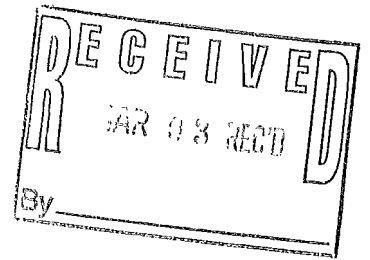
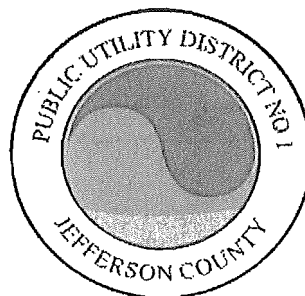


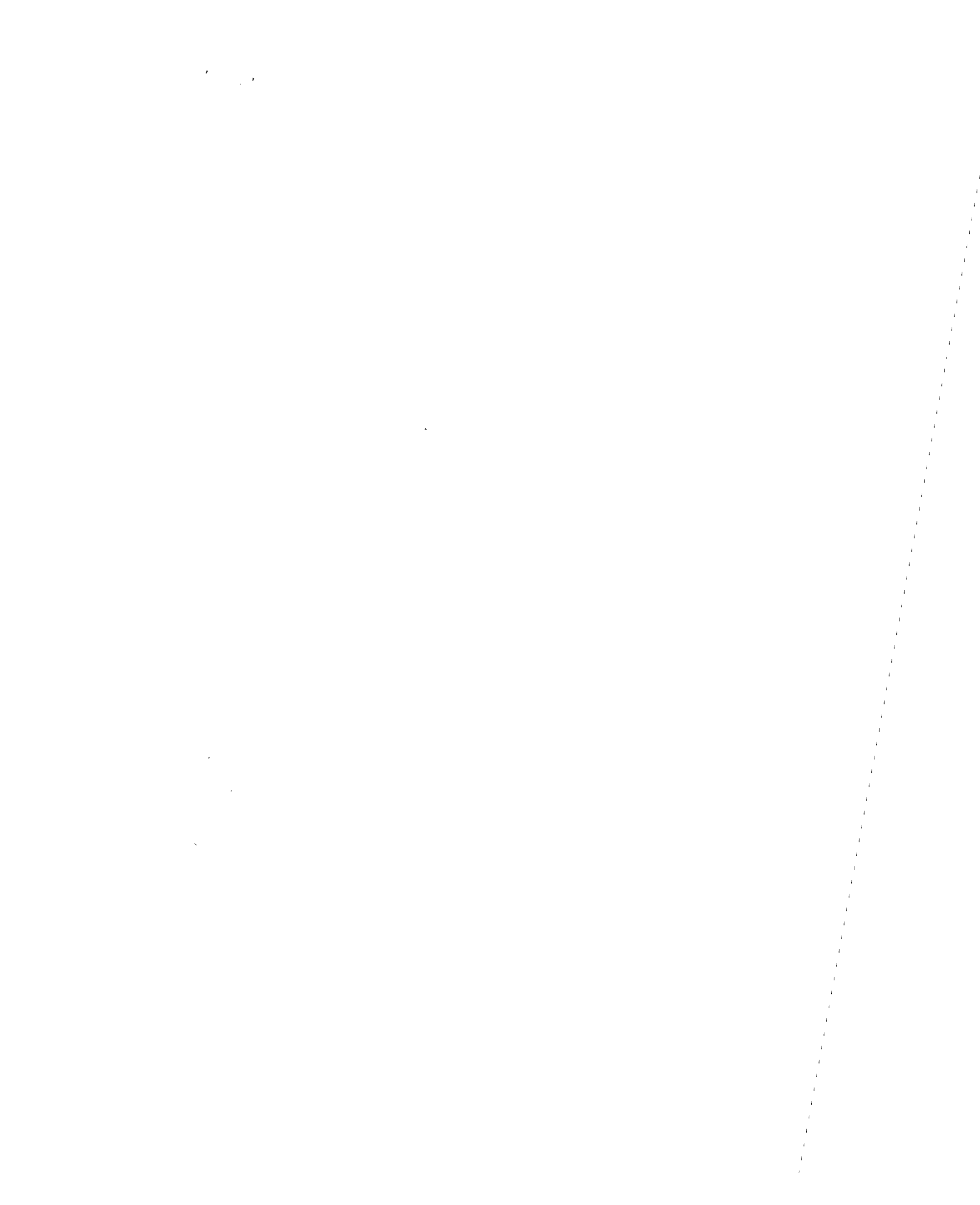
**PUBLIC UTILITY DISTRICT #1
OF
JEFFERSON COUNTY**



FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED
DECEMBER 31, 2009 AND 2008





PUBLIC UTILITY DISTRICT #1 OF JEFFERSON COUNTY

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James G. Parker, Manager
Public Utility District No. 1 of Jefferson County
Port Hadlock, Washington

I have compiled the accompanying statement of net assets (balance sheet) of the Public Utility District No. 1 of Jefferson County as of December 31, 2008 and 2009, and the related statements of revenues and expenses and changes in net assets and cash flows and the accompanying supplementary information for the years then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary information that which is the representation of management. I have not audited or reviewed the accompanying financial statements and supplementary information and, accordingly, do not express an opinion or any other form of assurance on them.



David A. Papandrew
Fircrest, Washington
February 26, 2010

Public Utility District #1 of Jefferson County

Management's Discussion and Analysis

Our discussion and analysis of the Public Utility District #1 of Jefferson County's financial performance provides an overview of the District's financial activities for the years ended December 31, 2008 and 2009. Please read it in conjunction with the District's basic financial statements which begin on page 4. This annual financial report consists of two parts – Management's Discussion and Analysis (this section) and the Basic Financial Statements.

Basic Financial Statements

The District's basic financial statements include four components:

- Statements of Net Assets (Balance Sheet)
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

The **statements of net assets** provide a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The **statements of revenues, expenses and changes in net assets** present information which shows how the District's equity (net assets) changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statements of revenues, expenses and changes in net assets measure the success of the District's operations during the year and determine whether the District has recovered its costs through user fees and other charges.

The **statements of cash flows** provide information regarding the District's cash receipts and cash disbursements during the year. These statements report cash activity in four categories:

- Operating
- Noncapital financing
- Capital financing
- Investing

These statements differ from the statements of revenues, expenses and changes in net assets by only accounting for transactions that result in cash receipts or cash disbursements.

The **notes to financial statements** provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

Following is a summary of financial highlights for the Public Utility District #1 of Jefferson County for the annual periods ending December 31, 2008 and 2009:

	2009	2008	2007
Current and restricted assets	\$ 11,194,525	\$ 11,186,599	\$ 3,832,973
Systems, property & equipment	22,304,657	22,443,551	19,287,280
<i>Total Assets</i>	33,499,182	33,630,150	23,120,253
Current liabilities	787,459	541,040	716,210
Long-term debt	11,291,170	11,465,809	9,240,829
<i>Total Liabilities</i>	12,078,629	12,006,849	9,957,039
Invested in capital assets-net of debt	10,546,199	10,645,204	9,735,882
Restricted	2,451,320	1,099,022	1,153,674
Unrestricted	8,423,034	9,879,075	2,273,658
<i>Total Net Assets</i>	\$ 21,420,553	\$ 21,623,301	\$ 13,163,214
Operating revenues	\$ 1,888,076	\$ 1,827,626	\$ 1,741,886
Operating expenses	1,685,658	1,480,547	1,614,697
<i>Net Operating Income</i>	202,418	347,079	127,189
Other income and expense	57,977	8,230,680	435,864
Interest expense	(463,143)	(348,315)	(345,320)
<i>Net Income</i>	(202,748)	8,229,444	217,733
Net Assets-beginning of year	21,623,301	13,163,214	12,952,228
Prior period adjustments		230,643	(6,747)
Net Assets-end of year	\$ 21,420,553	\$ 21,623,301	\$ 13,163,214

