



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
Public Utility District No. 1 of
Jefferson County

For the period January 1, 2017 through December 31, 2017

Published November 29, 2018

Report No. 1022666





**Office of the Washington State Auditor
Pat McCarthy**

November 29, 2018

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

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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

**Public Utility District No. 1 of Jefferson County
January 1, 2017 through December 31, 2017**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Jefferson County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy
State Auditor
Olympia, WA

November 26, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Jefferson County January 1, 2017 through December 31, 2017

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Jefferson County, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Jefferson County, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy
State Auditor
Olympia, WA

November 26, 2018

FINANCIAL SECTION

Public Utility District No. 1 of Jefferson County January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses, and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Pension Liability – (PERS) – 2017

Schedule of Employer Contributions – (PERS) – 2017

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS

Information About the District

Public Utility District #1 of Jefferson County (the District, or the PUD) is a municipal corporation of the State of Washington as authorized under RCW 54. The District provides electricity, water, and sewer utility services for the residents of Jefferson County, Washington. Additionally, the PUD conserves the water and power resources of the State in support of its authorized purpose. The District was formed in 1940 but did not provide any utility service until 1981, with the formation of Local Utility District #1. Initially providing water service, the District later received citizens' approval for sewer operations, and most recently, in 2008, the Jefferson County citizens voted to authorize the District to become its electrical provider. In 2013 the District purchased the electrical assets/infrastructure of Puget Sound Energy, Inc. in Eastern Jefferson County. The PUD now serves over 4,800 water connections, 360 sewer connections and 19,700 electrical connections throughout Eastern Jefferson County.

The District operates under the authority of RCW 54. It is governed by a three-member elected Board of Commissioners that appoints a General Manager to oversee the District's daily operations. The PUD Board of Commissioners holds its regular scheduled meetings on the first and third Tuesday of each month starting at 5:00 pm. The meeting's location, as well as recordings of past meetings, can be found at the PUDs website: www.jeffpud.org.

Contact information related to this report:

Larry Dunbar
General Manager
410 Four Corners Road
Port Townsend WA 98368

ldunbar@jeffpud.org
(360) 385 8340

info@jeffpud.org
(360) 385 5800

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Management's Discussion and Analysis

As management of Jefferson County PUD #1 (the District), we are providing the District's financial statements and narrative overview and analysis of the financial activities of the District for the calendar year ended December 31, 2017. 2017 was the fourth full year that the District has owned and operated the electrical facilities in Eastern Jefferson County. As a result of the acquisition, the PUD's annual budget went from approximately \$2,000,000 to over \$36,000,000, staffing increased from 10 to over 45 employees, and the number of customers has increased from 4,000 water connections to an additional 19,700 electrical connections. Prior to 2013 the PUD was audited by the State Auditor's Office (SAO) on a 2-year cycle. Copies of audits can be found at <http://portal.sao.wa.gov/ReportSearch>.

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

Statements included in this Annual Financial Report for 2017 are:

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

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

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

District Highlights

On April 1, 2013, Jefferson PUD purchased all of the electrical assets of Puget Sound Energy, Inc., (PSE) in Eastern Jefferson County. 2017 was the fourth full year of the operational and financial ownership of the nearly \$76,000,000 of assets, over 18,500 new electrical customers, and the maintenance and operations of an aged electrical system. The PUD's annual budget and revenues increased from roughly \$2,000,000 in 2012 to over \$36,000,000 in 2017. The PUD's accounting system transitioned from a cash basis to a government accrual system conforming with Federal Energy Regulatory Commission (FERC) and Rural Utilities Service (RUS) accounting requirements. As a result of the increased requirements, the PUD has had to review and adapt its organization, management, and support systems.

In late 2017, the long-serving General Manager began his retirement process and the Assistant General Manager stepped into the General Manager role on an interim basis while the Board of Commissioners implemented a nationwide search for a permanent replacement. The Board hired a General Manager who assumed his duties in April 2018. Also, in late 2017, the PUD hired a full-time Finance Manager (new position), the full-time Controller retired, and the Chief Financial Officer resigned. The CFO role is being filled on an interim basis by a consultant with 30+ years' experience in utility accounting and controllership while the PUD seeks a permanent replacement.

Implementation of New Billing and Accounting Software

2017 was the second complete year that the PUD operated fully integrated accounting and billing system modules using National Information Solutions Cooperative (NISC) software. In November 2015 the PUD installed, implemented and integrated its new Customer Service and Billing software with new Accounting software, which was installed a year earlier.

Completion and Implementation of Electrical Rate increase.

After considerable planning and discussion, the PUD Board of Commissioners approved an electrical rate increase to begin March 2018 and a water rate increase to begin May 2018.

Overview of the Financial Statements

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

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

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

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Financial Analysis

The following information provides analysis of the 2017 and 2016 comparative financial information provided in the following tables.

CONDENSED STATEMENT OF NET POSITION

	2017	2016	'17 - '16 Change
Current assets	\$ 21,201,499	\$ 18,261,610	16%
Noncurrent assets	5,454,471	5,566,748	-2%
Capital assets	<u>84,177,239</u>	<u>84,214,023</u>	0%
Total assets	<u>110,833,209</u>	<u>108,042,381</u>	3%
Deferred outflows of resources	<u>51,826,215</u>	<u>54,400,938</u>	-5%
Current liabilities	9,525,099	9,095,919	5%
Noncurrent liabilities	<u>113,701,636</u>	<u>118,455,268</u>	-4%
Total liabilities	<u>123,226,735</u>	<u>127,551,187</u>	-3%
Deferred inflows of resources	<u>416,778</u>	<u>57,203</u>	629%
Net investment in capital assets	20,255,436	18,675,590	8%
Restricted	4,267,780	4,093,250	4%
Unrestricted	<u>14,492,695</u>	<u>12,066,089</u>	20%
Total net position	<u>\$ 39,015,911</u>	<u>\$ 34,834,929</u>	12%

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Current and Noncurrent Assets

Cash and cash equivalents - Cash accounts increased approximately \$2,900,000 from 2016 to 2017, primarily due to an increase in utility sales and capital contributions.

