Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Jefferson County

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

Published January 16, 2018

Report No. 1020627

Office of the Washington State Auditor
Pat McCarthy

January 16, 2018

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

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy

State Auditor

Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

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

Audit Period: January 1, 2010 – December 31, 2012	**Report Ref. No.:** 1011579	**Finding Ref. No.:** 2012-001

Finding Caption:
The District's internal controls over financial accounting and financial statement preparation are inadequate to ensure accurate and complete reporting.

Background:
District management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

The District hired an outside consultant to compile the financial statements and notes. The District did not have adequate procedures in place to ensure the financial statements were accurate, timely, complete, and prepared in accordance with Generally Accepted Accounting Principles (GAAP).

In addition, the District lacked procedures to reconcile its year-end cash balances to the bank statements and County Treasurer reports as well as to calculate depreciation correctly.

Status of Corrective Action:

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:
The PUD has taken many steps to ensure accurate, timely and complete financial reporting prepared in accordance with GAAP. These include:

- *Installed industry specific accounting software (NISC) which includes a variety of controls such as workflow procedures for electronic invoice approval.*
- *Provided training to Accounting, key Operations and IT staff in RUS accounting requirements.*
- *Provides on-going training to staff in GAAP, FERC as well as NISC software.*
- *Developed and followed a monthly closing schedule, including assignment of tasks and related due dates. Monthly books are closed within 10 working days. Monthly financial*

statements, including narrative, balance sheet, income statement, statement of cash flows, electric sales report, and ratio report are provided to Commissioners and posted online.

- *Implemented journal entry approval and sign-off procedures. Adjusting journal entries require backup that is filed with the journal entry electronically and hard copy.*
- *Filled the CFO position with a degreed accountant with 30 years' experience in RUS borrower accounting. Although this position is now vacant, we are seeking an individual with a similar background to fill the position.*
- *Hired full time Finance Manager with degree in accounting and 10 years' experience in RUS borrower accounting. Hired a Controller with inactive CPA license and who had hands on experience with BARS manual.*
- *Developed and followed a schedule to reconcile all balance sheet accounts at least annually. One individual charged with reconciling and CFO reviews. Many accounts are reconciled monthly, such as all bank accounts, accounts receiving, inventory, debt, etc.*
- *All electric plant is recorded in Asset Management and properly accounted for per RUS Bulletin 1767B-1 and RUS Bulletin 1767B-2. Asset Management calculates monthly depreciation per rate guidelines in RUS Bulletin 183-1 Depreciation Rates & Procedures.*
- *Developing continuing property records for water utility plant is a work in progress that will be completed by 2017 year-end. These assets will be transferred from a detailed listing in a spreadsheet to our accounting software's Asset Management module. It will be properly accounted for and depreciation charged based on established rates.*
- *Monthly reconciliations have been performed on all bank accounts, including daily verification on cash and check deposits. One employee is responsible for the reconciliation; the CFO or Controller is responsible for reviewing. All adjustments are promptly researched, verified, booked, and reviewed for accuracy. Files are saved on G Server so that all accounting staff and others with security clearance have access.*
- *Continue with ongoing research and implementing additional procedures aimed to further strengthen internal controls and streamline the processing of transactions with accuracy and timeliness.*

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**
January 1, 2013-December 31, 2013	1017250	2013-001

Finding Caption:

The District's internal controls over accounting and financial statement preparation are inadequate to ensure timely and accurate reporting.

Background:

District management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

During the audit period, we noted the following:

- Personnel responsible for recording financial transactions did not have the technical knowledge needed to ensure the accounting records were accurate and complete.
- Inadequate procedures to ensure financial statements were completed accurately and in accordance with Generally Accepted Accounting Principles (GAAP) as well submitted timely in accordance with state law.
- Accounting software was not designed to record transactions in accordance with the District's regulatory accounting requirements.
- Inadequate procedures to reconcile its cash balances and activity to the bank statements and reports from the County Treasurer.
- Inadequate procedures to ensure that journal entries were performed timely, supported, properly reviewed, and authorized.
- Inadequate procedures to ensure capital assets were properly tracked and depreciation was accurately calculated.

Status of Corrective Action:

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

The PUD has taken many steps to ensure accurate, timely and complete financial reporting prepared in accordance with GAAP. These include:

- *Installed industry specific accounting software (NISC) which includes a variety of controls such as workflow procedures for electronic invoice approval.*
- *Provided training to Accounting, key Operations and IT staff in RUS accounting requirements.*
- *Provides on-going training to staff in GAAP, FERC as well as NISC software.*
- *Developed and followed a monthly closing schedule, including assignment of tasks and related due dates. Monthly books are closed within 10 working days. Monthly financial statements, including narrative, balance sheet, income statement, statement of cash flows, electric sales report, and ratio report are provided to Commissioners and posted online.*
- *Implemented journal entry approval and sign-off procedures. Adjusting journal entries require backup that is filed with the journal entry electronically and hard copy.*
- *Filled the CFO position with a degreed accountant with 30 years' experience in RUS borrower accounting. Although this position is now vacant, we are seeking an individual with a similar background to fill the position.*
- *Hired full time Finance Manager with degree in accounting and 10 years' experience in RUS borrower accounting. Hired a Controller with inactive CPA license and who had*

hands on experience with BARS manual.