Assets

Current and restricted assets increased by \$7.3 Million in 2008 which was primarily as a result of the addition of two new assessment districts, LUD 14 and LUD 15. The District had \$22.4 Million as of December 31, 2008 and \$22.3 Million as of December 31, 2008 of net book value of water and sewer systems and other related capital assets, the increase of \$3.1 Million in 2008 representing additions to work in progress on Marrowstone Island and Beckett Point projects. The increase in asset additions in 2009 was offset by current year depreciation of system assets. Additionally, the District's cash and investments totaled \$3.3 Million and \$4.9 Million in 2008 and 2009 respectively. Capital assets are detailed in Note 4 to the financial statements.

Liabilities

Current liabilities showed a decrease of \$175 Thousand in 2008 and an increase of \$246 Thousand in 2009 primarily due to timing of payments of current operating expenses. Long-term debt increased by \$2.3 Million in 2008 reflecting debt financing of asset acquisitions and decreased by \$174 Thousand in 2009, with debt increases of \$300 Thousand being offset by payments on debt. Long term debt is detailed in Note 7 to the financial statements.

The District's current ratio, that is current assets divided by current liabilities, widely believed to be the best indicator of liquidity or ability to operate in the current and near term, presents a 7.2 to 1 ratio in 2008 and 5.3 to 1 ratio in 2009.

Net Assets

Total net assets, or equity, increased by approximately \$8.4 Million in 2008 primarily due to the current year net income and the purchase and construction of new systems and upgrades of old systems as well as the payoff of related debt. The decrease in net assets of \$203 Thousand was due to an overall net loss of \$202 Thousand primarily related to expenditures with respect to the District's investigation of the purchase of public power facilities.

Operating Revenue and Expenses

Operating revenues increased by \$86 Thousand in 2008 and \$61 Thousand in 2009 with corresponding operating expenses decreasing by \$134 Thousand in 2008 and increasing by \$205 Thousand in 2009 with a net increase of operating net income of \$220 Thousand in 2008 and decreasing by \$145 Thousand in 2009. Increases in operating revenues were primarily due to addition of new customers.

Overall Financial Position

The District's overall financial position continues to improve on an annual basis as evidenced by increases in net assets of \$8.4 Million in 2008 but with a small decrease in net assets of \$203 Thousand in 2009 as stated above. The District has maintained consistent operating net income while increasing and improving services to new and existing customers.

Future plans for development and expansion

The District continues to grow in providing services to its constituents and is currently in the process of improving and initiating service to customers on Marrowstone Island. The District has recently completed a rate study for determination of future service rates. During 2008 the voters of Jefferson County voted to authorize the District to explore the possibility of providing electric service to residents. The District is in the later stages of determining the feasibility of adding this service.

Requests for information

The basic financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report should be directed to the District at PO Box 929, Port Hadlock, WA 98339-0929.