Receivables - Receivables decreased by \$134,000 in 2017 as compared to 2016. This decrease is due to lower sales near the end of 2017. In 2016 the District recorded \$2,285,000 in accrued utility revenues for unrecorded electric and water sales occurring in December 2016 which were booked at the time of billing customers in January 2017. In 2017 this amount was decreased by \$236,000 to a total of \$2,049,000 at December 31, 2017.

Material and supplies - Material and supplies increased \$258,000 in 2017. The District is anticipating an increase in construction activity and longer delays in receiving materials.

Prepaid expenses - The District had an increase in prepaid expenses of approximately \$110,000.

Noncurrent Assets

Long term portion of assessments receivable - Total assessments receivable was \$1,431,000 as of December 31, 2017, of which, \$267,000 was the current portion and \$1,164,000 was the long-term portion. This was an overall decrease of \$414,000 from 2016 as customers paid on their assessments.

Non-utility property - This is comprised of \$2,225,000 of land and two rental homes (Peterson Lake), less accumulated depreciation of \$12,400, which was acquired for conserving state water resources and the protection of the Chimacum Water Basin. Also, in 2016, land with a book value of \$2,220 was reclassified from the electric utility plant to non-utility property to reflect its intended purpose.

Restricted assets - The District maintains cash accounts which are restricted for making payment on certain debt obligations. Also included is the ownership investment of approximately \$23,000 in its software vendor, NISC, a cooperative.

Net utility plant - Capital improvements in 2017 increased by \$5.4 million. Construction work in progress decreased by approximately \$1.8 million. Accumulated depreciation increased by approximately \$3.6 million primarily due to depreciation on electric plant in service and a prior period adjustment to depreciation on water system assets.

See Note 3 - Utility Plant for additional information.

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Current Liabilities

Accounts payable - Increased by approximately \$131,000 in 2017 as compared to 2016 due to timing of payables.

Customer deposits - Decreased by \$3,700 due to refunding deposits based on good payment history.

Accrued liabilities - Accrued liabilities at December 31, 2017 increased \$250,000 due to larger balances owed on State privilege tax and City of Port Townsend utility tax. These taxes increased because of higher sales in 2017 compared to 2016.

Current portion of long-term debt and capital lease - This represents the total of principal payments due in 2018 for the Public Works Trust Fund debt, notes payable and bonds payable.

Noncurrent Liabilities

Public Work Trust Fund & Drinking Water Loans - In 2017, \$350,000 was paid on these loans.

Notes payable - Notes payable decreased by \$3.4 million as the PUD made required debt payments.

Bonds payable- Bonds payable decreased by \$237,000 as the PUD made required debt payments.

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

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

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

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

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

	2017	2016	'17 - '16 Change
Operating revenues	\$ 38,175,748	\$ 34,112,715	12%
Nonoperating revenues	1,169,861	3,301,778	-65%
Total revenues	39,345,609	37,414,493	5%
Operating expenses	32,017,413	31,308,545	2%
Nonoperating expenses	3,853,852	3,673,600	5%
Total expenses	35,871,265	34,982,145	3%
Income before contributions	3,474,344	2,432,348	43%
Capital contributions	1,591,066	1,181,555	35%
Change in net position	5,065,410	3,613,903	40%
Net position - beginning of year	34,834,929	31,221,026	12%
Prior period adjustment	(884,428)	-	0%
Net position - end of year	<u>\$ 39,015,911</u>	<u>\$ 34,834,929</u>	12%

Operating Revenues

Operating revenues in 2017 were \$4.1 million greater than 2016. Two electric rate increases were implemented; one in January 2017 and the other in June 2017.

Operating Expenses

Purchased power/water – Purchased power and water increased by \$1.2 million in 2017. This cost increase is primarily due to the purchase of additional kilowatts of electrical power and a rate increase by Bonneville Power Administration.

Operations and maintenance - Decreased by approximately \$741,000 in 2017 as a result of fewer storms causing outages and less right of way clearing.

Administrative and general – Remained constant between 2016 and 2017.

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Taxes – Taxes increased \$187,000 in 2017 as a result of higher revenues billed.

Depreciation and amortization - Increased \$119,000 in 2017.

Nonoperating Revenues/Expenses

Nonoperating revenues – In 2017 nonoperating revenues were \$2.1 million lower than 2016. In 2016, nonoperating revenues were higher due to debt forgiveness on State drinking water debt.

Nonoperating expenses – Interest expense decreased \$105,000 in 2017 due to the paydown of debt principal. Abandoned work orders and the BPA rebate program increased other nonoperating expenses by \$285,000.

