid leave for compensated absences as an expense and liability when incurred. Vacation pay, which may be accumulated up to 1200 hours, is payable upon resignation, retirement, or death.

9. <u>Other Accrued Liabilities</u>

These accounts consist of accrued wages and accrued employee benefits.

10. <u>Long-Term Debt</u> - See Long-Term Debt Note 8

11. Investments – See note 2

12. 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

As required by state law, all deposits and investments of the PUD's funds (except as noted below) are obligations of the U. S. Government, the State Treasurer's Investment Pool, or deposits with Washington State banks and savings and loan institutions.

The PUD's deposits and certificates of deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). There are no policy and no custodial credit risks.

The PUD's Investments are all risk Category 1.

	Investments	Maturities	Fair Value
Investment in State Treasurer's Inv. Pool	$730,952	$730,952	$730,952
Total Investments	$730,952	$730,952	$730,952

All temporary investments are stated at cost, which approximates market. Other property and investments are shown on the balance sheet at cost, net of amortized premium or discount.

Management intends to hold the time deposits and securities until maturity.

In accordance with generally accepted accounting principles applicable to regulated industries, reductions in market value are not reflected on the financial statements. Similarly, gains or losses on bond swaps are deferred and amortized over the life of the replacement investment. Other gains or losses on investments sold or exchanged are recognized at the time the transactions are completed.

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

	Amortized Cost	Market
Time Deposits	$781,100	$781,100
Other Securities		
TOTAL INVESTMENT OF RESTRICTED ASSETS	$781,100	$781,100

NOTE 3 - CAPITAL ASSETS AND DEPRECIATION

Capital assets are defined by the District as assets with individual costs of more than $1000 and an estimated useful life in excess of 1 year.

Major expenditures for capital assets, including capital leases and major repairs that increase useful lives are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility Plant in Service (and other capital assets) are recorded at cost (where the historical costs are known). Where historical costs are not known, assets are recorded at estimated market value. Donations by developers and customers are recorded at the contract price or donor cost or appraised value.

Depreciation expense is charged to operations to allocate the cost of capital assets over their estimated useful lives, using the straight-line method with useful lives of 10 to 36 years. The District also uses a clearing account to capitalize a portion of depreciation, which follows guidelines set forth in 7 CFR Part 1767.

Capital asset activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated				
Land	$ 553,374	$ 303,265	$ (0)	$ 856,639
Construction in progress	$ 1,529,391	$3,950,560	$(4,259,459)	$ 1,220,492
Total not being depreciated	**$ 2,082,765**	**$4,253,825**	**$(4,259,459)**	**$ 2,077,131**
Utility plant being depreciated				
Distribution and transmission plant	$36,667,745	$6,472,503	$ (4,228,699)	$38,911,549
General plant	$ 4,369,610	$ 138,911	$ (13,885)	$ 4,494,636
Total Utility plant being depreciated	**$41,037,355**	**$6,611,414**	**$ (4,242,584)**	**$43,406,185**
Less accumulated depreciation	$(12,629,694)	$ 873,731	$ (1,591,730)	$(13,347,693)
Total utility plant being depreciated (net)	**$28,407,661**	**$7,485,145**	**$ (5,834,314)**	**$30,058,492**
Total Utility Plant (net)	**$30,490,426**	**$ 11,738,970**	**$ (10,093,773)**	**$32,135,623**

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

Asset	Years
Buildings	33
Building Improvements	33
Vehicles	10
General Plant	33
Electrical Transmission	36
Electrical Distribution	33
Water Transmission	33
Water Distribution	33
Sewer Distribution	33

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects for which authorizations total $1,220,492. Of the committed balance of 1,220,492, the PUD will be required to raise $ -0- in future financing.

NOTE 5 - PENSION PLANS

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

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 1,597,084
Pension assets	$ 0
Deferred outflows of resources	$ 232,581
Deferred inflows of resources	$ 246,268
Pension expense/expenditures	$ 149,473

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	**Employer**	**Employee***
January through June 2015	9.21%	6.00%
July through Dec. 2015	11.18%	6.00%

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

The District's actual contributions to the plan were $0 for the year ended December 31, 2015.

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

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

<u>Contributions</u>

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	**Employer 2/3**	**Employee 2***
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

* For employees participating in JBM, the contribution rate was 15.30%

The District's actual contributions to the plan were $196,925 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%

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

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

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 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 percent.