- *Developed and followed a schedule to reconcile all balance sheet accounts at least annually. One individual charged with reconciling and CFO reviews. Many accounts are reconciled monthly, such as all bank accounts, accounts receiving, inventory, debt, etc.*
- *All electric plant is recorded in Asset Management and properly accounted for per RUS Bulletin 1767B-1 and RUS Bulletin 1767B-2. Asset Management calculates monthly depreciation per rate guidelines in RUS Bulletin 183-1 Depreciation Rates & Procedures.*
- *Developing continuing property records for water utility plant is a work in progress that will be completed by 2017 year-end. These assets will be transferred from a detailed listing in a spreadsheet to our accounting software's Asset Management module. It will be properly accounted for and depreciation charged based on established rates.*
- *Monthly reconciliations have been performed on all bank accounts, including daily verification on cash and check deposits. One employee is responsible for the reconciliation; the CFO or Controller is responsible for reviewing. All adjustments are promptly researched, verified, booked, and reviewed for accuracy. Files are saved on G Server so that all accounting staff and others with security clearance have access.*
- *Continue with ongoing research and implementing additional procedures aimed to further strengthen internal controls and streamline the processing of transactions with accuracy and timeliness.*

Audit Period:	**Report Ref. No.:**	**Finding Ref. No.:**
January 1, 2014 – December 31, 2014	1017248	2014-001

Finding Caption:

The District's internal controls over accounting and financial statement preparation are inadequate to ensure timely and accurate reporting.

Background:

District management is responsible to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

During the audit period, we noted the following:

- Personnel responsible for recording financial transactions did not have the technical knowledge needed to ensure the accounting records were accurate and complete.
- Inadequate procedures to ensure financial statements were completed accurately and in accordance with Generally Accepted Accounting Principles (GAAP) as well submitted timely in accordance with state law.
- Accounting software was not designed to record transactions in accordance with the District's regulatory accounting requirements.
- Inadequate procedures to reconcile its cash balances and activity to the bank statements and

reports from the County Treasurer.

- Inadequate procedures to ensure that journal entries were performed timely, supported, properly reviewed, and authorized.
- Inadequate procedures to ensure capital assets were properly tracked and depreciation was accurately calculated.

Status of Corrective Action:

☒ Fully Corrected	☐ Partially Corrected	☐ Not Corrected	☐ Finding is considered no longer valid

Corrective Action Taken:

The PUD has taken many steps to ensure accurate, timely and complete financial reporting prepared in accordance with GAAP. These include:

- *Installed industry specific accounting software (NISC) which includes a variety of controls such as workflow procedures for electronic invoice approval.*
- *Provided training to Accounting, key Operations and IT staff in RUS accounting requirements.*
- *Provides on-going training to staff in GAAP, FERC as well as NISC software.*
- *Developed and followed a monthly closing schedule, including assignment of tasks and related due dates. Monthly books are closed within 10 working days. Monthly financial statements, including narrative, balance sheet, income statement, statement of cash flows, electric sales report, and ratio report are provided to Commissioners and posted online.*
- *Implemented journal entry approval and sign-off procedures. Adjusting journal entries require backup that is filed with the journal entry electronically and hard copy.*
- *Filled the CFO position with a degreed accountant with 30 years' experience in RUS borrower accounting. Although this position is now vacant, we are seeking an individual with a similar background to fill the position.*
- *Hired full time Finance Manager with degree in accounting and 10 years' experience in RUS borrower accounting. Hired a Controller with inactive CPA license and who had hands on experience with BARS manual.*
- *Developed and followed a schedule to reconcile all balance sheet accounts at least annually. One individual charged with reconciling and CFO reviews. Many accounts are reconciled monthly, such as all bank accounts, accounts receiving, inventory, debt, etc.*
- *All electric plant is recorded in Asset Management and properly accounted for per RUS Bulletin 1767B-1 and RUS Bulletin 1767B-2. Asset Management calculates monthly depreciation per rate guidelines in RUS Bulletin 183-1 Depreciation Rates & Procedures.*
- *Developing continuing property records for water utility plant is a work in progress that*

will be completed by 2017 year-end. These assets will be transferred from a detailed listing in a spreadsheet to our accounting software's Asset Management module. It will be properly accounted for and depreciation charged based on established rates.

- *Monthly reconciliations have been performed on all bank accounts, including daily verification on cash and check deposits. One employee is responsible for the reconciliation; the CFO or Controller is responsible for reviewing. All adjustments are promptly researched, verified, booked, and reviewed for accuracy. Files are saved on G Server so that all accounting staff and others with security clearance have access.*
- *Continue with ongoing research and implementing additional procedures aimed to further strengthen internal controls and streamline the processing of transactions with accuracy and timeliness.*

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Jefferson County, Washington, as of and for the year ended December 31, 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 January 8, 2018. As discussed in Note 1 to the financial statements, during the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Pat McCarthy

State Auditor

Olympia, WA

January 8, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Jefferson County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 16.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Jefferson County, as of December 31, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2016, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 69, *Government Combinations and Disposals of Government Operations*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 16 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 January 8, 2018 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

January 8, 2018

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

As management of Jefferson County PUD #1 (the District), we are providing the District's financial statements and narrative overview and analysis of the financial activities of the District for the calendar years ended December 31, 2016 and 2015. 2016 was the third full year that the District has owned and operated the electrical facilities in Eastern Jefferson County. As result of the acquisition, the PUD's annual budget went from approximately $2,000,000 to over $32,000,000, staffing increased from 10 to over 40 employees, and the number of customers has increased from 4,000 water connections to an additional 19,200 electrical connections. Prior to 2013 the PUD was audited by the State Auditor's Office (SAO) on a 2-year cycle. Copies of audits can be found at http://portal.sao.wa.gov/ReportSearch.

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

Statements included in this comparative Annual Financial Report for 2016 and 2015 are:

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

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

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

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

District Highlights

On April 1, 2013, Jefferson PUD purchased all of the electrical assets of Puget Sound Energy, Inc., (PSE) in Eastern Jefferson County. 2016 was the third full year of the operational and financial ownership of the nearly $76,000,000 of assets, over 18,500 new electrical customers, and the maintenance and operations of an aged electrical system. The PUD's annual budget and revenues increased from roughly $2,000,000 in 2012 to over $32,000,000 in 2016. The PUD's accounting system transitioned from a cash basis to a government accrual system conforming with Federal Energy Regulatory Commission (FERC) and Rural Utilities Service (RUS) accounting requirements. As a result of the increased requirements, the PUD has had to review and adapt its organization, management, and support systems.