Public Utility District #1 of Jefferson County
Statement of Net Assets
December 31, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash and investments	\$ 2,461,343	\$ 2,208,482
Receivables (net):		
Accounts	144,066	146,989
Assessments	1,594,000	1,554,766
Other current assets	5,478	5,477
Total Current Assets	4,204,887	3,915,714
Restricted and Other Noncurrent Assets		
Long term portion of assessments receivable	4,538,318	6,171,863
Restricted assets:		
Cash	135,366	741,909
Investments	2,315,954	357,113
Total Restricted and Other Noncurrent Assets	6,989,638	7,270,885
Capital Assets		
Systems, property & equipment	27,080,999	26,816,488
Accumulated depreciation	(4,776,342)	(4,372,937)
Total Capital Assets	22,304,657	22,443,551
TOTAL ASSETS	\$ 33,499,182	\$ 33,630,150
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 122,142	\$ 68,052
Accrued interest	126,059	68,068
Current portion of long-term debt	539,258	404,920
Total Current Liabilities	787,459	541,040
Noncurrent Liabilities		
Vacation and sick leave accrual	71,970	72,382
Line of credit and interim financing	-	1,700,000
PWTF loans payable	3,374,426	3,538,319
Bonds payable	6,601,866	4,714,913
Peterson Lake note payable	1,782,166	1,845,115
Less current portion	(539,258)	(404,920)
Total Noncurrent Liabilities	11,291,170	11,465,809
TOTAL LIABILITIES	\$ 12,078,629	\$ 12,006,849
NET ASSETS		
Invested in capital assets - net of related debt	\$ 10,546,199	\$ 10,645,204
Restricted:		
For debt service	2,166,775	357,731
For property tax qualified expenditures	284,545	741,291
Total restricted	2,451,320	1,099,022
Unrestricted	8,423,034	9,879,075
TOTAL NET ASSETS	\$ 21,420,553	\$ 21,623,301

See accountant's compilation report and accompanying notes to financial statements

Public Utility District #1 of Jefferson County
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUES		
Water fees	\$ 1,689,728	\$ 1,497,911
System development fees	41,800	102,934
Other charges for services	156,548	226,781
TOTAL OPERATING REVENUES	1,888,076	1,827,626
OPERATING EXPENSES		
Personnel services	652,129	624,070
Purchase of services	153,130	149,821
Materials and supplies	200,384	167,873
Property and liability insurance	47,562	15,547
Taxes and licenses	93,830	80,859
Auto and travel	34,982	42,845
Professional fees	51,726	38,176
Office and administrative	48,510	40,208
Depreciation	403,405	321,148
TOTAL OPERATING EXPENSES	1,685,658	1,480,547
OPERATING INCOME (LOSS)	202,418	347,079
NONOPERATING REVENUES (EXPENSES)		
Federal and State grant revenue	210,665	-
Property taxes	375,353	420,234
Regional studies	(660,156)	(269,841)
Assessment interest income	81,986	26,029
Investment interest income	34,120	101,305
Timber harvest tax and other	16,009	44,853
Interest expense	(463,143)	(348,315)
TOTAL NONOPERATING REVENUES AND EXPENSES	(405,166)	(25,735)
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(202,748)	321,344
Capital contributions		7,908,100
CHANGE IN NET ASSETS	(202,748)	8,229,444
TOTAL NET ASSETS-BEGINNING	21,623,301	13,163,214
Prior period adjustment		230,643
NET ASSETS-Beginning (Restated)	21,623,301	13,393,857
TOTAL NET ASSETS-END	\$ 21,420,553	\$ 21,623,301

See accountant's compilation report and accompanying notes to financial statements

Public Utility District #1 of Jefferson County
Statement of Cash Flows
For the Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Cash received from customers	\$ 1,890,999	\$ 1,801,085
Cash payments for goods and services	(576,034)	(730,892)
Cash payments to employees	(652,541)	(622,125)
Net cash provided (used) by operating activities	662,424	448,068
Cash flows from noncapital financing activities		
Payments received on assessments	1,594,311	737,996
Receipt of Federal and State grants	210,665	-
Net nonoperating revenues (expenses)	(268,794)	195,246
Net cash provided by noncapital financing activities	1,536,182	933,242
Cash flows from capital financing activities		
New debt issues	2,000,000	547,000
Advances (payments) on line of credit	(1,700,000)	2,125,546
Principal payments on debt	(339,889)	(378,597)
Interest paid	(405,152)	(347,946)
Payments for capital acquisitions	(264,511)	(3,273,647)
Net cash provided (used) by capital financing activities	(709,552)	(1,327,644)
Cash flows from investing activities		
Receipts of interest	116,105	127,334
Net cash provided by investing activities	116,105	127,334
Net increase (decrease) in cash and cash equivalents	1,605,159	181,000
Cash and investments-January 1	3,307,504	3,126,504
Cash and investments-December 31	\$ 4,912,663	\$ 3,307,504
Cash and equivalents at year end consist of:		
Operating cash and investments	\$ 2,461,343	\$ 2,208,482
Restricted cash and investments	2,451,320	1,099,022
	\$ 4,912,663	\$ 3,307,504
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 202,418	\$ 347,079
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	403,405	321,148
(Increase) decrease in accounts receivable	2,923	(26,541)
Increase (decrease) in accounts payable	53,678	(193,618)
Net cash provided (used) by operating activities	\$ 662,424	\$ 448,068
Noncash investing, capital and financing activities		
Assets acquired through contributed capital		\$ 7,908,100