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

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. 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 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	$1,032,998	$848,457	$689,768
PERS 2/3	$2,189,024	$748,627	$(354,231)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2015, the District reported a total pension liability of $1,597,084 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	$848,457
PERS 2/3	$748,627

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.017656%	0.016220%	(0.001436)%
PERS 2/3	0.019682%	0.020952%	0.001270%

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:

	Pension Expense
PERS 1	$86,197
PERS 2/3	$110,728

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:

Combined PERS 1 & PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$79,579	$-
Net difference between projected and actual investment earnings on pension plan investments	-	(246,268)
Changes of assumptions	1,206	-
Net Changes in proportion and differences between contributions and proportionate share of contributions	40,668	-
Contributions subsequent to the measurement date	110,931	-
TOTAL	$232,581	$(246,268)

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:

Year ended December 31:	PERS 1
2016	$(17,991)
2017	(17,991)
2018	(17,991)
2019	$7,552
2020	
Thereafter	

Year ended December 31:	PERS 2/3
2016	$(42,241)
2017	(42,241)
2018	(42,241)
2019	48,524
2020	
Thereafter	

NOTE 6 - DEFERRED COMPENSATION PLAN

The PUD offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is with the State of Washington. The plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency

NOTE 7 - RISK MANAGEMENT

The PUD purchases their liability insurance from Federated Rural Insurance Corporation. The PUD maintains a $2,000,000 all risk blanket with a $10,000,000 umbrella policy. No Insurance settlements has exceeded insurance coverage in the past 3 years. The Risk of loss to the PUD is covered by

– Liability Coverage in the amount of $12,000,000. This covers all our General Liability, Property Damage, Automobile Coverage, Personal Injury, Medical Payments and Valuable Papers.

- Employee Dishonesty, Money, and Securities in the Amount of $4,000,000.

- Directors, Officers and Managers Liability and Corporate Indemnification Policy in the amount of $1,000,000

- Worker Compensation Insurance of $100,000

NOTE 8 - LONG-TERM DEBT

A. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2015, including Interest are as follows:

Calendar Year Ending December 31, 2015:

	Principal	**Interest**	**Total**
2016	$ 565,886	$351,597	$ 917,483
2017	511,749	336,635	848,384
2018	3,501,484	322,353	3,823,837
2019	506,484	252,594	759,078
2020	516,484	238,186	754,670
2021-2025	2,130,156	968,843	3,098,999
2026-2030	1,913,367	641,238	2,554,605
2031-2035	1,393,349	276,290	1,669,639
2036-2040	596,923	112,817	709,740
2041-2045	477,538	28,935	506,473
Total	$12,113,420	$3,529,488	$15,642,908

There is $781,100 in restricted assets of the PUD. These represent reserve requirements as contained in the various indentures.

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

The PUD uses a combination of RUS debt, Revenue Bonds and Line of credit for the electrical portion of financing its debt structures The RUS is 2.853% for $3,462,154. The retirement of the LTD ranges from -

2015-2044 = $3,462,154 RUS – Treasury, Matures December 31, 2044

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

The Summary and Range of Materials –

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

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

2014 Bond –

Balance	Maturity
$3,390,000	12/01/2033

The District uses a combination of Public Works Trust Fund Loans (PWTF) and Revenue Bonds for It's water systems. The PWTF rate is an average of 1% for 20 years and its average coupon rate for water bonds are 4% for 20 years.

PWTF Loans - $1,488,774

System	Balance	Maturity	Loan Number
Union Water	$ 8,417	07/01/2016	PW-5-96-791-033
Hood Canal Water	$ 13,231	07/01/2016	PW-5-791-305
Hoodsport Water	$ 30,530	07/01/2017	PW-97-791-009
Lake Arrowhead Water	$273,581	10/01/2021	PW-00-65120-013
Pirates Cove Water	$ 67,309	10/01/2021	PW-00-65120-022
Arcadia Estates Water	$ 50,500	10/01/2025	PW-05-691-034
Canal Tracts Water	$ 93,135	10/01/2025	PW-05-691-037
Canal Mutual Water	$164,395	07/01/2027	PW-07-962-302
Hoodsport Water	$308,794	10/01/2029	PW-99-65199-035
Madronna Beach	$ 56,067	10/01/2030	DR-09-952-070
Hood Canal Water	$422,815	10/01/2031	PC12-951-081