Contacting the District

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

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Cash and cash equivalents	\$ 13,656,467
Receivables	
Accounts and contracts, net	5,051,903
Assessments (current portion)	266,914
Other	306,115
Materials and supplies	1,782,840
Prepaid expenses	<u>137,260</u>
 Total current assets	 <u>21,201,499</u>

NONCURRENT ASSETS

Long term portion of assessments receivable	1,163,786
Non-utility property	2,214,820
Restricted assets	
Cash	4,267,780
Investments	22,905

UTILITY PLANT

Land and land rights	476,492
Utility plant	130,336,457
Construction work in progress	3,287,869
Less accumulated depreciation	<u>(52,138,399)</u>
 Net Utility plant	 <u>81,962,419</u>
Total noncurrent assets	<u>89,631,710</u>

Total assets	<u>110,833,209</u>
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DEFERRED OUTFLOWS OF RESOURCES

Excess consideration provided for acquisition	51,313,754
Deferred pension outflows	<u>512,461</u>
 Total deferred outflows of resources	 <u>51,826,215</u>

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
STATEMENT OF NET POSITION
DECEMBER 31, 2017**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

CURRENT LIABILITIES	
Accounts payable	\$ 3,817,528
Customer deposits	121,400
Accrued liabilities	1,594,073
Current portion of long term debt	<u>3,992,098</u>
Total current liabilities	<u>9,525,099</u>
NONCURRENT LIABILITIES	
PWTF loans payable	3,037,083
Notes payable	104,326,084
Bonds payable	3,880,292
Other noncurrent liabilities	13,908
Net pension liability	<u>2,444,269</u>
Total noncurrent liabilities	<u>113,701,636</u>
Total liabilities	<u>123,226,735</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension inflows	<u>416,778</u>
Total deferred inflows of resources	<u>416,778</u>
NET POSITION	
Net investment in capital assets	20,255,436
Restricted	4,267,780
Unrestricted	<u>14,492,695</u>
Total net position	<u>39,015,911</u>

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017**

OPERATING REVENUES	
Power sales to retail and commercial customers	\$ 35,679,380
Water sales to retail and commercial customers	2,147,827
Other charges for service	<u>348,541</u>
Total operating revenue	<u>38,175,748</u>
OPERATING EXPENSES	
Purchased power	14,598,443
Operations and maintenance	6,828,712
Administrative and general	2,604,456
Taxes	2,188,402
Depreciation and amortization	<u>5,797,400</u>
Total operating expenses	<u>32,017,413</u>
Operating income	<u>6,158,335</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(3,255,489)
Non-operating revenues	1,169,861
Other non-operating expenses	<u>(598,363)</u>
Total nonoperating revenues (expenses)	<u>(2,683,991)</u>
Income before capital contributions	3,474,344
CAPITAL CONTRIBUTIONS	<u>1,591,066</u>
CHANGE IN NET POSITION	5,065,410
NET POSITION	
Beginning of year	34,834,929
Prior period adjustment	<u>(884,428)</u>
End of year	<u><u>\$ 39,015,911</u></u>

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 38,198,885
Payments to suppliers for goods and services	(23,785,294)
Payments to employees for services	<u>(2,566,862)</u>
Net cash from operating activities	<u>11,846,729</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments received on assessments	414,368
Net nonoperating revenues (expenses)	<u>1,035,622</u>
Net cash from noncapital financing activities	<u>1,449,990</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on debt	(3,940,271)
Interest paid	(3,255,489)
Capital contributions	918,923
Acquisition and construction of capital assets	<u>(4,323,621)</u>
Net cash used by capital and related financing activities	<u>(10,600,458)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts of interest	<u>185,114</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,881,375
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>15,042,872</u>
End of year	<u><u>\$ 17,924,247</u></u>
CASH AND CASH EQUIVALENTS AT YEAR END CONSIST OF	
Operating cash and cash equivalents	\$ 13,656,467
Restricted cash and cash equivalents	<u>4,267,780</u>
	<u><u>\$ 17,924,247</u></u>

See accompanying notes.

**PUBLIC UTILITY DISTRICT NO. 1
OF JEFFERSON COUNTY, WASHINGTON
STATEMENT OF CASH FLOWS (continued)
YEAR ENDED DECEMBER 31, 2017**

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)

TO CASH FLOWS FROM OPERATING ACTIVITIES

Net operating revenues (expense)	\$ 6,158,335
Adjustments to reconcile net operating revenues (expenses) to net cash from operating activities	
Depreciation and amortization	5,797,400
Changes in operating assets and liabilities	
Receivables	23,137
Materials and supplies	(257,659)
Prepaid expenses and other current assets	(103,124)
Accounts payable, customer deposits, and prepayments	(245,604)
Accrued compensation, benefits, and taxes	<u>474,244</u>
Net cash from operating activities	<u>\$ 11,846,729</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Contribution in aid of construction	<u>\$ 672,143</u>
Total noncash investing, capital and financing activities	<u>\$ 672,143</u>

See accompanying notes.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

Revenue recognition and unbilled revenue - The Electric System and Water System utilize the accrual basis of accounting where revenues are recognized as earned on rates established by the District's Board of Commissioners. Beginning in 2015 the District began the industry practice of estimating unbilled revenues for energy delivered to customers between their last respective meter reading date and December 31. This estimate is then recorded as unbilled revenue for the current year. Unbilled revenue adjustment recorded in 2017 was \$236,063 and the related accrued balance as of December 31, 2017 was \$2,049,250.

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables and allowance for uncollectible accounts - All receivables are reported at their gross value and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Assessments receivable represent the future amounts due on improvement district assessments. Management reviews accounts receivable on a regular basis to determine if any receivables will potentially be uncollectible. The allowance for uncollectible accounts includes amounts estimated through an evaluation of specific accounts, based on the best available facts and circumstances, of customers who may be unable to meet their financial obligations, and a reserve based on historical experience of accounts with balances of greater than 90 days past due. The allowance for uncollectible balances as of December 31, 2016 was \$126,432.