In late 2016, the PUD hired a full-time Controller (new position) and in early 2017 hired a new Chief Financial Officer to fill that vacated position.

Implementation of New Billing and Accounting Software
2016 was the first complete year that the PUD operated fully integrated accounting and billing system modules using National Information Solutions Cooperative (NISC) software. In November 2015 the PUD installed, implemented and integrated its new Customer Service and Billing software with new Accounting software, which was installed a year earlier.

Negotiated Union Contracts with IBEW 77 and Local Labor 253.
Two separately negotiated contracts with PUD employees, each for a 4 year term.

Completion of LUD#3 Booster Pump Station.
The final step in the consolidation of multiple water systems into a single larger "Quimper Water System" was completed in 2016.

Completion and Implementation of Electrical Rate increase.
After considerable planning and discussion, the PUD Board of Commissioners approved two electrical rate increases – the first scheduled for January of 2017 and the second to begin in June of 2017.

Grants for Consolidation of Water Systems
The PUD completed several Department of Health (DOH) consolidation grants - one for consolidation of the Shine Platt water system into the Shine water system and, the feasibility for the consolidation of the Quilcene High School water system into the Quilcene water system.

Overview of the Financial Statements

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

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 when earned and expenses when incurred during the year, regardless of when cash is received or paid.

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

Financial Analysis

The following information provides analysis of the 2016 and 2015 comparative financial information provided in the following tables.

CONDENSED STATEMENT OF NET POSITION

	2016	2015	16 - 15 Change
Current assets	$ 18,261,610	$ 18,557,461	-2%
Noncurrent assets	89,780,771	85,882,665	5%
Total assets	108,042,381	104,440,126	3%
Deferred outflows of resources	54,400,938	58,400,007	-7%
Current liabilities	9,095,918	8,662,117	5%
Noncurrent liabilities	118,455,268	122,589,747	-3%
Total liabilities	127,551,186	131,251,864	-3%
Deferred inflows of resources	57,203	367,243	-84%
Net investment in capital assets	16,448,370	11,777,438	40%
Restricted	4,093,250	3,951,629	4%
Unrestricted	14,293,309	15,491,959	-8%
Total net position	$ 34,834,930	$ 31,221,026	12%

Current and Noncurrent Assets

Cash and cash equivalents - Cash accounts decreased approximately $900,000 from 2015 to 2016, primarily due to an increase in the construction of and acquisition of capital assets.

Receivables – Receivables increased by $860,000 in 2016 as compared to 2015. This increase is due in part to an increase in customer accounts receivable at December 31, 2016 of $336,000. In addition the District recorded approximately $400,000 due from the Federal Emergency Management Agency (FEMA) for grants related to the recovery of repair costs from storm damage in 2015.

Material and supplies - Material and supplies decreased $282,000 in 2016. The District implemented revised inventory count procedures and made other improvement in 2016, enabling the PUD to reduce its inventory levels.

Accrued revenues and prepaid expenses – In 2015 the District recorded $2,147,000 in accrued utility revenues for unrecorded electric and water sales occurring in December 2015 which were booked at the time of billing customers in January 2016. In 2016 this amount was increased by $138,000 to a total of $2,285,000 at December 31, 2016. In addition the District had a small increase in prepaid expenses of approximately $27,000.

Noncurrent Assets

Long term portion of assessments receivable – Total assessments receivable was $1,845,000 as of December 31, 2016, of which, $380,000 was the current portion and $1,465,000 was the long-term portion. This was an overall decrease of $408,000 from 2015 as customers paid on their assessments.

Non-utility property – This is comprised of $2,225,000 of land (Peterson Lake) which was acquired for the purpose of conserving state water resources and the protection of the Chimacum Water Basin. Also, in 2016, land with a book value of $2,220 was reclassed from the electric utility plant to non-utility property to reflect its intended purpose.

Restricted assets – The District maintains cash accounts which are restricted to making payment on certain debt obligations. Additionally, in 2016 the District recorded its ownership investment of approximately $9,000 in its software vendor, NISC, a cooperative.

Net Utility plant - Capital improvements in 2016 increased by nearly $6 million. Construction work in progress increased by approximately $1.3 million. Accumulated depreciation increased by approximately $5 million primarily due to depreciation on electric plant in service and asset transfers.

See Note 3 - Utility Plant for additional information.

Current Liabilities

Accounts payable - Increased by approximately $365,000 in 2016 as compared to 2015 due to timing of payables.

Customer deposits – Increased by $18,700 due to growth in our customer base.

Accrued liabilities – Accrued liabilities at December 31, 2016 are relatively consistent with the balance at December 31 ,2015.

Current portion of long-term debt and capital lease – This represents the total of principal payments due in 2017 for the Public Works Trust Fund debt, notes payable and bonds payable.

Noncurrent Liabilities

Public Work Trust Fund & Drinking Water Loans – In 2016 $427,000 was drawn on these loans, $350,000 was paid and $1,348,000 of debt was forgiven as part of the loan agreement.

Notes payable – Notes payable decreased by $3.3 million as the PUD made required debt payments.

Bonds payable- Bonds payable decreased by $339,000 as the PUD made required debt payments.