2002 Revenue Bond – $720,000 Maturity December 1, 2022

Union Water -	$ 29,384
Highland Park Water-	$ 27,509
Hoodsport Water-	$ 48,629
Hood Canal Water-	$ 9,512
Lakewood Heights Water-	$ 20,803
Hartstene Retreat Water-	$ 26,589
Cherry Park Water-	$ 26,173
Tiger Lakes Water-	$ 9,365

Bayshore Water-	$ 19,251
Bay East-	$ 32,024
View Ridge heights Water-	$112,483
Alderbrook Water-	$342,798
Madronna Sewer-	$ 15,480

PWTF and Water Bond Loan were purchased for water Distribution, Transmission and Meters replacement and additions. They include - Piping, Pumps, Well Houses, Reservoirs, wells and many other water related equipment.

	Beginning Balance 01/01/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Bonds Payable:					
Water Revenue Bonds	800,000		80,000	720,000	85,000
2014 Revenue Bonds	3,525,000		135,000	3,390,000	135,000
2014 Bond Premium	53,870		1,381	52,489	-0-
RUS Loans	3,581,539		119,385	3,462,154	119,385
PWTF Loans	1,666,546		177,769	1,488,777	174,012
Line of Credit	2,000,000	1,000,000	-0-	3,000,000	-0-
OPEB	174,759	68,085	174,759	68,085	-0-
Compensated Absences	314,939	308,829	267,343	356,425	
Net Pension Liability	-0-	1,597,084	-0-	1,597,084	
Other Non-Current Liabilities		48,998		48,998	
Total Long-term Liabilities	12,116,653	3,022,996	955,637	14,184,012	513,397

NOTE 9 - CONTINGENCIES AND LITIGATION

The PUD has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the PUD will have to make payment. In the opinion of management, the PUD's insurance policies are adequate to pay all known or pending claims.

The PUD participates in a number of federal-and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. PUD management believes that such disallowances, if any, will be immaterial.

NOTE 10 - OTHER DISCLOSURES

Major Contracts

A. Nuclear Projects 1, 2, 3, 4 and 5: The PUD has entered into "net billing agreements" with the Washington Public Power Supply System (Supply System) and the Bonneville Power Administration (BPA). Under terms of these agreements, the PUD has purchased a maximum capability of the Supply System's Nuclear Projects 1 and 2 and the Supply System's 70 percent ownership share of its Nuclear Project 3 respectively, and has sold this capability to BPA. BPA is unconditionally obligated to pay the PUD, and the PUD is unconditionally obligated to pay the Supply system, the pro rata share of the total annual

costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output.

Nuclear Project 1 is approximately 63 percent complete and is in an extended construction delay and all systems are being maintained in condition to resume construction at any time.

Nuclear Project 3 is approximately 75.2 percent complete and in an extended construction delay. The delay is expected to last until an assured source of funding can be obtained.

The PUD also entered into "participants' agreements" with the Supply System. Under terms of these agreements, the PUD had purchased a maximum of 0.156 percent of the capability of Nuclear Projects 4 and 5 and participants were unconditionally obligated to pay the Supply system their pro rata share of the total annual costs of the projects, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output.

On January 22, 1982, the Supply System Board of Directors adopted a resolution terminating Nuclear Projects 4 and 5. Under the participants' agreement for Nuclear Projects 4 and 5, the obligations of the participants to pay the total annual costs of Nuclear Projects 4 and 5, including debt service on bonds and costs of termination, commenced January 25, 1983. At that time, the PUD's share of termination costs amounted to $140,229. Its share of the bond principal was $3,510,000. Its share of total debt service, including interest, which is to be paid over the years 1983 to 2018, was $10,479,456.

On June 15, 1983, the Washington State Supreme Court ruled that the Washington participants in the Supply System's Nuclear Projects 4 and 5 did not have the authority to enter into the participant's agreement. Because of the Washington State Supreme Court decision, the financial statements of the PUD do not reflect any liability for Nuclear Projects 4 and 5

Note 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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

Employees are eligible for reimbursement of medical, dental coverage provided that they retire from active employment with the PUD with 15 or more years of service. Employee retiree coverage continues for a maximum of 10 years. The elected Commissioners are eligible for payment of Post-Retirement benefits based on 18 years of service. They are not eligible for a percentage of employment by year and must serve 18 years to receive 54 percent for 10 years. The District funding policy and status is pay as you go.