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

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

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

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

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

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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

Buildings	28 - 50 years
Equipment	5 - 28 years
Electric, water, and sewer systems	25 - 53 years
Office and computer equipment	5 - 20 years

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

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

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

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

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

Vacation, sick leave, and other compensated absences - District employees are entitled to certain compensated absences based on their length of employment and subject to one of two union agreements. With minor exceptions, compensated absences either vest or accumulate when they are earned. For union employees who qualify for PTO, they will be paid 100 percent of hours earned up to a limit of 504 hours at the time of separation from employment. For nonunion employees who qualify for PTO, they will be paid 100 percent of hours earned with no limit provided the separation is voluntary with a two-week prior notice. Union employees who qualify for vacation will be paid 100 percent of earned hours at the time of separation from employment. Union employees who qualify for sick leave will be paid up to 90 days of accrued leave at 10 percent of their current hourly rate at the time of separation from employment. For sick leave in excess of 90 days, the District will value the leave at 100 percent of their current hourly rate and apply towards the employee's HRA VEBA account.

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

Note 2 - Cash, Deposits, and Investments

Cash on hand at December 31, 2017 was \$2,000. The carrying amount of the District's deposits was \$17,922,247 and the bank balance was \$17,932,084.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. All of the District's bank deposits are covered by federal depository insurance (FDIC) and/or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The District does not have a deposit policy for custodial credit risk.

In accordance with the District's Financial Policy, the Jefferson County Treasurer (Treasurer) acts as the treasurer for the District and, as such, fully invests funds not needed for current operations.

Investments in Local Government Investment Pool (LGIP) - The District is a participant in the Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington State Treasurer. The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews the policy annually and proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASB 79 for external investments pools that elect to measure, for financial reporting purposes,

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, or online at <http://www.tre.wa.gov>.

Investments measured at 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.

At December 31, 2017, the District had the following investments measured at fair value:

	<u>12/31/2017</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by Fair Value Level				
Patronage with associated organizations	\$ 22,905			\$ 22,905
Total Investments measured at fair value	<u>22,905</u>	<u>-</u>	<u>-</u>	<u>22,905</u>
Total Investments in Statement of Net Position	<u>\$ 22,905</u>			

Note 3 - Utility Plant

Utility plant in service and other capital assets are recorded at cost when the historical cost is known. When historical cost is not known, assets are recorded at estimated fair value. Costs include labor, materials, overhead, capitalized interest, and related indirect costs. For electric utility plant assets, the District follows the directive under the Rural Utilities Service (RUS) Bulletin 1767B-2, *Work Order Procedure*, when capitalizing assets. Depreciation expense is computed using the composite rate method over useful lives of 25 to 50 years. For water utility and other assets, the District capitalizes assets with costs in excess of \$1,000. Depreciation expense is computed using the straight-line method employing useful lives of 5 to 53 years. Repairs are charged to operating expenses.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 3 - Utility Plant (continued)

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

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

Following is a summary of 2017 changes in capital assets:

	Balance 1/1/2017	Additions	Transfers & Deletions	Balance 12/31/2017
Capital assets not being depreciated				
Land	\$ 476,196	\$ 296	\$ -	\$ 476,492
Construction in progress	5,060,329	4,356,262	(6,128,722)	3,287,869
Capital assets being depreciated				
Buildings	1,379,822	142,757	-	1,522,579
Office/computer equipment	568,847	97,272	(9,844)	656,275
Equipment	92,200,171	5,873,514	(833,252)	97,240,433
Water and sewer systems	30,792,622	124,548	-	30,917,170
			-	
Less accumulated depreciation	(48,491,184)	(4,631,410)	984,195	(52,138,399)
Totals	<u>\$ 81,986,803</u>	<u>\$ 5,963,239</u>	<u>\$ (5,987,623)</u>	<u>\$ 81,962,419</u>

Total depreciation and amortization recorded during 2017 was \$5,925,406, of which \$124,906 was depreciation on vehicles. Per the requirements of the Uniform System of Accounts, vehicle depreciation is charged to clearing accounts and then spread to operations, maintenance and construction accounts based on where the vehicle was used. It is not expensed to depreciation expense.

Note 4 - Long-Term Debt

Long-term debt of the District as of December 31, 2017 consists of Revenue Bonds, private debt for the purchase of property, and Public Works Trust Fund (PWTF) & Drinking Water loans. Revenues of the District are pledged to pay related debt. Additionally, all revenue bonds require a portion of cash and cash equivalents to be reserved for future debt retirement. The Jefferson County Treasurer has established sufficient reserves and District management believes that the District is in compliance with all debt covenants. The District has no arbitrage liability with respect to bond issuances. The following tables summarize the District's long-term debt obligations as of December 31, 2017.

