Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 3 of Mason County

For the period January 1, 2021 through December 31, 2021

Published June 30, 2022

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Office of the Washington State Auditor
Pat McCarthy

June 30, 2022

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

Report on Financial Statements

Please find attached our report on Public Utility District No. 3 of Mason County's financial statements.

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

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

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TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

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

Public Utility District No. 3 of Mason County
January 1, 2021 through December 31, 2021

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 23, 2022.

REPORT ON 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described above 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 or significant deficiencies may exist that were not identified.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

PURPOSE OF THIS REPORT

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

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Public Utility District No. 3 of Mason County
January 1, 2021 through December 31, 2021

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards*, includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pat McCarthy, State Auditor

Olympia, WA

June 23, 2022

FINANCIAL SECTION

Public Utility District No. 3 of Mason County
January 1, 2021 through December 31, 2021

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

As management of Mason County PUD No. 3 (District), we offer readers of the District's financial statements this narrative, overview, and analysis of financial activities for the fiscal year ended December 31, 2021. Information within this section should be used in conjunction with the basic financial statements and accompanying notes, as well as the additional information furnished in our letter of transmittal.

Financial Highlights

- The assets and deferred outflow of resources of the District exceeded its liabilities and deferred inflow of resources at the close of fiscal year 2021 by $101.5 million (net position). Of this amount, $8.7 million represents unrestricted net position, which may be used to meet the District's ongoing obligations. Net investment in capital assets (net of depreciation and related debt) was $88.1 million and accounted for 87 percent of the District's net position. The District's overall total net position increased $7 million from 2020 to $101.5 million in 2021.

- The District's total net assets increased by $15.1 million over the previous year and net liabilities decreased by $4.5 million. These differences were mainly due to the District's participation in the Department of Retirement Systems (DRS) PERS Plan. PERS Plan 2/3 became overfunded in 2021 which resulted in the District reporting a net pension asset of $12.5 million at year-end. For PERS Plan 1, the District recognized a decrease in net pension liability of $3.5 million. The pension reporting also resulted in an increase of pension deferred inflows of resources in the amount of $11.5 million.

Overview of the Financial Statements

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

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

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

The basic financial statements, presented for the year ended December 31, 2021, are comprised of:

- **Statement of Net Position:** The Statement of Net Position presents information on the District's assets, liabilities, deferred outflows and inflows of resources, and net position (equity) of the District at year-end. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.

- **Statement of Revenues, Expenses, and Changes in Net Position:** This statement reflects the transactions and events that have increased or decreased the District's total economic resources during the most recent fiscal year. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or nonoperating based on the nature of the transaction.

- **Statement of Cash Flows:** The Statement of Cash Flows reflects the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing.

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

The District maintained one fiduciary fund in 2021. The Other Postemployment Benefits (OPEB) Plan fund is used to report resources held in trust for health care benefits for retired employees and their beneficiaries.

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

Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. The District's assets and deferred outflows exceeded liabilities and deferred inflows by $101.5 million at the close of fiscal year 2021.

Statement of Net Position (in thousands)

	2021	2020	Increase (Decrease)	% Change
Assets and Deferred Outflows of Resources				
Current Assets	$ 25,878	$ 24,775	$ 1,103	4.45%
Noncurrent Assets	32,667	19,531	$ 13,136	67.26%
Utility Plant	150,736	149,887	849	0.57%
Total Assets	209,281	194,193	15,088	7.77%
Deferred Outflows of Resources	7,481	8,315	(834)	-10.03%
Liabilities and Deferred Inflows of Resources				
Current Liabilities	15,014	12,372	2,642	21.35%
Noncurrent Liabilities	79,908	87,087	(7,179)	-8.24%
Total Liabilities	94,922	99,459	(4,537)	-4.56%
Deferred Inflows of Resources	20,366	8,613	11,753	136.46%
Net Position				
Net Investment in Capital Assets	88,098	87,283	815	0.93%
Restricted	4,664	1,393	3,271	234.82%
Unrestricted	8,713	5,760	2,953	51.27%
Total Net Position	**$ 101,475**	**$ 94,436**	**$ 7,039**	**7.45%**

By far the largest portion of the District's net position (87 percent) reflects its investment in capital assets (e.g., land, buildings, substations, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the District's investments in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's noncurrent assets increased by $13.1 million over the previous year. This is mainly due to the District's participation in the Washington State Department of Retirement Systems (DRS) PERS Plan which reported significant positive earnings in 2021. Specifically, PERS Plan 2/3 reported being overfunded at year-end 2021 causing the District to report a net pension asset of $12.5 million.

The Districts noncurrent liabilities decreased by $7.2 million in 2021. This decrease is partially due to the District's Net Pension Liability decreasing $3.5 million due to DRS PERS Plan 1 positive earnings. The decrease in noncurrent liabilities is also attributed to the District refinancing its 2010B Bonds by taking advantage of historically low interest rates in 2020 and restructuring debt service payments. The District restructured its debt by postponing principal amounts owing on the 2020 Bonds until 2022. With this restructuring, the District's long-term debt decreased $1.8 million, and the current outstanding debt increased $1.8 million in 2021. The increase in District's current outstanding debt was the main contributor to the overall increase in current liabilities of $2.6 million.

An additional portion of the District's net position (four percent) represents resources that are subject to external restrictions on how they may be used. In 2021, the restricted net position increased by $3.3 million which was mainly due the PERS Plan 2/3 earnings which resulted in a $2.3 million net position restriction of net pension asset and associated deferred inflows and deferred outflows.

The remaining net position (nine percent) is unrestricted and may be used to meet the District's ongoing obligations. The unrestricted net position increased mainly due to recording the net pension asset adjustment.

At the end of the 2021 fiscal year, the District reported positive balances in all categories of net position. The same was true for the prior fiscal year.

The District's overall net position increased $7 million from the prior fiscal year. The reasons for this increase are discussed in the following sections.

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

	2021	2020	Increase (Decrease)	% Change
Operating Revenues				
Utility Sales and Service Fees	$ 71,024	$ 67,790	$ 3,234	4.77%
Other Operating Revenues	5,119	4,399	720	16.37%
Nonoperating Revenues				
Interest Income	36	260	(224)	-86.15%
Net Increase (Decrease) in the Fair Value of Investments	(54)	(61)	7	-11.48%
Other Income	1,001	1,593	(592)	-37.16%
Total Revenues	77,126	73,981	3,145	4.25%
Operating Expenses				
Power Supply	30,481	30,131	350	1.16%
Operations, Maintenance, and Admin & General	22,588	24,591	(2,003)	-8.15%
Taxes and Depreciation Expense	13,234	12,363	871	7.05%
Nonoperating Expenses				
Other Expense	1,865	588	1,277	217.18%
Interest Expense	1,919	2,682	(763)	-28.45%
Total Expenses	70,087	70,355	(268)	-0.38%
Change in Net Position	7,039	3,626	3,413	94.13%
Beginning Net Position	94,436	90,810	3,626	3.99%
Ending Net Position	**$ 101,475**	**$ 94,436**	**$ 7,039**	**7.45%**

The District's Total Revenues increased $3.1 million between fiscal years 2020 and 2021 to $77.1 million. In 2021, the District saw a $3.2 million increase in Utility Sales and Service Fees which is due to an increase in residential, commercial, and industrial electric kWh sales coupled with the energy rate and daily system charge rate increases implemented in January of 2021. In Other Operating Revenues the District saw an increase of $720 thousand which is mainly due to an increase in engineering line extension fees, an increase in telecommunication revenues, and an increase in pole attachment revenues.

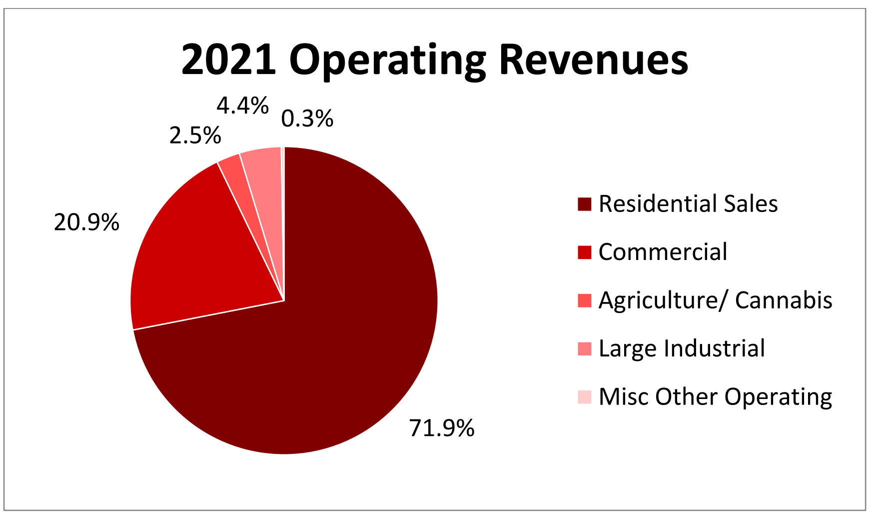
In Nonoperating Revenues, the District experienced a decrease in interest income and fair value of investments due to market changes and decreased interest rates. In Other Income, the difference is mainly due to the District receiving $300 thousand in Coronavirus Aid, Relief, and Economic Security Act (CARES Act) grant revenues in 2020.

The District's Total Expenses decreased $268 thousand between fiscal years 2020 and 2021. In 2021, the District Operating Expenses had a $2 million decrease in operations, maintenance, and administrative and general expenses. The majority of this is due to District's negative pension expense of $3 million caused by recording the DRS PERS Plan 2/3 Net Pension Asset. Also, the sale of the Olympic View generator resulted in a loss in disposal of equipment/property which increased Nonoperating Other Expenses by $1.8 million. The District had a decrease in Interest Expense in 2021 from the refinancing of the 2010B Bonds.

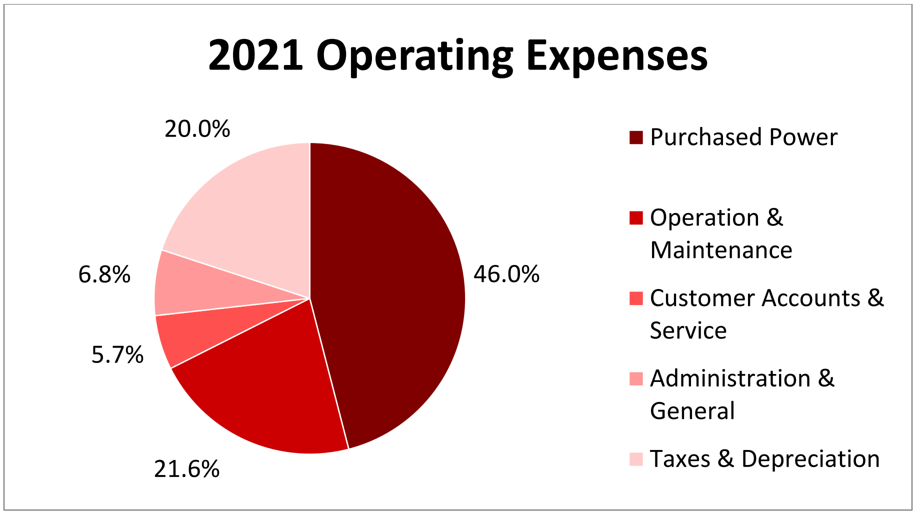
The District purchased 96 percent of its power from Bonneville Power Administration (BPA) in 2021. In October 2021, BPA implemented an average 2.5 percent wholesale power rate decrease and 6.1 percent transmission rate increase to all BPA customers. However, the actual rate increase or decrease to each Bonneville customer will vary depending on the services provided in its own contract. The primary driver for BPA's decrease in power rates was its increased secondary revenue forecast for surplus sales. BPA's increase in transmission rates was strongly affected by ongoing efforts to address the effects of changing markets and includes investing in system modernization and taking advantage of new markets and technologies vital to BPA's long-term success.

The District will continue to have increased costs due to the Energy Independence Act (I-937) (see Note 9) requirements to purchase more expensive, qualified renewable energy, and to continue its conservation efforts. Starting 2012 and through 2015, the District was required to invest three percent of the District's average load in energy for the preceding two years, as well as meet its compliance target for conservation efforts. Starting in 2016 and continuing through 2019, the District's annual renewable energy target increased to nine percent. In 2020, this target increased to 15 percent. To meet the requirement under I-937, the District's expenses were $2.5 million in 2019, $2.3 million in 2020 and $2.6 million in 2021. The District will also continue to invest in its own infrastructure to ensure system reliability and standards.

In fiscal year 2021, 72 percent of the District's Operating Revenues came from residential sales, and approximately 21 percent from commercial sales. Another four percent of sales comes from one large industrial customer, two percent from agriculture/cannabis customers, and the remaining from other miscellaneous sources.



The District's Operating Expenses include purchased power, transmission and distribution, customer services and informational, customer accounts, and administrative and general expenses. Nearly 46 percent of the District's operating expenses are for the purchase of power.



In summary, the overall financial condition of the District increased during 2021 over 2020. Total revenues increased by $3.1 million, and total expenses decreased by $268 thousand. The District's 2021 ending net position was $101.5 million, an increase of $7 million from 2020.

Capital Asset and Long-Term Debt Activity

At the end of 2021, the District had invested $277.5 million in capital assets. This investment in capital assets includes land, buildings, generation, transmission, distribution, general plant, machinery, and equipment. The total net increase in the District's investment in capital assets for 2021 was 0.57 percent.

Capital Assets (in thousands)

	2021	2020	Increase (Decrease)	% Change
Land and Intangible Plant	$ 2,462	$ 2,444	$ 18	0.74%
Plant in Service	263,676	260,015	3,661	1.41%
Construction Work in Progress	11,314	11,045	269	2.44%
Accumulated Depreciation	(126,716)	(123,617)	(3,099)	2.51%
Total Net Capital Assets	**$ 150,736**	**$ 149,887**	**$ 849**	**0.57%**

In 2021, District Commission declared the Olympic View Generating Station (OVGS) Surplus. The OVGS generator sale resulted in the reduction of $6.2 million of generating utility plant assets with an associated $4.2 million accumulated depreciation decrease. This surplus resulted in a loss in disposal of equipment/property affecting Nonoperating Expenses by $1.8 million. Through 2021, the District saw an increase in plant in service of $9.9 million, however due to the OVGS surplus this netted an increase of $3.7 million to plant in service.

More detailed information about the District's capital assets is presented in Note 2 of the financial statements.

Long-Term Debt – At the end of 2021, the District had $66.7 million in bonds and direct borrowings outstanding, a slight decrease over last year.

Long-Term Debt (in thousands)

	2021	2020	Increase (Decrease)	% Change
Long-term Debt	$66,721	$66,935	($214)	-0.32%

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

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

Bond covenants require the District to establish, maintain, and collect rates and charges that shall be adequate to provide net revenues in each fiscal year in an amount equal to at least 1.25 times the annual debt service on the parity bonds outstanding in such fiscal year. The District's debt service coverage ratio was 6.60 percent in 2021, with a four-year average of 4.77 percent.

Requests for Information

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

STATEMENT OF NET POSITION
Proprietary Fund
December 31, 2021

ASSETS		
Current Assets		
Cash and Cash Equivalents		
Cash and Cash Equivalents	$	14,832,017
Restricted Bond Fund - Principal and Interest		389,836
Accounts Receivable, Net		6,295,677
Inventory Material and Supplies		4,277,671
Prepayments		83,219
Total Current Assets		25,878,420
Noncurrent Assets		
Investments (Note 4)		3,561,926
Funds Designated for Future Construction		3,503,900
Restricted Construction Funds		13,122,435
Net Pension Asset (Note 7)		12,478,609
Utility Plant (Note 2)		
Land and Intangible Plant		2,461,770
Electric Plant in Service		263,675,647
Construction Work in Progress		11,314,386
Less Accumulated Depreciation		(126,715,522)
Net Utility Plant		150,736,281
Total Noncurrent Assets		183,403,151
Total Assets		209,281,571
DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflow		1,649,335
OPEB Deferred Outflow		4,748,675
Unamortized Loss on Defeased Debt		1,082,783
Total Deferred Outflows of Resources		7,480,793
LIABILITIES		
Current Liabilities		
Revenue Bonds and Other Long-Tem Debt, Current Portion (Note 6)	$	2,104,810
Compensated Absences, Current Portion		2,019,388
Warrants Payable		374,812
Accounts Payable		5,990,035
Customer Deposits		900,876
Taxes Accrued		1,464,594
Interest Accrued on Long-Term Debt		204,308
Other Current and Accrued Liabilities		1,955,660
Total Current Liabilities		15,014,483
Noncurrent Liabilities (Note 6)		
Revenue Bonds and Other Long-Term Debt		72,763,288
Compensated Absences		1,559,765
Net Pension Liability		1,200,987
Net OPEB Liability		4,383,495
Total Noncurrent Liabilities		79,907,535
Total Liabilities		94,922,018
DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflow		12,849,463
OPEB Deferred Inflow		7,516,133
Total Deferred Infflows of Resources		20,365,596
NET POSITION		
Net Investment in Capital Assets		88,098,276
Restricted		
Debt Service		389,836
Future Construction		1,975,125
Pension		2,298,820
Unrestricted		8,712,693
Total Net Position	$	101,474,750

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Proprietary Fund

For the Year Ended December 31, 2021

OPERATING REVENUES		
Utility Sales and Service Fees	$	71,023,917
Other Charges for Services		3,602,893
Other Operating Revenues		1,516,253
Total Operating Revenues		76,143,063
OPERATING EXPENSES		
Purchased Power		30,480,763
Operation		7,684,081
Maintenance		6,639,054
Customer Accounts		2,187,656
Customer Service, Information, and Advertising		1,559,022
Administrative and General		3,284,848
Maintenance of General Plant		1,233,571
Depreciation		8,447,054
Taxes Other than Income		4,787,110
Total Operating Expenses		66,303,159
OPERATING INCOME (LOSS)		9,839,904
NONOPERATING REVENUES AND EXPENSES		
Revenue (Cost) of Merchandising		94,194
Interest Income		35,440
Net Increase (Decrease) in the Fair Value of Investments		(54,168)
Interest and Amortization on Long-Term Debt		(1,918,937)
Other Nonoperating Revenue (Expense)		(957,746)
Total Nonoperating Revenues and Expenses		(2,801,217)
Change In Net Position		7,038,687
Net Position, Beginning of Year		94,436,063
Net Position, End of Year	$	101,474,750

STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 76,366,300
Cash Paid to Suppliers and Service Providers	(32,497,077)
Cash Paid to Employees for Salaries and Wages	(25,621,067)
Taxes Paid	(4,705,259)
Miscellaneous Other Revenue (Expense)	(1,106,449)
Net Cash Provided by (Used for) Operating Activities	12,436,448
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt	177,316
Acquisition and Construction of Capital Assets	(8,944,370)
Principal Paid on Capital Debt	(242,859)
Interest Paid on Capital Debt	(2,392,891)
Proceeds from Sale of Capital Assets	100,000
Net Cash Used for Capital Financing Activities	(11,302,804)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	2,008,366
Purchase of Investments	(2,720,111)
Interest Income	35,441
Net Cash Flow Provided by Investing Activities	(676,304)
Net Increase (Decrease) In Cash	457,340
Cash and Cash Equivalents, Beginning of Year	14,764,513
Cash and Cash Equivalents, End of Year	$ 15,221,853

Reconciliation of Operating Income (Loss) to Net Cash Operating Activities	
Operating Income	$ 9,839,904
Adjustments to Reconcile Operating Income to Net Cash provided by Operating Activities	
Merchandising, Net	94,194
Depreciation and Amortization	8,447,054
Miscellaneous Other Revenue (Expense)	(1,106,449)
Net Pension Adjustments	(4,606,071)
Net OPEB Adjustments	(414,500)
Decrease (Increase) in Customer Accounts Receivable	290,896
Decrease (Increase) in Other Accounts Receivable	(43,852)
Decrease (Increase) in Material Inventory	(955,911)
Decrease (Increase) in Prepayments	(36,899)
Increase (Decrease) in Customer Deposits	(118,000)
Increase (Decrease) in Outstanding Warrants	277,153
Increase (Decrease) in Accounts Payable	44,212
Increase (Decrease) in Taxes Accrued	81,850
Increase (Decrease) in Miscellaneous Accrued Liabilities	642,867
Net Cash Provided by (Used for) Operating Activities	**$ 12,436,448**

Schedule of Noncash Investing, Capital, and Financing Activities:

The District had a net decrease in the fair value of investments of $54,168 at December 31, 2021.

The deferred outflows and inflows relating to Pensions had no effect on cash flows for 2021. The pension deferred outflow was $1,649,355 and the pension deferred inflow was $12,849,463 as of December 31, 2021.

The deferred outflows and inflows relating to OPEB had no effect on cash flows for 2021. The OPEB deferred outflow was $4,748,675 and the OPEB deferred inflow was $7,516,133 as of December 31, 2021.

STATEMENT OF NET POSITION
Fiduciary Funds
December 31, 2021

		Other Postemployment Benefits Plan (OPEB)
ASSETS		
Cash and Cash Equivalents	$	6,521
Investments		
Mutual Funds		
Global Fixed Income		4,706,900
Global Equity		8,600,902
Real Assets		2,867,089
Total Investments		16,174,891
Total Assets		16,181,412
LIABILITIES		
Warrants Payable		-
Total Liabilities		-
Total Net Position Restricted for OPEB	$	16,181,412

STATEMENT OF CHANGES IN NET POSITION
Fiduciary Funds
For the Year Ended December 31, 2021

		Other Postemployment Benefits Plan (OPEB)
ADDITIONS		
Contributions		
Member	$	-
Employer		1,136,081
Total Contributions		1,136,081
Investment income:		
Net increase in fair value of investments		1,338,426
Interest and dividends		758,628
Net Investment Income		2,097,054
Total Additions		3,233,135
DEDUCTIONS		
Benefits Paid to or for Participants		511,082
Investment loss:		
Net decrease in fair value of investments		-
Administrative Expense		95,653
Total Deductions		606,735
Change in Net Position Restricted for OPEB		2,626,400
Net Position, Beginning of Year		13,555,012
Net Position, End of Year	$	16,181,412

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

Notes to Financial Statements

As of December 31, 2021

NOTE 1 – Summary of Operations and Significant Accounting Policies

Mason County Public Utility District No. 3 (District) is a customer-owned utility providing electrical and wholesale telecommunications services in Mason County, Washington. Formed by a public vote in 1934, the utility is a municipal corporation organized under the laws of the state of Washington. It is legally and fiscally independent of other state or local governments. It began providing electrical service in 1939. The District provided electric service to 35,082 customers as of December 31, 2021.

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

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

A. Basis of Accounting and Presentation: The accounting policies of the District conform to Generally Accepted Accounting Principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 2017, GASB issued Statement No. 87, Leases. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has elected to postpone the adoption of this standard as allowed by Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

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

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

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

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

The District's Continuing Property Records system reflects the recording of property units added and retired. Initial depreciation on utility plant is recorded in the month subsequent to purchase or completion of construction. As prescribed by FERC, the book cost of operating property retired or otherwise disposed of, less salvage, is charged to accumulated depreciation. As a result of this guidance, the decreases to accumulated depreciation can exceed the decreases to depreciable assets.

The District follows FERC operating instructions for depreciation expense, which includes all classes of depreciable electric plant in service except depreciation expense chargeable to clearing accounts. Depreciation expenses applicable to transportation equipment and shop equipment are charged to clearing accounts in order to obtain a proper distribution of expenses between construction and operation. The depreciation expense charged to clearing accounts is included in Maintenance under Operating Expenses on the Statement of Revenues, Expenses, and Changes in Fund Net Position.

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

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

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

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

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

D. Restricted Assets: In accordance with bond resolutions, related agreements and laws, separate restricted accounts have been established. These assets are restricted for specific uses including debt service, bond reserve, and capital additions. These are classified as current or noncurrent assets, as appropriate. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as needed. In the restricted net position amount, the unspent bond proceeds and the portion of debt attributable to those proceeds were included in the calculation.

E. Receivables: The percentage-of-sales allowance method is used to estimate uncollectible accounts. The reserve is then reviewed for adequacy against an aging schedule of accounts receivable. Accounts deemed uncollectible are transferred to the provision for uncollectible accounts on a monthly basis.

F. Inventories: Inventories are valued at average cost, which approximates the fair value.

G. Compensated Absences: The District accrues unused compensated absence benefits as amounts are earned. Compensated absences include vacation, sick leave, and other leave. Compensated absences, which may be accumulated up to 120 days, is payable in full upon resignation, retirement, or death. The liability for unused leave was $3,579,153 as of December 31, 2021.

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

I. Reclassifications: Certain 2020 account balances may have been reclassified to conform to the 2021 presentation. Such reclassifications would have no effect on previously reported results of operations and cash flows.

J. Financial Statements: Separate fund financial statements are provided for the proprietary fund and the fiduciary funds.

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

The District has one fiduciary trust fund, the OPEB Plan Trust, as described in Note 11.

K. Pensions: For purposes of measuring the net pension liability, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and the related deferred outflows and deferred inflows.

NOTE 2 – Utility Plant and Depreciation

Utility plant activity for the year ended December 31, 2021:

Utility Plant Assets	Balance 12/31/2020	Increase	Decrease	Balance 12/31/2021
Utility plant not being depreciated:				
Land and intangible plant	**$2,443,801**	**17,969**		**$2,461,770**
Construction work in progress	**11,045,553**	**11,703,320**	**(11,434,487)**	**11,314,386**
Utility plant being depreciated:				
Generating plant	6,564,091	78,662	(6,212,491)	430,262
Transmission plant	5,452,523			5,452,523
Distribution plant	191,640,574	9,387,453	(932,979)	200,095,048
General plant	56,357,543	1,986,341	(646,070)	57,697,814
Subtotal	**260,014,731**	**11,452,456**	**(7,791,540)**	**263,675,647**
Less accumulated depreciation for:				
Generating plant	(4,086,479)	(427,240)	4,411,009	(102,710)
Transmission plant	(3,654,889)	(189,466)		(3,844,355)
Distribution plant	(98,068,506)	(6,488,278)	1,469,559	(103,087,225)
General plant	(17,807,274)	(2,520,028)	646,070	(19,681,232)
Total accumulated depreciation	**(123,617,148)**	**(9,625,012)**	**6,526,638**	**(126,715,522)**
Net utility plant	**$149,886,937**	**$13,548,733**	**($12,699,389)**	**$150,736,281**

The District is an electric utility and is guided by the FERC financial reporting. According to the FERC electric plant instruction 10 paragraph B(2), "If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account." As a result of this accounting method, the decrease in accumulated depreciation for a given class of capital assets may exceed the decrease for those assets.

District Commission declared the Olympic View Generating Station (OVGS) Surplus in 2021, and the purchase and sale agreement for the generators at OVGS also completed in 2021. However, the sale of the property and building were still pending. The generator sale resulted in the reduction of $6.2 million of generating utility plant assets with an associated $4.2 million accumulated depreciation decrease.

NOTE 3 – Construction and Other Significant Commitments

The District had three major active construction projects in 2021.

Pole Inspection Test & Treatment Program: Transmission Poles & Tahuya Peninsula

The District's Pole Inspection Test & Treatment (PITT) Program was performed on 4,143 wood poles in 2021, which includes all of the District's transmission poles. In total, 61 transmission poles were identified as needing replacement. The District replaced all reject poles on the Mason Substation Transmission Circuit and has made plans to address the reject poles on the Union River, Collins Lake, Pioneer, and Dayton circuits in 2022. Of the distribution poles that were inspected on the Tahuya Peninsula, the District suffered a 4.15% failure rate, which is in line with the expected results. The District is committed to inspecting aging infrastructure and making plans for appropriate replacement of end-of-life assets to ensure the safe, reliable, and economical operation of the electric grid.

Underground Power Line Replacement Program

One of the District's major causes of outages are failing underground power lines. The District experienced 55 primary underground cable faults in 2021 involving 50 unique line segments. This is down 15% from 2020 (65), which was down 10% from 2019 (73). It is very hard (impossible) to predict underground faults. The trend has decreased over the last several years while the District works diligently to replace direct buried cable. The District is currently tracking 384 unique line sections that have experienced a fault.

Generally speaking, underground faults occur on high voltage primary cable that is direct buried and not in a conduit system. In 2021, the District recorded 8.6 miles of progress on replacing the direct buried cable either by using a conduit system or going overhead, which reduces the potential for exposure to underground faults. There are a total of 1,099 miles of primary underground cable installed; 43% (468 miles) is in conduit.

Major underground replacement projects completed in 2021 include: Lake Cushman Division 8 (Phase 1), Meridian Park (North), 152X Cole Road, Salsman Lane, Palmer Road, Satko Glen, Sandhill Road, Snider Road, Channel Point Road, Rainier Place North, Vault Installation on Satsop Cloquallum Road, Vault Installation on Lake Trask Road, several taps off of Lillie Road, and several taps in the Hurley Waldrip area.

Fiberhood Program

In September 2018, the District was awarded a grant/loan from the Community Economic Revitalization Board (CERB) for the construction of designated Fiberhoods throughout Mason County to help bridge the rural broadband gap. Financial assistance is made up of a revenue loan totaling $408,325 (1.5 percent interest, up to 20 years), $408,326 grant, and $911,324 in local match, which includes make-ready costs. The projects were broken into four areas and preparations began in earnest. First up were five contiguous fiber distribution hut service zones in Southwest Mason County: Matlock Brady Road, Ripplewood, Haven Drive, and the Schafer State Park area. Before fiber construction, the District's electric maintenance engineers evaluated existing overhead pole facilities and line crews worked to replace aging infrastructure. Fiber network designs were completed, and the fiber stringing and splicing contract was placed out for competitive bid at the end of 2019, with construction wrapping up in Fall 2020. The Tahuya River Valley Fiberhood and pole replacement project was placed out to competitive bid at the end of 2020, with construction completed in Summer 2021. The Lake Christine

Fiberhood was also constructed in 2021. The Island View Fiberhood construction was placed out for competitive bid at the end of 2021 and scheduled for completion in early 2022. South Island Drive on Harstine Island and Orchard Beach in Grapeview will follow. The District has four years to complete the total project (May 2023).

Upon the success of the CERB grant/loan program in 2018, the District applied for additional financial aid in “Round 2” of CERB’s Rural Broadband Program. Again, the District was awarded funds for the construction of designated Fiberhoods throughout Mason County. The TriLakes area (Panther, Tiger, Mission Lakes), Dana Drive on Harstine Island, Philips Road, and Totten Shores were included. Financial assistance is made up of a revenue loan totaling $1,000,000 (1.25 percent interest, up to 12 years), $1,000,000 grant, and $689,260 in local match. Initial engineering designs were started in 2019 and continued throughout 2021, including the construction of a fiber path to the TriLakes community and fiber distribution network designs for the Dana Drive and Panther/Tiger Lakes Fiberhoods. The Phillips Road, Totten Shores, and Mission Lake Fiberhoods will follow. The District has four years to complete the total project (November 2023).

The District has been working for many years to gain approval to apply for federal funds to support rural broadband expansion efforts in Mason County. In March 2019, United States Department of Agriculture’s Rural Utility Service’s ReConnect Program confirmed that a wholesale telecommunications utility such as Mason PUD 3 would be eligible for funds. District staff quickly mobilized to put together a comprehensive application for 250 households in the Three Fingers Area of Grapeview. The application requested $2,476,279 in grant funds and proposed $825,427 in local matching funds. Public notification of award was made on January 29, 2020. The District finally received its Release of Funds letter in April 2021, which signifies the official start of the project. Work on equipment purchases and in-house engineering began immediately. The District has five years to complete the project (April 2026).

The District’s existing Fiberhood program was also very productive in 2021, connecting the Channel Point, Snider Road, Deckerville, Harstine Pointe SOUTH, and Shelton Valley Fiberhoods. In addition to the grant committed projects, the Clear Lake, California Road, Tee Lake, Spaulding/Tornow, Capital Prairie, Boyer Road, Arcadia Point/Teagle, SR3 Yacht Club, and Arcadia Shores Fiberhoods are in various stages of the design and construction process in 2021.

The Fiberhood program is designed to expand access to the District’s fiber-optic network for gigabit speed broadband service. The Fiberhood process identifies potential neighborhoods that are unserved or underserved by broadband providers. Among other factors, expansion of service is based on a guaranteed level of customer commitment to obtain service from the fiber network. As of December 31, 2021, over forty Fiberhoods are connected or under design/construction through the Fiberhood, CERB, and/or ReConnect programs. Twenty-four Fiberhoods are in the sign-up phase, with some zones coming very close to their 75 percent commitment requirement. As the network is expanded, new Fiberhood zones are added to the signup process regularly.

The Commission approved initial funding of the Fiberhood project with $2.5 million from its reserves. Additional financial aid has been pursued through the CERB and ReConnect rural broadband programs, and the District continues to evaluate and apply for other broadband expansion funding opportunities. Cost recovery for the Fiberhood project will come through a $25 monthly Construction Adder fee plus service revenues paid back over 12 years, which are billed through the customer’s internet service provider. The initial funding plus the money collected by the customer’s internet service provider, and passed along to the District, go into a special account established to pay for future Fiberhood construction.

NOTE 4 – Deposits and Investments

Custodial Credit Risk Deposits – For a deposit, this is the risk that in event of a failure of a depository financial institution, the District would not be able to recover collateral securities that are in possession of an outside party. The District’s deposits are entirely covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). Under state law, public depositories under PDPC are required to pledge securities as collateral at 100 percent of all deposited uninsured public funds. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires that deposits may only be made with institutions that are approved by the PDPC. The District does not have a deposit policy for custodial credit risk.

Cash and Cash Equivalents Deposits – The District moves cash as necessary between accounts, LGIP and various bank revolving or holding accounts, to pay its obligations. The District’s deposits are held by public depositaries authorized by the Washington Public

Deposit Protection Commission (PDPC) and are not subject to custodial credit risk. State law requires public depositaries to fully collateralize.

Fair Value - The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

As of December 31, 2021, the District had the following investments measured at fair value:

Valuation Method	Amount	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments by Fair Value Level				
Federal Agency Securities	$ 3,561,926	$ -	$ 3,561,926	$ -
Total Investments by Fair Value Level	$ 3,561,926	$ -	$ 3,561,926	$ -
Total Investments Measured at Fair Value	$ 3,561,926			
Other Securities not Measured at Fair Value				
State LGIP	23,809,880			

Interest Rate Risk - The risk the District may face should interest rate variances affect the fair value of investments. The District manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The District does not have a formal policy that addresses interest rate risk.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy that addresses credit risk.

As of December 31, 2021, District investments had the following credit quality and risk exposure:

Credit Quality Ratings	Fair Value	Average Maturity	Held by Counterparty	S&P/Moody's Rating
Investments				
Federal Agency Securities	$ 3,561,926	1-5 Years	US Bank	AA+/Aaa

Investments in Local Government Investment Pool

The District is a voluntary participant in the Local Government Investment Pool (LGIP), an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the Securities Exchange Commission. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

NOTE 5 – Lease Commitments

Operating Leases – The District is committed under operating leases for personal computers and other office machines. These leases are considered operating leases for accounting purposes. Also, the District is contracted to rent tower space, rent space for the Belfair customer service office, and rent parking spaces for the Shelton payment center. Total costs for operating leases were $212,997 for the year ended December 31, 2021. The future minimum lease payments under non-cancelable operating leases are as follows:

Fiscal Year Ending December 31:	
2022	167,548
2023	121,866
2024	67,447
2025 - thereafter	68,927
Total	**$ 425,788**

Operating Lease Receivable – The District renewed an agreement with the Economic Development Council of Mason County (EDC) to lease a portion of the Shelton Payment Center commencing February 1, 2021, for an additional term of 36 months, however the District and EDC mutually agreed to terminate the contract as of March 2022. Total lease revenues received for the year ended December 31, 2021, were $10,110 and expected revenues to be collected through termination in 2022 is $2,549.

NOTE 6 – Long-Term Liabilities

The District has two revenue bonds outstanding as of December 31, 2021. The original amounts of these bonds totaled $67,460,000. The funds were used for the acquisition and construction of major capital facilities. Current revenue bonds outstanding are as follows:

Purpose	Interest Rate	Original Amount
2016 - Electric Revenue Refunding Bonds	1.86%	10,000,000
2020 - Electric Revenue & Refunding Bonds	4.00% - 5.00%	57,460,000
Total		**$ 67,460,000**

The following is a list of the long-term liability activity and year-end summary as of December 31, 2021.

Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
2016 Electric Revenue Direct Placement Refunding Bonds, due in annual installments starting in 2016 of $67,902-$2,671,349 through December 1, 2028	9,066,261	-	226,617	8,839,644	230,832
2020 Electric Revenue and Refunding Bonds, due in annual installments starting in 2022 of $1,780,000-$4,655,000 through December 1, 2045	57,460,000	-	-	57,460,000	1,780,000
Direct Borrowings	408,325	28,807	16,242	420,890	93,978
Subtotal	66,934,586	28,807	242,859	66,720,534	2,104,810
Plus: Unamortized Premiums	8,778,504	-	630,940	8,147,564	-
Less: Unamortized Discounts	-	-	-	-	-
Total Bonds and Direct Borrowings Payable	**$ 75,713,090**	**$ 28,807**	**$ 873,799**	**$ 74,868,098**	**$ 2,104,810**
Net Pension Liability	4,743,564	-	3,542,577	1,200,987	-
Net OPEB Liability	5,810,639	-	1,427,144	4,383,495	-
Compensated Absenses	2,913,043	2,845,143	2,179,033	3,579,153	2,019,388
Total Long-Term Liabilites	**$ 89,180,336**	**$ 2,873,950**	**$ 8,022,553**	**$ 84,031,733**	**$ 4,124,198**

Debt Service Requirements on long-term debt at December 31, 2021 are as follows:

	Bonds		Notes from Direct Borrowings and Direct Placements	
Year Ending December 31,	Principal	Interest	Principal	Interest
2022	$ 1,780,000	$ 2,216,700	$ 277,627	$ 170,298
2023	1,855,000	2,145,500	253,384	165,735
2024	1,925,000	2,071,300	258,031	161,089
2025	2,000,000	1,994,300	262,764	156,356
2026	-	1,914,300	2,603,270	151,535
2027-2031	9,685,000	9,133,600	5,405,897	167,885
2032-2036	18,735,000	6,251,700	107,559	11,788
2037-2041	18,295,000	2,572,800	92,002	3,476
2042-2045	3,185,000	324,800	-	-
	$ 57,460,000	$ 28,625,000	$ 9,260,534	$ 988,162

In January 2020, the District issued $57,460,000 of Electric Revenue and Refunding Bonds, Series 2020 with an all-in true interest cost of 2.55 percent. Net proceeds of the bonds totaled $66,708,202 of which $13,000,000 was deposited with the District to finance capital projects, $53,286,590 was deposited with an escrow agent to provide for future debt service payments on the 2010B Series bonds, and $421,612 was used for the cost of issuance, underwriter's discount, and other issuance costs. The debt issuance costs were expensed in the current period as incurred, in accordance with GASB 65.

With the 2020 issuance, and pursuant to the resolutions authorizing the issuance of the Series 2020 Bonds, the District released $681,036 of its Debt Service Reserve Account for the refunding of its Series 2010B Bonds. Those funds were also deposited with the escrow agent to provide for future debt service payments on the 2010B Series Bonds.

Although the refunding of the Series 2010B Bonds resulted in the recognition of an accounting loss of $607,014, the District in effect reduced its aggregate debt service payments by $17,686,878 over the next twenty years and obtained a net present value savings of $10,438,921. This equates to an 18.47 percent savings on the refunded bonds. The loss on refunding of $607,014 will be amortized through 2040 which is the shorter life of the old debt or the new debt.

As part of the 2020 Bond issuance, debt was defeased using District funds. The District release the remaining balance of its Debt Service Reserve Account in the amount of $4,104,964 and deposited the funds with an escrow agent to defease its Series 2010A and 2012 Bonds of $1,585,219 and $2,519,745, respectively.

With the 2020 Bond issuance, a total of $58,072,590 was deposited with an escrow agent to provide for all future debt service payments on the 2010A, 2010B, and 2012 Series Bonds. As of December 31, 2020, all Bonds were called except $1,235,000 of the 2012 Bonds. In 2021, the final payments were made on the defeased 2012 Bonds. Therefore, the District does not have any outstanding in-substance defeased debt at year-end.

The District's outstanding direct placement 2016 Revenue Bond contains a provision in the event of a default; a mandamus action may be brought to enforce payment of amounts due. In addition, the Bank may increase the interest rate on the bond up to 1.5 percent with written notice.

The District was awarded a direct borrowing loan from the Washington State Community Economic Revitalization Board (CERB) in 2018 with a maximum amount of $408,325 for the purpose of constructing rural broadband fiber. As of December 31, 2021, the District's outstanding debt amount of CERB 1 is $392,083. No assets are pledged as collateral for this debt. The outstanding loan contains a provision if the District is unable to pay any installment, or any portion thereof, of principal or interest. The CERB may at its option declare the entire remaining balance of the loan, together with interest accrued immediately due and payable.

The District was awarded a second direct borrowing loan from CERB in 2019 with a maximum amount of $1,000,000 for the purpose of constructing rural broadband fiber. Construction on this project began in 2021 and as of December 31, 2021, the District's outstanding debt amount of CERB 2 is $28,807 with the first interest and principal payment due July 2022. No assets are pledged as collateral for this debt. The outstanding loan from this direct borrowing contains a provision if the District is unable to pay any installment, or any portion thereof, of principal or interest. The CERB may at its option declare the entire remaining balance of the loan, together with interest accrued immediately due and payable.

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

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

The District did not engage in any short-term debt activity nor capital leases during the year. The District does not have any outstanding in-substance defeased debt at year end.

NOTE 7 – Pension Plans

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$ 1,200,987
Pension asset	$ 12,478,609
Deferred outflows of resources	$ 1,649,335
Deferred inflows of resources	$ 12,849,463
Pension expense/expenditures	$ (2,805,780)

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	**Employer**	**Employee**
January – June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	**12.97%**	**6.00%**
July – December 2021		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	**10.25%**	**6.00%**

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

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

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

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	**Employer 2/3**	**Employee 2**
January – June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**12.97%**	**7.90%**
July – December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	**10.25%**	**6.36%**

The District's actual PERS plan contributions were $676,224 to PERS Plan 1 and $1,124,064 to PERS Plan 2/3 for the year ended December 31, 2021.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2019 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation

- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.

- **Investment rate of return:** 7.4%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.

- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

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, 2021 are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	$ 2,045,947	$ 1,200,987	$ 464,093
PERS 2/3	(3,554,913)	(12,478,609)	(19,827,276)

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, 2021, the District reported its proportionate share of the net pension liabilities (assets) as follows:

	Liability (or Asset)
PERS 1	$ 1,200,987
PERS 2/3	(12,478,609)
TOTAL NET PENSION LIABILITY	$ (11,277,623)

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

	Proportionate Share 12/31/20	Proportionate Share 12/31/21	Change in Proportion
PERS 1	0.091921%	0.098342%	.006421%
PERS 2/3	0.117148%	0.125267%	.008119%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans.

Pension Expense

For the year ended December 31, 2021, the District recognized pension expense as follows:

	Pension Expense
PERS 1	$ 2,840
PERS 2/3	(2,808,620)
TOTAL PENSION EXPENSE	$ (2,805,780)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	1,332,692
Changes of assumptions	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	$ 312,354	$ -
TOTAL	$ 312,354	$ 1,332,692

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 606,068	$ 152,976
Net difference between projected and actual investment earnings on pension plan investments	-	10,429,191
Changes of assumptions	18,235	886,188
Changes in proportion and differences between contributions and proportionate share of contributions	180,364	48,416
Contributions subsequent to the measurement date	532,314	-
TOTAL	$ 1,336,981	$ 11,516,771
TOTAL ALL FUNDS	$ 1,649,335	$ 12,849,463

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, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1	PERS 2/3
2022	$ (353,030)	$ (2,830,833)
2023	$ (323,504)	$ (2,643,454)
2024	$ (305,886)	$ (2,530,024)
2025	$ (350,271)	$ (2,722,531)
2026	$ 0	$ (11,139)
Thereafter	$ 0	$ 25,877

NOTE 8 – Deferred Compensation

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 457 permitting employees to defer a portion of their salary until future years. The District match is locked at a maximum rate of 3.5 percent. The deferred compensation is not available to employees until separation from service through termination, retirement, death, or unforeseeable emergency. The plan assets are held in trust for the exclusive benefit of plan participants and beneficiaries. In 2021, the District made matching contributions of $425,597 and employees made contributions of $973,553 to the Washington State Department of Retirement Systems 457 Plan.

NOTE 9 – Power Supply/Power Sales Contract

Bonneville Power Administration (BPA) – In 1937, the Bonneville Project Act (Act) created the BPA and directed it to market federally produced hydroelectric power to customers, giving preference and priority in power sales to public bodies and cooperatives. Public bodies include public utility districts, people's utility districts, tribal utilities, municipalities, and federal customers. The Act also authorized the BPA to provide, construct, operate, maintain, and improve transmission facilities to deliver federal power at cost. The BPA is part of the U.S. Department of Energy but is self-financing and receives no federal tax revenues. Costs are recovered by selling wholesale power, capacity, transmission, and related services at cost to utility, industrial, governmental, market, and transmission customers inside and outside of the region. About 28 percent of all power used in the Pacific Northwest is sold by the BPA. Its resources, primarily hydroelectric, make BPA power nearly carbon free.

The BPA uses its sales revenue to make annual payments to the U.S. Treasury for repayment of the federal investment in the Federal Columbia River Power System (FCRPS). Federal loans are paid back with interest. The BPA also funds recreation and fish and wildlife mitigation costs associated with the federal hydropower development in the Columbia River Basin. Approximately 25 percent of BPA's 2021 wholesale rate is associated with its fish and wildlife programs. BPA also provides capacity for integration of renewable generation resources within its balancing area.

The BPA's function is to market wholesale electrical power over its transmission grid. The U.S. Army Corps of Engineers and the Bureau of Reclamation operate and maintain 31 federal hydroelectric projects which constitute the backbone of the federal base system. In addition, all of Energy Northwest's Columbia Generation Station (CGS) output is provided to BPA at the cost of production under a formal net billing agreement. CGS is the Pacific Northwest's only commercial nuclear energy facility. The BPA operates and maintains approximately 75 percent of the high-voltage transmission in its service territory. The BPA has nearly 5,100 MW of wind integrated into its transmission system; enough to power a city three times the size of Seattle. The BPA expects to connect another 3,000 to 4,000 MW of wind energy to its system by 2025. The BPA balances the ups and downs of wind energy primarily with hydropower generated at federal dams. The BPA is working to find ways to do more with its resources and are expanding its access to other resources to balance wind energy.

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

Energy Efficiency Programs – The District has an Energy Conservation Agreement with the BPA to sell it qualified energy savings effective October 1, 2011, and revised August 28, 2017. The Agreement supports the BPA's energy efficiency plan to pursue cost-effective conservation as a resource to reduce the firm power load requirements of its customers in the Pacific Northwest.

The BPA determined Energy Efficiency Incentive (EEI) funding for FY 2020 and 2021 is based on the Tier One Cost Allocators established in the BP-18 final proposal. Customer incentives paid by the District are reimbursed by the BPA upon submission of required supporting documentation. These projects include residential, commercial, and industrial energy efficiency programs and measures. The determined amounts by the BPA for the District's EEI budget are $920,525 for FY 2020 and $753,157 for FY 2021. The BPA customers' funding allocations for EEI were decreased as a result of the BPA's FY 2015 decision to transition conservation from capital to expense.

The District achieved about 3,290 megawatt-hours (MWh) or 3,289,892 kilowatt-hours (kWh) of energy savings in 2020-2021 through its residential, commercial, and industrial programs, spending $995,644 from its EEI budget. Spending levels were less than projected in 2020 due to the various impacts of the COVID-19 global pandemic. The average District residential customer uses approximately 13,767 kWh/year. The District achieved enough energy savings to power 239 homes over the two-year period.

Qualifying measures for the BPA's Energy Efficiency Program are determined by the Regional Technical

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

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

In 2019, participants saw the complete return on their 2015 investment. This was achieved through an annual credit on the customer's electric bill based on the electricity generated by his/her share of the project along with an annual Washington State production incentive of $1.08 per kWh that the customer's solar units generated through FY 2019. Participants saw their last Washington State production incentive check in 2020, but billing credits will continue to be applied to customer accounts for the life of the project.

With approximately 150 solar power systems installed throughout Mason PUD 3's service territory, customers have shown a great deal of interest in renewable energy. The shared solar project helps customers who, for a number of reasons, cannot take advantage of solar energy at their homes. Some examples include cost; the weight of solar panels, brackets, and connectors on a roof; lack of southern exposure to catch the sun; nearby trees blocking the sun; restrictive homeowner's association covenants; and an inability to adopt a lifestyle required for a home renewable energy system.

On June 30, 2017, Governor Inslee signed ESSB 5939 which established a new replacement renewable energy system incentive program for customers in Washington State. In addition to establishing a new incentive structure designed to wean the solar industry off of state incentives, the bill transferred administrative responsibility of the program from Department of Revenue to the Washington State University's (WSU) Energy Program. It also raised the utility's incentive cap to 1.5 percent of a utility's 2014 taxable power sales. The increased cap space allowed us to continue serving new and existing customers who were interested in renewable energy production.

As of June 14, 2019, the WSU Energy Program announced it had reached its financial limit and would therefore no longer review applications for certification. However, staff continues to help new and existing customers process applications and agreements that still allow customers interested in renewable energy to connect to the District's grid provided interconnection requirements are met.

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

The Act has two requirements. The first is that each qualifying utility pursue all cost-effective resources and meet the conservation target set using a utility-specific Conservation Potential Analysis within its service territory. The second requirement dictates each qualifying utility to acquire set percentages of its retail load from qualifying renewable resources or acquire equivalent Renewable Energy Credits (RECs) by specific timelines (three percent by 2012, nine percent by 2016 and 15 percent by 2020). A REC represents the legal rights to the environmental attributes and carbon offsets associated with the generation of one MWh of qualified renewable energy.

The District has taken many steps to comply with the Act. These include continued emphasis on residential, commercial, and industrial conservation programs; participation in all three phases of the Nine Canyon Wind Project; a long-term power purchase agreement from the White Creek Wind Project; ownership of a 173.2-kilowatt AC rated solar project (which is located on one of the buildings at the District's operations center), and ensuring the District receives its proportionate share of RECs from renewables that the BPA has contracted to serve its customers' load. The District met its mandate of three percent renewables in 2012 through 2015. In 2015, the District entered into long-term contracts with both Emerald People's Utility District and Klickitat Public Utility District in order to enable the District to meet its mandate of nine percent renewables in 2016 and 15 percent in 2020, while minimizing compliance costs. In addition, this option allows the District to serve load growth as it occurs, with a less expensive, more reliable baseload resource. The specific strategy for compliance will be re-examined prior to 2025 as contracts start to expire.

Clean Energy Transformation Act (CETA) – In 2019 Washington State approved CETA, an act to address the impacts of climate change by leading the transition to a clean energy economy. CETA requirements are codified in state law under the Revised Code of Washington (RCW) 19.405 and Washington Administrative Code (WAC) 194-40.

CETA has several requirements. Electric utilities must make energy assistance programs and funding available to low-income households by July 31, 2021. Electric utilities must eliminate coal-fired resources from its allocation of electricity on or before December 31, 2025. Then, all retail sales of electricity to Washington electric customers must be greenhouse gas neutral by January 1, 2030. Ultimately, all retail sales of electricity to Washington electric customers must be supplied by renewable or non-carbon emitting resources by January 1, 2045. The importance of equitable distribution of energy benefits and the reduction of burdens to vulnerable populations and highly impacted communities is also recognized in the requirements.

The District already meets the first-mentioned requirement to make energy assistance programs and funding available to low-income households. The District and other stakeholders are working with BPA to ensure it can meet the requirement to eliminate coal-fired resources by the end of 2025, the transition to 100% carbon-neutral resources by 2030, and the transition to 100% carbon-free resources by 2045. Right now, the only carbon-resources in the District's mix are attributable to BPA's purchases.

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

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

The District has participated in two pilot projects, under contract with the BPA, to help delay planned transmission line construction on the Olympic Peninsula by operating the plant during times of anticipated peak load.

In June 2021, the District's commissioners adopted a resolution to surplus the generating station for numerous reasons of which include: 1) the impacts of carbon emissions and related regulations; 2) generation constraints associated with BPA contracts; 3) capacity constraints on the fuel supply necessary to operate it; and 4) the overall cost of operating it. The generators were purchased by a private party in November 2021.

Energy Northwest (EN) – EN, previously Washington Public Power Supply System (WPPSS), is a municipal corporation and joint operating agency organized and existing under the laws of Washington State. Organized in 1957, it is empowered to finance, acquire, construct, and operate facilities for the generation and transmission of electric power. The District is a participant in EN's Nuclear Projects Nos. 1, 2, and 3. Project No. 2, known as the Columbia Generating Station, currently is operating. The other projects have been terminated.

There are 27-member utilities, and all members own and operate electric systems within Washington State. EN has no taxing authority. Financial statements for EN may be obtained by writing to: Energy Northwest, P.O. Box 968, Richland, WA 99352-0968. Its website is available at www.energy-northwest.com.

Nuclear Projects 1, 2, and 3 – The District continues to fulfill its obligations consistent with the terms and conditions of the Net Billing Agreements with EN and the BPA.

The District, EN, and BPA have entered into separate agreements with respect to EN's Project No. 1, Project No. 2, and 70 percent ownership share of Project No. 3 (collectively, the "Net Billed Projects") under which the District has purchased from EN and, in turn, assigned to BPA a maximum of 1.274 percent, 1.446 percent, and 1.265 percent of the capability of Projects No. 1, 2, and EN's ownership share of Project No. 3, respectively. Under the agreements, the District is unconditionally obligated to pay EN its pro rata share of the total costs of the projects, including debt service, whether or not the projects are completed, operable, or operating and notwithstanding the suspension, reduction, or curtailment of the project's output. Under the Net Billing Agreements, BPA is responsible for the District's percentage share of the total annual cost of each project, including debt service on revenue bonds issued to finance the costs of construction. The District's electric revenue requirements are not directly affected by the cost of completion of the Net Billed Projects. The revenue requirements are affected only to the extent that the costs of the projects result in increases in BPA's wholesale power rates.

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

The District's obligations under the Net Billing Agreements have been extended for CGS, Project 1 and Project 3 pursuant to the BPA and EN's Debt Optimization and Regional Cooperation Debt agreements. The Debt Optimization Program (2001-

2011) restored approximately $2 billion in borrowing authority for BPA and achieved approximately $500 million in interest expense savings. This was accomplished by extending EN debt in order to prepay higher interest rate debt to the U.S. Treasury. In turn, this savings provides economic benefit to preference customers, who are the ultimate ratepayers that repay both types of debt. A new program, coined Regional Cooperation Debt, was enacted in 2014 to achieve the same objectives through 2020. During that time, it is expected BPA will save approximately $2.4 billion in interest savings. In September 2018, EN extended the Regional Cooperation Debt program through 2030 to restore up to $3.5 billion in borrowing authority. EN is planning to consider extensions of maturing debt every year through 2030.

Columbia Generating Station (CGS) – CGS is a reliable, carbon free energy resource and the third largest generator in Washington. It has a maximum permitted generation capacity of 1,207 gross MW and produces electricity 24 hours a day, seven days a week. Operators are able to adjust power levels to meet the BPA's needs based on river conditions; referred to as a base load power source. Refueling and maintenance outages occur every two years during the spring, when the Columbia River Basin has ample runoff to hydroelectricity.

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

Packwood Hydroelectric Project – The Packwood Hydroelectric Project is located near the town of Packwood in eastern Lewis County, Washington. The project has the capacity to produce 27.5 MW of electricity. Commercial operation began in June 1964.

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

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

The FERC license for Packwood expired in 2010. The project was granted a continuance to operate under the existing license on a year-to-year basis until the new license is issued. EN began the relicensing process in 2005. Application for a new 50-year operating license was submitted to the FERC in February of 2008. The final Environmental Assessment and Water Quality Certification were completed in July of 2009. A relicensing application was submitted in 2010. FERC issued the new license on October 11, 2018 for a period of 40 years. The license is subject to the terms and conditions of the Federal Power Act and the regulations the Commission issues under the provisions of the Federal Power Act.

Nine Canyon Wind Project – In early 2001, EN approached public utilities about developing a wind generation project. In September of 2001, the District signed an agreement with EN and seven other participants to purchase a 1.5 MW share of the Nine Canyon Wind Project Phase I. It consists of 37 wind turbines with a peak generating capacity of 48 MW. This phase of the project began commercial operation in September 2002. As with the Packwood Hydroelectric Project, participants of Nine Canyon are obligated to pay the annual costs of the project, including debt service, whether or not the project is operable, until the outstanding bonds are paid, or provision is made for their retirement in accordance with the bond resolution (see Note 16).

In April 2003, the District signed an agreement with EN and four other participants to purchase a 0.5 MW share of Phase II. It consists of 12 wind turbines with a peak generating capacity of 15.6 MW. Commercial operation began in September 2003. The combined capacity of first two phases total 63.7 MW with the District's share of the output at 2 MW.

In October of 2005, EN announced the investigation into another expansion of the Nine Canyon Wind Project. In October 2006, the District signed an agreement for 1 MW share of the Phase III expansion.

The District's output share of all three phases is 3.14 percent of its total 95.9 MW capacity of electricity (or 3 MW). The contracts for all phases expire in July 2030 with an option to extend for additional five-year terms.

The Nine Canyon Wind Project is one of the largest publicly owned wind projects in the nation. The renewable energy produced by all three phases is used to serve District load, as well meet the District's renewables mandates under I-937.

White Creek Wind Project – In 2010, the District entered into an 18-year purchase agreement with Lakeview Light and Power Wind Energy, Inc. for the electrical output and all associated environmental attributes or RECs from 3.22 MW of capacity in the White Creek Wind Project. Due to minimal District load growth, the energy was previously resold on the open market and the RECs retained for the District's compliance with the renewables mandate under I-937. However, on October 1, 2014, the District began using the energy to serve load and is no longer selling it.

NOTE 10 – Public Entity Risk Pools

PURMS

The District is a member of the Public Utility Risk Management Services (PURMS) formerly known as the Washington Public Utility District's Utilities System Joint Self Insurance Fund. RCW 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-hire, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed on December 31, 1976, when certain Washington State PUDs joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twelve Districts have joined the Pool.

The Pool operates under an Interlocal Agreement and Operational Rules. An elected commissioner from each member makes up the Board of Directors. They are the policy making body of the group. Two committees report directly to the Board. A staff person from each member and the Administrator are on these committees.

In general, PURMS, via its Members and its third-party Administrator, operates three separate Risk Pools known as the Liability Pool, Property Pool, and the Health and Welfare Pool ("H&W Pool"). The Members of each Risk Pool self-insure primary coverages for their Members and jointly acquire excess or stop-loss insurance, all financed by assessments of the Members pursuant to the Assessment Formula applicable to the particular Risk Pool ("Assessment").

Liability Risk Pool

1. Jointly Self-Insured Liability Coverage

PURMS provides liability insurance coverage for its members participating in the Liability Risk Pool, and to a limited extent for the benefit of their employees, under an agreement entitled "PURMS Joint Self-Insurance Agreement". Coverage includes commercial general liability, public officials and entity, automobile liability, pollution liability, employment practices liability and cyber security-breach coverages. The Liability Pool has a self-insured retention (Liability Coverage Limit) of $1,000,000 per occurrence.

2. Excess Liability Coverages

The Liability Pool also maintains Excess Liability Coverage for its members. For 2021, the first layer of Excess Liability Coverage, in which all liability pool members must participate, was $35,000,000 excess of the Liability Pool's $1,000,000 self-insured liability coverage limit. The Liability Pool also offers an optional second layer of excess liability insurance in the amount of $65,000,000. In 2021, all Liability Pool Members participated in this second layer of Excess Liability Coverage.

The Liability Pool also offers excess Director's and Officer's Coverage ("Excess D&O Coverage") for a subgroup of members of the Liability Pool who choose to participate in the coverage. For 2021, the Excess D&O Coverage was $35,000,000 in excess of the coverage provided by the liability pool's $1,000,000 coverage limit and all members chose to participate in this Excess D&O Coverage.

3. Funding Levels and Assessment Mechanisms

This Pool is financed through assessments of its members up to the amount of its designated balance. These assessments occur at the beginning of each calendar year and at any time the Liability Pool Balance falls below the designated $3,500,000 Liability Pool Balance by $500,000 or more.

As of December 31, 2021, there were 69 known incidents or unresolved liability claims pending against one or more members or former members of the Liability Pool. The total dollar amount of the risk posed by these claims to such members and to the Liability Pool itself is unknown and can only be estimated. The case reserves set by the administrator for these Claims, as of December 31, 2021, was $1,096,764. The Liability Pool's actual balance was replenished to the $3,500,000 designated balance via the automatic annual assessment issued in January 2022.

Commencing with fiscal year ending 2016, it is PURMS' policy to inform the Liability Pool Members in writing of their respective potential future assessment shares of the actuarially based "Claims Reserve Receivable" ("CRR Allocation"), determined in accordance with a "10-Year Look-Back Rule". PURMS' Administrator calculates each Liability Pool Member's CRR Allocation for FY 2021, based on the 80 percent confidence level estimated by the 2021 Actuarial Report. The District's portion of the Liability Pool CRR Allocation for 2021 is $343,471.

Property Risk Pool

PURMS provides property insurance coverage for its members participating in the Property Risk Pool in accordance with the terms of the Self Insurance Agreement (SIA). Coverages include general property and auto physical damage coverage. Under the SIA, the Property Pool has had a "Property Coverage Limit" of $250,000 per property loss.

PURMS also maintains excess property insurance for its members in the Property Pool. For 2021, the amount of the excess property insurance was $200,000,000, with various sub-limits, and with excess coverage attaching at the $250,000 property coverage limit for all property losses except those subject to increased retention levels for certain property risks.

The Property Pool also provides its members with automatic extended property coverage for property losses that exceed the Property Pool's $250,000 property coverage limit if those losses were also subject to increased retentions under the excess property insurance.

The Property Pool is funded to the amount of its designated Property Pool balance, which in 2021 was $750,000. Of this amount, $250,000 is used to pay claims costs as they are incurred and ongoing Property Pool operating expenses, including program administration. The $250,000 of Operating Funds is replenished by assessments of property pool members. The amount of Cash Assets held for the Property Pool below the $250,000 of Operating Funds is retained as reserves and held toward satisfying applicable regulatory funding requirements.

The total paid for property claims in 2021 was $122,831, including claim adjusting expenses (but excluding Property Pool Operating Expenses). As of December 31, 2021, there were 14 known property claims pending from the members of the Property Pool. The total dollar amount of the risk posed by these claims to the Property Pool is unknown and can only be estimated. The case reserves set by the administrator for these claims, as of December 31, 2021, was $95,686. The Property Pool's actual balance was replenished to its $750,000 designated balance via the automatic annual assessment issued in January 2022. The District's portion of the CRR Allocation for the Property Pool for the year ending December 31, 2021, is $21,747.

Health & Welfare (H&W) Risk Pool

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

The H&W Pools operations are financed through assessments of its Members under the H&W General Assessment Formula. Each month, each Member of the H&W Pool is assessed for the cost the H&W Pool incurred during the preceding month for such member's employees and for such member's share of Shared H&W Costs which includes administrative expenses, premiums for Stop-Loss Insurance, PPO charges and Shared H&W Claims.

The exposure of each H&W Pool Member to the H&W Claims Costs of its employees is limited by two stop-loss points. The first pair of Stop-Loss Points are established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its Members. These Stop-Loss Points represent the dollar amounts at which the Stop-Loss Insurance attaches and begins paying either the H&W Claim Costs for an individual employee's total medical claims for the year or the H&W Claims Costs of all employees of all members for the year.

For 2021, the H&W Pool Individual Stop-Loss Point was $365,000 per individual and the H&W Pool Aggregate Stop-Loss Point was $23,922,638 for the combined H&W Claims Costs of the employees of all members of the H&W Pool.

In addition, each H&W Pool member's exposure to the H&W claims costs of its employees is further limited by even lower Stop-Loss Points determined by the H&W Pool for its members. Medical expenses that exceed these Stop-Loss Points become Shared H&W Claims and are paid by all H&W Pool members except the member whose employee's H&W Claim exceeded the applicable Stop-Loss Point. The member Stop-Loss Points are calculated annually under the H&W assessment formula.

The total paid by the H&W Pool for H&W Claims Costs in 2021 was $15,076,038 (including shared H&W claims but excluding H&W pool operating expenses). The District's portion of the CRR Allocation for the H&W Pool for the year ending December 31, 2021, is $244,113.

<u>Unemployment Insurance</u>

The District is self-insured for unemployment compensation, in that it reimburses the State of Washington for actual claims made. Unemployment claims are infrequent; the District recognized unemployment compensation expense of $5,121 in 2021.

NOTE 11 – Defined Benefit Other Postemployment Benefit (OPEB) Plans

The following table represents the aggregate OPEB amounts for all plans subject to the requirements of GASBS 75 for the year 2021:

OPEB Plan		
OPEB liabilities	$	4,383,495
Deferred outflows of resources	$	4,748,675
Deferred inflows of resources	$	7,516,133
OPEB expense/expenditures	$	594,152

OPEB Plan Description

A. **Plan Administration**. The District administers the Public Utility District No. 3 of Mason County OPEB Trust (hereinafter "Trust") — a single-employer defined benefit OPEB plan that is used to provide a viable long-term stand-alone funding source for postemployment benefits other than pensions for all permanent full-time District employees. The trust was established in 2008. Per Resolution 1598 dated June 11, 2013, the trust is administered by the District under supervision of the trustees consisting of a Commissioner, District Manager, Attorney, Auditor, and Finance Manager.

B. **Benefits Provided** – The Trust provides healthcare, dental, and vision benefits for retirees and their dependents. Benefits are provided through a third-party insurer and the full cost of benefits is covered by the plan. RCW 11.100 grants the authority to establish and amend the benefit terms to the District's Board of Commissioners.

C. **Employees Covered by benefit terms** – On December 31, 2021, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	65
Inactive plan members entitled to but not yet receiving benefit payments	0
Active plan members	143
	208

D. **Contributions** – RCW 11.100 of Washington State statute grants the authority to establish and amend the contribution requirements of the District and plan members to the District's Board of Commissioners. Per Commission Resolution No. 1446, the District funds $625,000 per year into the OPEB Trust to cover the liability of the for post-employment benefits. The District contributed $1,008,652 to the trust in 2021. Plan members are not required to contribute to the plan.

E. The plan is administered by the District and a separate, audited GAAP-basis postemployment benefit plan report is not available.

Net OPEB Liability

The District's net OPEB liability was measured as of December 31, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2020 and rolled forward with updated assumptions to December 31, 2021.

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- The inflation rate of 2.20 percent based on the Milliman standard assumption.
- The investment return assumption of 5.50 percent.
- The discount rate of 5.50 percent based on the District following a funding policy of paying the benefits as they come due and contributing $625,000 per year to the trust until the funded ratio is 100 percent.
- Healthcare cost trend rates were based on the Society of Actuaries' published report on long-term medical trend.
- Demographic assumptions regarding retirement, turnover, and mortality are based upon the Washington State Public Employees' Retirement System (PERS) Plans 2 and 3 as shown in the *2013-2018 Experience Study* by the Washington State Public Retirement Systems.
- Mortality tables and projections, retirement rates, termination rates, and member/beneficiary age difference assumptions were updated based on the assumptions used by the Washington Office of the State Actuary.
- The effect of the assumption changes or inputs did not affect net OPEB Liability in 2021.

Changes in Assumptions/Methods since Prior Valuation:

- Demographic assumptions regarding retirement, termination, and mortality tables and projections were updated to better reflect future demographic experience. The assumptions are based on the 2013-2018 Demographic Experience Study for Washington State Public Retirement Systems.
- The Health Care cost increases, or trend rates, were updated to better reflect current expectations and anticipated future experience.
- The investment return assumption was updated to 5.50 percent.
- The discount rate assumption was updated to 5.50 percent.

Sensitivity Analysis. The following presents the total OPEB liability of the District, calculated using the discount rate of 5.50 percent, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate.

	1% Decrease 4.50%	Discount Rate 5.50%	1% Increase 6.50%
Total December 31, 2021 OPEB liability	$ 24,084,928	$ 20,564,907	$ 17,744,049
Fiduciary net position	16,181,412	16,181,412	16,181,412
Net OPEB liability	7,903,516	4,383,495	1,562,637

The following presents the total OPEB liability of the District, calculated using the current healthcare cost trend rates as well as what the District's total OPEB liability would be if it were calculated using trend rates that are one-percentage point lower or one-percentage point higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Total December 31, 2021 OPEB liability	$ 17,043,502	$ 20,564,907	$ 25,187,453
Fiduciary net position	16,181,412	16,181,412	16,181,412
Net OPEB liability	862,090	4,383,495	9,006,041

The best-estimate range for the long-term expected rate of return is determined by combining expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are those of Milliman's investment consultants as of December 31, 2021.

Asset Class	Long-Term Expected Real Rate of Return
Cash/Money Markets	-0.26%
US Core Fixed Income	1.39%
Global Equity	5.70%
Assumed Inflation - Mean	2.20%
Long-Term Expected Rate of Return	5.50%

Changes in the Net OPEB Liability of the District

The components of the net OPEB liability of the District at December 31, 2021, were as follows:

OPEB	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,326,456
Changes of assumptions	4,748,675	4,309,153
Net difference between projected and actual investment earnings on OPEB plan investments	-	1,880,524
TOTAL	4,748,675	7,516,133

OPEB		Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 12/31/2020	**$**	**19,365,651**	**$ 13,555,012**	**$ 5,810,639**
Changes for the year:				
Service cost		500,670	-	500,670
Interest on total OPEB liability		1,082,238	-	1,082,238
Effect of plan changes		-	-	-
Effect of economic/demographic gains or losses		-	-	-
Effect of assumptions changes or inputs		-	-	-
Expected benefit payments		(383,652)	(383,652)	-
Contributions - employer		-	1,008,652	(1,008,652)
Net investment income		-	2,097,053	(2,097,053)
Administrative expense		-	(95,653)	95,653
Net changes		**1,199,256**	**2,626,400**	**(1,427,144)**
Balances at 12/31/2021		**$20,564,907**	**$16,181,412**	**$4,383,495**

Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	OPEB	
2022	$	(324,522)
2023	$	(519,755)
2024	$	(273,729)
2025	$	(102,406)
Thereafter	$	(1,547,042)

OPEB Plan Investments

Investment Policy (updated December 2018) – The District's policy regarding the allocation of invested assets is established and may be amended by the Trust's Board by a majority vote of its members. It is the policy of the Trust's Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Trust's adopted asset allocation policy as of December 31, 2018:

Asset Class	Target Allocation
Global Fixed Income	30%
Global Equity	52%
Real Assets	18%
	100%

Rate of return – For the year ended December 31, 2021, the annual money-weighted rate of return on investments, net of investment expense, was a positive 15.16 percent. The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Fair Value – OPEB Investments have been adjusted to reflect available fair values as of December 31, 2021 obtained from available financial industry valuation services. The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The District's OPEB money market investments are classified as Level 1 and valued at $16,181,412.

NOTE 12 – Participation in Northwest Open Access Network, Inc. dba NoaNet

The District, along with nine other Washington State public entities, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone over public benefit fiber leased from the BPA throughout Washington. This communications backbone throughout Washington assists its members in the efficient management of load, conservation, and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001. The District's membership interest in NoaNet is 15.11 percent.

As a member of NoaNet and as allowed by RCW 54.16, the District guaranteed a portion of the 2020 NoaNet $24.8 million bonds based upon an agreed share of 12.12 percent of the outstanding balance. See Note 14 for additional details. NoaNet reserves the right to assess members to cover deficits from operations. There have been no member assessments since 2011.

NoaNet recorded a decrease in net position (excluding grant proceeds) of $1,152,954 in 2021, and a decrease of $4,125,149 for 2020. In accordance with Accounting Principles Board Opinion No. 18, T*he Equity Method of Accounting for Investments in Common Stock*, as well as a position statement issued by the Washington State Auditor concerning the appropriate accounting treatment for NoaNet, a proportionate share of the changes in net position has not been recorded by the District. NoaNet had positive net position of $44,828,963 as of December 31, 2021, and positive net position of $45,981,917 as of December 31, 2020.

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

NOTE 13 – Telecommunications Services

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

With the passage of wholesale telecommunications authority in 2000 by the Washington State Legislature, high-speed communication capability was brought to Mason County. The District continues to build out its fiber-optic network to meet its data needs, and to share the benefit of the technology investment. The District is a wholesaler for private service providers and bills the providers directly for wholesale telecommunications services. These private service providers are directly responsible for billing each end-user. The District ended 2021 with 2,341 installed gateways and 691 fiber primary miles as of December 31, 2021.

A summary of telecommunications revenues, expenses, and capital investment for 2021 is listed as follows:

For Year Ended December 31, 2021		
Operating revenues		
Wholesale fiber services to ISPs	$ 1,403,956	
Installation charges	112,333	
Total Operating revenues	1,516,289	
Total Revenues		**1,516,289**
Operating expenses		
Operating expenses	308,430	
Depreciation	206,701	
Total Operating expenses	515,131	
Total Expenses		**515,131**
Change in net position		**$ 1,001,158**
Capital investment		
Current year change in net plant		$ 3,462,152
Cumulative net plant		$ 22,785,080

The District has been awarded two Community Economic Revitalization Board Rural Broadband Program Loans/Grants from the State of Washington. The Community Economic Revitalization Board (CERB) made available loans and grants to local governments and federally recognized Indian tribes to build infrastructure to provide high-speed, open-access broadband service to rural and underserved communities, for the purpose of economic development or community development. The District was awarded almost $3 million to build fiber-to-the-home networks in 12 communities across the County. This money will be used to extend fiber to an additional 1,200 homes and businesses that lack access to high-speed broadband service.

The first CERB (CERB 1) award, initially offered September 2018, consists of a half grant and half low-interest revenue loan. The revenue loan has a maximum principal amount of $408,325 with an interest rate of 1.5 percent for a term of twenty years from the date the loan is drawn. The grant award amount is $408,324 with a local match of $911,324. The outstanding loan amount of CERB 1 as of December 31, 2021 is $392,083. The first principal amount paid on this loan was on January 31, 2021. The District has four years to complete the total project (May 2023).

The second CERB (CERB 2) award, initially offered May 2019, consists of a half grant and half low-interest revenue loan. The Revenue Loan has a maximum principal amount of $1,000,000 with an interest rate of 1.25 percent on the outstanding principal balance with a maximum term of twelve years from the date the loan is drawn. The grant award amount is $1,000,000 with a local match of $689,260. The outstanding loan amount of CERB 2 as of December 31, 2021 is $28,807. The District has four years to complete the total project (November 2023).

On January 29, 2020, the U.S. Department of Agriculture awarded the District a $2.4 million grant from its ReConnect Pilot Program. It will extend the District's wholesale broadband network to the "Three Fingers" area of Grapeview. The project will build on the success of the District's Fiberhood program and its public-private partnerships. The District began construction on this project in the fourth quarter of 2021.

NOTE 14 – Financial Guarantees

In December 2020, current Members of NoaNet entered into a Repayment Agreement to guarantee the 10-year, $24,775,000 Telecommunications Network Revenue Bonds (2020 Bonds) issued by NoaNet to finance capital improvements and other expenses, repay loans and a line of credit, fund a reserve account, and pay bond issuance costs. The 2020 Bonds will become due beginning in December 2021 through December 2030 with interest due semi-annually at rates ranging from 0.591 percent to 2.120 percent.

The 2020 Bonds were issued and guaranteed pursuant to RCW chapters 24.06 and 39.34 and Title 54. Under the Repayment Agreement, each guarantor acknowledged and agreed that it is a guarantor of the payment of the principal and interest on the 2020 Bonds and was liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's agreed upon percentage interest. The District's guarantee is 12.12 percent of the outstanding Bonds.

To the extent NoaNet's gross revenue is insufficient to pay principal and interest amounts when due, NoaNet shall bill each guarantor no less than 65 days in advance of each principal and interest payment date for its percentage share. Each guarantor has 30 days to pay after receipt of the bill. In event of a failure by any guarantor to pay such amounts when due, the guarantor shall be subject to all remedies as contained in NoaNet's bylaws. Each guarantor shall remain obligated to pay its respective share of principal and interest on the 2020 Bonds, when due, whether or not it remains a member of NoaNet.

While the District has a year-end financial guaranteed of $2,730,636 for the NoaNet Bond, a liability is not recognized until it is more likely than not that the District would be required to make a payment on the Bonds (GASB 70). Currently, NoaNet has sufficient gross revenues to pay the principal amount of $22,530,000 and interest on their 2020 Bonds and therefore, the District has not recorded a liability.

NOTE 15 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

As an essential service, the District has an obligation to continue services, while at the same time protecting the health and safety of its employees and customers. Not only ensuring the continuity in service for the electricity the District provides for customers, but also the District's fiber optic backbone in conjunction with NoaNet which supports the Emergency 9-1-1 services. From the early stages of the emergency, the District began following its pandemic and business continuity plans as well as the recommendations and guidelines of the county, state, and federal agencies.

Some of the measures put in place to comply with these recommendations include:

- Closing the lobbies and public auditorium spaces and encouraging customers to use other means of communication and doing business;
- Encouraged the use of payment kiosks at the downtown payment center and at the Belfair warehouse;
- Suspended all disconnections, including prepay accounts and waived late fees and stopped disconnection notices until the moratorium was lifted in October of 2021;
- Increased advertisements (radio/print/social media) to inform customers on options and available assistance;
- Attended weekly briefings with the Mason County Emergency Operations Center (EOC);
- Took steps to encourage continuing social distancing, such as field employees driving in separate vehicles, closed shared spaces in all buildings, and limited access to offices;
- Continued to allow as many employees as possible to work remotely (if the work permitted) requiring some new fiber connections and computer equipment cameras, printers, etc.;
- Increased cleaning and sanitation efforts hiring additional facilities assistants to keep up on the added work required to keep essential staff safe;
- Provided opportunities for employees to get vaccinated and receive a booster shot through in-house clinic and arrangements with Mason General Hospital;
- Continued compliance with masking protocol for unvaccinated employees in compliance with Washington State Labor & Industries guidelines;

While these measures do have a financial impact on the utility, the District's finances are sufficient and well-managed, therefore, the impact does not jeopardize the District's ability to continue operations. The District anticipated and has incurred an increase in past due accounts. This is due to customers inability to pay their power bills due to lost wages as a result of the stay-at-home order along with the requirement to suspend all disconnects, including prepayment accounts. Additionally, a decrease in revenues has occurred with the requirement to waive late fees for the first three quarters of the year. The moratorium on utility disconnections and late fees was lifted in October of 2021 and the District resumed its collection activities which resulted in getting more customers connected with available assistance, transitioning customers to prepay accounts with payment schedules for past due balances, and making payment arrangements.

The District is continuing to work with customers to find assistance as well as identify costs related to COVID-19 that may be reimbursable. The length of time these measures will continue to be in place, and the full extent of the direct or indirect financial impact on the District is unknown at this time.

NOTE 16 – Commitments and Contingencies

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

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

The District does not own or operate the underlying asset of the project and therefore, a long-term liability related to an asset retirement obligation has not been included in the District's financials.

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

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

Columbia Generating Station

Energy Northwest owns and operates the Columbia Generating Station. As such, the CGS is not a tangible asset to the District and therefore a long-term liability related to an asset retirement obligation has been included in the District's financials. Although the District will cover a portion of the costs if the facility was decommissioned, these costs would be recovered through rates charged to the District that may increase over time as a result of decommissioning costs. There are currently no plans to decommission or replace the assets.

Packwood Hydroelectric Project

The District has a ten percent share of the Packwood Hydroelectric Project. This District does not own or operate the underlying asset of the project and therefore a long-term liability related to an asset retirement obligation has not been included in the District's financials. Although the District will cover a portion of the costs if the facility was decommissioned, these costs would be recovered through rates charged to the District that may increase over time as a result of decommissioning costs. There are currently no plans to decommission or replace the assets.

NOTE 17 – Subsequent Events

On March 29, 2022, the Federal Emergency Management Administration (FEMA) declared Washington's severe winter storms from January 1 to January 15, 2022, a major disaster to certain counties in Washington including Mason County. This declaration allowed for the District to submit for reimbursement of expenses incurred to repair facilities due to damages sustained during the storm timeframe. The District's estimated preliminary damage assessment to be submitted for reimbursement is $330 thousand.

Pension Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

PERS Plan 1

As of June 30, 2021

Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.098342%	0.091921%	0.092434%	0.093519%	0.093822%	0.093234%	0.088510%	0.089818%
Employer's proportionate share of the net pension liability	$ 1,200,986	$ 3,245,308	$ 3,554,416	$ 4,176,590	$ 4,451,927	$ 5,007,105	$ 4,629,896	$ 4,524,624
Covered payroll	$ 15,033,031	$ 13,770,620	$ 12,850,500	$ 12,163,700	$ 11,660,523	$ 11,203,913	$ 10,410,682	$ 9,868,276
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8%	24%	28%	34%	38%	45%	44%	46%
Plan fiduciary net position as a percentage of the total pension liability	89%	69%	67%	63%	61%	57%	59%	61%

PERS Plan 2/3

As of June 30, 2021

Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.125267%	0.117148%	0.117470%	0.115302%	0.117600%	0.117063%	0.111922%	0.113197%
Employer's proportionate share of the net pension liability (asset)	$ (12,478,609)	$ 1,498,256	$ 1,141,033	$ 1,968,679	$ 4,086,038	$ 5,894,030	$ 3,999,037	$ 2,288,120
Covered payroll	$ 14,983,631	$ 13,660,314	$ 12,737,823	$ 11,967,154	$ 11,529,541	$ 11,112,407	$ 10,321,834	$ 9,782,044
Employer's proportionate share of the net pension liability as a percentage of covered payroll	-83%	11%	9%	16%	35%	53%	39%	23%
Plan fiduciary net position as a percentage of the total pension liability	120%	97%	98%	96%	91%	86%	89%	93%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above.

* The ten year information will be provided as it is available.

Pension Supplementary Information, cont.

Schedule of Employer Contributions
PERS Plan 1
For the year ended December 31, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 676,224	$ 705,983	$ 699,765	$ 634,593	$ 596,029	$ 543,761	$ 465,551	$ 405,692
Contributions in relation to the statutorily or contractually required contributions	(676,224)	(705,983)	(699,765)	(634,593)	(596,029)	(543,761)	(465,551)	(405,692)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 15,661,078	$ 14,550,880	$ 13,950,426	$ 12,301,589	$ 11,975,700	$ 11,503,133	$ 10,681,885	$ 10,139,479
Contributions as a percentage of covered payroll	4%	5%	5%	5%	5%	5%	4%	4%

PERS Plan 2/3
For the year ended December 31, 2021
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily or contractually required contributions	$ 1,124,064	$ 1,143,920	$ 1,066,185	$ 910,284	$ 805,795	$ 695,154	$ 585,127	$ 491,803
Contributions in relation to the statutorily or contractually required contributions	(1,124,064)	(1,143,920)	(1,066,185)	(910,284)	(805,795)	(695,154)	(585,127)	(491,803)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 15,661,078	$ 14,443,606	$ 13,836,193	$ 12,126,347	$ 11,824,239	$ 11,400,902	$ 10,591,729	$ 10,051,939
Contributions as a percentage of covered payroll	7%	8%	8%	8%	7%	6%	6%	5%

Notes to Schedule:

There are no factors at year end that significantly affect trends in the amounts reported above.

* The ten year information will be provided as it is available.

OPEB Supplementary Information

OPEB plan administered through a qualifying trust

Schedule of Changes in Net OPEB Liability and Related Ratios

Public Utility District No. 3 of Mason County OPEB Trust

For the year ended December 31, 2021

Last 10 Fiscal Years *

	2021	2020	2019	2018
Total OPEB liability				
Service cost	$ 500,670	$ 513,303	$ 384,852	$ 717,417
Interest	1,082,238	1,237,517	792,596	700,567
Change of benefit terms	-	-	-	-
Effect of economic/demographic gains/(losses)		(877,297)	-	(858,717)
Effect of assumption changes or inputs		(1,343,615)	6,974,618	(4,391,262)
Benefit payments	(383,652)	(544,545)	(876,115)	(850,933)
Net change in total OPEB Liability	1,199,256	6,261,314	7,275,951	(4,682,928)
Total OPEB Liability - beginning	19,365,651	13,104,337	13,104,337	17,787,265
Total OPEB Liability - ending (a)	20,564,907	19,365,651	20,380,288	13,104,337
Plan fiduciary net position				
Contributions - employer	1,008,652	1,169,545	1,501,115	3,746,203
Net investment income	2,097,053	1,559,583	1,879,894	(732,450)
Benefit payments	(383,652)	(544,545)	(876,115)	(392,043)
Administrative expense	(95,653)	(74,377)	(69,213)	(57,807)
Net changes in plan fiduciary position	2,626,400	2,110,206	2,435,681	2,563,903
Plan fiduciary net position - beginning	13,555,012	11,444,806	9,009,125	6,445,222
Plan fiduciary net position - ending (b)	16,181,412	13,555,012	11,444,806	9,009,125
Net OPEB liability - ending (a) - (b)	$ 4,383,495	$ 5,810,639	$ 8,935,482	$ 4,095,212
Plan fiduciary net position as a percentage of the total OPEB liability (b)/(a)	78.68%	70.00%	56.16%	68.75%
Covered-employee payroll	$ 16,200,126	$ 15,038,328	$ 13,328,771	$ 12,349,484
District's net OPEB liability as a percentage of covered-employee payroll	27.06%	38.64%	67.04%	33.16%

OPEB Supplementary Information, cont.

Notes to Schedule:
Changes: There are no changes of benefit terms or assumptions for 2021.

Changes of assumptions:

2020 Updated methods and assumptions used to determine contribution rates:

Discount Rate	5.50 percent
Investment rate of return	5.50 percent
Healthcare cost trend rates	Updated to better reflect current expectations and anticipated future experience.
Demographic assumptions	Assumptions regarding retirement, termination, and mortality tables and projections were updated to better reflect future demographic experience. The assumptions are based on the 2013-2018 Demographic Experience Study for Washington State Public Retirement Systems.

2019 Updated methods and assumptions used to determine contribution rates:

Inflation	2.2 percent based on the Milliman standard assumption
Discount Rate	6.0 percent, based on the PUD following a funding policy of paying the benefits as they come due and contributing $625,000 per year to the trust until the funded ratio is 100 percent
Healthcare cost trend rates	Using the model based on the Society of Actuaries' published report on long-term medical trend
Investment rate of return	6.0 percent
Mortality	RP-2000 Healthy Mortality, projected with 100 percent of Scale BB offset one year (-1)
Marriage and spousal coverage	65 percent of all active members, regardless of current marital status, are assumed to cover their spouse upon retirement.
Participation	Updated to better reflect anticipated future experience

2018 Methods and assumptions used to determine contribution rates:

Projected unit credit actuarial funding	Total liability for all benefits is the present value of total benefits expected to be paid
Amortization method	Open period, UAAL is reamortized for the same number of years with each valuation
Amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.0 percent
Healthcare cost trend rates	8.0 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent
Retirement and termination	Based on the actuarial assumptions adopted by the Washington state PERS plan with adjustments for the District's experience in turnover and retirement rates
Investment rate of return	6.07 percent, net of OPEB plan investment expense, including inflation
Retirement age	In the 2018 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	In the 2018 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RPA-2000 Healthy Mortality Table
Participation	Participants have a one-time option to enroll in the plan at retirement. It is assumed that there is 100 percent participation.

Past amounts were derived using valuation criteria under previous standards, therefore the years presented are not comparable to prior years.

* The ten year information will be provided as it is available.

OPEB Supplementary Information, cont.

OPEB plan administered through a qualifying trust

Schedule of Investment Returns

Public Utility District No. 3 of Mason County OPEB Trust

For the year ended December 31, 2021

Last 10 Fiscal Years *

	2021	2020	2019	2018
Annual money-weighted rate of return, net of investment expense	15.16%	13.29%	20.21%	13.06%

Past amounts were derived using valuation criteria under previous standards, therefore the years presented are not comparable to prior years.

* The ten year information will be provided as it is available.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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