See accountant's compilation report and accompanying notes to financial statements

Public Utility District #1 of Jefferson County

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

History

The Public Utility District #1 of Jefferson County (PUD) is a political subdivision of the State of Washington with boundaries co-extensive with Jefferson County, located in the Northwest portion of the State on the Olympic Peninsula. The District was formed upon approval by voters in 1940 however did not become active until the 1980's. It is governed by an elected board of three commissioners. The District currently provides water and sewer services primarily in the Northeast portion of the County.

Reporting Entity

The District's Annual Financial Report includes the financial position (statement of net assets) and the results of operations (statement of revenues, expenses and changes in net assets) and cash flows.

Basis of Presentation – Fund Accounting

The accounts of the District are organized on the basis of funds. For reporting purposes the statements are presented in the form of one enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where it is the intent of the District that its costs of providing services to users be financed or recovered primarily through user charges.

The acquisition, maintenance and improvement of the physical plant facilities required to provide these services are financed from existing cash resources, the issuance of revenue bonds, Public Works Trust Fund loans, improvement district assessments and Federal grants. Other services, including regional studies are financed primarily through property tax levies of District constituents.

Measurement Focus, Basis of Accounting and Basis of Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting; revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Principal operating revenues are charges to customers for sales and services. The District also recognizes as operating revenues connection fees intended to recover the cost of connecting new customers to the system. Operating expenses result directly from transactions to provide services. All revenues and expenses not meeting this definition are reported as non-operating revenues (expenses). Non-operating income and expense include financing costs and tax supported revenues and related expenses

The accompanying statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governmental entities are given the option whether to apply all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, except those that conflict with or contradict Governmental Accounting Standards Board (GASB)

pronouncements. The District has elected to apply only the Financial Accounting Standards issued on or before November 30, 1989.

Accounting Estimates

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

Cash and investments

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

Receivables

All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Assessments receivable represent the future amounts due on improvement district assessments. Grant receivables represent amounts due from Federal, State and other government entities regarding reimbursement for costs incurred under grant agreements.

Other assets

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

Capital Assets and Depreciation

Property, plant, and equipment is stated at cost. Assets with a useful life of more than one year and a cost of more than \$1,000 are capitalized. Where cost could not be determined from available records, estimated historical cost was used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their estimated fair market value at the date of transfer. Interest incurred for interim financing during the construction process is capitalized and included in the cost of the related asset.

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

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

Buildings	25-30 years
Equipment	5-10 years
Water & sewer systems	25-45 years
Office & computer equipment	3-7 years

Fund equity (also referred to as Net Assets)

During 2003, the District adopted GASB Statement Number 34 as amended, which addresses financial statement presentation and disclosure. Significant reporting changes include the reclassification of the

equity section of the Balance Sheet (Statement of Net Assets) into three components – Invested in Capital Assets, net of related debt; Restricted Net Assets; and Unrestricted Net Assets. Restricted Net Assets refer required amounts for future debt service and property tax revenues restricted to non-operating expenses which benefit the entire district.

Operating revenues and expenses

Operating revenues and expenses are recognized in the same manner as used in commercial accounting.