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

Note 4 - Long-Term Debt (continued)

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding 2017</u>
Rural Utilities Services Federal Financing Bank Loan for the Acquisition of PSE Electrical Plant Assets			
PUD-JEFF 001-001 - Quarterly P&I payments of \$1,482,454 maturing December 2041 with interest at 2.728%	3/13	\$ 114,743,000	\$ 105,605,585
PUD-JEFF 001-002 - Quarterly P&I payments of \$10,725 maturing December 2041 with interest at 3.433%	8/13	764,000	<u>708,777</u>
Subtotal			<u>\$ 106,314,362</u>

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

Note 4 - Long-Term Debt (continued)

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding 2017</u>
Public Works Trust Fund & Drinking Water Loans			
PW-99-691-ELP-301: Sound View Villa - Annual principal payments of \$5,140 plus interest at 5.0% maturing July 2019	9/99	\$ 97,663	\$ 10,280
PW-00-65120-008: Snow Creek Ranch - Annual principal payments of \$8,272 plus interest 2.5% maturing October 2021	3/03	157,168	33,088
PW-02-691-066: City of Port Townsend - Annual principal payments of \$69,807 plus interest at 1.0% maturing June 2018	10/02	1,186,719	69,807
PW-05-691-024: Beckett Pt - Annual principal payments of \$50,776 plus interest at 0.50% maturing July 2025	5/05	948,924	406,206
PW-05-691-025: Marrowstone Island - Annual principal payments of \$108,806 plus interest at 0.50% maturing July 2025	6/06	2,000,000	870,451
DM10-952-018: Sparling Well/Quimper - Annual principal payments of \$26,887 plus interest at 1.0% maturing October 2044. \$803,750 of debt was forgiven in 2016.	8/11	1,607,500	725,952
DM12-952-091: Kala Point - Annual principal payments of \$27,225 plus interest at 1.0% maturing October 2035. \$544,500 of debt was forgiven in 2016.	11/12	1,089,000	490,050
DM13-952-177: Sparling Water Treatment - Annual principal payments of \$29,108 plus interest at 1.0% maturing October 2037.	4/14	582,162	759,279
98-78898-021: Kala Point Reservoir & Meters - Annual principal payments of \$11,051 plus interest at 3.35% maturing October 2019.	10/95	212,644	<u>22,102</u>
Subtotal			<u>3,387,215</u>

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

Note 4 - Long-Term Debt (continued)

	<u>Issue Date</u>	<u>Issue Amount</u>	<u>Outstanding 2017</u>
Notes Payable			
Kala Point Water System - Annual principal payments of \$50,000 with 0% interest maturing October 2024.	10/12	600,000	300,000
Peterson Lake Loan - Monthly P&I payments of \$14,329 maturing March 2026 with interest at 6%	3/06	2,000,000	<u>1,116,706</u>
Subtotal			<u>1,416,706</u>
Revenue Bonds for Water & Sewer Systems			
LUD 11: Bywater Way & Shine - Serial Bonds \$50,000 - \$315,000 due through May 2019 with interest at 5.25%	4/99	\$ 1,090,000	\$ 365,000
LUD 14: Marrowstone Island - Serial Bonds \$102,000 - \$173,000 due through March 2026 with interest at 4.15% - 6.75%	3/09	2,000,000	1,247,000
LUD 15: Beckett Point - Annual P&I payments of \$86,509 due through May 2025 with interest at 3.99%	5/08	1,053,076	22,354
Tri-Area (USDA) - Semi-annual P&I payments of \$82,381 with interest at 4.5% maturing April 2043	4/03	3,043,250	<u>2,482,919</u>
Subtotal			<u>4,117,273</u>
Total long-term debt			<u>115,235,556</u>
Other Long-Term Liabilities			
Compensated Absences			293,337
Pension Liability			<u>2,444,269</u>
Total other long-term liabilities			<u>2,737,606</u>
Total long-term liabilities			<u>\$ 117,973,162</u>

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 4 - Long-Term Debt (continued)

During the year ended December 31, 2017, the following changes occurred in the District's long-term debt:

	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
RUS Loans	\$ 109,471,801	\$ -	\$ 3,157,439	\$ 106,314,362	\$ 3,247,109
Public Works Trust Fund loans	3,737,084	-	349,869	3,387,215	350,132
Notes payable	1,560,078	-	143,372	1,416,706	157,876
Bonds payable	4,406,864	-	289,591	4,117,273	236,981
Capital leases payable	-	-	-	-	-
Sub-total	119,175,827	-	3,940,271	115,235,556	3,992,098
Compensated absences	301,240	-	7,903	293,337	279,429
Pension liability	3,176,777	-	732,508	2,444,269	-
Total long-term debt	\$ 122,653,844	\$ -	\$ 4,680,682	\$ 117,973,162	\$ 4,271,527

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

Note 4 - Long-Term Debt (continued)

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

	Electric System	Water System	Combined as of 12/31/2017
Principal			
2018	\$ 3,247,109	\$ 744,989	\$ 3,992,098
2019	3,317,436	931,922	4,249,358
2020	3,404,835	616,346	4,021,181
2021	3,474,557	633,513	4,108,070
2022 - 2026	18,921,424	2,983,235	21,904,660
2027 - 2031	21,524,187	919,735	22,443,922
2032 - 2036	24,511,178	959,578	25,470,756
2037 - 2041	27,913,636	818,465	28,732,101
2042 - 2044	-	313,148	313,148
	<u>\$ 106,314,363</u>	<u>\$ 8,920,930</u>	<u>\$ 115,235,293</u>
Interest			
2018	\$ 2,725,604	\$ 297,763	\$ 3,023,367
2019	2,655,278	269,409	2,924,687
2020	2,567,878	242,898	2,810,776
2021	2,498,156	224,053	2,722,210
2022 - 2026	10,942,144	794,721	11,736,864
2027 - 2031	8,339,381	431,270	8,770,651
2032 - 2036	5,352,390	297,965	5,650,355
2037 - 2041	1,949,931	147,847	2,097,778
2042 - 2044	-	12,059	12,059
	<u>\$ 37,030,763</u>	<u>\$ 2,717,985</u>	<u>\$ 39,748,748</u>