The District pays employee a portion of the premium costs based on years of service at retirement according to the following schedule:

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

The PUD's OPEB was calculated on February 26, 2016 by Menard Consulting, Inc.

The PUD's annual Post-Retirement healthcare benefit is calculated based on the annual required contribution (ARC) of the employer using the Alternative Measurement Method, amount actuarially determined in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize unfunded liabilities over a 30 year period. The Interest on the Net OPEB obligation is $1055 and adjustments to the annual required contributions are $(1,742). The Amortization period is for 30 Years. The amortization period is opened. The following table shows the components of the PUD's annual Post-Retirement -

Cost for the year ended December 31, 2015:

	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2013
Annual Required Contribution	$147,232	$ 125,536	$125,536
Contributions made	$ 79,147	$ 90,367	$ 90,367
Net Post-Retirement Obligation	$ 68,085	$ 35,169	$ 35,169

Net OPEB Obligation – December 31, 2013	$35,169
Net OPEB Obligation - December 31, 2014	$35,169
Net OPEB Obligation - December 31, 2015	$68,085

Assumptions

The District used Menard Consulting Inc. Actuaries to provide the method and calculation

For the Post retirement benefits . The discount rate used was 3.0% for cash flows from the valuation date. The discount rate is used for expected long-term yield on investments to pay benefits.

The mortality rate used was the RP-2000 combined Mortality Table for males and females. The Mortality table reflects recent rates developed by the Society of Actuaries with a Generally accepted projection of future mortality improvement. (Paragraph 34d GASB 45)

Disability rates for the individuals that are being valued are not valued. The turnover assumption were taken from the default turnover assumptions based on paragraph 35b, Table 1 of GASB 45. The retirement average age was 65.

The healthcare estimated future annual increases in premiums was estimated at an initial rate of 7.90% grading uniformly over 10 years to a 5% rate. The medical trend rate is based on the 2012 Health Plan Cost Trend Survey. The grading period and ultimate trend rates were selected using a generally accepted range (Paragraph 34f of GASB 45. For 2014, there were no changes for post retirement benefits.

The Actuarial calculations reflect a long-term perspective. The actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future.

As of December 31, 2015, the Actuarial Accrued Liability was $1,366,365.

Note 12 –

The District implemented GASB Statement No. 68, Items Previously Reported as Assets and Liabilities. This Statement was implemented by Mason County PUD No. 1 for the state sponsored pension plans which includes Public Employee Retirement (PERS) Plan 1 and (PERS)

Plan 2/3. The District’s financial statements were impacted by the implementation of the standard. Detailed notes related to the net pension liability, deferred outflows, deferred inflows, and pension expense can be seen in Note 5 – Pensions Plans. The implementation also resulted in a direct adjustment to net position related to a change in accounting principle of expenses prior to 2015. This adjustment can be seen in the Statement of Revenue, Expenses and Changes in Net Position.

