

A utility worker wearing a white bucket and an orange hard hat is working on a wooden utility pole. The worker is positioned in the bucket, which is suspended from a crane arm. The pole is made of wood and has several cross-arms with electrical equipment attached. The background is a clear blue sky with some clouds. The entire image is framed by a thick red border.

**MASON COUNTY
PUBLIC UTILITY DISTRICT No. 3
SHELTON, MASON COUNTY, WASHINGTON**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2007**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Mason County Public Utility District No. 3
Shelton, Mason County, Washington

For the fiscal year ended December 31, 2007

Prepared by the Finance and Public Information Departments



*Cover: Mason County PUD No. 3 Lineman Jeff Gott works on electrical facilities
Photo Credit, Terri Oberg*

**MASON COUNTY PUBLIC UTILITY DISTRICT NO. 3
Shelton, Mason County, Washington**

2007 COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INTRODUCTORY SECTION



MASON COUNTY



Message from the Manager

The board of commissioners and employees of Mason County PUD No. 3 are pleased to provide this report of the utility's financial situation for the period ending December 31, 2007.

We at the PUD remain committed to have as our goal safe and reliable service at the lowest possible cost. While the costs of operating a utility continue to rise, we have endeavored to control the effects of those increases to the extent possible for our ratepayers.

In spite of increasing costs, the utility is in a sound financial condition. We maintain our efforts to give priority to service, improving reliability through maintenance and system upgrades, and good stewardship of the public's funds entrusted to us.

It has been a busy year, with many issues confronting the PUD 3 commission and staff. These include federal and state regulations and mandates, changing technologies and a growing customer base.

Of course, the storm we experienced in early December was very challenging for all of our employees and customers. Once again, our employees and fellow public utilities and contractors who worked with us responded with dedication and exceptional effort to repair our electric system, while also supporting the efforts of other public agencies to protect public safety and enable access.

We continue to advocate for our ratepayers and pledge to respond to local concerns and issues promptly and professionally as the locally owned, non-profit utility serving the customers of Mason County PUD No. 3. We welcome input and suggestions and encourage participation in our public meetings. It has been our privilege to be of service.



A handwritten signature in black ink that reads "Wyla J. Wood". The signature is written in a cursive, flowing style.

Wyla J. Wood, Manager
Mason County PUD No. 3

Message from the Board President



On behalf of the Board of Commissioners and staff of Mason County PUD No. 3, we are pleased to present our customers with the 2007 annual report. As a community-owned utility, PUD 3 is committed to ensuring that we serve you with safe, reliable and affordable service every day.

Mason County PUD No. 3 is a community-owned and governed utility, created to provide safe, reliable and cost-based electric and wholesale telecommunication services. PUD 3 strives to meet the community's expectations through responsive customer service; an educated, well trained staff; a strong commitment to protect and improve the public's investment in the utility; and the wise and efficient use of the community's resources.

Because Mason County PUD No. 3 is a public power utility, each citizen who receives services from the PUD owns a part of it.

- PUD 3 is owned and controlled by the citizens who live in the community.
- PUD 3 benefits the local economy by keeping revenues in the community rather than paying profits to stockholders.
- PUD 3 works hard to keep electricity rates low and help its owner/ratepayers use energy efficiently and safely.

Mason County PUD No. 3 encourages all customers to communicate with us about our services through mail, telephone, or our web site www.masonpud3.org. Citizens are also invited to attend our regular board meetings that are held each Tuesday at the administrative office building in Shelton at 307 West Cota Street.

A handwritten signature in black ink that reads "Linda R. Gott". The signature is written in a cursive style.

Linda Gott, President
Board of Commissioners
Mason County PUD No. 3

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 3

Shelton, Mason County, Washington

FAST FACTS

Unaudited

As of December 31, 2007

Electric

Number of customers:	32,190
Number of employees:	116
2007 Electricity sales in kWh:	668,687,462
Average annual use, residential in kWh:	14,148
Average kWh cost for residential use:	\$0.0684
Number of substations:	11
Overhead line miles:	660
Underground line miles:	1,030
Average load in kW:	79,855
Maximum system peak demand in kW:	185,835
2007 Net Budget:	\$49,500,000

Fiber

End user active connections:	418
Fiber miles within system:	320

Commissioners

Linda R. Gott
Bruce E. Jorgenson
John H. Whalen

Manager

Wyla J. Wood



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Mason County
Public Utility District No. 3
Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

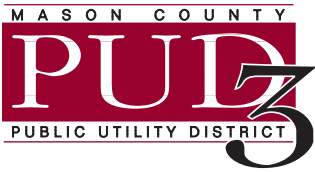


Charles S. Cox

President

Jeffrey R. Emer

Executive Director



COMMISSIONERS

LINDA R. GOTT
BRUCE E. JORGENSON
JOHN H. WHALEN

MANAGER

WYLA J. WOOD

May 23, 2008

To the Board of Commissioners and Customers
Mason County Public Utility District No. 3
Shelton, Washington

The Comprehensive Annual Financial Report (CAFR) of the Mason County Public Utility District No. 3 for the year ended December 31, 2007, is hereby submitted. The report is designed to assess the district's financial condition, educate readers about the district's services, and examine current challenges facing the district.

Responsibility for Report

The management of the district is responsible for preparing the information in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles (GAAP) applied on a consistent basis and include amounts that are based on management's best estimates and judgments. To provide a reasonable basis for making these representations, management has established and maintains a comprehensive internal control framework that includes organizational, administrative and accounting processes. The internal control system provides reasonable assurance as to the integrity and reliability of the financial statements, the safeguarding of assets from unauthorized use or disposition, and that business transactions are conducted in compliance with state laws and regulations. However, because the cost of internal controls should not outweigh their benefits, the district's system of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Independent Audit

The district's financial statements have been audited by the Washington State Auditor's Office. Management has made available to it all financial records and related data necessary to complete the audit. Management considers and takes appropriate action on audit recommendations concerning internal control procedures, financial matters and legal compliance.

The goal of the independent audit was to provide reasonable assurance that the financial statement of the district for the fiscal year ended December 31, 2007, is free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the district's financial statement for the year ended December 31, 2007, is fairly presented in conformity with generally accepted accounting principles. The auditor's report is presented at the beginning of the financial section of this report.

Report Format

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The district's MD&A can be found immediately following the report of the independent auditors.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section includes the letter of transmittal and other material that may be useful in understanding the district. The Financial Section contains the MD&A, the auditor's report, and financial statements with accompanying notes. The Statistical Section provides unaudited ten-year trend data for selected financial and operational information about the district's service territory that is intended to be helpful in assessing the district's financial condition.

About Mason County PUD No. 3

Mason County PUD No. 3 (district) was established by vote in 1934 and began operations in 1939 under the direction of three elected commissioners. A schedule detailing the names of the current board of commissioners, the length of their tenure, the names of key district personnel, and the name and address of the district attorney will be found on page 10 of this report. The district's headquarters are in Shelton, Washington, approximately 22 miles northwest of Olympia, the capital of Washington State.

The district's service area encompasses 567 square miles, most of which is in Mason County. Electric service is provided to 5 square miles in southern Kitsap County, 18 square miles in eastern Grays Harbor County, and 0.00156 square miles in southwestern Pierce County.

The district owns and operates 29.66 miles of 115 KV transmission lines. During 2002 a project to provide 5.2 MW of generating capacity was completed with the Olympic View Generating Station being put on-line. The district is now a full requirements customer of the Bonneville Power Administration (BPA), taking delivery of power at eleven substations. It has 1,690 miles of primary lines. As of December 31, 2007, the value of the district's net plant totaled \$108 million. At that time it served 32,190 customers. Load data for the year included kilowatt-hour sales to retail customers of 669,928,231.

The district provides wholesale fiber optic services to five retail internet service providers in the county who in turn provide connections to 418 locations over 320 miles of fiber optic line.

The new John's Prairie Substation was completed in December 2006. Once energized, the new substation helped meet the demands for electricity in 2007 from increased residential construction and the expansion of commercial and industrial users in Mason County. The substation allows for redundant power supply to the district's largest industrial customer and will back up other substations for reliability purposes. The district's system is designed to allow for redundant feeds between substations in order to restore electricity more quickly during outages or to allow for substation maintenance.

Annual Budget

The district records financial transactions within a proprietary fund, other than those in its one fiduciary fund comprised of a Voluntary Employee Benefit Association (VEBA) trust established in May of 2004. The district is not required to legally adopt a budget that carries the force of law. Accordingly, the district's budget is not contained within this report.

The district adopts an annual budget for purposes of planning and management control. The budget process involves preparation of a proposed operating and capital budget by district staff for the ensuing year that is presented to the Board of Commissioners. During workshop sessions that are open to the public, the staff and board review and revise the proposed budget. A public hearing is conducted to obtain ratepayer comments. The budget is approved by the board and becomes the basis for operations for the ensuing calendar year.

Local Economy

In the past, Mason County's economy has been traditionally based on the forest products industry. However, at this time the government sector employs the most people in the county; over 3,237 employees at last count, spread among 13 of the county's top 50 employers, according to the Economic Development Council of Mason County (EDC). The EDC's analysis shows Little Creek Casino Resort holds the top spot for the greatest number of employees at 714. Five of the other top ten employers are in the government sector; including Shelton School District, Washington Correction Center, Mason General Hospital, Mason County, and North Mason School District.

The forest products industry has eight of the top 50 spots for number of employees in Mason County with a total of 1,262 employees. Simpson Timber Company is the largest, at 360 employees. Mason County Public Utility District No. 3 ranks 17 with 116 employees.

According to information from the Economic Development Council of Mason County, the unemployment rate for Mason County in 2007 was 5.8 percent, somewhat higher than the state average of 4.7 percent. The population of Mason County in 2007 is estimated at 56,384, or a 14.1 percent increase since 2000.

Long-Term Financial Planning

The district adopted a five-prong financial approach to deal with the effects of the 2001 energy crisis that included a serious threat of increased Bonneville Power Administration (BPA) wholesale rates. A 15 percent retail rate increase went into effect in May 2001; \$28 million was borrowed during 2001 and 2002 to help fund needed capital projects; the operating budget was cut; the level of reserves was reduced; and customers were asked to make all possible efforts to conserve energy locally. While the concern about continued BPA rate increases has not subsided, this plan of dealing with the continuing energy situation seems to have worked well for the district. Many neighboring utilities have adopted much higher rate increases than Mason County PUD No. 3.

After much analysis and study in 2007, a rate increase of 5 percent on average was adopted by the Board of Commissioners effective May 1, 2008. The Board of Commissioners also approved an increase of up to 5 percent in 2009, depending on wholesale energy costs and other financial conditions. The district's rates still compare favorably with other utilities of similar size in the state.

Cash Management and Investments

Mason County PUD No. 3 invests its available funds in a manner that minimizes the district's risk of financial loss and maintains necessary liquidity. State law and the district policy permit investing in direct obligations of the U.S. government and its agencies, the State Treasurer's Local Government Investment Pool, certificates of deposit with banks that are qualified public depositories, or other investments allowed by state law.

Risk Management

Mason County PUD No. 3 maintains a comprehensive insurance program that includes liability and standard insurance coverage for personal property, automobile, public officials and equipment, except unemployment insurance for which the district has elected to become self-insured. The district is a member of the Public Utility Risk Management Services (PURMS) Self-Insurance Fund, which is currently composed of 12 members. Additional information on the district's risk management program is included in Note 14 of the Notes to the Financial Statements.

Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Mason County Public Utility District No. 3 for its comprehensive annual financial report for the fiscal years ending December 31, 2004, 2005 and 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the Finance and Public Information Departments of the district. We wish to express our appreciation to these staff members for their contributions to the development of this report. Further appreciation is extended to the Board of Commissioners for its leadership and support in planning and conducting the financial operations of the district in a responsible and enterprising manner.



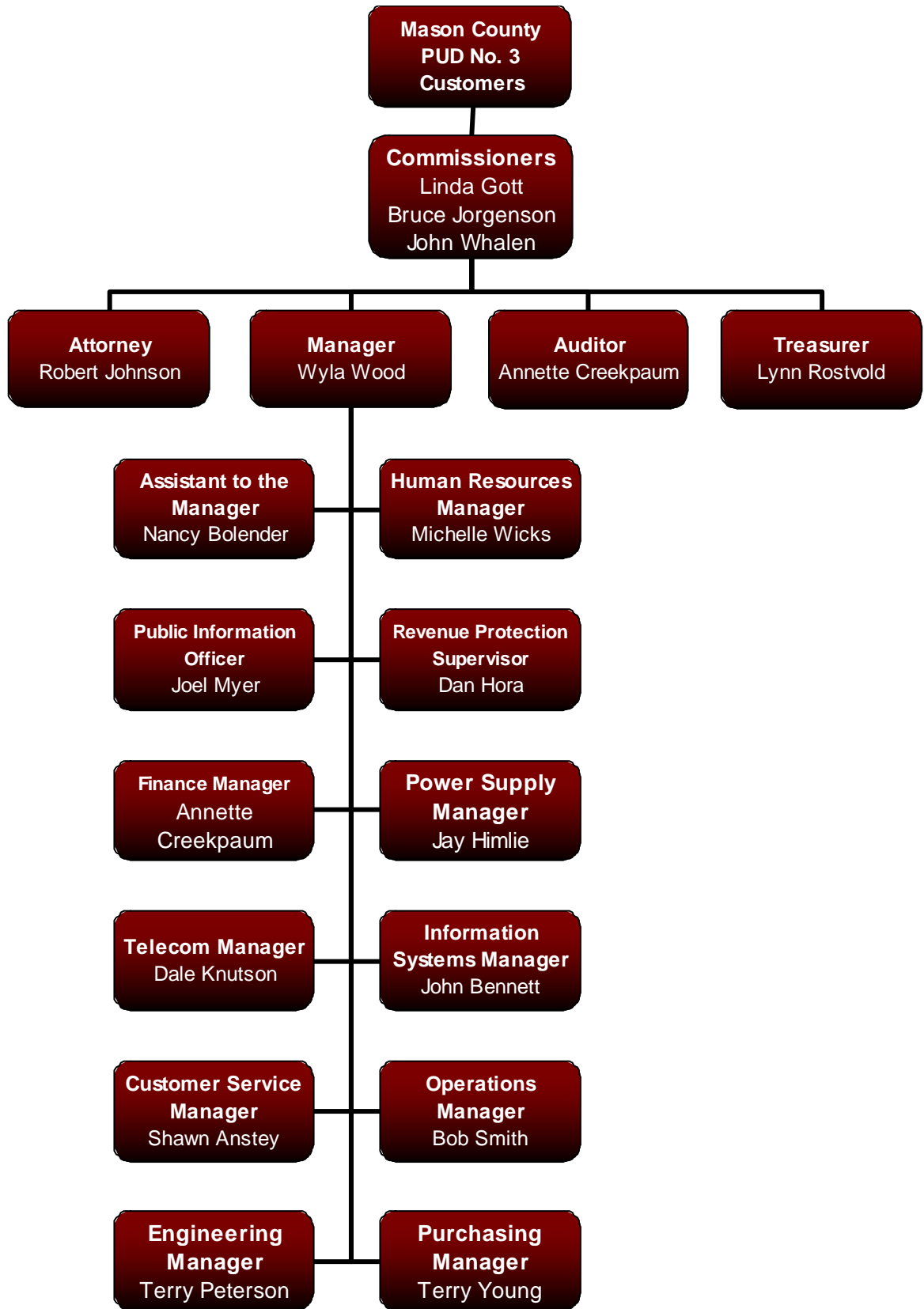
Wyla Wood
Manager



Annette Creekpaum
Finance Manager/Auditor

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 3
Shelton, Mason County, Washington

ORGANIZATIONAL CHART FOR MASON COUNTY PUD No. 3



MASON COUNTY PUBLIC UTILITY DISTRICT NO. 3
Shelton, Mason County, Washington

P. O. Box 2148
307 West Cota Street
Shelton, Washington 98584
360-426-8255
www.masonpud3.org



Mason County PUD No. 3 Commissioners, 2007
Bruce Jorgenson, Vice President • Linda Gott, President
John Whalen, Secretary

Board of Commissioners:

Linda R. Gott, President, took office 1999
Bruce E. Jorgenson, Vice President, took office 1995
John H. Whalen, Secretary, took office 1983

Key District Management:

Wyla Wood, Manager
Annette Creekpaum, Finance Manager/Auditor
Michelle Wicks, Human Resources Manager
Bob Smith, Operations Manager
Terry Peterson, Engineering Manager
Lynn Rostvold, Treasurer
Shawn Anstey, Customer Services Manager
Jay Himlie, Power Supply Manager
Terry C. Young, Purchasing Manager
Nancy Bolender, Assistant to the Manager
John Bennett, Information Services Manager
Joel Myer, Public Information Officer
Dale Knutson, Telecommunications Manager

Attorney:

Robert W. Johnson
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Shelton, WA 98584
(360) 426-9728



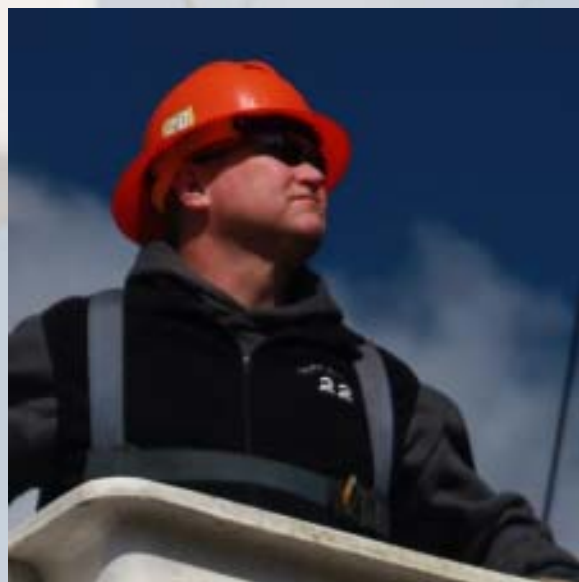
MASON COUNTY

PUID
PUBLIC UTILITY DISTRICT





FINANCIAL SECTION





**Washington State Auditor
Brian Sonntag**

INDEPENDENT AUDITOR'S REPORT

May 23, 2008

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

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, Mason County, Washington, as of and for the year ended December 31, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Public Utility District No. 3 of Mason County, Mason County, Washington, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The information identified in the table of contents as the Introductory and Statistical Sections is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in black ink that reads "Brian Sonntag".

**BRIAN SONNTAG, CGFM
STATE AUDITOR**

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 3
Shelton, Mason County, Washington

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial results of Mason County Public Utility District No. 3 (the district) provides an overview of the utility's financial activities for the year ended December 31, 2007. This discussion is designed to be used in conjunction with the financial statements and notes, which follow this section.

FINANCIAL HIGHLIGHTS

The Bonneville Power Administration (BPA), a federal power marketing agency, supplied most of the district's power resources in 2007. BPA continues to be the lowest cost source of wholesale power in the region. The district has a contract with BPA to purchase power through September 30, 2011. The district entered a new BPA rate period on October 1, 2006. All previous Cost Recovery Adjustment Clauses (CRAC's), Load Based, Financial Based and Safety Net, were eliminated under the new rate schedule; however, the new base rate without surcharges is approximately equal to the previous rate with all surcharges in place.

The new rate only contains one CRAC, triggered by a shortfall in the Accumulated Modified Net Revenues (AMNR). There are also two potential surcharges which may be added to the rate: the National Marine Fisheries Service, Federal Columbia River Power System, Biological Opinion Adjustment (NFB Adjustment), which is triggered by Endangered Species Act (ESA) related cost increases; and an Emergency NFB surcharge, triggered under the same conditions as the normal NFB Adjustment, but requiring collection of the funds sooner than the NFB Adjustment notification requirements will allow. Neither of the surcharges triggered in 2007 and BPA does not anticipate that the AMNR-CRAC or either of the surcharges will be applied in 2008.

In 2006, the district entered into an agreement with the BPA to provide a financial tool that addresses the issue of guaranteeing BPA's annual payments to the U.S. Treasury on market rate loans for capital projects such as construction of transmission lines and improvements to generating facilities. If implemented, this financial tool would require the district to prepay up to three months of its wholesale electricity bills. This agreement is not a loan as BPA must, within 120 days after prepayment of the bills, credit succeeding power bills until the prepayment and discount amounts are fully repaid. By participating in the agreement, the chance of surcharges (such as the Safety Net Cost Recovery Adjustment Clause) being implemented by BPA due to cash flow issues are eliminated. In addition to stabilizing wholesale power rates through surcharge avoidance, the district also benefits by: 1) receiving a rate of return of .5 percent higher than U.S. Treasury rate on the amount prepaid on the wholesale power bills; and 2) receiving a Priority Firm (PF) rate reduction of approximately 33 cents per megawatt hour whether or not the prepayment agreement is implemented. BPA reimburses the district the cost of the financing vehicle for advancing the funds, up to one percent of its face value per year. The agreement is in effect through 2009.

The district currently buys a small amount of power (2 megawatts) from Energy Northwest as renewable energy, or green power, produced by the Nine Canyon Wind Project (Phase I and Phase II) near Kennewick, Washington. The district signed a Power Purchase Agreement (PPA) for one megawatt of capacity from Phase III of the Nine Canyon Wind Project. The project was constructed during 2007 and will go into commercial operation in the second quarter of 2008.

Another potential 50 MW wind farm in Reardan, Washington, was being investigated by Energy Northwest. The district expressed preliminary interest in this project; however, there was insufficient interest in moving forward with the project and Energy Northwest will be selling its development rights to the site.

In April of 2005, Energy Northwest announced investigation of a 600 MW integrated gasification combined cycle (IGCC) facility near Kalama, Washington named the Pacific Mountain Energy Center (PMEC). In 2007, the Washington State Legislature passed Senate Bill 6001, which placed restrictions on the ability to begin construction until issues related to potential carbon sequestration have been resolved. Energy Northwest has approached members about changing the generating technology to a conventional natural gas combustion turbine, which will meet the emissions restrictions in the legislation. The district has signed a preliminary, non-binding expression of interest in the new project.

Retail kilowatt-hour sales increased by 3.5 percent in 2007, down from the 5 percent increase in 2006.

The district grew in customers at a lower rate than the previous year by adding 662 new service connections compared to 821 in 2006. Slightly more than 15 miles of primary electric lines were added in 2007, bringing the total to 1,690 miles. Wholesale telecommunications efforts include five retail internet service providers in the county providing services to 418 connections over 320 miles of fiber optic line.

FINANCIAL ANALYSIS

During 2007, the district's overall financial position and results of operation improved, as evidenced by a \$6.6 million increase in net assets. The following information provides analysis of the 2007 and 2006 comparative financial information.

Condensed Financial Information for December 31, 2007 and 2006

(In Thousands)

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Change</u>
<u>Statement of Net Assets</u>				
Current Assets and Special Funds	22,312	18,570	3,742	20.2%
Net Capital Assets	108,027	107,102	925	0.9%
Other Non-current Assets	<u>373</u>	<u>418</u>	<u>(45)</u>	-10.8%
Total Assets	130,712	126,090	4,622	3.7%
Current Liabilities	10,791	11,265	(474)	-4.2%
Non-current Liabilities	<u>27,258</u>	<u>28,758</u>	<u>(1,500)</u>	-5.2%
Total Liabilities	38,049	40,023	(1,974)	-4.9%
Invested in Capital Assets, Net of Debt	79,639	76,855	2,784	3.6%
Unrestricted	<u>13,024</u>	<u>9,212</u>	<u>3,812</u>	41.4%
Total Net Assets	92,663	86,067	6,596	7.7%
Total Liabilities and Net Assets	130,712	126,090	4,622	3.7%
<u>Statement of Revenue, Expenses and Changes in Net Assets</u>				
Operating Revenues				
Utility Sales and Service Fees	43,812	41,036	2,776	6.76%
Other	2,621	2,372	249	10.50%
Non-operating Revenues				
Interest Income	591	594	(3)	-0.51%
Other Income	<u>2,082</u>	<u>841</u>	<u>1,241</u>	147.56%
Total Revenue	49,106	44,843	4,263	9.51%
Operating Expenses				
Power Supply	21,790	22,161	(371)	-1.67%
Operation and Maintenance	13,079	13,837	(758)	-5.48%
Taxes/Depreciation Expense	6,156	5,880	276	4.69%
Non-operating Expenses				
Other Expense	35	16	19	118.75%
Interest Expense	<u>1,450</u>	<u>1,558</u>	<u>(108)</u>	-6.93%
Total Expenses	42,510	43,452	(942)	-2.17%
Change in Net Assets	6,596	1,391	5,205	374.19%
Beginning Net Assets	86,067	84,676	1,391	1.64%
Ending Net Assets	92,663	86,067	6,596	7.66%

ASSETS

Current assets and special funds increased by \$3.74 million during 2007 primarily due to the increase in sales to retail customers. Cash received from customers increased a little less than \$2 million over 2006.

At December 31, 2007, the district had \$108 million invested in utility capital assets, up \$925 thousand from the previous year. Capital additions were a result of improvements to existing distribution infrastructure, internal capital expenditures and a two percent growth in customers served by the district.

Additional information on Capital Assets of the district can be found in Note 2 on page 24 of this report.

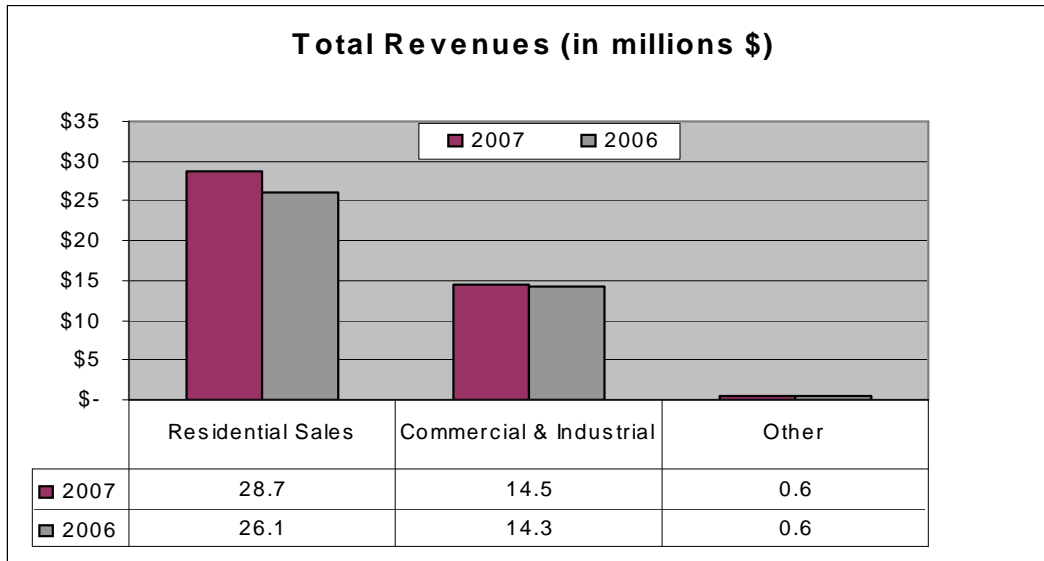
LIABILITIES

Long-term debt, which represents the district's Revenue Bonds presented as Non-current Liabilities and the current portion due within one year under Current Liabilities, was reduced by debt service payments of \$1.9 million during 2007 from \$30.66 to \$28.76 million. Debt service payments in the amount of \$2 million will pay down the revenue bonds in 2008.

Additional information on Long-Term Debt of the district can be found in Note 6 on page 27 of this report.

OPERATING REVENUES

Utility sales and service fees increased \$2.7 million over the prior year. This was primarily a result of a rate increase of three percent on October 1, 2006, along with growth in the number of customers the district serves. By year end, the district's total number of customers had grown to 32,190, an increase of 662 over 2006. Retail sales to customers were up nearly 23 million kilowatt-hours from the prior year.

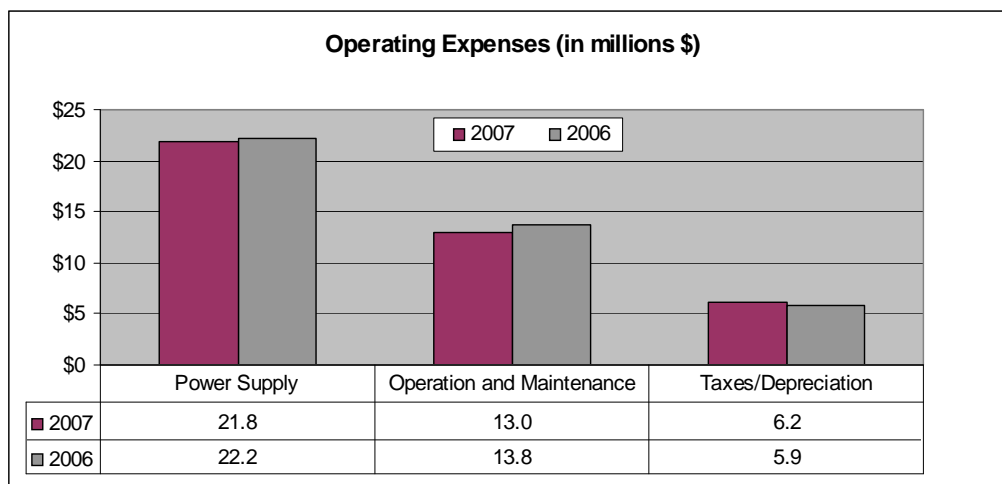


OPERATING EXPENSES

Purchased power costs decreased in 2007 by \$400 thousand (1.67%). This result was due to the fact that 2007 was the first full year that all Cost Recovery Adjustment Clauses (CRAC's) charged by BPA were eliminated.

Operating and maintenance expenses decreased by \$800 thousand, or -5.48 percent, from the previous year. The district sustained FEMA declared disasters in December 2006 and December 2007. However, the 2007 severe storm was not as damaging to the district's system, thereby decreasing the operating and maintenance expenses for 2007 as compared to 2006.

Taxes and depreciation increased \$300 thousand for 2007 due to normal operations of the district.



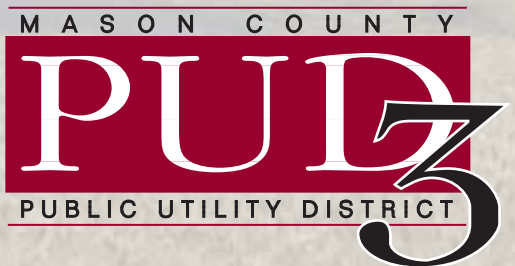
NON-OPERATING REVENUES AND EXPENSES

The Other Non-operating Revenues increased by \$1.2 million in 2007 largely as a result of funds received from the Federal Emergency Management Agency (FEMA) for the severe storm that damaged our system in December 2006. Interest Expense decreased by \$100 thousand as a result of principal payments on long-term debt.

REQUESTS FOR INFORMATION

The basic financial statements, notes and management discussion and analysis are designed to provide a general overview of the district's finances. Questions concerning any of the information provided in this report should be directed to the Finance Manager of Mason County Public Utility District No. 3, PO Box 2148, Shelton, Washington, 98584.

Mason County PUD No. 3 is part owner of the Nine Canyon Wind project located near Kennewick, Washington. This renewable resource, together with power generated at hydroelectric dams, makes PUD 3 one of the greenest providers of electricity in the United States. Photo Credit, Energy Northwest



Mason County Public Utility District No. 3
Statement of Net Assets
December 31, 2007

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents (Note 3)	\$	14,337,769
Accounts Receivable		5,276,299
Less Uncollectibles		(13,761)
Plant Material & Operating Supplies		2,689,948
Prepayments		21,272
Interest & Dividend Receivable		-
<i>Total Current Assets</i>		22,311,527

NON-CURRENT ASSETS

Deferred Charges (Note 8)		373,274
Capital Assets		
Land		2,085,382
Plant		125,860,307
Structures and Improvements		6,935,383
Machinery and Equipment		14,215,905
Construction Work in Progress (Note 4)		7,910,106
Less: Accumulated Depreciation		(48,980,256)
Total Capital Assets (Net) (Note 2)		108,026,827
<i>Total Non-current Assets</i>		108,400,101

TOTAL ASSETS **\$ 130,711,628**

NET ASSETS AND LIABILITIES

CURRENT LIABILITIES

Current Portion Long-Term Debt	\$	1,996,945
Warrants Payable		1,191,681
Accounts Payable		3,112,308
Customer Deposits		487,545
Taxes Accrued		930,688
Interest Accrued - Long-Term Debt		111,504
Personal Time Off (Compensated Absences)		1,117,897
Other Current & Accrued Liabilities		1,842,712
<i>Total Current & Accrued Liabilities</i>		10,791,280

NON-CURRENT LIABILITIES

Personal Time Off (Compensated Absences)		493,594
Revenue Bonds		28,760,622
Less: Portion Maturing Within One Year		(1,996,945)
<i>Total Non-current Liabilities</i>		27,257,271

Total Liabilities **38,048,551**

NET ASSETS

Invested in Capital Assets, Net of Debt		79,639,478
Unrestricted		13,023,599
Total Net Assets		92,663,077

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

Mason County Public Utility District No. 3
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2007

OPERATING REVENUES	
Utility Sales and Service Fees	\$ 43,811,627
Other Charges for Services	2,489,036
Miscellaneous Operating Revenues	<u>132,598</u>
<i>Total Operating Revenues</i>	46,433,261
OPERATING EXPENSES	
Purchased Power	21,790,061
Operation	3,216,972
Maintenance	3,775,383
Customer Accounts	1,667,344
Customer Service, Information, Advertising	316,461
Administrative & General	3,441,177
Maintenance of General Plant	662,089
Depreciation	4,428,966
Taxes Other than Income	<u>1,726,807</u>
<i>Total Operating Expenses</i>	41,025,260
OPERATING INCOME (LOSS)	5,408,001
NON-OPERATING REVENUES & EXPENSES	
Revenue from Merchandising	33,033
Cost of Merchandising	(34,873)
Interest Income	591,222
Interest and Amortization on Long-Term Debt	(1,450,290)
Other Non-operating Revenues	<u>2,049,000</u>
<i>Total Non-operating Revenues (Expenses)</i>	1,188,092
Change in Net Assets	6,596,093
Total Net Assets, January 1	86,066,984
Total Net Assets, December 31	<u>\$ 92,663,077</u>

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

Mason County Public Utility District No. 3
Statement of Cash Flows
For the Year Ended December 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 46,496,987
Cash payments to suppliers	(24,853,453)
Cash payments to employees	(10,346,050)
Taxes Paid	(3,085,637)
Miscellaneous other revenue	2,049,000
<i>Net cash provided by operating activities</i>	10,260,847
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
-	
 CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Interest paid on revenue bonds	(1,463,696)
Deferred credits	26,131
Acquisition and construction of capital assets	(5,354,152)
Principal payments on long-term debt	(1,903,947)
<i>Net cash used for capital financing activities</i>	(8,695,664)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of Investments	994,475
Interest received on investments	603,638
<i>Net cash flow provided by investing activities</i>	1,598,113
 NET INCREASE (DECREASE) IN CASH	 3,163,296
 CASH BALANCE, BEGINNING OF YEAR	 11,174,473
 CASH BALANCE, END OF YEAR	 \$ 14,337,769
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income	\$ 5,408,001
Adjustments to reconcile operating income to net cash provided by operating activities:	
Merchandising - Net	(1,840)
Customer Deposits	125,833
Depreciation	4,428,965
Customer Accounts Receivable	(459,090)
Miscellaneous	2,034,953
Other Accounts Receivable	(907,140)
Uncollectibles	(2,772)
Material Inventory	(229,104)
Prepayments	2,531
Outstanding Warrants	1,000,955
Accounts Payable	(1,172,258)
Taxes Accrued	75,737
FICA & FWT Taxes Payable	-
Miscellaneous Accrued Liabilities	(43,924)
<i>Total Adjustments</i>	4,852,846
 Net Cash Provided by Operating Activities	 \$ 10,260,847

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

**Mason County Public Utility District No. 3
VEBA for Employees of Washington Public Utility Districts Trust**

**Statement of Fiduciary Net Assets
December 31, 2007**

ASSETS	
Cash and Cash Equivalents	\$ -
Registered Investments in Vanguard Group Funds	<u>2,195,620</u>
	2,195,620
LIABILITIES	
	-
NET ASSETS HELD IN TRUST FOR OTHERS	\$ 2,195,620

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

**Mason County Public Utility District No. 3
VEBA for Employees of Washington Public Utility Districts Trust**

**Statement of Changes in Fiduciary Net Assets
For the Year Ended December 31, 2007**

ADDITIONS	
Contributions	\$ 470,048
Net Investment Income	<u>111,563</u>
<i>Total Additions</i>	581,611
DEDUCTIONS	
Benefits paid to or for participants	<u>285,147</u>
<i>Total Deductions</i>	285,147
NET INCREASE IN PLAN ASSETS	296,464
NET ASSETS	
Beginning of year	1,899,156
End of Year	\$ 2,195,620

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

MASON COUNTY PUBLIC UTILITY DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENT
January 1, 2007 through December 31, 2007

These notes are an integral part of the accompanying financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mason County Public Utility District No. 3 conform to generally accepted accounting principles as applicable to proprietary funds of governmental utilities. The following is a summary of the more significant policies (including identification of those policies which result in material departures from generally accepted accounting principles).

- a. Reporting Entity - Mason County Public Utility District No. 3 is a customer-owned utility providing electrical and wholesale telecommunications service in Mason County, Washington.

Formed by a vote of the people in 1934, the utility is a municipal corporation organized under the laws of the state of Washington. It is legally and fiscally independent of other state or local governments. It began electrical service during 1939.

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

Mason County PUD No. 3 provides electric service to 32,190 customers as of December 31, 2007.