Note 5 - Pension Plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions*, for the year 2017:

Aggregate Pension Amounts - All Plans	
Pension liabilities	\$ 2,444,268
Pension assets	-
Deferred outflows of resources	512,461
Deferred inflows of resources	416,778
Pension expense / expenditures	243,418

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

Note 5 – Pension Plans (continued)

State Sponsored Pension Plans

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

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

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

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

Public Employees' Retirement System (PERS)

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 5 – Pension Plans (continued)

Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

PERS PLAN 1		
Actual Contribution Rates January - June 2017:	Employer	Employee
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
Actual Contribution Rates July- December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 5 - Pension Plans (continued)

the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service is earned after age 44.

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

Contributions

The PERS Plan 2/3 employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2017 were as follows:

<u>PERS PLAN 2/3</u>		
<u>Actual Contribution Rates January - June 2017:</u>	<u>Employer</u>	<u>Employee</u>
PERS Plan 2	6.23%	6.12%
PERS Plan 3	6.23%	varies
PERS Plan 1 UAAL	4.77%	
Administrative Fee	<u>0.18%</u>	<u> </u>
Total	11.18%	6.12%
<u>Actual Contribution Rates July- December 2017:</u>		
PERS Plan 2	7.49%	7.38%
PERS Plan 3	7.49%	varies
PERS Plan 1 UAAL	5.03%	
Administrative Fee	<u>0.18%</u>	<u> </u>
Total	12.70%	7.38%

The District's actual contributions to the plan were \$181,068 to PERS Plan 1 and \$254,647 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

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

Note 5 - Pension Plans (continued)

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest, and actual benefit payments.

- Inflation: 3% total economic inflation; 3.75% salary inflation
- Salary increases: In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- Investment rate of return: 7.5%

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

For all systems, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.

Discount Rate

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

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

Long-Term Expected Rate of Return

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

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 5 - Pension Plans (continued)

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, 2017, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	Percent Long-Term Expected Real Rate of Return Arithmetic
Fixed income	20.00%	1.70%
Tangible assets	5.00%	4.90%
Real estate	15.00%	5.80%
Global equity	37.00%	6.30%
Private equity	23.00%	9.30%
	100.00%	

Sensitivity of NPL

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
PERS 1	\$ 1,533,370	\$ 1,258,727	\$ 1,020,827
PERS 2/3	3,193,973	1,185,542	(460,070)

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.

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

Note 5 - Pension Plans (continued)

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

At December 31, 2017, the District reported a total pension liability of \$2,444,268 for its proportionate share of the net pension liabilities as follows:

	<u>Liability</u>
PERS 1	\$ 1,258,727
PERS 2/3	\$ 1,185,542

At December 31, 2017 the District's proportionate share of the collective net pension liabilities was as follows:

	<u>Proportionate Share 6/30/16</u>	<u>Proportionate Share 6/30/17</u>	<u>Change in Proportion</u>
PERS 1	0.0268870%	0.0265270%	-0.0003600%
PERS 2 / 3	0.0344160%	0.0341210%	-0.0002950%

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

The collective net pension liability was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	<u>Pension Expense</u>
PERS 1	\$ 78,570
PERS 2 / 3	164,848
Total	<u>\$ 243,418</u>

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

Note 5 - Pension Plans (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(46,972)
Changes of assumptions	-	-
Changes in proportion and difference between contributions and proportionate share of contributions	-	-
Contributions subsequent to the measurement date	97,008	-
	<u>\$ 97,008</u>	<u>\$ (46,972)</u>

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 120,123	\$ (38,990)
Net difference between projected and actual investment earnings on pension plan investments	-	(316,037)
Changes of assumptions	12,593	-
Changes in proportion and difference between contributions and proportionate share of contributions	140,972	(14,779)
Contributions subsequent to the measurement date	141,765	-
	<u>\$ 415,453</u>	<u>\$ (369,806)</u>

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

Note 5 - Pension Plans (continued)

<u>Combined PERS 1 and PERS 2/3</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 120,123	\$ (38,990)
Net difference between projected and actual investment earnings on pension plan investments	-	(363,009)
Changes of assumptions	12,593	-
Changes in proportion and difference between contributions and proportionate share of contributions	140,972	(14,779)
Contributions subsequent to the measurement date	238,773	-
	<u>\$ 512,461</u>	<u>\$ (416,778)</u>

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>PERS 1</u>	<u>PERS 2/3</u>
2018	\$ (31,750)	\$ (48,901)
2019	10,024	80,948
2020	(2,327)	(17,879)
2021	(22,919)	(129,457)
2022 and Thereafter	19,171	19,171
	<u>\$ (46,972)</u>	<u>\$ (96,118)</u>

Note 6 - Insurance and Risk Management

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

PURMS consists of 19 members. The risks shared by the members are defined in the Self Insurance Agreement (SIA). PURMS consists of three pools for liability, property and health and welfare coverage.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 6 - Insurance and Risk Management (continued)

The pools operate independently of one another and all members do not participate in all pools. The District participates in the liability, property and health and welfare pools.