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

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

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

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

	2016	2015	16 - 15 Change
Operating revenues	$ 34,112,715	$ 34,483,827	-1%
Nonoperating revenues	2,988,556	1,539,082	94%
Total revenues	37,101,271	36,022,909	3%
Operating expenses	31,308,545	28,303,045	11%
Nonoperating expenses	3,360,377	3,514,361	-4%
Total expenses	34,668,922	31,817,406	9%
Income before contributions	2,432,349	4,205,503	-42%
Capital contributions	1,181,555	625,183	89%
Change in net position	3,613,904	4,830,686	-25%
Net position - beginning of year	31,221,026	28,484,234	10%
Change in accounting principle - GASB 68	-	(2,093,894)	-100%
Net position - end of year	$ 34,834,930	$ 31,221,026	12%

Operating Revenues

Operating revenues in 2016 were $371,000 less than 2015. This decrease is due to the District adopting the industry practice of recording accrued but unbilled revenue in 2015. The initial entry recorded in 2015 increased revenues by $2,147,300 and was increased by $138,000 in 2016. When these adjustments are excluded, operating revenues in 2016 would be higher than in 2015 by $1,638,300.

Operating Expenses

Purchased power/water – Purchased power and water increased by $959,000 in 2016. This cost increase is primarily due to the purchase of additional kilowatts of electrical power.

Operations and maintenance - Increased by approximately $808,000 in 2016 as a result of the increased efforts needed to run the electrical division. Costs related to the Water division remain consistent.

Administrative and general - This increased by $537,000 in 2016, primarily due to the addition of staff positions and professional services obtained during 2016.

Taxes – Taxes increased $102,500 in 2016 as a result of higher revenues billed.

Depreciation and amortization - Increased $605,000 in 2016.

Nonoperating Revenues/Expenses

Nonoperating revenues – In 2016 nonoperating revenues were $1.4 million higher than 2015. The 2016 increase in revenue is due to debt forgiveness on State drinking water debt, plus grants received by the water division from the DOH and grants received by the electric division from FEMA.

Nonoperating expenses – Interest expense decreased $154,000 in 2016 due to the paydown of debt principal.

Contacting the District

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

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
CONSOLIDATED STATEMENT OF NET POSITION
DECEMBER 31, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS	
Cash and cash equivalents	$ 10,949,622
Receivables	
Accounts and contracts, net	2,434,578
Assessments (current portion)	380,457
Other	659,044
Materials and supplies	1,525,182
Accrued revenues and prepaid expenses	2,312,727
Total current assets	18,261,610
NONCURRENT ASSETS	
Long term portion of assessments receivable	1,464,612
Non-utility property	2,227,220
Restricted assets	
Cash	4,093,250
Investments	8,886
Net Utility plant	81,986,803
Total noncurrent assets	89,780,771
Total assets	108,042,381
DEFERRED OUTFLOWS OF RESOURCES	
Excess consideration provided for acquisition	53,637,395
Deferred pension outflows	763,543
Total deferred outflows of resources	54,400,938
Total assets and deferred outflows of resources	$ 162,443,319

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
CONSOLIDATED STATEMENT OF NET POSITION
DECEMBER 31, 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2016
CURRENT LIABILITIES	
Accounts payable	$ 3,686,499
Customer deposits	125,100
Accrued liabilities	1,343,785
Current portion of long term debt	3,940,534
Total current liabilities	9,095,918
NONCURRENT LIABILITIES	
PWTF loans payable	3,386,953
Notes payable	107,731,068
Bonds payable	4,117,273
Other noncurrent liabilities	43,197
Net pension liability	3,176,777
Total noncurrent liabilities	118,455,268
Total liabilities	127,551,186
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows	57,203
Total deferred inflows of resources	57,203
NET POSITION	
Net investment in capital assets	16,448,370
Restricted	4,093,250
Unrestricted	14,293,310
Total net position	34,834,930
Total liabilities, deferred inflows of resources, and net position	$ 162,443,319

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016

	2016
OPERATING REVENUES	
Power sales to retail and commercial customers	$ 31,586,675
Water sales to retail and commercial customers	2,024,953
Other charges for service	501,087
Total operating revenue	34,112,715
OPERATING EXPENSES	
Purchased power	13,375,041
Purchased water	28,263
Operations and maintenance	7,570,474
Administrative and general	2,655,638
Taxes	2,001,042
Depreciation and amortization	5,678,087
Total operating expenses	31,308,545
Operating income	2,804,170
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(3,360,377)
Other non-operating revenues and expenses	2,988,556
Total nonoperating revenues (expenses)	(371,821)
Income before capital contributions	2,432,349
CAPITAL CONTRIBUTIONS	1,181,555
CHANGE IN NET POSITION	3,613,904
NET POSITION	
Beginning of year	31,221,026
End of year	$ 34,834,930

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 35,460,486
Payments to suppliers for goods and services	(22,606,703)
Payments to employees for services	(2,383,160)
Net cash from operating activities	10,470,623
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments received on assessments	407,573
Net nonoperating revenues (expenses)	1,471,565
Net cash from noncapital financing activities	1,879,138
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds on new debt	427,267
Principal payments on debt	(3,900,219)
Interest paid	(3,360,377)
Capital contributions	1,181,555
Acquisition and construction of capital assets	(7,755,039)
Net cash used by capital and related financing activities	(13,406,813)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts of interest	159,856
NET CHANGE IN CASH AND CASH EQUIVALENTS	(897,196)
CASH AND CASH EQUIVALENTS	
Beginning of year	15,940,068
End of year	$ 15,042,872
CASH AND CASH EQUIVALENTS AT YEAR END CONSIST OF	
Operating cash and cash equivalents	$ 10,949,622
Restricted cash and cash equivalents	4,093,250
	$ 15,042,872

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
YEARS ENDED DECEMBER 31, 2016

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO CASH FLOWS FROM OPERATING ACTIVITIES	
Net operating revenues (expense)	$ 2,804,170
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities	
Depreciation and amortization	5,678,087
Changes in operating assets and liabilities	
Receivables	1,347,771
Materials and supplies	282,498
Prepaid expenses and other current assets	(452,385)
Accounts payable, customer deposits, and prepayments	868,695
Accrued compensation, benefits, and taxes	(58,213)
Net cash from operating activities	$ 10,470,623

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Contribution in aid of construction	$ 299,384
Drinking Water Loan debt forgiveness	1,348,250
Acquisition of capital assets	-
Total noncash investing, capital and financing activities	$ 1,647,634

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note 1 - Summary of Significant Accounting Policies

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

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

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

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

Revenue recognition and unbilled revenue - The Electric System and Water System utilize the accrual basis of accounting where revenues are recognized as earned on rates established by the District's Board of Commissioners. Beginning in 2015 the District began the industry practice of estimating unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31. This estimate is then recorded as unbilled revenue for the current year. Unbilled revenue recorded in 2016 was $138,004 and the related accrued balance as of December 31, 2016 was $2,285,313.