Property tax revenues

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

Vacation, sick leave and other compensated absences

District employees are entitled to certain compensated absences based on their length of employment and subject to union agreements. With minor exceptions, compensated absences either vest or accumulate when they are earned. The amounts accrued as of December 31, 2008 and 2009 were \$72,382 and \$71,970 respectively.

Post-employment healthcare benefits

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

Note 2 – Stewardship, Compliance and Accountability

There have been no material violations of finance-related legal or contractual provisions and the District is in compliance with all covenants related to currently outstanding bonds.

Note 3 – Cash and Investments

All bank balances of the District are entirely insured. The Jefferson County Treasurer acts as the Treasurer for the District and as such invests funds not needed for current operations. As of December 31, 2008 and 2009 all investments of the District were invested through the Jefferson County Treasurer's Office, primarily in the State of Washington Investment Pool. The District has no investments in derivative instruments. Investments are valued at cost which is substantially equivalent to their current market value. All investments in Certificates of Deposit have maturities of one year or less.

Risk management of investment instruments is as follows:

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

Credit Risk – Through its investment policy the County Treasurer manages credit risk by restricting County investments to obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, primary certificates of deposit issued by qualified public depositories designated by the Washington Public Deposit Protection Commission and the Washington State local government

investment pool. Over 60% of the County Treasurer's investments are in the Washington State investment pool.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure the District's (County Treasurer's) deposits may not be recovered. As of December 31, 2008 and 2009 all investments are insured by either Federal Depository Insurance or the Washington Public Deposit Protection Commission.

Note 4 – Capital assets and Depreciation

Following is a summary of 2008 and 2009 changes in capital assets:

	2008			Balance 12/31/2008
	Balance 1/1/2008	Additions	Transfers & Deletions	
<u>Capital assets not being depreciated</u>				
Land	\$ 2,265,000			\$ 2,265,000
Construction in progress	4,888,187	3,560,724	\$2,804,745	5,644,166
<u>Capital assets being depreciated</u>				-
Land and buildings	225,207			225,207
Office / computer equipment	94,752	1,238		95,990
Equipment	164,180	35,458		199,638
Water and sewer systems	15,701,743	2,684,744		18,386,487
Less accumulated depreciation	(4,051,789)	(321,148)		(4,372,937)
TOTAL	\$ 19,287,280	\$ 5,961,016	\$2,804,745	\$ 22,443,551
	2009			Balance 12/31/2009
	Balance 1/1/2009	Additions	Transfers & Deletions	
<u>Capital assets not being depreciated</u>				
Land	\$ 2,265,000			\$ 2,265,000
Construction in progress	5,644,166	223,785	\$1,292,200	4,575,751
<u>Capital assets being depreciated</u>				-
Land and buildings	225,207			225,207
Office / computer equipment	95,990	790		96,780
Equipment	199,638	39,936		239,574
Water and sewer systems	18,386,487	1,292,200		19,678,687
Less accumulated depreciation	(4,372,937)	(403,405)		(4,776,342)
TOTAL	\$ 22,443,551	\$ 1,153,306	\$1,292,200	\$ 22,304,657

Note 5 – Pension Plans

Substantially all District full-time and qualifying part-time employees participate in one of the statewide retirement systems administered by the Washington State Department of Retirement

Systems under cost sharing multiple-employer defined benefit public employee retirement plans. The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report containing historical trend information and may be obtained from the Department of Retirement Systems, Administrative Services Division, PO Box 48380, Olympia, WA 98504.

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit / defined contribution plan.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and before September 1, 2002 are Plan 2 members and those who joined on or after September 1, 2002 have the choice of Plan 2 or Plan 3.

PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months.

If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction

applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,169 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2008:

Retirees and beneficiaries receiving benefits	73,122
Terminated plan members entitled to but not receiving benefits	27,267
Active plan members vested	105,212
Active plan members nonvested	56,456
Total	262,057

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2008, were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	5.31%	5.31%	5.31%
Employee	6.00%	3.90%	***

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required contributions for the years ending December 31 were as follows:

	<u>Employer</u>	<u>Employee</u>
2008	36,812	59,557
2009	35,588	60,025

Currently none of the District's employees are included in the PERS Plan 1.

Note 6 – Risk Management

The District's insurance is provided by the Public Utility Risk Management Services as well as private insurance companies. Management considers coverage to be sufficient to reduce potential material liability and provide for replacement of currently owned assets. Insurance settlements have not exceeded insurance coverage in 2008 nor in 2009.

Note 7 – Long Term Debt

Long term debt of the District as of December 31, 2008 and 2009 consists of Revenue Bonds, private debt for the purchase of property and Public Works Trust Fund loans as follows:

Issue Name	Date	Issue Amount	2008	2009
<u>Revenue Bonds</u>				
LUD 11	4/99	1,090,000	\$ 750,000	\$ 710,000
LUD 13	11/97	155,000	40,000	30,000
LUD 14	4/09	2,000,000		2,000,000
LUD 15	6/08	1,053,076	1,053,076	1,008,585
Tri-Area (USDA)	4/03	3,043,250	2,871,837	2,853,281
			<u>4,714,913</u>	<u>6,601,866</u>
<u>Other Debt</u>				
Peterson Lake Loan	3/06	2,000,000	1,845,115	1,782,166
			<u>\$ 6,560,028</u>	<u>\$ 8,384,032</u>
<u>Public Works Trust Fund Loans</u>				
PW-5-91-280-31	10/94	\$ 338,200	\$ 63,276	\$ 42,184
PW-99-691-ELP-301	9/99	97,663	56,543	51,403
PW-00-65120-008	3/03	157,168	107,536	99,264
PW-02-691-066	10/02	1,186,719	698,070	628,263
PW-05-691-025	6/06	2,000,000	1,749,707	1,740,901
PW-05-691-024	5/05	948,924	863,187	812,412
			<u>\$ 3,538,319</u>	<u>\$ 3,374,427</u>

Following is a schedule of changes in long term debt:

	<u>LUD #13</u> <u>Water Bond</u>	<u>LUD #11</u> <u>Water Bond</u>	<u>LUD #14</u> <u>Water Bond</u>	<u>LUD #15</u> <u>Water Bond</u>
Date of Issue	11/15/1997	4/15/1999	4/8/2009	6/30/2008
Date of Final Maturity	11/1/2012	5/19/2019	4/8/2024	6/30/2025
Interest Rate(s)	6.90%	5.25%	4.00%	4.00%
Amount Originally Issued	\$ 155,000	\$ 1,090,000	\$ 2,000,000	\$ 1,053,076

<u>2008</u>				
Beginning of year	50,000	790,000		-
Issued	-	-		1,053,076
Redeemed	10,000	40,000		-
End of year	<u>\$ 40,000</u>	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 1,053,076</u>

<u>2009</u>				
Issued			2,000,000	-
Redeemed	10,000	40,000	-	44,491
End of year	<u>\$ 30,000</u>	<u>\$ 710,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,008,585</u>

	<u>USDA</u> <u>Tri-Area</u>	<u>Peterson</u> <u>Lake</u>	<u>Public Works</u> <u>Trust Fund</u>
Date of Issue	4/15/2003	3/27/2006	Various
Date of Final Maturity	4/15/2043	1/31/2006	Various
Interest Rate(s)	4.80%	6.00%	1.00%
Amount Originally Issued	\$ 3,043,250	\$ 2,000,000	\$ 3,177,424

<u>2008</u>			
Beginning of year	2,906,202	1,904,407	3,201,437
Issued	-	-	594,892
Redeemed	34,365	59,292	258,010
End of year	<u>\$ 2,871,837</u>	<u>\$ 1,845,115</u>	<u>\$ 3,538,319</u>

<u>2009</u>			
Issued			
Redeemed	18,556	62,949	163,893
End of year	<u>\$ 2,853,281</u>	<u>\$ 1,782,166</u>	<u>\$ 3,374,426</u>

Future debt payments on current existing outstanding debt is as follows:

	Public Works Trust Fund		Revenue Bonds		Peterson Lake Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 255,618	\$ 34,332	\$ 218,832	\$ 258,500	\$ 64,808	\$ 107,135
2011	257,018	31,700	224,386	262,573	68,697	103,247
2012	237,125	29,057	229,993	264,860	72,818	99,125
2013	238,406	26,613	225,954	264,947	77,188	94,756
2014	239,699	24,158	233,983	265,000	81,819	90,125
2015-2019	1,148,497	83,563	1,604,545	1,281,916	488,894	370,824
2020-2024	852,596	34,060	1,375,400	788,923	654,250	205,467
2025-2029	145,468	2,886	820,200	459,973	273,692	23,934
2030-2034			500,943	322,867		
2035-2039			625,778	198,032		
2040-2044			541,852	47,977		
	<u>\$3,374,427</u>	<u>\$ 266,369</u>	<u>\$6,601,866</u>	<u>\$4,415,568</u>	<u>\$ 1,782,166</u>	<u>\$ 1,094,613</u>

Revenues of the District are pledged to pay related debt. Additionally, all revenue bonds require a portion of retained earnings to be reserved for future debt retirement. The Jefferson County Treasurer has established sufficient reserves and the District is in compliance with all debt covenants. The District has no arbitrage liability with respect to its bond issues. The District has no capital leases. Operating leases for office equipment represent annual obligations of \$12,960.

During 2008 and 2009 the District acquired lines of credit from a local bank for purposes of interim financing on construction projects. The District has received advances on this line of \$2.75 Million through December 31, 2008 at a variable rates. These lines of credit have been paid off from proceeds of permanent financing.

Note 8 – Contingencies and Litigation

In the opinion of the management, the District insurance policies and reserves are adequate for all known or pending claims.

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

The District is the defendant in a class action lawsuit alleging that it illegally levied property tax within the city limits of Port Townsend. The suit is in the early stages of discovery and the District's counsel are actively defending its position. No estimate of potential liability is possible at this time.

Note 9 – Restricted Net Assets

Net assets of the District are restricted for future debt service and for qualified expenditures of property tax revenues. Following is a summary of qualified property tax transactions:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Property taxes	\$ 405,699	\$ 420,234	\$ 375,353
Direct expenses			
Public power		29,241	419,393
Water feasibility study			
Regional issues			41,926
Water resource expenses	8,253		
Deep well exploration	12,650		
Commission expenses	16,275	16,781	23,082
Election & other direct expenses	12,090	52,732	27,189
Total direct	<u>49,268</u>	<u>98,754</u>	<u>511,590</u>
Allocated administrative costs	119,200	132,031	128,571
Total expenses	<u>268,547</u>	<u>230,785</u>	<u>640,161</u>
Revenue in excess of expenses	137,152	189,449	(264,808)
Peterson Lake	171,943	213,151	191,938
Annual increase (decrease)	<u>(34,791)</u>	<u>(23,702)</u>	<u>(456,746)</u>
Beginning restricted net assets	799,784	764,993	741,291
Ending restricted net assets	<u>\$ 764,993</u>	<u>\$ 741,291</u>	<u>\$ 284,545</u>

Note 10 – Subsequent Events

The District is in the process of negotiations regarding the potential purchase of electric utility assets and related system to serve the electric needs of much of eastern Jefferson County. In November, 2008 the electorate authorized the PUD Commissioners to explore the possibility of providing electric utility service.

Note 11 – Prior Period Adjustments

Adjustment of prior period errors are recorded as a correction in beginning net assets. These adjustments primarily represent the capitalization of items previously expensed in error.