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

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

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

Liability risk pool - The liability risk pool has a \$1 million liability coverage limit per occurrence. In addition, the fund maintains \$35 million, per occurrence, of excess general liability insurance and \$35 million, per occurrence, of professional liability insurance over the \$1 million retention. A second layer of excess general liability insurance of \$25 million, per occurrence, over the first layer of \$35 million is also available to those members that choose to participate. The District did not participate in the second layer of coverage in 2017. The fund maintains \$35 million of excess coverage for public officials, with a \$500,000 retention. The deductible is \$250.

Liability assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level or at any time during the year that the actual reserves drop to \$500,000 less than the designated level. The designated reserve level was \$3.35 million at December 31, 2017. The District paid assessments in 2017 totaling \$137,113.

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

The designated property pool reserve balance is \$750,000. Property assessments are levied at the beginning of each calendar year to replenish the reserves to the designated level and at any time during the year that the actual reserves drop below \$500,000. The District paid assessments in 2017 totaling \$65,481.

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

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

Note 6 - Insurance and Risk Management (continued)

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

The exposure of each Participant is limited by two different pairs of stop-loss points. For 2017, the Individual Stop Loss Point was \$275,000 per Employee and the Aggregate Stop Loss Point was \$-21,126,000 for the combined Claims Costs of the Employees of all Participants of the H&W Pool.

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

Note 7 - Commitments and Contingencies

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

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

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

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

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

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

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

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

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

In 2012, NoaNet established a nonrevolving line of credit in the amount of \$5 million for capital financing of sale opportunities. In September 2014, NoaNet established an additional line of credit in the amount of \$1 million on which an additional draw in the amount of \$1 million was taken during the year, bringing the total balance to \$2 million. Both the 2012 and 2014 lines of credit were subsequently refinanced through a \$13 million line of credit established in December 2014. NoaNet can assess its members for their percentage share of principal and interest on the line of credit. The outstanding balance on the line of credit was \$9,228,000 as of December 31, 2017 and the District's percentage share was .21% in 2017. No assessments were charged in 2017.

NoaNet incurred a net loss from operations of \$8,782,000 in 2017.

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

Note 9 – Prior Period Adjustment

Adjustments related to prior periods include \$884,428 in depreciation that was omitted on the water system's assets for an undetermined number of years prior to 2017.

Note 10 – Telecommunication Services

Pursuant to RCW 54-16-330, the District is using its own telecommunications infrastructure to provide wholesale telecommunications services to one internet service provider. 2017 revenues were \$2,194 and operations expenses were \$24,500. As of December 31, 2017, the district had invested a total of \$6,112,050 in telecommunications-related plant of which \$132,790 was added during 2017 alone.

Note 11 – Interfund Activity

The District records its own consumption of electric and water utility services as retail sales and operating expense. Both revenues and expenses are reported on the Statement of Revenues, Expenses, and Changes in Net Position and on the Condensed Statement of Revenues, Expenses, and Changes in Net Position. The amounts are not material.

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

Note 12 – Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar	
January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied. Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The District may levy up to \$0.45 per \$1,000 of assessed valuation for general government services.

The District’s regular levy for 2017 was \$.1032725395 per \$1,000 on an assessed valuation of \$4,851,434,878 for a total regular levy of \$501,020.

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 13 - Segment Reporting

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Electric Division	Water Division	Administrative Division	Consolidated Total Year Ended December 31, 2017
CURRENT ASSETS				
Cash and cash equivalents	\$ 9,820,402	\$ 93,040	\$ 3,743,025	\$ 13,656,467
Receivables				
Accounts and contracts, net	4,894,927	156,976	-	5,051,903
Assessments (current portion)	-	266,914	-	266,914
Other	305,385	730	-	306,115
Materials and supplies	1,764,553	18,287	-	1,782,840
Prepaid expenses	137,178	82	-	137,260
Total current assets	<u>16,922,445</u>	<u>536,029</u>	<u>3,743,025</u>	<u>21,201,499</u>
NONCURRENT ASSETS				
Long term portion of assessments receivable	-	1,163,786	-	1,163,786
Non-Utility Plant	2,220	-	2,212,600	2,214,820
Restricted assets				
Cash	1,125,120	3,142,660	-	4,267,780
Investments	22,905	-	-	22,905
UTILITY PLANT				
Land and land rights	436,492	40,000	-	476,492
Utility plant	99,372,270	30,964,187	-	130,336,457
Construction work in progress	3,110,668	177,201	-	3,287,869
Less accumulated depreciation	<u>(41,613,403)</u>	<u>(10,524,996)</u>	<u>-</u>	<u>(52,138,399)</u>
Net Utility plant	<u>61,306,027</u>	<u>20,656,392</u>	<u>-</u>	<u>81,962,419</u>
Total noncurrent assets	<u>62,456,272</u>	<u>24,962,838</u>	<u>2,212,600</u>	<u>89,631,710</u>
Total assets	<u>79,378,717</u>	<u>25,498,867</u>	<u>5,955,625</u>	<u>110,833,209</u>
DEFERRED OUTFLOWS OF RESOURCES				
Excess consideration provided for acquisition	51,313,754	-	-	51,313,754
Deferred pension outflows	435,592	76,869	-	512,461
Total deferred outflows of resources	<u>51,749,346</u>	<u>76,869</u>	<u>-</u>	<u>51,826,215</u>

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 13 - Segment Reporting (continued)