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

New accounting standards – On January 1, 2016 the District implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* The primary objective of GASB Statement No. 69 is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. GASB Statement No. 69 establishes criteria for identifying government combinations, as well as criteria for distinguishing between different types of government combinations (merger versus acquisition versus transfer of operations). In general, carrying value is used to measure assets and liabilities in merger and transfer of operations transactions, while acquisition values are used to measure assets and liabilities in government acquisitions.

Upon implementation of this standard, the District adjusted the value of the electric utility infrastructure acquired in 2013 from Puget Sound Energy, Inc. to its acquisition value and recognized a deferred outflow of resources. Asset values and accumulated depreciation were reduced by $34,528,730 and $23,394,701, respectively, and a deferred outflow of resources in the amount of $57,923,431 was recognized.

Receivables and allowance for uncollectible accounts - All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Assessments receivable represent the future amounts due on improvement district assessments. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers who may be unable to meet their financial obligations, and a reserve based on historical experience of accounts with balances of greater than 90 days past due. The allowance for uncollectible balances as of December 31, 2016 was $101,600.

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

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

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

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

Materials and supplies - Materials and supplies are valued at weighted average cost.

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

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

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

Buildings	33 - 50 years
Equipment	5 - 28 years
Electric, water, and sewer systems	25 - 50 years
Office and computer equipment	5 - 20 years

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

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

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

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

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

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

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

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

Note 2 - Cash, Deposits, and Investments

Custodial credit risk is the risk that in event of a failure of the counterparty to an investment transaction the District would not be able to recover the value of the investment or collateral securities. All of the District's bank deposits are entirely covered by federal depository insurance (FDIC) and/or the Washington Public Deposit Protection Commission (PDPC).

In accordance with the District's Financial Policy, the Jefferson County Treasurer (Treasurer) acts as the treasurer for the District and, as such, fully invests funds not needed for current operations. The District does not hold any other investments and therefore does not have a policy for custodial risk.

As of December 31, 2016, the District's investments were invested by the Treasurer in the State of Washington Local Government Investment Pool (LGIP) or time certificates. The LGIP is a voluntary investment vehicle operated by the Washington State Treasurer, serving all 39 counties in Washington state and many cities, towns, special taxing districts, and other public bodies. Additional information about the LGIP, including the LGIP's investment policies and comprehensive annual financial report, can be found at https://tre.wa.gov/partners/for-local-governments/local-government-investment-pool-lgip/. All investments are insured, registered or held by the Treasurer or its agent in the Treasurer's name. Investments are reported at original cost. The District has no securities lending transactions, no investments in derivative instruments, and no compensating balances.

Note 3 - Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. For electric utility plant assets, the District follows the directive under the Rural Utilities Service (RUS) Bulletin 1767B-2, *Work Order Procedure*, when capitalizing assets. Depreciation expense is computed using the composite rate method over useful lives of 15 to 50 years. For water utility and other assets, the District capitalizes assets with costs in excess of $1,000. Depreciation expense is computed using the straight-line method employing useful lives of 5 to 50 years. Repairs are charged to operating expenses.

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

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

Note 3 - Utility Plant (continued)

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

Following is a summary of 2016 changes in capital assets:

	Balance 1/1/2016	Additions	Transfers & Deletions	Balance 12/31/2016
Capital assets not being depreciated				
Land	$ 1,241,815	$ 25,751	$ (2,220)	$ 1,265,346
Construction in progress	3,773,596	1,286,733		5,060,329
Capital assets being depreciated				
Buildings	1,012,517	414,702		1,427,219
Office/computer equipment	488,396	80,451		568,847
Equipment	86,489,441	6,754,492	(1,678,782)	91,565,151
Water and sewer systems	28,264,065	2,345,497	(18,467)	30,591,095
Less accumulated depreciation	(43,418,794)	(3,515,407)	(1,556,983)	(48,491,184)
Totals	$ 77,851,036	$ 7,392,219	$ (3,256,452)	$ 81,986,803

Note 4 - Long-Term Debt

Long-term debt of the District as of December 31, 2016 consists of Revenue Bonds, private debt for the purchase of property, and Public Works Trust Fund (PWTF) & Drinking Water loans. Revenues of the District are pledged to pay related debt. Additionally, all revenue bonds require a portion of cash and cash equivalents to be reserved for future debt retirement. The Jefferson County Treasurer has established sufficient reserves and District management believes that the District is in compliance with all debt covenants. The District has no arbitrage liability with respect to bond issuances. The following tables summarize the District's long term debt obligations as of December 31, 2016.

	Issue Date	Issue Amount	Outstanding 2016
Rural Utilities Services Federal Financing Bank Loan for the Acquisition of PSE Electrical Plant Assets			
PUD-JEFF 001-001 - Quarterly P&I payments of $1,482,454 maturing December 2041 with interest at 2.728%	3/13	$ 114,743,000	$ 108,743,895
PUD-JEFF 001-002 - Quarterly P&I payments of $10,725 maturing December 2041 with interest at 3.433%	8/13	764,000	727,906
Subtotal			109,471,801

Note 4 - Long-Term Debt (continued)

	Issue Date	Issue Amount	Outstanding 2016
Public Works Trust Fund & Drinking Water Loans			
PW-99-691-ELP-301: Sound View Villa - Annual principal payments of $5,140 plus interest at 5.0% maturing July 2019	9/99	$ 97,663	$ 15,421
PW-00-65120-008: Snow Creek Ranch - Annual principal payments of $8,272 plus interest 2.5% maturing October 2021	3/03	157,168	41,360
PW-02-691-066: City of Port Townsend - Annual principal payments of $69,807 plus interest at 1.0% maturing June 2018	10/02	1,186,719	139,614
PW-05-691-024: Beckett Pt - Annual principal payments of $50,776 plus interest at 0.50% maturing July 2025	5/05	948,924	456,982
PW-05-691-025: Marrowstone Island - Annual principal payments of $108,806 plus interest at 0.50% maturing July 2025	6/06	2,000,000	979,257
DM10-952-018: Sparling Well/Quimper - Annual principal payments of $26,887 plus interest at 1.0% maturing October 2044. $803,750 of debt was forgiven in 2016.	8/11	1,607,500	752,839
DM12-952-091: Kala Point - Annual principal payments of $27,225 plus interest at 1.0% maturing October 2035. $544,500 of debt was forgiven in 2016.	11/12	1,089,000	517,275
DM13-952-177: Sparling Water Treatment - Annual principal payments of $29,108 plus interest at 1.0% maturing October 2037.	4/14	582,162	801,182
98-78898-021: Kala Point Reservoir & Meters - Annual principal payments of $11,051 plus interest at 3.35% maturing October 2019.	10/95	212,644	33,154
Subtotal			3,737,084

Note 4 - Long-Term Debt (continued)

	Issue Date	Issue Amount	Outstanding 2016
Notes Payable			
Kala Point Water System - Annual principal payments of $50,000 with 0% interest maturing October 2024.	10/12	600,000	350,000
Peterson Lake Loan - Monthly P&I payments of $14,329 maturing March 2026 with interest at 6%	3/06	2,000,000	1,210,078
Subtotal			1,560,078
Revenue Bonds for Water & Sewer Systems			
LUD 11: Bywater Way & Shine - Serial Bonds $50,000 - $315,000 due through May 2019 with interest at 5.25%	4/99	$ 1,090,000	$ 415,000
LUD 14: Marrowstone Island - Serial Bonds $102,000 - $173,000 due through March 2026 with interest at 4.15% - 6.75%	3/09	2,000,000	1,353,000
LUD 15: Beckett Point - Annual P&I payments of $86,509 due through May 2025 with interest at 3.99%	5/08	1,053,076	104,652
Tri-Area (USDA) - Semi-annual P&I payments of $82,381 with interest at 4.5% maturing April 2043	4/03	3,043,250	2,534,212
Subtotal			4,406,864
Total long-term debt			119,175,827
Other Long-Term Liabilities			
Compensated Absences			301,240
Pension Liability			3,176,777
Total other long-term liabilities			3,478,017
Total long-term liabilities			$ 122,653,844

Note 4 - Long-Term Debt (continued)

During the year ended December 31, 2016, the following changes occurred in the District's long-term debt:

	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Due Within One Year
RUS Loans	$ 112,516,871	$ -	$ 3,045,070	$ 109,471,801	$ 3,157,439
Public Works Trust Fund loans	5,008,200	427,267	1,698,383	3,737,084	350,132
Notes payable	1,714,019	-	153,941	1,560,078	143,372
Bonds payable	4,736,407	-	329,543	4,406,864	289,592
Capital leases payable	21,532	-	21,532	-	-
Sub-total	123,997,029	427,267	5,248,469	119,175,827	3,940,534
Compensated absences	283,245	17,995	-	301,240	258,043
Pension liability	2,381,676	795,101		3,176,777	-
Total long-term debt	$ 126,661,950	$ 1,240,363	$ 5,248,469	$ 122,653,844	$ 4,198,577

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

	Electric System	Water System	Combined as of 12/31/2016
Principal			
2017	$ 3,157,439	$ 783,096	$ 3,940,534
2018	3,247,109	744,989	3,992,098
2019	3,317,436	931,922	4,249,358
2020	3,404,835	616,346	4,021,181
2021	3,474,557	633,513	4,108,070
2022 - 2026	18,921,424	2,983,235	21,904,660
2027 - 2031	21,524,187	919,735	22,443,922
2032 - 2036	24,511,178	959,578	25,470,756
2037 - 2041	27,913,636	818,465	28,732,101
2042 - 2044	-	313,148	313,148
	$ 109,471,801	$ 9,704,026	$ 119,175,827
Interest			
2017	$ 2,815,275	$ 320,423	$ 3,135,698
2018	2,725,604	297,763	3,023,367
2019	2,655,278	269,409	2,924,687
2020	2,567,878	242,898	2,810,776
2021	2,498,156	224,053	2,722,210
2022 - 2026	10,942,144	794,721	11,736,864
2027 - 2031	8,339,381	431,270	8,770,651
2032 - 2036	5,352,390	297,965	5,650,355
2037 - 2041	1,949,931	147,847	2,097,778
2042 - 2044		12,059	12,059
	$ 39,846,038	$ 3,038,408	$ 42,884,446

Note 5 - Pension Plans

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

Aggregate Pension Amounts – All Plans		
Pension liabilities	$	3,176,777
Pension assets		0
Deferred outflows of resources		763,543
Deferred inflows of resources		57,203
Pension expense/expenditures		552,878

State Sponsored Pension Plans

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

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 composed of three separate pension plans for membership purposes. PERS Plans 1 and 2 are defined benefit plans, and PERS Plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1 Actual Contribution Rates 2016:	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 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3% for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service is earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3

Actual Contribution Rates 2016:	Employer 2/3	Employee 2
PERS Plan 2/3	6.23%	6.12%
PERS Plan1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%

The District's actual contributions to the plan were $153,848 to PERS Plan 1 and $200,938 to PERS Plan 2/3 for the year ended December 31, 2016.

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% 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% Scale BB. Mortality rates are applied on a generational basis, meaning that each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

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

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

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
PERS 1	$ 1,741,269	$ 1,443,959	$ 1,188,105
PERS 2/3	3,190,430	1,732,818	(902,032)

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 total pension liability of $3,176,777 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	1,443,959
PERS 2/3	1,732,818

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

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.0241890%	0.0268870%	0.0026980%
PERS 2/3	0.0312440%	0.0344160%	0.0031720%

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

The collective net pension liability (asset) was measured as of June 30, 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	228,277
PERS 2/3	324,601
Total	552,878

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
Difference between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	36,357	-
Changes of assumptions	-	-
Changes in proportion and difference between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	80,057	-
	$ 116,414	$ -

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 92,271	$ -
Net difference between projected and actual investment earnings on pension plan investments	212,047	57,203
Changes of assumptions	17,910	-
Changes in proportion and difference between contributions and proportionate share of contributions	220,340	-
Contributions subsequent to the measurement date	104,561	-
	$ 647,129	$ 57,203

Note 5 - Pension Plans (continued)

Combined 1 and PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 92,271	$ -
Net difference between projected and actual investment earnings on pension plan investments	248,404	57,203
Changes of assumptions	17,910	-
Changes in proportion and difference between contributions and proportionate share of contributions	220,340	-
Contributions subsequent to the measurement date	184,618	-
	$ 763,543	$ 57,203

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:

	PERS 1	PERS 2/3
2017	$ (8,952)	$ 80,566
2018	(8,952)	80,566
2019	33,390	211,795
2020	20,870	112,440
2021	-	-
Thereafter	-	-

Note 6 – Insurance and Risk Management

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

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

Note 6 - Insurance and Risk Management (continued)

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

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

Each of the PURMS Risk Pools is audited annually by the State Auditor's Office. In addition, as required by State regulations, PURMS provides quarterly financial reports to the State Risk Manager reflecting the claims and administrative expenses of the Risk Pools, and bi-annually, the State Risk Manager performs its own audit of PURMS' Risk Pools.

Liability risk pool - The liability risk pool has a $1 million liability coverage limit per occurrence. In addition, the fund maintains $35 million, per occurrence, of excess general liability insurance and $35 million, per occurrence, of professional liability insurance over the $1 million retention. A second layer of excess general liability insurance of $25 million, per occurrence, over the first layer of $35 million is also available to those members that choose to participate. The District did not participate in the second layer of coverage in 2016. The fund maintains $35 million of excess coverage for public officials, with a $500,000 retention. The deductible is $250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to $500,000 less than the designated level. The designated reserve level was $3.25 million at December 31, 2016. The District paid assessments in 2016 totaling $104,560.

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

The designated property pool reserve balance is $750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below $500,000. The District paid assessments in 2016 totaling $58,058.

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

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

Note 6 – Insurance and Risk Management (continued)

The exposure of each Participant is limited by two different pairs of stop-loss points. For 2016, the Individual Stop Loss Point was $275,000 per Employee and the Aggregate Stop Loss Point was $16,972,611 for the combined Claims Costs of the Employees of all Participants of the H&W Pool.

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

Note 7 - Commitments and Contingencies

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

Union contract - The District employs approximately 70% of its workforce under collective bargaining agreements. The contract with IBEW Local 77 covers the electrical operations and expires in May 2020. The office and water staff are covered under a contract with Local Labor 252 which ends in December, 2020.

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

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

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

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

In July 2001, NoaNet issued $27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of startup funds advanced by founding members and the initial costs of construction and commissioning. The NoaNet members and several former NoaNet members entered into a repayment agreement under which they are responsible for debt payments to the extent that NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations. The Revenue Bonds were paid in full in 2016.

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

In 2012, NoaNet established a nonrevolving line of credit in the amount of $5 million for capital financing of sale opportunities. In September 2014, NoaNet established an additional line of credit in the amount of $1 million on which an additional draw in the amount of $1 million was taken during the year, bringing the total balance to $2 million. Both the 2012 and 2014 lines of credit were subsequently refinanced through a $13 million line of credit established in December 2014. NoaNet can assess its members for their percentage share of principal and interest on the line of credit. The outstanding balance on the line of credit was $9,391,647 as of December 31, 2016 and the District's percentage share was 0.21% in 2016. No assessments were charged in 2016.

NoaNet incurred a net loss from operations of $7,120,496 in 2016.

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

Note 9 - Segment Reporting

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric Division	Water Division	Administrative Division	Consolidated Total Year Ended December 31, 2016
CURRENT ASSETS				
Cash and cash equivalents	$ 7,655,438	$ 83,094	$ 3,211,090	$ 10,949,622
Receivables				
Accounts and contracts, net	2,341,455	93,123	-	2,434,578
Assessments (current portion)	-	380,457	-	380,457
Other	658,944	100	-	659,044
Materials and supplies	1,517,311	7,871	-	1,525,182
Prepaid expenses and other	2,285,135	27,592	-	2,312,727
Total current assets	14,458,283	592,237	3,211,090	18,261,610
NONCURRENT ASSETS				
Long term portion of assessments receivable	-	1,464,612	-	1,464,612
Non-Utility Plant	2,220		2,225,000	2,227,220
Restricted assets				
Cash	1,101,272	2,991,978	-	4,093,250
Investments	8,886	-	-	8,886
Net Utility plant	59,851,730	22,135,073	-	81,986,803
Total noncurrent assets	60,964,108	26,591,663	2,225,000	89,780,771
Total assets	75,422,391	27,183,900	5,436,090	108,042,381
DEFERRED OUTFLOWS OF RESOURCES				
Excess consideration provided for acquisition	53,637,395	-	-	53,637,395
Deferred pension outflows	642,617	120,457	469	763,543
Total deferred outflows of resources	54,280,012	120,457	469	54,400,938
Total assets and deferred outflows of resources	$ 129,702,403	$ 27,304,357	$ 5,436,559	$ 162,443,319

Note 9 - Segment Reporting (continued)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Electric Division	Water Division	Administrative Division	Consolidated Total Year Ended December 31, 2016
CURRENT LIABILITIES				
Accounts payable	$ 3,686,499	$ -	$ -	$ 3,686,499
Customer deposits	123,800	1,300	-	125,100
Inter-Division Payables/(Receivables)	3,818,399	(5,104,037)	1,285,638	-
Accrued liabilities	1,239,707	104,078	-	1,343,785
Current portion of capital lease and long term debt	3,157,439	689,723	93,372	3,940,534
Total current liabilities	12,025,844	(4,308,936)	1,379,010	9,095,918
NONCURRENT LIABILITIES				
PWTF loans payable	-	3,386,953	-	3,386,953
Notes payable	106,314,362	300,000	1,116,706	107,731,068
Bonds payable	-	4,117,273	-	4,117,273
Other noncurrent liabilities	43,197	-	-	43,197
Net pension liability	2,671,505	503,972	1,300	3,176,777
Total noncurrent liabilities	109,029,064	8,308,198	1,118,006	118,455,268
Total liabilities	121,054,908	3,999,262	2,497,016	127,551,186
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	46,356	11,354	(507)	57,203
Total deferred inflows of resources	46,356	11,354	(507)	57,203
NET POSITION				
Net investment in capital assets	4,017,324	13,641,124	(1,210,078)	16,448,370
Restricted	1,101,272	2,991,978	-	4,093,250
Unrestricted	3,482,542	6,660,639	4,150,128	14,293,310
Total net position	8,601,139	23,293,741	2,940,050	34,834,930
Total liabilities, deferred inflows of resources, and net position	$ 129,702,403	$ 27,304,357	$ 5,436,559	$ 162,443,319

Note 9 - Segment Reporting (continued)

CONSOLIDATING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Electric Division	Water Division	Administrative Division	Consolidated Total Year Ended December 31, 2016
OPERATING REVENUES				
Power sales to retail and commercial customers	$ 31,586,675	$ -	$ -	$ 31,586,675
Water sales to retail and commercial customers	-	2,024,953	-	2,024,953
Other charges for service	396,406	104,453	228	501,087
Total operating revenue	31,983,081	2,129,406	228	34,112,715
OPERATING EXPENSES				
Purchased power	13,368,925	34,379	-	13,403,304
Operations and maintenance	6,626,661	943,814	-	7,570,475
Administrative and general	1,813,283	504,272	338,083	2,655,638
Taxes	1,893,389	107,653	-	2,001,042
Depreciation and amortization	4,966,858	711,228	-	5,678,086
Total operating expenses	28,669,116	2,301,346	338,083	31,308,545
Operating income (loss)	3,313,965	(171,940)	(337,855)	2,804,170
NONOPERATING REVENUES (EXPENSES)				
Taxes	-	-	507,349	507,349
Interest income	39,022	110,993	9,841	159,856
Timber harvest tax and other	-	-	40,693	40,693
Interest expense	(3,068,150)	(213,655)	(78,571)	(3,360,376)
Other nonoperating revenues (expenses)	850,478	1,409,782	20,397	2,280,657
Total nonoperating revenues (expenses)	(2,178,650)	1,307,120	499,709	(371,821)
Income before capital contributions	1,135,315	1,135,180	161,854	2,432,349
CAPITAL CONTRIBUTIONS	717,279	464,276	-	1,181,555
CHANGE IN NET POSITION	1,852,593	1,599,456	161,854	3,613,904
ACCUMULATED NET POSITION				
Beginning of year	6,748,545	21,694,285	2,778,196	31,221,026
End of year	$ 8,601,138	$ 23,293,741	$ 2,940,050	$ 34,834,930

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30
LAST 10 FISCAL YEARS*

	PERS 1		
	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.0268870%	0.0241890%	0.0202030%
Employer's proportionate share of the net pension liability	$ 1,443,959	$ 1,265,310	$ 1,017,736
Employer's covered employee payroll	$ 1,732,818	$ 1,116,366	$ 525,796
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	83.33%	113.34%	193.56%
Plan fiduciary net position as a percentage of the total pension liability	57.03%	59.10%	61.19%

	PERS 2/3		
	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.0344160%	0.0312440%	0.0260120%
Employer's proportionate share of the net pension liability	$ 1,732,818	$ 1,116,366	$ 525,796
Employer's covered employee payroll	$ 3,253,889	$ 2,805,150	$ 2,297,210
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	53.25%	39.80%	22.89%
Plan fiduciary net position as a percentage of the total pension liability	85.82%	89.20%	93.29%

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON
SCHEDULE OF EMPLOYER CONTRIBUTIONS AS OF DECEMBER 31
LAST 10 FISCAL YEARS*

	PERS 1		
	2016	2015	2014
Statutorily or contractually required contributions	$ 153,848	$ 134,157	$ 103,742
Contributions in relation to the statutorily or contractually required contributions	(153,848)	(134,157)	(103,742)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employer payroll	$ 3,225,327	$ 3,025,349	$ 2,571,386
Contributions as a percentage of covered employee payroll	4.77%	4.43%	4.03%

	PERS 2/3		
	2016	2015	2014
Statutorily or contractually required contributions	$ 200,938	$ 172,658	$ 128,454
Contributions in relation to the statutorily or contractually required contributions	(200,938)	(172,658)	(128,454)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employer payroll	$ 3,225,327	$ 3,025,349	$ 2,571,386
Contributions as a percentage of covered employee payroll	6.23%	5.71%	5.00%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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