NOTE 13 - SEGMENT REPORTING

CURRENT ASSETS	2015 Electric	2015 Water	2015 Sewer	TOTAL
Cash and Cash Equivalents	$ 2,238,732.00	$ 262,931.00	$ 5,269.00	$ 2,506,932.00
Investments	$ 538,225.00	$ 177,052.00	$ 15,675.00	$ 730,952.00
Accounts Receivable - Net Sales	$ 630,146.00	$ 145,171.00	$ 54.00	$ 775,371.00
Accounts Receivable - Other	$ 150,701.00	$ 1,137.00	$ -	$ 151,838.00
Inventories	$ 539,437.00	$ 135,927.00	$ 5,922.00	$ 681,286.00
Other Current Assets	$ 1,944.00	$ -	$ -	$ 1,944.00
Total Current Assets	$ 4,099,185.00	$ 722,218.00	$ 26,920.00	$ 4,848,323.00
NON-CURRENT ASSETS				
Restricted Assets	$ 476,684.00	$ 298,723.00	$ 5,693.00	$ 781,100.00
Capital Assets Not Being Depreciated				
Land and Land Rights	$ 814,393.00	$ 42,246.00	$ -	$ 856,639.00
Construction in Progress	$ 1,069,757.00	$ 148,781.00	$ 1,954.00	$ 1,220,492.00
Capital Assets Being Depreciated				
Transmission	$ 3,295,653.00	$ -	$ -	$ 3,295,653.00
Distribution	$ 23,906,682.00	$ 11,644,691.00	$ 64,522.00	$ 35,615,895.00
General Plant	$ 4,268,572.00	$ 226,064.00	$ -	$ 4,494,636.00
Less: Accumulated Depreciation	$ (10,379,187.00)	$ (2,954,748.00)	$ (13,757.00)	$ (13,347,692.00)
Total Capital Assets Being Depreciated (Net)	$ 21,091,720.00	$ 8,916,007.00	$ 50,765.00	$ 30,058,492.00
Total Capital Assets	$ 22,975,870.00	$ 9,107,034.00	$ 52,719.00	$ 32,135,623.00
Total Non-Current Assets	$ 23,452,554.00	$ 9,405,757.00	$ 58,412.00	$ 32,916,723.00
Total Assets	$ 27,551,739.00	$ 10,127,975.00	$ 85,332.00	$ 37,765,046.00
Outflows of Resources Relating to Pensions	$ 232,581.00	$ -	$ -	$ 232,581.00
Total Assets and Deferred Outflows of Resources	$ 27,784,320.00	$ 10,127,975.00	$ 85,332.00	$ 37,997,627.00
LIABILITIES				
Current Liabilities:				
Accounts Payable	$ 617,478.00	$ -	$ -	$ 617,478.00
Consumer Deposits	$ 75,389.00	$ 12,937.00	$ -	$ 88,326.00
Bonds, Notes and Loans Payable	$ 254,385.00	$ 256,612.00	$ 2,400.00	$ 513,397.00
Other Current Liabilities	$ 226,067.00	$ 9,105.00	$ 2,071.00	$ 237,243.00
Total Current & Accrued Liabilities	$ 1,173,319.00	$ 278,654.00	$ 4,471.00	$ 1,456,444.00
Non-Current Liabilities:				
Accrued Vacation and Holidays	$ 356,425.00	$ -	$ -	$ 356,425.00
Long Term Debt - Loans	$ 6,329,690.00	$ 1,314,765.00	$ 13,080.00	$ 7,657,535.00
Long Term Debt - Bonds	$ 3,307,488.00	$ 635,000.00	$ -	$ 3,942,488.00
Net Pension Liability	$ 1,597,084.00	$ -	$ -	$ 1,597,084.00
OPEB	$ 68,085.00	$ -	$ -	$ 68,085.00
Other Non-Current Liability	$ -	$ 48,998.00	$ -	$ 48,998.00
Total Non-Current Liabilties	$ 11,658,772.00	$ 1,998,763.00	$ 13,080.00	$ 13,670,615.00
Total Liabilities	$ 12,832,091.00	$ 2,277,417.00	$ 17,551.00	$ 15,127,059.00
Deferred Inflow Related to Pensions	$ 246,268.00	$ -	$ -	$ 246,268.00
Net Position				
Net Investments in Capital Assets	$ 13,015,289.00	$ 6,953,367.00	$ 37,239.00	$ 20,005,895.00
Restricted for Debt Service	$ 476,684.00	$ 298,723.00	$ 5,693.00	$ 781,100.00
Unrestricted	$ 1,643,857.00	$ 168,914.00	$ 24,534.00	$ 1,837,305.00
Total Net Position	$ 15,135,830.00	$ 7,421,004.00	$ 67,466.00	$ 22,624,300.00
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 28,214,189.00	$ 9,698,421.00	$ 85,017.00	$ 37,997,627.00

Note 13 - SEGMENT REPORTING

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET POSITION	2015 ELECTRIC	2015 WATER	2015 SEWER	TOTAL
OPERATING REVENUES				
Sales - Residential	$ 5,529,753	$ 1,449,153	$ 10,079	$ 6,988,985
Sales - General	$ 1,591,117	$ -	$ -	$ 1,591,117
Sales - Street Lights	$ 94,906	$ -	$ -	$ 94,906
Miscellaneous Other Revenues	$ 117,547	$ 12,244	$ -	$ 129,791
Total Operating Revenues	$ 7,333,323	$ 1,461,397	$ 10,079	$ 8,804,799
OPERATING EXPENSES				
Cost of Purchased Power	$ 2,741,535	$ 97,704	$ 289	$ 2,839,528
Transmission Expenses	$ 13,920	$ -		$ 13,920
Distribution & Maintenance Expense	$ 891,212	$ 226,442	$ 2,190	$ 1,119,844
Customer Service Expense	$ 218,201	$ 45,102	$ 56	$ 263,359
Administrative and General	$ 1,376,984	$ 287,161	$ 14	$ 1,664,159
Depreciation	$ 859,288	$ 256,545	$ 1,336	$ 1,117,169
Taxes	$ 454,796	$ 90,984	$ 388	$ 546,168
Other Deductions	$ 71,124	$ -		$ 71,124
Total Operating Expenses	$ 6,627,060	$ 1,003,938	$ 4,273	$ 7,635,271
NET OPERATING INCOME	$ 706,263	$ 457,459	$ 5,806	$ 1,169,528
NON-OPERATING REVENUE (EXPENSES)				
Revenue from Merchandising, Jobbing And Contract Work	$ 86,509	$ 10,359	$ -	$ 96,868
Costs and Expenses of Merchandising, Jobbing and Contract Work	$ (54,092)	$ (3,663)	$ -	$ (57,755)
Interest and Dividend Income	$ 4,423	$ 609	$ 33	$ 5,065
Other Revenues	$ -	$ 16,346	$ -	$ 16,346
Interest on Long-Term Debt	$ (300,582)	$ (53,051)	$ (1,808)	$ (355,441)
Total Non-Operating Revenue (Expenses)	$ (263,742)	$ (29,400)	$ (1,775)	$ (294,917)
Income Before Contributions	$ 499,709	$ 328,671	$ 2,287	$ 830,667
Extra Ordinary Items				
Capital Contributions	$ 24,298	$ 37,342	$ -	$ 61,640
Change In Net Position	$ 466,819	$ 465,401	$ 4,031	$ 936,251
Total Net Posisiton January 1	$ 16,231,443	$ 6,955,601	$ 63,437	$ 23,250,481
Prior Period Change in Net Position	$ 180,638	$ -	$ -	$ 180,638
Cumulative Effect of the Change in Net Position	$ (1,743,070)	$ -	$ -	$ (1,743,070)
Total Net Position December 31	$ 15,135,830	$ 7,421,002	$ 67,468	$ 22,624,300

Note 14 –

Prior Period Adjustment:

During 2016, management determined that certain errors cause the OPEB liability to be overstated at December 31, 2015. Accordingly, the applicable 2015 amounts have been restated in these financial statements. Following is a summary of the line item from the 2015 financial statements that were restated:

	Previously Reported	Adjustment	Restated Amount
OPEB Liability	$242,844	($174,759)	$68,085

Required Supplementary Inforamtion
Other Post Retirement Benefits
Schedule of Funding Progress (December 31, 2015)

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

*Based on Projected unit credit actuarial cost method

Required Supplemental Information

Mason County PUD #1
Schedule of Employer Contributions
As of December 31, 2015
Last 10 Fiscal Years *

	2015		2014		2013	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Statutorily or contractually required contribution	0	190,334	5,876	163,398	8,335	125,530
Contributions in relation to the statutorily or Contractually required Contributions	0	(190,334)	(5,876)	(163,398)	(8,335)	(125,530)
Contribution deficiency (excess)	0	0	0	0	0	0
Covered employer payroll		1,956,229	63,803	1,774,135	102,109	1,531,525
Contributions as a percentage of covered employee payroll	0%	10%	9%	9%	8%	8%

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

Mason County PUD #1
Schedule of Proportionate Share of the Net Pension Liability
As of December 31, 2015
Last 10 Fiscal Years *

	2015		2014	
	PERS 1	PERS 2/3	PERS 1	PERS 2/3
Employer's proportion of the net pension liability (asset)	0.016220%	0.020952%	0.017656%	0.019682%
Employer's Proportionate share of the net pension liability	848,457	748,627	889,429	397,844
Employer's covered employee payroll	0	1,871,695	112,638	1,694,622
Employer's Proportionate share of the net pension Liability as a percentage of covered employee payroll	0.00%	40.00%	789.63%	23.48%
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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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