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	Electric Division	Water Division	Administrative Division	Consolidated Total Year Ended December 31, 2017
CURRENT LIABILITIES				
Accounts payable	\$ 3,817,528	\$ -	\$ -	\$ 3,817,528
Customer deposits	120,300	1,100	-	121,400
Inter-Division Payables/(Receivables)	3,777,829	(5,192,643)	1,414,814	-
Accrued liabilities	1,505,417	88,656	-	1,594,073
Current portion of long term debt	3,247,109	637,113	107,876	3,992,098
Total current liabilities	<u>12,468,183</u>	<u>(4,465,774)</u>	<u>1,522,690</u>	<u>9,525,099</u>
NONCURRENT LIABILITIES				
PWTF loans payable	-	3,037,083	-	3,037,083
Notes payable	103,067,254	250,000	1,008,830	104,326,084
Bonds payable	-	3,880,292	-	3,880,292
Other noncurrent liabilities	13,908	-	-	13,908
Net pension liability	2,077,629	366,640	-	2,444,269
Total noncurrent liabilities	<u>105,158,791</u>	<u>7,534,015</u>	<u>1,008,830</u>	<u>113,701,636</u>
Total liabilities	<u>117,626,974</u>	<u>3,068,241</u>	<u>2,531,520</u>	<u>123,226,735</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension inflows	354,261	62,517	-	416,778
Total deferred inflows of resources	<u>354,261</u>	<u>62,517</u>	<u>-</u>	<u>416,778</u>
NET POSITION				
Net investment in capital assets	6,307,638	12,851,904	1,095,894	20,255,436
Restricted	1,125,120	3,142,660	-	4,267,780
Unrestricted	5,714,070	6,450,414	2,328,211	14,492,695
Total net position	<u>13,146,828</u>	<u>22,444,978</u>	<u>3,424,105</u>	<u>39,015,911</u>

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

NOTES TO FINANCIAL STATEMENTS

Note 13 - Segment Reporting (continued)

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Electric Division	Water Division	Administrative Division	Consolidated Total Year Ended December 31, 2017
OPERATING REVENUES				
Power sales to retail and commercial customers	\$ 35,679,380	\$ -	\$ -	\$ 35,679,380
Water sales to retail and commercial customers	-	2,147,827	-	2,147,827
Other charges for service	242,365	105,894	282	348,541
Total operating revenue	35,921,745	2,253,721	282	38,175,748
OPERATING EXPENSES				
Purchased power	14,480,267	118,175	-	14,598,442
Operations and maintenance	5,934,741	893,970	-	6,828,711
Administrative and general	2,172,177	432,278	-	2,604,455
Taxes	2,078,854	109,548	-	2,188,402
Depreciation and amortization	5,083,334	714,066	-	5,797,400
Total operating expenses	29,749,373	2,268,037	-	32,017,410
Operating income (loss)	6,172,372	(14,316)	282	6,158,338
NONOPERATING REVENUES (EXPENSES)				
Taxes	-	-	501,369	501,369
Interest income	61,989	105,163	17,962	185,114
Timber harvest tax and other	-	-	38,018	38,018
Interest expense	(2,950,225)	(234,929)	(70,335)	(3,255,489)
Gain/(Loss) on transfer of property	(2,354)	-	-	(2,354)
Other nonoperating revenues (expenses)	(151,540)	4,132	(3,241)	(150,649)
Total nonoperating revenues (expenses)	(3,042,130)	(125,634)	483,773	(2,683,991)
Income before capital contributions	3,130,242	(139,950)	484,055	3,474,347
CAPITAL CONTRIBUTIONS	1,415,448	175,615	-	1,591,063
CHANGE IN NET POSITION	4,545,689	35,665	484,055	5,065,410
ACCUMULATED NET POSITION				
Beginning of year	8,601,138	23,293,741	2,940,050	34,834,929
Prior period adjustment	-	(884,428)	-	(884,428)
End of year	\$ 13,146,827	\$ 22,444,978	\$ 3,424,105	\$ 39,015,911

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

	PERS 1			
	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.026527%	0.026887%	0.024189%	0.020203%
Employer's proportionate share of the net pension liability	\$ 1,258,727	\$ 1,443,959	\$ 1,265,310	\$ 1,017,736
Employer's covered payroll	\$ 3,394,031	\$ 3,253,889	\$ 2,805,150	\$ 2,297,210
Employer's proportionate share of the net pension liability as a percentage of covered payroll	37.09%	44.38%	45.11%	44.30%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%
	PERS 2/3			
	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	0.034121%	0.034416%	0.031244%	0.026012%
Employer's proportionate share of the net pension liability	\$ 1,185,542	\$ 1,732,818	\$ 1,116,366	\$ 525,796
Employer's covered payroll	\$ 3,394,031	\$ 3,253,889	\$ 2,805,150	\$ 2,297,210
Employer's proportionate share of the net pension liability as a percentage of covered payroll	34.93%	53.25%	39.80%	22.89%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	93.29%

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

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

	PERS 1			
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 181,068	\$ 153,848	\$ 134,157	\$ 103,742
Contributions in relation to the statutorily or contractually required contributions	(181,068)	(153,848)	(134,157)	(103,742)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$3,688,452	\$3,225,327	\$3,025,349	\$2,571,386
Contributions as a percentage of covered payroll	4.91%	4.77%	4.43%	4.03%
	PERS 2/3			
	2017	2016	2015	2014
Statutorily or contractually required contributions	\$ 254,647	\$ 200,938	\$ 172,658	\$ 128,454
Contributions in relation to the statutorily or contractually required contributions	(254,647)	(200,938)	(172,658)	(128,454)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,688,452	\$ 3,225,327	\$ 3,025,349	\$ 2,571,386
Contributions as a percentage of covered payroll	6.90%	6.23%	5.71%	5.00%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov