



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Public Utility District No. 3 of Mason
County

For the period January 1, 2016 through December 31, 2016

Published June 29, 2017

Report No. 1019368





Office of the Washington State Auditor
Pat McCarthy

June 29, 2017

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 3 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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**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. 3 of Mason County
January 1, 2016 through December 31, 2016**

Board of Commissioners
Public Utility District No. 3 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 the proprietary fund and aggregate remaining fund information of the Public Utility District No. 3 of Mason County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 20, 2017.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

June 20, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 3 of Mason County January 1, 2016 through December 31, 2016

Board of Commissioners
Public Utility District No. 3 of Mason County
Shelton, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the proprietary fund and aggregate remaining fund information of the Public Utility District No. 3 of Mason County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 respective financial position of the proprietary fund and aggregate remaining fund information of the Public Utility District No. 3 of Mason County, as of December 31, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.


Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14, information on postemployment benefits other than pensions on page 47 and pension plan information on pages 48 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 June 20, 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

June 20, 2017

FINANCIAL SECTION

Public Utility District No. 3 of Mason County January 1, 2016 through December 31, 2016

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2016

BASIC FINANCIAL STATEMENTS

Statement of Net Position – Proprietary Fund – 2016

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund – 2016

Statement of Cash Flows – Proprietary Fund – 2016

Statement of Fiduciary Net Position – 2016

Statement of Changes in Fiduciary Fund Net Position – 2016

Notes to Financial Statements – 2016

REQUIRED SUPPLEMENTARY INFORMATION

Information on Postemployment Benefits Other Than Pensions – 2016

Schedule of Proportionate Share of the Net Pension Liability PERS 1 – 2016

Schedule of Proportionate Share of the Net Pension Liability PERS 2/3 – 2016

Schedule of Employer Contributions PERS 1– 2016

Schedule of Employer Contributions PERS 2/3 – 2016

Management's Discussion and Analysis

As management of Mason County PUD No. 3 (District), we offer readers of the District's financial statements this narrative, overview, and analysis of financial activities for the fiscal year ended December 31, 2016. We encourage readers to consider the information presented and should be used in conjunction with the basic financial statements and accompanying notes, as well as the additional information furnished in our letter of transmittal.

Financial Highlights

- The District's overall financial position improved in 2016 as compared to 2015.
- The assets of the District exceeded its liabilities at the close of fiscal year 2016 by \$90.7 million (net position). Of this amount, \$14.6 million represents unrestricted net position, which may be used to meet the District's ongoing obligations. Net investment in capital assets (net of depreciation and related debt) was \$70.9 million and accounted for 78 percent of the District's net position.
- The District's total net assets increased by \$2.1 million over the previous year.
- The District's total outstanding long-term debt decreased by \$1.7 million during 2016 because the 2008 Bonds were advance refunded, effectively reducing aggregate debt service payments by \$4.1 million over the next twelve years.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of three components: 1) proprietary fund financial statements; 2) fiduciary fund financial statements; and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements.

The District accounts for its financial activities within a single proprietary fund titled the Electric System. The Electric System is used to account for the purchase, transmission, distribution, and sale of electric energy, as well as the sale of wholesale telecommunications services.

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

The basic financial statements, presented for the year ended December 31, 2016, are comprised of:

- **Statement of Net Position:** The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.
- **Statement of Revenues, Expenses, and Changes in Net Position:** This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the most recent fiscal year. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or nonoperating based on the nature of the transaction.
- **Statement of Cash Flows:** The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing.

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reported in the District's financial statements because the resources of those funds are not available to support the District's own programs.

The District maintains two different types of fiduciary funds. The Voluntary Employees' Beneficiary Association (VEBA) for Employees of Washington State PUDs fund is used to report resources held in trust for employee health care benefits. The

Other Postemployment Benefits (OPEB) Plan fund is used to report resources held in trust for health care benefits for retired employees and their beneficiaries.

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

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide OPEB benefits to its employees.

Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. The District's assets and deferred outflows exceeded liabilities and deferred inflows by \$90.7 million at the close of fiscal year 2016.

Statement of Net Position (in thousands)

	2016	2015	Increase (Decrease)	% Change
Assets and Deferred Outflows of Resources				
Current & Noncurrent Assets	\$ 45,619	\$ 47,606	\$ (1,987)	-4.17%
Utility Plant	136,682	134,163	2,519	1.88%
Deferred Outflows of Resources	3,232	1,530	1,702	111.24%
Total Assets and Deferred Outflows of Resources	\$ 185,533	\$ 183,299	\$ 2,234	1.22%
Liabilities and Deferred Inflows of Resources				
Current Liabilities	\$ 12,596	\$ 12,383	\$ 213	1.72%
Noncurrent Liabilities	82,011	81,698	313	0.38%
Deferred Inflows of Resources	223	1,362	(1,139)	-83.63%
Total Liabilities and Deferred Inflows of Resources	\$ 94,830	\$ 95,443	\$ (613)	-0.64%
Net Position				
Net Investment in Capital Assets	\$ 70,908	\$ 68,024	\$ 2,884	4.24%
Restricted for Debt Service	5,195	6,067	(872)	-14.37%
Unrestricted	14,600	13,765	835	6.07%
Total Net Position	\$ 90,703	\$ 87,856	\$ 2,847	3.24%

By far the largest portion of the District's net position (78 percent) reflects its investment in capital assets (e.g., land, buildings, substations, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position (six percent) represents resources that are subject to external restrictions on how they may be used. The remaining (16 percent) is unrestricted and may be used to meet the District's ongoing obligations.

At the end of the 2016 fiscal year, the District is able to report positive balances in all categories of net position. The same situation was true for the prior fiscal year.

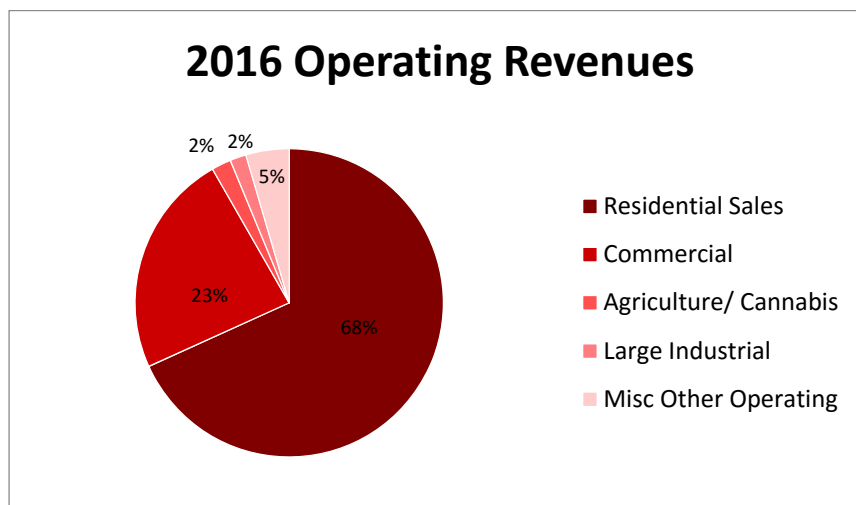
The District's overall net position increased \$2.8 million from the prior fiscal year. The reasons for this increase are discussed in the following sections.

Statement of Revenue, Expenses, and Changes in Net Position (in thousands)

	2016	2015	Increase (Decrease)	% Change
Operating revenues				
Utility Sales and Service Fees	\$ 58,449	\$ 55,719	\$ 2,730	4.90%
Other Operating Revenues	2,574	2,829	(255)	-9.01%
Nonoperating revenues				
Interest Income	184	176	8	4.55%
Net Increase (Decrease) in the Fair Value of Investments	(15)	(16)	1	-6.25%
Other Income	2,190	1,764	426	24.15%
Total Revenues	\$ 63,382	\$ 60,472	\$ 2,910	4.81%
Operating expenses				
Power Supply	24,998	24,841	157	0.63%
Operations, Maintenance, and Admin & General	21,004	18,744	2,260	12.06%
Taxes and Depreciation Expense	10,658	10,748	(90)	-0.84%
Nonoperating expenses				
Interest Expense	3,874	4,092	(218)	-5.33%
Total Expenses	\$ 60,534	\$ 58,425	\$ 2,109	3.61%
Change in net position	2,848	2,047	801	39.13%
Beginning net position	87,856	85,809	2,047	2.39%
Ending Net Position	\$ 90,704	\$ 87,856	\$ 2,848	3.24%

The District's total revenues increased \$2.9 million between fiscal years 2015 and 2016 to \$63.4 million. Although customer consumption decreased in kWh, there was a net increase in utility sales of \$2.7 million due to rate increases in 2016 (approved by the Board of Commissioners in September 2015). Other nonoperating revenues increased primarily due to \$712,084 collected as conservation revenue for a large project reimbursed by BPA.

In fiscal year 2016, 68 percent of the District's operating revenues came from residential sales, and approximately 23 percent from commercial sales. Another two percent of sales comes from one large industrial customer, two percent from agriculture/cannabis customers, and the remaining from other miscellaneous sources.



The District's operating expenses include transmission and distribution, customer services and informational, miscellaneous customer accounts, sales, and administrative and general expenses. Nearly 44 percent of the District's operating expenses are for the purchase of power.

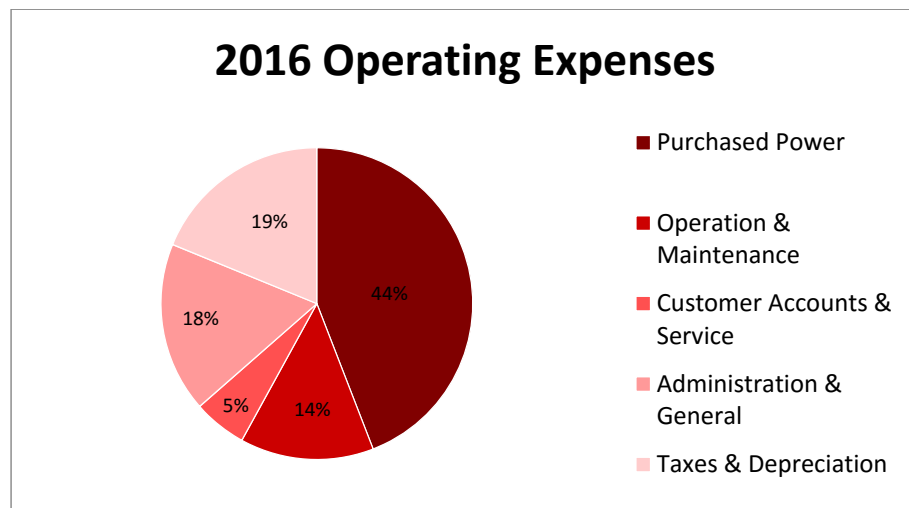
Total expenses increased \$2.1 million from 2015 to 2016. This is attributable mainly to the increase in purchased power costs and the increase in administration and general expenses. Even though there was a decrease of 10 million kilowatt hours purchased in 2016 than in 2015, the District saw an increase of \$157,000 in power supply costs.

The District purchased 96% of its power from Bonneville Power Administration (BPA) in 2016. In October 2015, BPA implemented a minimum 7.1% wholesale electricity and 4.4% transmission services rate increase. BPA's increase in rates will help pay for improvements to the region's federal hydropower and transmission systems to ensure delivery of reliable, carbon-free, affordable power to Pacific Northwest customers. It was also needed for increased fish and wildlife expenses, cost escalation under the 2012 Residential Exchange Program settlement (see Note 8 under Lookback Payment), the continuing impact of low natural gas prices on wholesale electricity prices, the cost of emerging technologies, evolving markets, and new regulatory requirements.

The increase in administration and general expenses was due to the accruals of self-insurance claims payable, Postemployment Benefits other than Pension Benefits, and pension plan expenses. An additional \$622,000 was accrued for the District's share of the year-end PURMS claims payable, a net OPEB obligation expense of \$341,000 was recorded, and GASB 68 pension expense \$147,000 recorded in 2016.

The District will also have increased costs due to the Energy Independence Act (I-937) (see Note 8) requirements to purchase more expensive, qualified, renewable energy, and to continue its conservation efforts. Starting 2012 and through 2015, the District was required to invest three percent of the District's average load in energy for the preceding two years, as well as meet its compliance target for conservation efforts. Starting in 2016 and continuing through 2019, the District's annual renewable energy target increased to nine percent. By 2020, this target is slated to increase to 15 percent. To meet the requirement under I-937 in 2017, the District's expenses are anticipated to be at least \$2.6 million. The District will also continue to invest in its own infrastructure to ensure system reliability and standards.

In summary, the overall financial condition of the District improved during 2016 over 2015. Total revenues increased by \$2.9 million, and total expenses increased by \$2.1 million. The District's 2016 ending net position was \$90.7 million, an increase of \$2.8 million over 2015.



Capital Asset and Long-Term Debt Activity

At the end of 2016, the District had invested \$240.6 million in capital assets. This investment in capital assets includes land, buildings, generation, transmission, distribution, general plant, machinery, and equipment. The total increase in the District's investment in capital assets for 2016 was 3.90 percent.

Capital Assets (in thousands)

	2016	2015	Increase (Decrease)	% Change
Land and Intangible Plant	\$ 2,263	\$ 2,252	\$ 11	0.49%
Electric Plant in Service	228,971	224,394	4,577	2.04%
Construction Work in Progress	9,365	4,906	4,459	90.89%
Total Capital Assets	\$ 240,599	\$ 231,552	\$ 9,047	3.91%

Construction work in progress saw a significant increase from 2015 due to the District's continued Grid Modernization project spanning over several years. More detailed information about the District's capital assets is presented in Note 2 to the financial statements.

Long-Term Debt – At the end of 2016, the District had \$71.9 million in bonds outstanding, a decrease of two percent over last year. In August 2016, the District issued \$10 million of Electric Revenue Refunding Bonds to advance refund \$9.95 million of outstanding 2008 Bonds; thereby, reducing aggregate debt service payments by \$4.1 million over the next twelve years.

	2016	2015	Increase (Decrease)	% Change
Revenue Bonds	\$71,877	\$73,585	(\$1,708)	-2.32%

More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

Bond Ratings – The District's credit rating with Standard & Poor's is A+ and its credit rating is Aa3 on Moody's Global Ratings Scale.

Bond covenants require the District to establish, maintain, and collect rates and charges that shall be adequate to provide net revenues in each fiscal year in an amount equal to at least 1.25 times the annual debt service on the parity bonds outstanding in such fiscal year. The District's debt service coverage ratio was 2.45 percent in 2016, with a four-year average of 1.95 percent.

Other Significant Matters

In December 2016, Commission authorized disposition of the District's Administration Building and nearby parking lot at 307 W Cota Street in downtown Shelton, Washington for \$275,000. Thurston Mason Behavioral Health Organization will complete the purchase through an intergovernmental transfer to for purposes of establishing a Mason County involuntary triage facility in 2017.

Requests for Information

The financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed to the Finance Manager of the District at PO Box 2148, Shelton, WA 98584.

STATEMENT OF NET POSITION

Proprietary Fund

December 31, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS	
Current Assets	
Cash & Cash Equivalents	
Cash and Cash Equivalents	\$ 16,984,123
Restricted Bond Fund - Principal & Interest	479,111
Accounts Receivable, Net	7,527,794
Plant Material & Operating Supplies	2,868,707
Prepayments	42,854
Total Current Assets	27,902,589
Noncurrent Assets	
Investments (Note 4)	4,938,871
Restricted Bond Reserve Fund	4,716,237
Restricted Construction Funds	5,371,980
Net OPEB Asset (Note 10)	2,690,057
Utility Plant (Note 2)	
Land and Intangible Plant	2,262,634
Electric Plant in Service	228,971,525
Construction Work in Progress	9,364,613
Less Accumulated Depreciation	(103,916,611)
Net Utility Plant (Note 2)	136,682,161
Total Noncurrent Assets	154,399,306
TOTAL ASSETS	182,301,895
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferred Outflow	2,019,765
Unamortized Loss on Defeased Debt	1,212,138
Total Deferred Outflows of Resources	3,231,903
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 185,533,798

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES	
Current Liabilities	
Revenue Bonds, Current Portion (Note 6)	\$ 1,950,513
Current Portion of Compensated Absences	1,696,722
Warrants Payable	780,987
Accounts Payable	4,447,078
Customer Deposits	764,905
Taxes Accrued	1,210,075
Interest Accrued on Long-Term Debt	316,545
Other Current and Accrued Liabilities	1,428,866
Total Current Liabilities	12,595,691
Noncurrent Liabilities	
Compensated Absences	702,175
Revenue Bonds (Note 6)	70,407,414
Net Pension Liability	10,901,135
Total Noncurrent Liabilities	82,010,724
TOTAL LIABILITIES	94,606,415
DEFERRED INFLOWS OF RESOURCES	
Pension Deferred Inflow	223,530
NET POSITION	
Net Investment in Capital Assets	70,908,352
Restricted for Debt Service	5,195,348
Unrestricted	14,600,153
TOTAL NET POSITION	\$ 90,703,853

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**Proprietary Fund**

For the Year Ended December 31, 2016

OPERATING REVENUES	
Utility Sales and Service Fees	\$ 58,448,905
Other Charges for Services	1,847,227
Other Operating Revenues	726,798
Total Operating Revenues	61,022,930
OPERATING EXPENSES	
Purchased Power	\$ 24,997,560
Operation	3,331,505
Maintenance	4,529,501
Customer Accounts	2,116,094
Customer Service, Information, Advertising	1,027,077
Administrative and General	8,319,203
Maintenance of General Plant	1,680,156
Depreciation	6,981,162
Taxes Other than Income	3,676,642
Total Operating Expenses	56,658,900
OPERATING INCOME (LOSS)	4,364,030
NONOPERATING REVENUES & EXPENSES	
Revenue (Cost) of Merchandising	\$ 3,960
Interest Income	183,785
Net Increase (Decrease) in the Fair Value of Investments	(15,331)
Interest and Amortization on Long-Term Debt	(3,874,141)
Capital Debt Service Subsidy from the Federal Government	1,057,024
Other Nonoperating Revenue (Expense)	1,128,583
TOTAL NONOPERATING REVENUES & EXPENSES	(1,516,120)
CHANGE IN NET POSITION	\$ 2,847,910
NET POSITION, BEGINNING OF YEAR	87,855,943
NET POSITION, END OF YEAR	\$ 90,703,853

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 59,623,835
Cash Paid to Suppliers and Service Providers	(27,902,387)
Cash Paid to Employees for Salaries and Wages	(17,311,613)
Taxes Paid	(3,607,374)
Miscellaneous Other Revenue	1,128,753

Net Cash Provided by (Used for) Operating Activities **11,931,214**

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

-

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets	(9,380,686)
Principal Paid on Capital Debt	(1,707,902)
Interest Paid on Capital Debt	(5,157,608)
Capital Debt Service Subsidy from the Federal Government	1,057,024

Net Cash Used for Capital Financing Activities **(15,189,172)**

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investments	(5,535,461)
Proceeds from Sale of Investments	9,020,877
Interest Income	183,785

Net Cash Flow Provided by Investing Activities **3,669,201**

NET INCREASE (DECREASE) IN CASH

411,243

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

17,051,991

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 17,463,234

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

Operating Income	\$ 4,364,030
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities	
Merchandising - net	3,960
Depreciation & Amortization	6,981,162
Miscellaneous Other Revenue	1,128,753
Net GASB 68 adjustments	495,393
Decrease (Increase) in Customer Accounts Receivable	(1,493,443)
Decrease (Increase) in Other Accounts Receivable	90,388
Decrease (Increase) in Material Inventory	(258,150)
Decrease (Increase) in Prepayments	(12,308)
Increase (Decrease) in Customer Deposits	58,209
Increase (Decrease) in Outstanding Warrants	(576,667)
Increase (Decrease) in Accounts Payable	432,882
Increase (Decrease) in Other Postemployee Benefits (OPEB)	74,049
Increase (Decrease) in Taxes Accrued	69,268
Increase (Decrease) in Miscellaneous Accrued Liabilities	573,688
Net Cash Provided by (Used for) Operating Activities	\$ 11,931,214

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

The District had a net decrease in the fair value of investments of \$15,331 at December 31, 2016.

The deferred inflows and outflows relating to GASB 68 had no effect on cash flows for 2016. The pension deferred outflow was \$2,019,765 and the pension deferred inflow was \$223,530 as of December 31, 2016.

The accompanying notes are an integral part of the financial statements.

STATEMENT OF NET POSITION

Fiduciary Funds

December 31, 2016

	Private-Purpose Trust (VEBA)	Other Postemployment Benefits Plan (OPEB)
ASSETS		
Cash and Cash Equivalents	\$ 1,593	\$ 40,388
Investments		
Mutual Funds	5,374,177	5,603,477
TOTAL ASSETS	5,375,770	5,643,865
LIABILITIES		
Warrants Payable	1,593	-
TOTAL LIABILITIES	1,593	-
TOTAL NET POSITION HELD IN TRUST FOR VEBA AND OPEB BENEFITS	\$ 5,374,177	\$ 5,643,865

STATEMENT OF CHANGES IN NET POSITION

Fiduciary Funds

For the Year Ended December 31, 2016

	Private-Purpose Trust (VEBA)	Other Postemployment Benefits Plan (OPEB)
ADDITIONS		
Employer Contributions	\$ 110,636	\$ 266,655
Net Investment Gain	440,411	291,814
TOTAL ADDITIONS	551,047	558,469
DEDUCTIONS		
Benefits Paid to or for Participants	373,340	266,655
TOTAL DEDUCTIONS	373,340	266,655
CHANGE IN NET POSITION	177,707	291,814
NET POSITION, BEGINNING OF YEAR	5,196,470	5,352,051
NET POSITION, END OF YEAR	\$ 5,374,177	\$ 5,643,865

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

December 31, 2016

NOTE 1 – Summary of Operations and Significant Accounting Policies

Mason County Public Utility District No. 3 (District) is a customer-owned utility providing electrical and wholesale telecommunications services in Mason County, Washington. Formed by a public vote in 1934, the utility is a municipal corporation organized under the laws of the state of Washington. It is legally and fiscally independent of other state or local governments. It began providing electrical service in 1939. The District provided electric service to 33,345 customers as of December 31, 2016.

A board of three commissioners, elected by the voters, serves the District to establish policy, review operations, and approve plans, budgets, and expenses. The legal responsibilities and powers of the District, including the establishment of rates and charges for services rendered, are exercised through the commission.

As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units. The following is a summary of the more significant policies:

A. Basis of Accounting and Presentation: The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. 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 including GASB statements No. 72 Fair Value Measurement and Application, No. 76 Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and No. 79 Certain External Investment Pools and Pool Participants.

Accounting records are maintained in accordance with methods prescribed by the Washington State Auditor's Office under the authority of Revised Code of Washington (RCW) 43.09 and the Uniform System of Accounts prescribed for public utilities and licensees by the Federal Energy Regulatory Commission (FERC). The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting where revenues are recognized when incurred, regardless of the timing of related cash flows. Revenues and expenses related to the District's principal operations are considered to be operating revenues and expenses; while revenues and expenses related to capital, financing, and investing activities are considered to be nonoperating revenues and expenses.

B. Utility Plant and Depreciation: Utility plant in service and other capital assets are recorded at cost, which includes both direct and indirect costs of construction or acquisition. The District's capitalization threshold is \$1,000 for non-infrastructure capital, while its threshold for infrastructure capital is \$50,000. The cost of maintenance and repairs is charged to expense as incurred, while the cost of replacements and improvements is capitalized.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Structures and Improvements	40-50 Years
Generation Plant	17-30 Years
Electric Plant - Transmission	25-36 Years
Electric Plant - Distribution	23-50 Years
Electric Plant/Equipment - Broadband	8-25 Years
Transportation Equipment	4-8 Years
General Plant and Equipment	3-17 Years

The District's Continuing Property Records (CPR) system reflects the recording of property units added and retired. Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. When operating plant assets are retired or otherwise disposed of, their original cost (including removal costs, less salvage), is charged to accumulated depreciation.

The District follows FERC operating instructions for depreciation expense, which includes all classes of depreciable electric plant in service except depreciation expense chargeable to clearing accounts. Depreciation expenses applicable to transportation equipment and shop equipment are charged to clearing accounts in order to obtain a proper distribution of expenses between construction and operation.

The increase in accumulated depreciation is greater than the depreciation expense reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position. This is a result of the FERC standard that electric utilities may report transportation equipment and shop equipment depreciation to clearing accounts rather than depreciation expense. The depreciation expense for transportation equipment and shop equipment is included in Maintenance under Operating Expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

C. Deposits and Investments: The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and investments are recorded in accounts as required by the District's bond indentures. Restricted assets represent accounts that are restricted by bond covenants or third-party contractual agreements. Accounts that are allocated by resolution of the commissioners are considered to be board designated accounts. Board designated accounts are a component of unrestricted assets as their use may be redirected at any time by approval of the commissioners.

The District considers all deposits with the Washington State Treasurer's Local Government Investment Pool (LGIP) cash and cash equivalents. Since the pool is sufficiently liquid to permit withdraw of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

As required by state law, all deposits and investments of the District's funds are obligations of the U.S. Government and its agencies, including certificates of deposit, general obligations of Washington State municipalities, LGIP, passbook accounts, and deposits with Washington State banks and savings and loan associations, or other investments allowed by Chapter 39.59 RCW.

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC and FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

D. 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. These are classified as current or noncurrent assets, as appropriate.

E. Receivables: The percentage-of-sales allowance method is used to estimate uncollectible accounts. Accounts that are determined to be uncollectible by the District are turned over to a collection agency but remain in accounts receivable until it is determined there is no possibility of collection or the statute of limitations on collections has transpired. They are then charged against the provision for uncollectibles.

F. Inventories: Inventories are valued at weighted average, which approximates the market value.

G. Compensated Absences: The District accrues unused compensated absence benefits as amounts are earned. Compensated absences includes vacation, sick leave, and other leave. Compensated absences, which may be accumulated up to 120 days, is payable in full upon resignation, retirement, or death. The liability for unused leave was \$2,398,897 as of December 31, 2016.

H. Debt Premium and Discount: Original issue bond premiums and discounts relating to revenue bonds are amortized over the terms of the respective bond issues using the bonds outstanding method. Bond premiums and discounts offset the debt outstanding balance. In accordance with GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities, losses on debt refundings have been deferred and amortized over the shorter of the remaining life of the old or new debt.

I. Reclassifications: Certain 2015 account balances may have been reclassified to conform to the 2016 presentation. Such reclassifications would have no effect on previously reported results of operations and cash flows.

J. Propriety Funds: Separate fund financial statements are provided for the proprietary fund and the fiduciary funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund, the electric enterprise fund, are charges to customers for sales and services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has two fiduciary trusts. The first is the Voluntary Employees Beneficiary Association (VEBA) Trust as described in Note 14, and the second is the OPEB Trust as described in Note 15.

K. Pensions: The District is a member of the Washington State Public Employees' Retirement System (PERS) cost-sharing plan. 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 – Utility Plant and Depreciation

Utility plant activity for the year ended December 31, 2016:

Utility Plant Assets	Ending Balance 12/31/2015	Increase	Decrease	Ending Balance 12/31/2016
Utility plant not being depreciated				
Land and Intangible Plant	\$ 2,251,857	\$ 10,777	\$ -	\$ 2,262,634
Construction work in progress	4,905,896	10,241,274	(5,782,557)	9,364,613
Utility plant being depreciated				
Generating plant	6,318,606	-	-	6,318,606
Transmission plant	5,047,295	2,896	(198)	5,049,993
Distribution plant	160,292,545	4,880,683	(531,831)	164,641,397
General plant	52,736,122	858,543	(633,136)	52,961,529
Subtotal	224,394,568	5,742,122	(1,165,165)	228,971,525
Less accumulated depreciation for				
Generating plant	(2,979,028)	(213,081)	-	(3,192,109)
Transmission plant	(2,804,735)	(175,999)	198	(2,980,536)
Distribution plant	(79,206,649)	(5,543,068)	630,364	(84,119,353)
General plant	(12,398,541)	(1,859,165)	633,093	(13,624,613)
Total accumulated depreciation	(97,388,953)	(7,791,313)	1,263,655	(103,916,611)
Net utility plant	\$ 134,163,368	\$ 8,202,860	\$ (5,684,067)	\$ 136,682,161

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of assets constructed when the construction period is a minimum of six months and the estimated cost of the project is greater than \$100,000. The total interest expense incurred by the District during 2016 was \$3,874,141. Of this amount, \$129,754 was included as part of the cost of capital assets under construction in connection with grid modernization projects.

NOTE 3 – Construction and Other Significant Commitments

The District has one major active construction project as of December 31, 2016.

The District began considering automated meter reading in the 1990's. As referenced in "NOTE 12 – Telecommunications Services," the District's fiber optic network was installed with one of the benefits being a grid modernization plan in the future. Throughout the years, the utility watched its partner utilities install various types of systems for automated meter reading and learned from the successes and failures of each. In November of 2012, the District began a small pilot project with one brand of meters in order to study the inner workings of a grid modernization system. Ultimately, in April of 2015, the commission awarded the bid for the grid modernization project to Landis + Gyr.

The District began installing the new meters in 2016. The upgrades, to be implemented over several years, will provide better monitoring of the quality and reliability of the local electrical distribution system as well as improved voltage quality. GridMod will result in lower electricity use and reduced energy losses; more effective restoration of electricity to customers during outages; and more efficient meter reading by using remote meter reading technology. The project, using proven technology, will use the District's existing fiber optic network for communications and allow for the opportunity to upgrade radio communications for the District, public safety agencies, and other governmental organizations.

At year-end, the District's commitments with contractors for GridMod are as follows:

Project	Commitment Spent to Date	Remaining Commitment
Grid Modernization (GridMod)	\$ 2,670,863	\$ 4,351,576

To fund the remaining committed balance of \$4,351,576, the District will utilize remaining 2010B bond funds.

NOTE 4 – Deposits and Investments

As of December 31, 2016, the District had the following investments:

Investment Type	Maturities	Fair Value
Construction Funds		5,371,980
FICO STRIP PRIN13	12/27/2018	640,572
Federal National Mortgage Association	11/25/2020	2,977,467
RFCSP STRIP Principal	10/15/2020	1,098,198
Federal Farm Credit Bank	8/24/2020	979,699
Federal Home Loan Bank	5/24/2019	1,970,690
FICO STRIP PRIN13	12/27/2018	1,988,482
Total Investments		\$ 15,027,088
Reconciliation to Statement of Net Position		
Investments		4,938,871
Restricted Bond Reserve Fund		4,716,237
Restricted Construction Funds		5,371,980
Total		\$ 15,027,088

Fair Market Value – Investments have been adjusted to reflect available market values as of December 31 of 2016 obtained from available financial industry valuation services. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the District’s fair market measurements are classified as Level 2.

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements.

Credit Risk – The District’s investments conform with state law, which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers’ acceptances, investment-grade general obligation debt of state and local governments and public authorities, and the Washington State Treasurer’s Local Government Investment Pool (LGIP).

The LGIP portfolio meets the requirements set forth in GASB 79 to report the investment at amortized cost. The reported value of the pool is the same as the fair value of the pool shares. The District considers all deposits with the LGIP cash and cash equivalents. Since the pool is sufficiently liquid to permit withdraw of cash at any time without prior notice or penalty, equity in the pool is deemed to be a cash equivalent.

LGIP participants may contribute and withdraw funds on a daily basis. Participants must inform the Office of the State Treasurer (OST) of any contribution or withdrawal over one million dollars no later than 9 a.m. on the same day the transaction is made. Contributions or withdrawals for one million or less can be requested at any time prior to 10 a.m. on the day of the transaction. However, participants may complete transactions greater than one million dollars when notification is made between 9 a.m. and 10 a.m. at the sole discretion of OST. All participants are required to file with the State Treasurer documentation containing the names and titles of the officials authorized to contribute or withdraw funds. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer.

The District’s investments in the Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank were rated Aaa by Moody’s Investor Services and AA+ by Standard & Poor’s. The FICO STRIP PRIN13 and RFCSP STRIP Principal investments are unrated.

Custodial Credit Risk – For a deposit, this is the risk that, in the event of a bank failure, the District’s deposits may not be returned. The District’s deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC. Under state law, public depositories under the PDPC are required to pledge securities as collateral at 100 percent of all deposited uninsured public funds. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires that deposits may only be made with institutions that are approved by the PDPC.

NOTE 5 – Lease Commitments

Operating Leases – The District is committed under operating leases for personal computers and other office machines. These leases are considered operating leases for accounting purposes. Total costs for operating leases were \$147,320 for the year ended December 31, 2016. The future minimum lease payments for these leases are as follows:

Fiscal Year Ending December 31:

2017	\$ 133,605
2018	77,465
2019	28,469
2020	6,718
2021	2,033
Total	\$ 248,290

NOTE 6 – Long-Term Debt

The District has four revenue bonds outstanding as of December 31, 2016. The original amounts of these bonds totaled \$79,570,000. The funds were used for the acquisition and construction of major capital facilities. Current revenue bonds outstanding are as follows:

Purpose	Interest Rate	Original Amount
2010A - Electric Revenue Refunding Bonds	2.00% - 4.00%	7,255,000
2010B - Electric Revenue Bonds (Taxable BABs)	2.334% - 6.347%	52,550,000
2012 - Electric Revenue Refunding Bonds	2.00% - 4.00%	9,765,000
2016 - Electric Revenue Refunding Bonds	1.86%	10,000,000
Total		\$ 79,570,000

The following is a list of the long-term debt activity and year-end summary as of December 31, 2016.

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2008 Electric Revenue Bonds, due in annual installments starting in 2026 of \$3,145,000-\$3,490,000 through December 1, 2028	\$ 9,950,000	-	\$ 9,950,000	-	-
2010A Electric Revenue Refunding Bonds, due in annual installments starting in 2010 of \$35,000-\$795,000 through December 1, 2021	4,315,000	-	645,000	3,670,000	675,000
2010B Electric Revenue Bonds, due in annual installments starting in 2022 of \$2,060,000-\$4,520,000 through December 1, 2040	52,550,000	-	-	52,550,000	-
2012 Electric Revenue Refunding Bonds, due in annual installments starting in 2013 of \$965,000-\$1,235,000 through December 1, 2021	6,770,000	-	1,045,000	5,725,000	1,065,000
2016 Electric Revenue Refunding Bonds, due in annual installments starting in 2016 of \$67,902-\$2,671,349 through December 1, 2028	-	10,000,000	67,902	9,932,098	210,513
Subtotal	\$ 73,585,000	\$ 10,000,000	\$ 11,707,902	\$ 71,877,098	\$ 1,950,513
Plus: Unamortized Premiums	650,784		169,955	480,829	-
Less: Unamortized Discounts	(112,092)	-	(112,092)	-	-
Total Bonds Payable	\$ 74,123,692	\$ 10,000,000	\$ 11,765,765	\$ 72,357,927	\$ 1,950,513
Net Pension Liability	8,628,933	2,272,202	-	10,901,135	-
Compensated Absences	2,333,625	1,662,835	1,597,563	2,398,897	1,696,722
Total Long-Term Debt	\$ 85,086,250	\$ 13,935,037	\$ 13,363,328	\$ 85,657,959	\$ 3,647,235

Future debt service requirements on the bonds are as follows:

Year	Principal	Interest	Total
2017	\$ 1,950,513	\$ 3,792,334	\$ 5,742,847
2018	2,014,428	3,729,468	5,743,896
2019	2,093,417	3,653,480	5,746,897
2020	2,172,479	3,574,417	5,746,896
2021	2,256,617	3,492,279	5,748,896
2022-2026	12,228,589	15,829,389	28,057,978
2027-2031	14,376,055	13,427,336	27,803,391
2032-2036	17,760,000	8,860,506	26,620,506
2037-2040	17,025,000	2,756,502	19,781,502
Total	\$ 71,877,098	\$ 59,115,711	\$ 130,992,809

There are limitations and requirements contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions including compliance with federal arbitrage requirements.

In August 2016, the District issued \$10,000,000 of Electric Revenue Refunding Bonds, Series 2016 with a rate of 1.86 percent to advance refund \$9,950,000 of outstanding 2008 Bonds with an average rate of 5.35 percent. The bond proceeds were used to refund all the 2008 bonds maturing on or after December 1, 2028. The net proceeds of \$11,106,185 were deposited with an escrow agent to provide for all future debt service payments on the 2008 Series bonds. The District delivered all the proceeds of the 2016 Bond, along with \$133,113 from Bond Funds, \$873,665 from the Reserve Account, \$133,807 of District funds minus \$34,400 to pay costs of issuance.

Although the advance refunded resulted in the recognition of an accounting loss of \$1,128,956 for the year ended 2016, the District in effect reduced its aggregate debt service payments by \$4,103,470 over the next twelve years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$2,462,974.

In prior years, the District defeased electric revenue bonds by placing proceeds of the new bonds with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. At December 31, 2016, \$9,950,000 of defeased bonds remain outstanding.

The District establishes, maintains, and collects rates and charges that shall be adequate to provide in each fiscal year net revenues in an amount equal to at least 1.25 times the annual debt service on the parity bonds outstanding in accordance with the bond covenants.

Pursuant to the resolutions authorizing the issuance of outstanding bonds, the District has satisfied the reserve account requirements with cash that is sufficient to satisfy the reserve account requirement for the outstanding bonds. As of December 31, 2016, the District had a fair value balance of \$4,716,237 in its bond reserve account. The District maintains bond reserve funds to guarantee the principal and interest payments to bondholders.

The District did not engage in any short-term debt activity nor capital leases during the year.

NOTE 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ 10,901,135
Deferred outflows of resources	\$ 2,019,765
Deferred inflows of resources	\$ 223,530

Pension expense (credit)	\$ 1,385,592
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State Sponsored Pension Plans

All full-time and qualifying part-time District 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 2016 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%

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 one 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.

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 Unfunded Actuarial Accrued Liability (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 2016 were as follows:

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

Both the District and the employees made the required contributions during the fiscal year 2016. The District's required employer contributions for the year-ending December 31, 2016 was as follows:

PERS Plan Contributions	
PERS Plan 1	\$ 11,599
PERS Plan 1 UAAL	\$ 532,163
PERS Plan 2/3	\$ 695,154
Total	\$ 1,238,916

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. 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 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

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

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, 2016, 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 Net Pension Liability (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	\$ 6,038,065	\$ 5,007,105	\$ 4,119,900
PERS 2/3	\$ 10,851,968	\$ 5,894,030	\$ (3,068,183)

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 December 31, 2016, the District reported a liability of \$10,901,135 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016.

At December 31, 2016, the District's proportionate share of the collective net pension liabilities was as follows:

Liability (or Asset)	
PERS 1	\$ 5,007,105
PERS 2/3	\$ 5,894,030

	Proportionate Share 12/31/15	Proportionate Share 12/31/16	Change in Proportion
PERS 1	0.088510%	0.093234%	0.004724%
PERS 2/3	0.111922%	0.117063%	0.005141%

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

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2016, the District recognized pension expense as follows:

Pension Expense	
PERS 1	\$ 526,554
PERS 2/3	\$ 859,038
TOTAL	\$ 1,385,592

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 126,071	\$ 0
Contributions subsequent to the measurement date	\$ 279,031	\$ 0
TOTAL	\$ 405,102	\$ 0

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ 721,259	\$ 0
Differences between expected and actual experience	\$ 313,853	\$ 194,572
Changes of assumptions	\$ 60,920	\$ 0
Effect of change in the employer's proportionate share	\$ 162,213	\$ 28,958
Contributions subsequent to the measurement date	\$ 356,418	\$ 0
TOTAL	\$ 1,614,663	\$ 223,530
TOTAL ALL Funds	\$ 2,019,765	\$ 223,530

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, 2017. 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	PERS 2/3
2017	\$ (31,041)	\$ 42,697
2018	\$ (31,041)	\$ 42,697
2019	\$ 115,783	\$ 597,351
2020	\$ 72,370	\$ 351,970
2021	-	-
Thereafter	-	-

NOTE 8 – Power Supply/Power Sales Contract

Bonneville Power Administration (BPA) – In 1937, the Bonneville Project Act (Act) created the BPA and directed it to market federally produced hydroelectric power to customers, giving preference and priority in power sales to public bodies and cooperatives. Public bodies include public utility districts, people's utility districts, tribal utilities, municipalities, and federal customers. The Act also authorized the BPA to construct, own, and operate transmission facilities to deliver federal power at cost. The BPA is part of the U.S. Department of Energy, but is self-financing and receives no federal tax revenues. Costs are recovered by selling wholesale power, capacity, transmission, and related services at cost to utilities and industrial and governmental customers inside and outside of the region. About one-third of all the power used in the Pacific Northwest is sold by the BPA.

The BPA uses its sales revenues to make annual payments to the U.S. Treasury for money appropriated to the U.S. Army Corps of Engineers and U.S. Bureau of Reclamation, or for money borrowed to construct dams, substations, and transmission facilities. Federal loans are paid back with interest. The BPA also funds recreation, fish and wildlife mitigation costs associated with the federal hydropower development in the Columbia River Basin, equaling nearly one-third of its wholesale cost of power, and provides capacity for integration of renewable generation resources within its balancing area.

The BPA does not own generation resources or distribution facilities. Its function is to market the output of federal resources and transmit both federal and non-federal power over its transmission grid. The U.S. Army Corps of Engineers and the Bureau of Reclamation operate and maintain 31 hydroelectric projects which constitute the backbone of the federal base system. In addition, the BPA purchases and markets 1,190 MW of Energy Northwest's Columbia Generation Station, the Pacific Northwest's only nuclear power facility, at the cost of production under a formal net billing agreement. The BPA owns and operates approximately 75 percent of the region's transmission capacity. The BPA has nearly 5,100 megawatts (MW) of wind integrated into its transmission system; enough to power a city three times the size of Seattle. The BPA expects to connect another 3,000 to 4,000 MW of wind capacity to its system by 2025. The BPA balances the ups and downs of wind energy

primarily with hydropower generated at federal dams. This has caused capacity issues that threaten the reliability of the system for both the BPA and its preference customers.

Lookback Payment – In September 2008, a final record of decision was issued by the BPA in response to the 2007 US Court of Appeals for the Ninth Circuit ruling against the BPA (WP-07 supplemental rate case). The ruling set the power rates for fiscal year (FY) 2009 and established the power rate components of a new Residential Exchange Program (REP) for fiscal year 2009 and beyond. The rate case accomplished the following:

- Revised power rates for FY 2009.
- Determined the overpayments to Investor Owned Utilities (IOUs) and associated overcharges to preference customers due to improperly set rates for FY 2002-2007 (the “Lookback Amount”).
- Determined REP benefits for IOUs for FY 2009.
- Determined an amount of REP benefits that the IOUs went without for FY 2009 that was returned to preference customers in FY 2009.
- Determined overcharges to preference customers for FY 2007-2008 and closed out the interim agreements signed in March 2008.

The BPA determined that it overcharged its customers \$767 million for FY 2002-2007 (Lookback Payment). The overcharges for the Lookback Payment were returned in the form of installments on the BPA customers’ power bills. The District’s portion of the Lookback Payment equaled \$5.5 million, of which \$550,000 was credited in 2008, \$1.9 million in 2009, \$1.2 million in 2010, \$870,000 in 2011, and \$983,000 in 2012. Nearly all preference utilities challenged BPA in the Ninth Circuit over its determination of the refund amount they were due, in part because BPA had failed to refund over \$500 million in Residential Exchange benefits it had provided to PacifiCorp under the unlawful Residential Exchange settlement. Before this challenge was decided, BPA commenced a new settlement process involving both the IOUs and preference customers. In 2012, BPA entered a settlement with the IOUs which was intended to resolve all pending Residential Exchange litigation, including the Western Public Agencies Group (WPAG) challenge to the amount of the refund determined by BPA in the WP-07S rate case. Most preference customers elected to sign this settlement and dismiss their pending challenges to BPA’s refund determination. However, a number of WPAG utilities (including the District) elected not to sign the settlement, and not to dismiss their pending challenge to BPA’s refund determination made in the WP-07S rate case. This case was dismissed by the Ninth Circuit in May 2015. The actual overcharges for the FY 2007 and FY 2008 were calculated by the BPA to be \$256.8 million. This is the amount the BPA determined was the difference between what the IOUs received under the settlement agreement and what they would have received under the REP. The District received a \$2,938,934 refund in October 2008 and another refund of \$178,581 in September 2009. The District will continue to receive payments through 2019, with each payment at approximately \$984,000 each year.

Tiered Rates – The BPA determined the capacity of the Federal Columbia River Power System (FCRPS) has been reached. Therefore, in 2008, after nearly three years of regional dialogue discussions, the BPA offered new power sales contracts for the term of 2011 to 2027, which allocate the capacity of the existing FCRPS based on the historical worst-case water year and maintain the relatively low cost of the resource. It requires any energy purchased in excess of that capacity to be at the BPA’s cost of acquiring the additional resources (Tier 2 product), or provided by the customer from a separate non-federal resource. The District signed the contract, with reservations, on November 25, 2008. The new contract went into effect October 1, 2011.

In November 2009 and then again in September 2011, the District informed the BPA it would purchase Tier 2 Short-Term service from the BPA for loads above the Tier 1 allocation for the first and second purchase periods of 2012-2019. In September 2016, the District requested Tier 2 Short-Term service for the third purchase period of 2020-2024. Currently the District is experiencing load growth and anticipates purchasing Tier 2 Short-Term service in 2018.

Energy Efficiency Programs – The District has an agreement with the BPA to participate in the Energy Efficiency Incentive (EEI) program, effective October 1, 2011. The EEI replaces the Conservation Rate Credit (CRC), signed in 2006, and the Energy Conservation Agreement (ECA), signed in 2009, and supports the BPA’s energy efficiency plan.

The BPA determined EEI funding for FY 2016 and 2017 based on the Tier One Cost Allocators established in the BP-16 final proposal. Customer incentives paid by the District are reimbursed by the BPA upon submission of qualifying invoices and documentation on a project-by-project basis. These projects include residential, commercial, and industrial energy efficiency

measures. The determined amounts by the BPA for the District's EEI budget are \$844,835 for FY 2016 and \$854,732 for FY 2017.

Public utility customers' funding amounts for EEI were decreased in response to, and as a result of, the BPA's overrun in its capital funding budgeted for energy efficiency incentives under Energy Conservation Agreements.

The District achieved about 4,883 megawatt-hours (4,883,327 kWh) of energy savings in 2016 through its residential, commercial, and industrial programs, spending \$930,682 in incentives to do so. The average District residential customer uses approximately 12,884 kWh/year. In 2016 alone, the District achieved enough energy savings to power 337 homes for a year.

Qualifying measures for the BPA's Energy Efficiency Program are determined by the Regional Technical Forum (RTF) and reported on the BPA's Interim Reporting Solution 2.0 (IS 2.0) website. The RTF is an advisory committee of the Northwest Power Planning Council, established in 1999 to develop standards to verify and evaluate conservation savings. Members are appointed by the Council and include individuals experienced in energy efficiency program planning, implementation and evaluation.

Community Shared Solar – In 2015, the District installed Mason County's first shared solar energy project. The 75 kilowatt project is located at the District's operations center. Approximately 110 PUD customers will be reaping benefits of energy produced by the solar array, a Washington State Production Incentive, and federal tax credits. Nearly 2,900 "solar units" were allocated to customers who had registered to participate and collectively pay for the project. Customers signing up for the program requested nearly twice as many units as were available.

Participants will see their investment pay off quickly (estimated between three and four years) in three ways: an annual credit on the customer's electric bill based on the electricity generated by his/her share of the project; an annual Washington State production incentive of \$1.08/kWh that the customer's solar units generate through 2020; and the opportunity to use a federal tax credit for solar energy systems.

With over 50 home solar power systems installed throughout Mason County, the District's customers have shown a great deal of interest in renewable energy. The shared solar project helps customers who, for one or more reasons, can't take advantage of solar energy at their homes. Some examples of this include too high of cost; the weight of solar panels, brackets and connectors on a roof; lack of southern exposure to catch the sun; nearby trees blocking the sun; restrictive homeowners association covenants; and an inability to adopt a lifestyle required for a home renewable energy system.

In June 2016, the board placed a moratorium on new Renewable Energy System Cost Recovery Annual Incentive Payment Program Agreements effective immediately. The District was nearing the state mandated cap that limits the amount of the incentive that can be claimed by a utility for its customers. The moratorium was established to protect benefits for current solar customers by making a good faith effort to ensure they receive the highest amount of incentive available to them. This does not limit customers who seek to install and interconnect a net metering system from receiving all of the other benefits of net metering. It does, however, limit them from applying for the Washington State Renewable Energy System Cost Recovery Incentive Payment through the District.

Energy Independence Act (Initiative 937) – Approved by Washington State voters in 2006, the Energy Independence Act (the Act), also known as Initiative 937 (I-937) requires electric utilities with more than 25,000 customers to invest in prescribed renewable energy sources and energy conservation programs. I-937 requirements are codified in state law under the Revised Code of Washington (RCW) 19.285 and Washington Administrative Code (WAC) 194-37.

The Act has two requirements. The first is that each qualifying utility pursue all available conservation that is cost-effective, reliable, and feasible within its service territory. The second requirement dictates each qualifying utility to acquire set percentages of its retail load from qualifying renewable resources or acquire equivalent renewable energy credits (RECs) by specific timelines (three percent by 2012, nine percent by 2016 and 15 percent by 2020). A REC represents the legal rights to the environmental attributes and carbon offsets associated with the generation of one megawatt hour of renewable energy.

The District has taken many steps to comply with the Act. These include continued emphasis on residential, commercial, and industrial conservation programs; participation in all three phases of the Nine Canyon Wind Project; a long-term power

purchase agreement from the White Creek Wind Project; participation in a 173.2 kilowatt AC rating solar project owned by AP Development (which is located on one of the buildings at the District's operations center), and ensuring the District receives its proportionate share of RECs from renewables that the BPA has contracted for to serve its customers' load. The District met its mandate of three percent renewables in 2012 through 2015. In 2015, the District entered into long-term contracts with both Emerald Public Utility District and Klickitat Public Utility District in order to enable the District to meet its mandate of nine percent renewables in 2016 and 15 percent in 2020, while minimizing compliance costs. In addition, this option allows the District to serve load growth as it occurs, with a less expensive, more reliable base-load resource. The specific strategy for compliance will be re-examined prior to 2025 as contracts start to expire.

Olympic View Generating Station – Due to the high cost of market power purchases during the 2001 energy crisis, the BPA asked all of its customers to reduce their load by ten percent. The District signed the "Rate Mitigation Agreement" in June of 2001. In addition to the energy conservation measures taken to reduce load, the District also constructed generation capacity to help meet the load reduction.

As a result, the District secured a term loan for \$6 million to finance the construction of a natural gas generation facility utilizing two Wärtsilä 2.8 MW reciprocating engines with ABB generators. This loan was retired in 2010.

The District has participated in two pilot projects, under contract with the BPA, to help delay planned transmission line construction on the Olympic Peninsula by operating the plant during times of anticipated peak load. The District plans to use the facility to offset higher cost resources and capacity needs during peak hours in the future. In addition, the facility is being evaluated as both a contracted commercial back-up power resource, as well as for a disaster response asset.

Energy Northwest (ENW) – ENW, previously Washington Public Power Supply System or WPPSS, is a municipal corporation and joint operating agency of Washington State, organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. While the District was a founding member of WPPSS, it withdrew its membership on September 11, 1984. In July 2001, the District once again became a member of Energy Northwest. There are 27 member utilities and all members own and operate electric systems within Washington State. Energy Northwest has no taxing authority. Financial statements for Energy Northwest may be obtained by writing to: Energy Northwest, P.O. Box 968, Richland, WA 99352-0968. Its website is available at www.energy-northwest.com.

Nuclear Projects 1, 2, and 3 – The District continues to fulfill its obligations consistent with the terms and conditions of the Net Billing Agreements with Energy Northwest and the Bonneville Power Administration (BPA).

The District purchased 1.262 percent of WPPSS Nuclear Project (WNP) No. 1 (Project 1), 1.446 percent of WNP No. 2 (Columbia Generating Station), and 1.265 percent of the capacity of the Energy Northwest 70 percent ownership share of WNP No. 3 (Project 3). The District in turn sold this capacity to the BPA. Under the Net Billing Agreements, the BPA is unconditionally obligated to pay the District and the District is unconditionally obligated to pay Energy Northwest 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 project's output.

Columbia Generating Station (CGS), commenced commercial operation in December 1984. In May 1994 the BPA and WPPSS terminated Project 1 and Project 3, subject to repayment of the debt service on the outstanding revenue bonds.

The District's obligations under the Net Billing Agreements are scheduled to be fulfilled on CGS in 2032, on Project 1 and 2 in 2027. These dates reflect an extension from the previous anticipated fulfillment dates pursuant to the BPA and Energy Northwest's Regional Cooperation Debt agreement. In this agreement, certain Energy Northwest debt, with lower debt service costs, will be extended in order to prepay higher interest rate debt to the U.S. Treasury. In turn, this makes available federal borrowing capacity and provides economic benefit to preference customers, who are the ultimate ratepayers that repay both types of debt.

Columbia Generating Station (CGS) – The CGS is a reliable energy producer. It has a capacity of 1,157 MW and produces electricity 24 hours a day, seven days a week. It accounts for ten-percent of the BPA's total power supply. Operators are able to adjust power levels to meet the BPA's needs based on river conditions; referred to as "load following." Refueling and

maintenance outages occur every two years during the spring, when the Columbia River Basin has ample runoff to generate electricity through hydroelectric turbines.

On January 19, 2010, Energy Northwest announced that it had applied to the Nuclear Regulatory Commission (NRC) for a 20-year renewal of the operating license for its Columbia Generating Station nuclear energy facility. The license renewal process took approximately 2 ½ years and involved comprehensive reviews and public hearings by the NRC. In May 2012, the NRC approved the CGS license for an additional 20 years, extending the operation through 2043.

Packwood Hydroelectric Project – The Packwood Hydroelectric Project is located near the town of Packwood in eastern Lewis County, Washington. The project is a 27.5 MW peaking resource. Commercial operation began in June 1964.

The District has a ten-percent share of the project (participant owners are not equally invested in the project). The participant owners are obligated to pay annual costs of the project. In March 2009, debt service on the Packwood Hydroelectric Project was retired. This was earlier than the originally scheduled date of 2012.

Under power sales agreements, some of the Energy Northwest member public utility districts purchased the project output of Packwood. In August of 2008, the participants agreed to sell the total generation output to Snohomish County Public Utility District, another project participant. The power sales contract was a two-year term with the option to renew with full agreement by all parties. In 2010, Snohomish opted to renew the power sales contract for another one-year term. However, the District began to bring its ten-percent share to load starting in October 2011 with an 18-year agreement, as a Tier 1 resource under the BPA Regional Dialogue Contract.

The Federal Energy Regulatory Commission (FERC) license for Packwood expired in 2010. The project was granted a continuance to operate under the existing license on a year-to-year basis until the new license is issued. Energy Northwest began the relicensing process in 2005. Application for a new 50-year operating license was submitted to the FERC in February of 2008. The final Environmental Assessment and Water Quality Certification were completed in July of 2009. Project managers submitted a final relicensing application in 2010, and are awaiting final approval. Participants elected to receive no payments from the sale of the project's energy output in order to provide funds for the relicensing efforts which are now paid in full.

Nine Canyon Wind Project – In early 2001, Energy Northwest approached public utilities about developing a wind generation project. In September of 2001, the District signed an agreement with Energy Northwest to purchase a 1 MW share of the Nine Canyon Wind Project, Phase 1.

Nine Canyon Phase I consists of 37 Bonus wind turbines with a peak generating capacity of 48 MW. This phase of the project began commercial operation in September 2002. As with the Packwood Hydroelectric Project, participants of Nine Canyon are obligated to pay the annual costs of the project, including debt service, whether or not the project is operable, until the outstanding bonds are paid or provision is made for their retirement in accordance with the bond resolution (see Note 13).

In April 2003, the District entered into a 27-year agreement for Phase II of the Nine Canyon Wind Project with Energy Northwest and four other participants. Twelve more Bonus wind turbines were erected in the same area as Phase I. They have a peak generating capacity of an additional 15.6 MW. The District's share of Phase I and Phase II together is 2 MW.

In October of 2005, Energy Northwest announced the investigation into another expansion of the Nine Canyon Wind Project. In October 2006, the District signed a 23-year power purchase agreement for 1 MW of output from the Phase III expansion, keeping its output share at 3.14 percent of the overall project.

The Nine Canyon Wind Project is one of the largest publicly owned wind projects in the nation. With 63 wind turbines (14 rated at 2.3 MW and 49 more at 1.3 MW), Nine Canyon's total installed capacity is 95.9 MW (of which the District's share is 3 MW). This renewable energy, or green power, produced by the Nine Canyon Wind Project (Phases I, II and III) is used to serve District load, as well as to meet the District's renewables mandates under Washington State's Energy Independence Act.

White Creek Wind Project – In 2010, the District entered into an 18-year purchase agreement with Lakeview Light and Power Wind Energy, Inc. for the electrical output and all associated environmental attributes or RECs from 3.22 MW of capacity in

the White Creek Wind Project. Due to minimal District load growth, the energy was previously resold on the open market and the RECs retained for the District's compliance with the renewables mandate under the Washington State's Energy Independence Act. However, on October 1, 2014, the District began using the energy to serve load and is no longer selling it.

NOTE 9 – Public Entity Risk Pools

LIABILITY RISK POOL

A. Liability Pool – Primary Self-Insured and Excess Coverages

The Public Utility Risk Management Services (hereinafter, "PURMS") provides liability insurance coverages for its members participating in the liability risk pool ("liability pool"), and to a limited extent for the benefit of their employees, under an agreement entitled "PURMS Joint Self-Insurance Agreement" which consists of the interlocal agreement (amended and restated as of November 10, 2011 ("2011 interlocal agreement" or "ILA")) and the coverages, assessment formulas and claims resolution procedures (collectively, "self-insurance agreement" or "SIA"). Under the SIA, from 1977 through 1995, the liability pool had a self-insured retention (or "liability coverage limit") of \$500,000 per occurrence. Effective January 1, 1996, PURMS increased the liability coverage limit to \$1 million per occurrence, which was the coverage limit in effect for 2016, and in effect as of December 31, 2016.

At all times, PURMS maintains excess liability insurance for its members in the liability pool ("excess liability insurance"). For 2016, the first layer of excess liability coverage, in which all liability pool members must participate, was \$35 million excess of the liability pool's \$1 million liability coverage limit. The liability pool also offers an additional layer of excess liability insurance coverage for those members that choose to participate. For 2016, this additional excess liability insurance layer was \$25 million excess of \$35 million. Finally, the liability pool offers public officials liability coverage for a subgroup of members of the liability pool who choose to participate in the coverage. For 2016, the public officials' coverage was \$35 million excess of the coverage provided by the liability pool's \$1 million coverage limit.

B. Liability Pool – Funding Level and Assessment Mechanisms

As a general matter, the liability pool is funded to the amount of its designated balance which in 2016 was \$3 million ("designated balance"). Of this amount, \$500,000 is used as "operating funds" to pay claims and claim adjusting expenses ("claims costs") and ongoing liability pool "operating expenses", including excess insurance premiums and program administration, as those expenses are incurred. The \$500,000 of operating funds is replenished by assessments of liability pool members, as described below. The remaining \$2.5 million of the designated balance is retained by the liability pool as reserves and held toward satisfying applicable regulatory funding requirements, as described in paragraph C. below.

Assessments to replenish operating funds that have been expended ("liability assessments") are triggered automatically in accordance with the terms of the members' interlocal agreement and the liability general assessment formula ("automatic assessments"). An annual automatic assessment is calculated on and dated as of December 31st and issued at the beginning of each calendar year in an amount based on the difference between the liability pool's designated balance and the amount of cash and investments held by the liability pool (called its "actual balance"), as of fiscal year-end. In addition, during the year, interim automatic assessments are issued to replenish the designated balance whenever the liability pool's actual balance is depleted to the amount of its automatic assessment "trigger", which is set at an amount that is \$500,000 less than the amount of the designated balance and which, in 2016, was \$2.5 million (referred to as the "actual balance trigger") (collectively, "assessment mechanisms"). In this manner, the liability pool: (a) pays for its claims costs and operating expenses on an ongoing basis while generally maintaining cash and investments at an amount that at any point in time is somewhere between the liability pool's designated balance and its actual balance trigger; and (b) starts every new fiscal year by replenishing the liability pool's actual balance by the amount necessary to return the actual balance to its designated balance, as of fiscal year-end.

C. Liability Pool – Current WAC Program Funding Requirements – Liability Pool Funding Methodology to Facilitate Compliance – Application of Asset Tests as of December 31, 2016

1. WAC Program Funding Requirements applicable in 2016

WAC 200-100-03001(1) requires each liability and property joint self-insurance program ("program") at the close of its fiscal year to obtain an actuarial report from an independent qualified actuary ("actuarial report") which, among

other things, estimates the "expected" (i.e. approximately 55 percent) and 80 percent confidence levels for the program's "unpaid claims" liability, as of the end of the fiscal year. WAC 200-100-00301(2) then requires the program to establish and maintain primary assets (defined by WAC 200-100-020(20) to mean "cash and investments") at or above the "expected" confidence level ("primary asset test") and to establish and maintain total assets (i.e. cash and investments plus "secondary assets") at or above the 80 percent confidence level ("total asset test") (collectively, "asset tests" or "program funding requirements").

2. Liability Pool's Funding Methodology to Facilitate Compliance with WAC Program Funding Requirements

The liability pool's funding methodology contains a number of provisions designed to facilitate the liability pool's ongoing compliance with the WAC program funding requirements. First, the liability pool funding provisions allow the administrator and executive committee to anticipate an increase in the "expected" confidence level of funding for "primary assets" (i.e. cash and investments) in the next actuarial report based on current claims experience, and to issue and collect assessments to increase the "primary assets" held at fiscal year-end to avoid a potential "funding shortfall" in primary assets. If, notwithstanding such vigilance, the next actuarial report estimates the "expected" confidence level at an amount that exceeds the primary assets held by the liability pool at fiscal year-end, the funding provisions provide for an automatically issued assessment of all members in an amount necessary to cure the funding shortfall and provide sufficient operating funds on an ongoing basis until the Board can meet and adopt a funding plan for the liability pool, as provided in 13A of the 2011 interlocal agreement (collectively, "asset tests" or "program funding requirements").

3. Actuarial Report – Liability Pool's "Unpaid Claims" Liability as of December 31, 2016

The actuarial report for the liability and property pools, dated February 28, 2017, in the table on page 172 of the report, sets forth the actuary's numbers for the liability pool's "unpaid claims" liability, as of December 31, 2016, at both the "actuarial central estimate" (or "ACE") confidence level, and at the 80 percent confidence level, as required by WAC 200-100-03001(1) – (3). Specifically, the actuarial report shows as follows:

(4) Case Reserves as of 12/31/16:	\$ 206,605	
	<u>ACE</u>	<u>80 percent</u>
(5) Indicated IBNR as of 12/31/16:	\$2,352,241	\$2,831,497
(6) Indicated Unpaid as of 12/31/16:	\$2,558,846	\$3,038,102
(7) Indicated Unpaid ULAE as of 12/31/16:	<u>\$ 85,944</u>	<u>\$ 102,718</u>
(8) Indicated Unpaid Loss and LAE as of 12/31/16:	\$2,644,790	\$3,140,820

A copy of the actuarial report for the liability pool is provided to SRM and made available to the State Auditor.

4. Applying the "Asset Tests" to the Liability Pool as of its 2016 Fiscal Year-End

Application of the asset tests to the primary assets and the total assets (i.e. "primary assets" plus "secondary assets") held by the liability pool, as of the December 31, 2016, fiscal year-end, is reflected in PURMS' annual report to the state risk manager prepared by PURMS' Administrator, and in its audited financial statement, based on the subsequently issued actuarial report dated February 28, 2017.

5. PURMS Notification to Liability Pool Members of their Respective Potential Future Assessment Shares of the "Claim Reserves Receivable"

Commencing with fiscal year ending 2016, it is PURMS' policy to inform the members of its risk pools in writing of their respective shares of the actuarially-based "claims reserves receivable", for the risk pools in which they participate ("CRR allocation"), determined in accordance with a "10-year look-back period". PURMS' administrator has calculated each liability pool member's CRR allocation for FY 2016, based on the 80% confidence level estimated by the February 28, 2017, actuarial report, and via a separate communication, has notified each liability pool member

of the amount of its respective CRR allocation. The District's share of the claims reserve receivable is included in current liabilities on the Statement of Net Position.

D. Liability Pool – 2016 Claims Payments – Pending Claims and Case Reserves at Year-End

The total paid for liability claims in 2016 was \$999,923, including claims adjustment expenses, i.e. costs and attorneys' fees for defending claims (but excluding liability pool operating expenses). The annual automatic assessment for the liability pool issued at the beginning of January 2017, was calculated based on a designated balance amount of \$3.25 million and was in the amount of \$50,835.

As of December 31, 2016, there were 84 known incidents or unresolved liability claims pending against one or more members or former members of the liability pool ("pending liability claims"). The total dollar amount of the risk posed by these pending liability claims to such members and to the liability pool itself is not precisely determinable, and can only be estimated by actuarial report. However, the case reserves set by the administrator for these claims, as of December 31, 2016, was \$206,604.

E. Disclaimer Regarding Ultimate Solvency of Liability Pool

Because the total dollar amount of the risk posed by the liability pool's "unpaid claims" liability is based on case reserves estimated by the administrator, and because the amount of "incurred-but-not-reported" claims ("IBNR liability") is based on an actuarial report prepared by PURMS' retained actuary, this letter provides no opinion and makes no representation as to the risk the total "unpaid claims" liability at any confidence level poses to the solvency of the liability pool. However, as a contractual matter, since the PURMS' interlocal agreement requires members participating in the liability pool to pay their liability assessments within thirty (30) days of the date they are issued, assuming that these assessment obligations of members are enforceable and that the members are at the time solvent and pay such assessments, the liability pool would have the assets to pay the "unpaid claims" liability claims on behalf of its participating members for any reasonably foreseeable risk such claims pose to the liability pool as such liabilities become due.

PROPERTY RISK POOL

A. Property Pool – Primary Self-Insured and Excess Coverages

PURMS provides property insurance coverage for its members participating in the property risk pool ("property pool") in accordance with the terms of the SIA. Under the SIA, from its inception in 1997 to the present, the property pool has had a self-insured retention (or "property coverage limit") of \$250,000 per property loss.

At all times, PURMS also maintains excess property insurance for its members in the property pool ("excess property insurance"). For 2016, the amount of the excess property insurance was \$200 million, with various sublimits, and with excess coverage attaching at the \$250,000 property coverage limit for all property losses except those subject to increased retention levels for certain property risks ("increased retentions").

The property pool also provides its members with automatic extended property coverage for property losses that exceed the property pool's \$250,000 property coverage limit if those losses were also subject to increased retentions under the excess property insurance. Under the excess property insurance retentions in effect for 2016, the maximum exposure to the property pool from a property loss that exceeded \$250,000, and that was subject to an increased retention, was \$250,000, less the applicable deductible, or a maximum of \$250,000 more than the property coverage limit.

B. Property Pool – Funding Level and Assessment Mechanisms

As a general matter, the property pool is funded to the amount of its designated balance which in 2016 was \$750,000 ("designated balance"). Of this amount, \$250,000 is used as "operating funds" to pay claims and claim adjusting expenses ("claims costs") and ongoing property pool "operating expenses", including excess insurance premiums and program administration, as those expenses are incurred. The \$250,000 of operating funds is replenished by assessments of property pool members, as described below. The remaining \$500,000 of the designated balance is retained by the property pool as reserves and held toward satisfying applicable regulatory funding requirements, as described in paragraph C. below.

Assessments to replenish operating funds that have been expended ("property assessments") are triggered automatically in accordance with the terms of the members' interlocal agreement and the property general assessment formula ("automatic assessments"). An automatic annual assessment is issued at the beginning of each calendar year in an amount based on the difference between the property pool's \$750,000 designated balance and the amount of its actual balance, as of fiscal year end. In addition, during the year, automatic interim assessments are issued to replenish the \$750,000 designated balance whenever the amount of the property pool's cash and investments (its "actual balance") is depleted to the amount of the property pool's automatic assessment "trigger", which in 2016 was set at \$500,000 (referred to as the "actual balance trigger") (collectively, "assessment mechanisms"). In this manner, the property pool: (a) pays for its claims costs and operating expenses on an ongoing basis while generally maintaining cash and investments at an amount that at any point in time is somewhere between the property pool's \$750,000 designated balance and its \$500,000 actual balance trigger; and (b) starts every new fiscal year by replenishing the property pool's actual balance by the amount necessary to return the actual balance to its \$750,000 designated balance, as of fiscal year-end.

C. Property Pool – Current WAC Program Funding Requirements - Property Pool Funding Methodology to Facilitate Compliance – Application of Asset Tests as of December 31, 2016

1. WAC Program Funding Requirements applicable in 2016

The property pool funding is governed by the same requirements contained in WAC 200-100-03001 regarding "actuarially determined liabilities, program funding and liquidity" that apply to the liability pool. (See liability pool, paragraph C.1 above.) As a result, the property pool is currently subject to the program funding requirements regarding maintaining "primary" assets (cash and investments) and "total assets" ("primary assets" plus "secondary assets") at the "expected" and 80 percent confidence levels, respectively, for unpaid claims, as established by an actuarial report, as of fiscal year-end.

2. Property Pool Funding Methodology to Facilitate Compliance with WAC Program Funding Requirements

Since the property pool is subject to the same program funding requirements as the liability pool, the same funding methodology as described for the liability pool in paragraph C.2 above is used for the property pool but applied using the property pool's \$750,000 designated balance and its \$500,000 actual balance trigger.

3. Actuarial Report – Property Pool's "Unpaid Claims" Liability as of December 31, 2016

The actuarial report for the liability and property pools, dated February 28, 2017, sets forth the actuary's numbers for the property pool's "unpaid claims" liability, as of December 31, 2016, at both the "actuarial central estimate" (or "ACE") confidence level and at the 80 percent confidence level, as required by WAC 200-100-03001(1) – (3). Specifically, the actuarial report shows as follows:

(4) Case Reserves as of 12/31/16:	\$ 42,889	
	<u>ACE</u>	<u>80 percent</u>
(5) Indicated IBNR as of 12/31/16:	\$240,291	\$310,665
(6) Indicated Unpaid as of 12/31/16:	\$283,180	\$353,554
(7) Indicated Unpaid ULAE as of 12/31/16:	<u>\$ 23,556</u>	<u>\$ 29,890</u>
(8) Indicated Unpaid Loss and LAE as of 12/31/16:	\$306,736	\$383,444

A copy of the actuarial report for the property pool is provided to SRM and made available to the State Auditor.

4. Applying the "Asset Tests" to Property Pool as of its Fiscal Year-End 2016

Application of the asset tests to the primary assets and the total assets (i.e. "primary assets" plus "secondary assets") held by the property pool, as of the December 31, 2016, fiscal year-end, is reflected in PURMS' annual report to

the state risk manager prepared by PURMS' administrator and in its audited financial statement, based on the subsequently issued actuarial report dated February 28, 2017.

5. PURMS Notification to Property Pool Members of their Respective Potential Future Assessment Shares of the "Claim Reserves Receivable"

Commencing with fiscal year ending 2016, it is PURMS' policy to inform the members of its risk pools in writing of their respective shares of the actuarially-based "claim reserves receivable", for the risk pools in which they participate ("CRR Allocation"), determined in accordance with a "10-year look-back period". PURMS' administrator has calculated each property pool member's CRR allocation for FY 2016, based on the 80% confidence level estimated by the February 28, 2017, actuarial report, and via a separate communication, has notified each property pool member of the amount of its respective CRR allocation. The District's share of the claims reserve receivable is included in current liabilities on the Statement of Net Position.

D. Property Pool – 2016 Claims Payments – Pending Claims and Case Reserves at Year-End

The total paid for property claims in 2016 was \$100,539, including claim adjusting expenses, i.e. costs and attorneys' fees for defending claims (but excluding property pool operating expenses). The annual automatic assessment, calculated on and dated as of December 31, 2016, was issued at the beginning of January 2017, in the amount of \$226,185 based on a designated balance amount of \$750,000.

As of December 31, 2016, there were 14 known incidents or unresolved property claims pending from one or more members of the property pool ("pending property claims"). The total dollar amount of the risk posed to the property pool by these pending property claims is not precisely determinable, and can only be estimated by actuarial report. However, the case reserves set by the administrator for these claims, as of December 31, 2016, was \$42,890.

E. Disclaimer re Ultimate Solvency of Property Pool

Because the total dollar amount of the risk posed by the property pool's "unpaid claims" liability is based on case reserves estimated by the administrator, and because the amount of "incurred-but-not-reported" claims ("IBNR liability") is based on an actuarial report prepared by PURMS' retained actuary, this letter provides no opinion and makes no representation as to the risk the total "unpaid claims" liability at any confidence level poses to the solvency of the property pool. However, as a contractual matter, since the PURMS' interlocal agreement requires members participating in the property pool to pay their property assessments within thirty (30) days of the date they are issued, assuming that these assessment obligations of members are enforceable and that the members are at the time solvent and pay such assessments, the property pool would have the assets to pay the "unpaid claims" liability on behalf of its participating members for any reasonably foreseeable risk such claims pose to the property pool as such liabilities come due.

HEALTH & WELFARE RISK POOL

A. H&W Pool – Primary Self-Insured and Stop-Loss Coverage

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. The H&W pool was established as one of PURMS' risk pools effective March 31, 2000.

B. H&W Pool – Funding Level and Assessment Mechanisms

Under the terms of the interlocal agreement and the H&W general assessment formula ("H&W assessment formula"), the H&W pool is funded with cash reserves ("H&W pool reserves") in an amount approximately equal to the sum of three (3) times the amount of each member's historical average monthly H&W claims experience ("pool claims experience reserves") for its respective employees and their dependents. (Hereinafter, "employees" includes "dependents".) Unless required otherwise by the H&W pool funding methodology (see paragraph E. below), the "pool claims experience reserves" (of three (3) times each member's historical average monthly H&W claims experience) shall be deemed its "designated H&W pool reserves". The H&W pool members' H&W claims experience was reevaluated and recalculated in June 2014, establishing the designated H&W pool reserves at \$2,785,633. Every month, a portion of the H&W pool reserves is used for paying H&W claims and H&W pool operating expenses, and the funds spent are replenished monthly by assessments of the H&W pool members, as described below. The

remaining reserves are held by the H&W pool to meet regulatory reserve requirements, as described in paragraphs D., E., and G. below.

The H&W pool's operations are financed through assessments of its participating members ("H&W assessments") in accordance with the H&W general assessment formula ("H&W assessment formula"). Under the H&W assessment formula, each month, each member 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. Thus, under the H&W assessment formula, each month: (1) the operating expenses of the H&W pool and all members' H&W claims costs for that month are paid; and (2) the amount spent is replenished via assessments of the H&W pool members up to the amount of the designated H&W pool reserves.

C. H&W Pool – Limits on Members' Self-Insured Exposures to the H&W Claims Costs of their Respective Health Plans

1. Stop-Loss Insurance acquired by H&W Pool

The exposure of each H&W pool member to the H&W claims costs of its employees is limited by two different pairs of stop-loss points ("stop-loss points"). The first pair of stop-loss points is established annually by the excess stop-loss insurance that the H&W pool acquires and maintains for its members. These stop-loss points represent the dollar amounts at which the stop-loss insurance attaches and begins paying either the H&W claim costs relating to an individual employee's total medical claims for the year ("H&W pool individual stop-loss point") or the H&W claims costs of all employees of all members for the year ("H&W pool aggregate stop-loss point"). For 2016, the H&W pool individual stop-loss point was \$275,000 per employee and the H&W pool aggregate stop-loss point was \$16,972,611 for the combined H&W claims costs of the employees of all members of the H&W pool.

2. Shared H&W Claims within H&W Pool

Each H&W pool member's exposure to the H&W claims costs of its employees is further limited by even lower stop-loss points determined by the H&W pool for its members ("member stop-loss points"). Medical expenses that exceed these stop-loss points become "shared H&W claims" and therefore are assessed as "shared H&W costs" which are paid by all H&W pool members except the member whose employee's H&W claim exceeded the applicable stop-loss point. The member stop-loss points are calculated annually under the H&W assessment formula based on the amounts of the individual and aggregate stop-loss points established for the year by the stop-loss insurance. As a result of this process, each member is assigned a dollar amount at which any further payments by the H&W pool on claims for a particular employee constitute shared H&W costs ("member's individual stop-loss point") and a dollar amount at which any further payments by the H&W pool on the H&W claims of all of a member's employees constitute shared H&W costs ("member's aggregate stop-loss point").

3. Scope of Members' Self-Insured Exposures

Except for H&W claims which are shared claims because they exceed a member's individual stop-loss point, and the portions of claims that are covered by stop-loss insurance because they exceed a member's aggregate stop-loss point, each member and its health plan is solely responsible for paying the member's H&W claims costs and the assessments issued to the member to cover those claims costs and the member's share of H&W pool operating costs. Except for obligations relating to shared claims, no other H&W pool member or health plan, nor the H&W pool, is required to pay anything towards the member's H&W claims costs or assessments to cover those costs.

D. H&W Pool – WAC Program Funding Requirements

WAC 200-110-040 requires jointly self-insured health and welfare program reserves to be funded at the amount determined by the formula set forth in WAC 200-110-040(1), or at the amount of the actuarially determined program liability ("program liability") if the program does not establish program and contingency reserves in accordance with the formula. See WAC 200-110-040(2). WAC 200-110-040(3) also requires a program to establish reserves for prescription drug, dental and vision benefits in the minimum amount of eight (8) weeks of program expenses allocable to those benefits. (See paragraph G. below.)

E. H&W Pool – Funding Methodology

The H&W pool funding methodology allows the H&W pool to determine the minimum funding requirements for the H&W pool reserves by establishing the program liability for medical benefits either by actuarial report or under the formula in WAC 200-110-040(1). Like the funding methodology for the liability and property pools, the H&W pool funding methodology also requires funding action and specifies the funding mechanisms in the event of an increase in H&W claims experience that results in establishing the program liability in excess of the amount of the designated H&W pool reserves.

F. H&W Pool – 2016 H&W Claims Payments

The total paid by the H&W pool for H&W claims costs in 2016 was \$14,625,644 (including shared H&W claims but excluding H&W pool operating expenses).

G. H&W Pool – H&W Claims IBNR and Designated H&W Pool Reserves

The most recent actuarial report for the H&W pool, dated January 30, 2017, states that the H&W pool's incurred-but-not-reported reserve liability for medical coverage is \$901,167 ("medical IBNR"). The report states that this number reflects the actuary's "...best estimates of the amounts for which PURMS [i.e. the H&W pool] would be liable if the [medical] benefit program had terminated on December 31, 2016..." The medical IBNR, together with a 3% allocation for claims adjusting expenses ("CAE") in the amount of \$27,035, sets a total reserve for medical claims of \$928,202, as of fiscal year-end.

In addition, as directed by WAC 200-110-040(3), the administrator has determined that 8 weeks of program expenses for prescription drug, dental and vision benefits was \$381,773, \$141,995 and \$32,896, respectively, for a total amount of \$556,664. These numbers are based on the monthly average expenditures for these benefits over a twelve (12) month period of claims experience ending December 31, 2016. In addition, the administrator has calculated CAE for the prescription drug, dental and vision benefits in the amount of \$3,592, for a total reserve for these benefits of \$560,256 (i.e. \$556,664 as 8-weeks of program expenses plus \$3,592 CAE).

The medical IBNR plus CAB established by the actuarial report in the amount of \$928,202 and the 8-weeks of program expenses calculated by the administrator for prescription drug, dental and vision benefits, together with calculated CAE, in the combined amount of \$560,256, results in a total H&W pool reserves requirement under WAC 200-100-040 of \$1,488,458, as of December 31, 2016. The amount of the designated H&W pool reserves as of December 31, 2016 was \$2,785,633. Under the H&W assessment formula, the combined monthly H&W assessments of all H&W pool members reimburses the H&W pool for the H&W claims costs of all members' for the previous month and the member's allocation of shared H&W costs, plus the previous month's operating expenses for the risk pool. (See also paragraph B. above). Therefore, as of 2016 fiscal year-end, the H&W Pool's total funding (\$2,785,633) substantially exceeded the WAC's reserves requirement for the H&W Pool (\$1,488,458).

H. Disclaimer re Ultimate Solvency of H&W Pool or Members and their Health Plans

Because the H&W pool program liability is based on the estimate of IBNR for medical benefits in the actuarial report, and on the administrator's calculations of 8-weeks' of expenditures for prescription drug, dental and vision benefits, this letter provides no opinion and makes no representation as to the risk the known and IBNR claims that make up that program liability pose to the solvency of the H&W pool. However, as a contractual matter, since the interlocal agreement requires each member participating in the H&W pool to pay its H&W assessment on a monthly basis within twenty (20) days of the date it is issued to fully replenish its share of the H&W pool reserves, assuming that these assessment obligations of members under the SIA are enforceable and that the members are at the time solvent and pay such assessments, the H&W pool would have the assets to pay the program liability on behalf of each of its participating members. Further, for reasons discussed above, this letter makes no representations relating to the solvency of any H&W pool member or its health plan, or the ability of the member or health plan to pay its assessments issued by the H&W pool.

State and Independent Audits

PURMS and each of PURMS' risk pools are audited annually by the State Auditor's Office. As required by WAC 200-100-060(3) and 200-110-130(2), on an annual basis, PURMS submits audited financial statements, in the format prescribed by the State Auditor's Office, to the State Risk Manager's Office. Finally, on an annual basis, PURMS engages the services of the accounting firm of Moss Adams to perform a claims audit for each of the risk pools.

NOTE 10 – Postemployment Benefits Other Than Pension Benefit (OPEB)

- A. **Plan Description** – By resolution the District provides three percent per year premium credits based on years of employment for medical, vision, and prescription benefits for qualified retired employees and their eligible dependents. The calculated premium credit is the employer portion of the annual healthcare premium and is a benefit to the retiree as a postemployment benefit; the difference in the healthcare premium is funded by the retiree. The plan is administered by the District and a separate, audited GAAP-basis postemployment benefit plan report is not available. The benefits for both the retirees and active employees are managed through the PURMS Health and Welfare Risk Pool, an agent multiple-employer plan, as described in Note 9.
- B. **Funding Policy** – The District funds its postemployment health care benefits by making Annual Required Contributions (ARC). The District meets its current retiree obligation by paying monthly assessments to the PURMS Health and Welfare Risk Pool. The District also makes contributions to the Other Postemployment Benefits (OPEB) Trust for future retiree health and welfare benefits. The payments made to PURMS, as well as the contributions to the OPEB Trust, are counted toward the District's ARC.
- C. **Annual OPEB Cost and Net OPEB Obligation** – The District's annual OPEB cost is calculated based on the ARC of the employer. The ARC is an amount actuarially determined based on the projected unit credit method, in accordance with the guidance of GASB Statement No. 45. The ARC represents level funding that, if paid on an on-going basis, is projected to cover normal costs each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. The District implemented GASB Statement No. 45 prospectively in 2008. The District's annual required OPEB cost (expense) for 2016 was \$600,864.

Annual Required Contribution	\$	571,602
Interest on Net OPEB Obligation		(193,487)
Adjustment to Annual Required Contribution		<u>222,749</u>
Annual OPEB Cost	\$	600,864

The current year funding of future OPEB costs resulted in a decrease in the net OPEB obligation of \$74,049 with an ending credit balance of \$2,690,057.

Net OPEB Obligation Beginning of Year	\$	(2,764,106)
Annual OPEB Cost		600,864
Benefits paid to retirees from PURMS in excess of premiums		(260,160)
Contributions made to OPEB Trust		<u>(266,655)</u>
Net OPEB Obligation at End of Year	\$	(2,690,057)

The following table shows the components of the District's annual OPEB cost for the year 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation. The negative net OPEB obligation has been recorded as a Net OPEB Asset on the District's Statement of Net Position.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2013	\$744,013	131.8%	(\$2,432,275)
12/31/2014	\$625,183	106.4%	(\$2,472,245)
12/31/2015	\$653,460	144.7%	(\$2,764,106)
12/31/2016	\$600,864	87.7%	(\$2,690,057)

- D. **Funding Status and Funding Progress** – The funded status of the plan as of December 31, 2016, was as follows:

Actuarial accrued liability (AAL)	\$10,135,316
Actuarial value of plan assets	5,643,865
Unfunded actuarial accrued liability (UAAL)	<u>\$4,491,451</u>
Funded ratio (actuarial value of plan assets/AAL)	55.7%
Covered payroll (active plan members)	\$11,968,846
UAAL as a percentage of covered payroll	37.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

- E. **Actuarial Assumptions** – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The January 1, 2016, actuarial valuation, which was used to determine the 2016 ARC, used the Projected Unit Credit Cost Method. The actuarial assumptions included a seven percent investment rate of return on a mix of equities and bonds for the trust, and an annual healthcare cost trend rate of 8.5 percent for pre-65 benefits and six percent for post-65 benefits, reduced in increments to an ultimate rate of five percent after eleven years. Both rates include a two percent inflation assumption. The actuarial value of the plans assets is equal to the market value of the assets. The District's unfunded actuarial accrued liability is being amortized over employment history from the age of hire to retirement age using the level percentage of projected payroll with an open 30-year amortization period.

NOTE 11 – Participation in Northwest Open Access Network, Inc. (NoaNet)

The District, along with nine other Washington State public utility districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fiber leased from the Bonneville Power Administration. This communications backbone throughout Washington assists its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

The District's membership interest in NoaNet is 15.11 percent. The management of NoaNet anticipates meeting the bond debt obligations through profitable operations. NoaNet reserves the rights to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded a decrease in net position (excluding grant proceeds) of \$4,555,622 in 2016, and a decrease of \$5,390,113 for 2015. In accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of the changes in net position has not been recorded by the District. NoaNet had positive net position of \$77,496,151 as of December 31, 2016, and positive net position of \$82,051,773 as of December 31, 2015.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Corporate Office, 5802 Overlook Avenue NE, Tacoma, WA 98422. Their website is available at www.noanet.net.

NOTE 12 – Telecommunications Services

The District was a founding member of NoaNet in 1999. The District began installation of fiber-optic communications for utility use in 1999 after examining various types of infrastructure that could be used to deliver advanced telecommunications services. The resulting research showed that fiber-optic cable provided the most robust and cost-effective solution. Fiber has an extremely long life cycle and almost unlimited bandwidth capacity, which will allow the District to migrate to new technologies without replacing an expensive outside plant infrastructure. The fiber-optic network provides a backbone for the District's utility communications. The District uses its fiber-optic network backbone for internal communications, Supervisory Control and Data Acquisition (SCADA), communications with other utilities, long-haul data transmissions via the Northwest Open Access Network, grid modernization projects, and automated meter infrastructure.

With the passage of wholesale telecommunications authority in 2000 by the Washington State Legislature, high-speed communication capability was brought to Mason County. The District is building out its fiber-optic network to share the benefit of the technology investment. The District is a wholesaler for private service providers and bills the providers directly for wholesale telecommunications services. These private service providers are directly responsible for billing each end-user. The District ended 2016 with 826 end-user active connections and 477 fiber miles as of December 31, 2016.

A summary of telecommunications revenues, expenses, and capital investment for 2016 is listed as follows:

For Year Ended December 31, 2016

Operating revenues

Wholesale fiber services to ISPs	\$	706,439
Installation charges		20,359
<i>Total Operating revenues</i>	\$	726,798
Nonoperating revenue		2,987

Operating expenses

Operating expenses	\$	242,555
Depreciation		120,512
<i>Total Operating expenses</i>		363,067

Change in net position	\$	366,718
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Capital investment

Current year change in net plant	\$	641,762
Cumulative net plant	\$	10,730,419

NOTE 13 – Commitments and Contingencies

Litigation – Any pending or threatened lawsuits against the District are either adequately covered by insurance or would not materially affect the financial statements.

Repayment Agreements Relating to NoaNet Revenue Bonds (see Note 11)

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (2001 Bonds) to finance the repayment of the founding members and the costs of initial construction, operations, and maintenance. The Bonds became due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. In June 2011, NoaNet issued \$13,165,000 in Telecommunications Network Revenue Refunding Bonds (2011 Refunding Bonds) to refinance certain 2001 Bonds. The 2011 Refunding Bonds became due in December 2012 through December 2016 with interest due semi-annually at rates ranging from 0.75% to 3.0%. The final principal payment on the nonrefunded 2001 Bonds was made in December 2011. The Bonds were entirely paid off in 2016.

Energy Northwest – Nine Canyon Wind Project

The Nine Canyon Wind Energy Project is owned and operated by Energy Northwest. The District, along with nine other public utilities, is a participant in Phases I, II, and III of the Project. Under its Power Purchase Agreement, the District is obligated to pay its percentage share of the annual debt service of each project phase and the operation and maintenance costs of the project in return for its percentage share of project output, whether or not the project is operating or capable of operating. Under the agreement, the District is obligated to pay an amended percentage share effective May 2008 when Phase III achieved commercial operation. Under a step-up provision, the District could be required to pay up to a maximum of 125 percent of its percentage share in the event of default by another purchaser. The Agreement limits Energy Northwest's total annual operation and maintenance cost to \$5.4 million prior to Phase III Commercial Operation and to \$7 million post Phase III Commercial Operation. These limits will change annually base on certain inflation indexes.

The agreement terminates July 1, 2030 with an option to extend for an additional five years. The District's applicable percentage share obligations are:

Allocation of Cost	District % Share	District % Share under Step-up Provision
Debt Service - Phase I	2.08%	2.60%
Debt Service - Phase II	6.41%	8.01%
Debt Service - Phase III	3.14%	3.93%
O&M Costs	3.14%	3.93%

NOTE 14 – VEBA Trust

In February 2004, the Board of Commissioners directed the Finance Manager/Auditor to notify Medical Savings Account Voluntary Employees' Beneficiary Association (MSA VEBA) that the District would be terminating its membership in the statewide, employer-directed, tax-exempt medical savings account trust. Because of concerns regarding the financial difficulties of a company in which a major portion of the trust funds was invested, it was decided to explore other possibilities for a trust.

After months of research, on May 11, 2004, the Board voted to proceed with implementing a trust for VEBA for Employees of Washington Public Utility Districts with Mason County Public Utility District No. 3 self-administering the plan. On May 14, 2004, \$1,042,089 in funds was transferred from the MSA VEBA investments to the District. They were subsequently transferred for investment in Vanguard Federal Money Market Funds until employees had an opportunity to choose from three Vanguard Fund investment options.

The District set up a 501(c)(9) trust with the assistance and advice from an attorney with expertise in this area and filed the appropriate forms with the IRS to establish the new trust. The final approval from the IRS for the trust was received in early 2005. The funds held in trust belong to the employees, not the District. Per Resolution 1626, dated August 12, 2014, the trust is administered by the District under supervision of the trustees consisting of a Commissioner, District Manager, Attorney, Treasurer, and Finance Manager.

The December 31, 2016 market value of the trust was \$5,374,177. The allocations between investment options were: short-term investments, bonds, and stocks. During 2016, employer contributions were \$110,636, claims paid equaled \$373,340, and there was a gain of \$440,411 on the investments held in the trust.

NOTE 15 – OPEB Trust

In September 2008, the District's Board of Commissioners passed Resolution No. 1446 establishing an Other Postemployment Benefits (OPEB) Trust. The trust is administered by the District under supervision of the trustees consisting of a Commissioner, District Manager, Attorney, Treasurer, and Finance Manager. An actuary was hired in 2007 to determine the amount of contributions needed each year to meet the obligations required under GASB Statement No. 45.

The District has set up a 115 trust with the assistance and advice from an attorney with expertise in this area and filed the appropriate forms with the Internal Revenue Service to establish the trust. A letter ruling from the IRS for the trust was received in 2009. Per Resolution 1626 dated August 12, 2014, the trust is administered by the District under supervision of the trustees consisting of a Commissioner, District Manager, Attorney, Treasurer, and Finance Manager.

The December 31, 2016 market value of the trust was \$5,643,865, with investments of 0.7 percent in cash or cash equivalents, 70.3 percent in equity mutual funds, and 29 percent in fixed income mutual funds.

Required Supplementary Information

Other Postemployment Benefits

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2008	\$ -	\$ 7,822,974	\$ 7,822,974	0%	N/A	N/A
12/31/2008	\$ 1,322,793	\$ 8,350,651	\$ 7,027,858	15.8%	\$ 8,436,439	83.3%
12/31/2009	\$ 2,250,518	\$ 8,482,596	\$ 6,232,078	26.5%	\$ 8,756,679	71.2%
12/31/2010	\$ 3,061,417	\$ 8,695,591	\$ 5,634,174	35.2%	\$ 9,118,034	61.8%
12/31/2011	\$ 3,672,686	\$ 9,394,609	\$ 5,721,923	39.1%	\$ 9,039,380	63.3%
12/31/2012	\$ 4,425,342	\$ 9,682,948	\$ 5,257,606	45.7%	\$ 9,736,412	54.0%
12/31/2013	\$ 5,493,343	\$ 9,759,889	\$ 4,266,546	56.3%	\$ 10,177,803	41.9%
12/31/2014	\$ 5,620,094	\$ 10,010,256	\$ 4,390,162	56.1%	\$ 10,540,797	41.6%
12/31/2015	\$ 5,352,051	\$ 9,781,213	\$ 4,429,162	54.7%	\$ 11,106,167	39.9%
12/31/2016	\$ 5,643,865	\$ 10,135,316	\$ 4,491,451	55.7%	\$ 11,968,846	37.5%

* Based on projected unit credit actuarial cost method

N/A Indicates data not available

Source: Aldrich Retirement Solutions LP, formerly AKT

Schedule of Employer Contributions

Fiscal Year Ending	Total Employer Contributions	Annual Required Contribution (ARC)	Percentage of ARC Contributed
12/31/2008	\$ 1,577,017	\$ 925,870	170.3%
12/31/2009	\$ 1,275,646	\$ 878,308	145.2%
12/31/2010	\$ 1,071,372	\$ 793,721	135.0%
12/31/2011	\$ 1,205,238	\$ 763,049	158.0%
12/31/2012	\$ 1,213,336	\$ 738,753	164.2%
12/31/2013	\$ 980,835	\$ 720,771	136.1%
12/31/2014	\$ 665,153	\$ 599,434	111.0%
12/31/2015	\$ 945,321	\$ 627,288	150.7%
12/31/2016	\$ 526,815	\$ 571,602	92.2%

Schedule of Proportionate Share of the Net Pension Liability

PERS 1

As of June 30, 2016

Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.093234%	0.088510%	0.089818%
Employer's proportionate share of the net pension liability	\$ 5,007,105	\$ 4,629,896	\$ 4,524,624
Employer's covered employee payroll	\$ 91,506	\$ 88,848	\$ 86,232
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	5472%	5211%	5247%
Plan fiduciary net position as a percentage of the total pension liability	57%	59%	61%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.

Schedule of Proportionate Share of the Net Pension Liability

PERS 2/3

As of June 30, 2016

Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's proportion of the net pension liability (asset)	0.117063%	0.111922%	0.113197%
Employer's proportionate share of the net pension liability	\$ 5,894,030	\$ 3,999,037	\$ 2,288,120
Employer's covered employee payroll	\$ 11,112,407	\$ 10,321,834	\$ 9,782,044
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	53%	39%	23%
Plan fiduciary net position as a percentage of the total pension liability	86%	89%	93%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.

Schedule of Employer Contributions

PERS 1
As of December 31, 2016
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily or contractually required	\$ 543,761	\$ 465,551	\$ 405,692
Employer's proportionate share of the net pension liability	(543,761)	(465,551)	(405,692)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered employee payroll	\$ 102,231	\$ 90,156	\$ 87,540
Contributions as a percentage of covered employee payroll	532%	516%	463%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.

Schedule of Employer Contributions

PERS 2/3

As of December 31, 2016

Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily or contractually required	\$ 695,154	\$ 585,127	\$ 491,803
Employer's proportionate share of the net pension liability	(695,154)	(585,127)	(491,803)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered employee payroll	\$ 11,400,902	\$ 10,591,729	\$ 10,051,939
Contributions as a percentage of covered employee payroll	6%	6%	5%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above. The ten year information will be provided as it is available.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
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