- b. Basis of Accounting and Presentation - The accounting records of the district are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. Accounts are maintained in accordance with the uniform system of accounts of the Federal Energy Regulatory Commission.

The district uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The district, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting Proprietary Fund Accounting*, elected not to apply all statements of the Financial Accounting Standards Board issued subsequent to November 30, 1989. In 2002, the district implemented GASB 33 which requires revenue recognition when requirements and purpose are met on customer contributions. It has been determined that currently all contributions in aid of construction will be treated as exchange transactions. The district implemented GASB 34 in 2003, requiring the Balance Sheet to be restated in terms of Statement of Net Assets. Also a Management's Discussion and Analysis precedes the financial statements as required supplementary information under GASB 34.

- c. Cash and Cash Equivalents - The district considers all highly liquid investments maturing within three months to be cash equivalents.
- d. Utility Plant and Depreciation - See Note 2 page 24.
- e. Restricted Assets - None.
- f. Receivables - Estimated electric sales write-offs are charged to bad-debt expense and credited to accumulated provision for uncollectibles. Accounts that are determined to be uncollectible by the utility are turned over to a collection agency but remain in accounts receivable until it is determined there is no possibility of collection. They are then charged against the provision for uncollectibles.
- g. Inventories - Inventories are valued at average cost which approximates the market value.
- h. Investments - See Note 3 page 25.
- i. Personal Time Off (PTO) - The district accrues accumulated unpaid personal time off benefits as amounts earned. PTO includes vacation, sick leave and other leave. PTO, which may be accumulated up to 120 days, is payable upon resignation, retirement, or death during the current year. The amount of PTO earned in 2007 equaled \$1,211,649 and the

amount used was \$1,198,080 leaving a balance of \$1,611,491 as of December 31, 2007 compared to \$1,597,922 at year-end 2006. The current and non-current liability for unpaid personal time off appears on the Statement of Net Assets.

- j. Unamortized Debt Expense - Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues. See Note 8 page 29.
- k. Separate fund financial statements are provided for the proprietary fund and the fiduciary fund.
- l. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the district's enterprise fund, the electric enterprise fund, are charges to customers for sales and services. The district also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.
- m. The fiduciary fund represents a trust held for employees in a Voluntary Employees' Beneficiary Association (VEBA) as described in Note 18 on page 36.

NOTE 2 - UTILITY PLANT AND DEPRECIATION

Major expenses for capital assets and major repairs, in excess of \$500, that increase useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost. When operating property is retired or otherwise disposed of, the original cost is removed from the utility plant accounts and from accumulated depreciation.

The district's Continuing Property Records System reflects the recording of property units added and retired. Depreciation is computed on the straight-line method with useful lives of 4 to 50 years. Initial depreciation on utility plant is recorded in the year it is classified.

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

Utility Plant Activity
For Year Ending December 31, 2007

Plant Assets	Beginning Balance	Increase	Decrease	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 2,085,382	\$ -	\$ -	\$ 2,085,382
Construction Work in Progress	8,978,576	-	1,068,470	7,910,106
Total Not Being Depreciated	11,063,958	-	1,068,470	9,995,488
Capital Assets Being Depreciated:				
Olympic View Generating Plant	6,231,421	-	-	6,231,421
Transmission Plant	4,862,467	35,146	26,765	4,870,848
Distribution Plant	123,574,357	6,513,362	566,440	129,521,279
General Plant	6,367,300	468,564	447,817	6,388,047
Total Utility Plant Being Depreciated	141,035,545	7,017,072	1,041,022	147,011,595
Less Accumulated Depreciation for:				
Olympic View Generating Plant	1,102,559	207,953	-	1,310,512
Transmission Plant	1,380,607	153,585	26,765	1,507,427
Distribution Plant	36,106,698	3,677,368	233,850	39,550,216
General Plant	6,407,999	651,919	447,817	6,612,101
Total Accumulated Depreciation	44,997,863	4,690,825	708,432	48,980,256
Total Utility Plant Being Depreciation (net)	96,037,682	2,326,247	1,749,455	98,031,340
Total Utility Plant (net)	\$107,101,640	\$ 2,326,247	\$ 2,817,925	\$108,026,827

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

All temporary investments are stated at cost plus accrued interest which equals the fair value. Fair value of these investments as of December 31, 2007, was \$14,337,769. Management intends to hold the time deposits and securities until maturity.

Cash and Temporary Investments For Year Ending December 31, 2007

Investment Type	Fair Value
Time Deposits	\$ 370,894
Cash & Cash Equivalents	8,503,738
Investment in State Treasurer's Investment Pool	5,463,137
Total Investments	\$ 14,337,769

It is the district's policy to invest all temporary cash surpluses. At December 31, 2007, the treasurer was holding \$370,894 in time deposits for fiscal agent payments and \$8,503,738 in short-term residual investments and surplus cash. The amount is classified on the balance sheet as cash and cash equivalents in various funds. The district also held investments of \$5,463,137 in the Washington State Treasurer's Local Government Investment Pool.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered.

Interest rate risk. In accordance with its investment policy, the district manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements.

Credit risk. The district's investment policy conforms with state law which restricts investments of public funds to debt securities and obligations of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), bankers' acceptances, investment-grade general obligation debt of state and local governments and public authorities, and Washington State Treasurer's Local Government Investment Pool (LGIP). The LGIP is an unrated 2a7-like pool and investments in the LGIP are reported based on the pool's share price. The reported value of the pool is the same as the fair value of the pool shares. The LGIP is governed by the State Finance Committee and is administered by the State Treasurer. The district's investment in the Federal Home Loan Mortgage Corporation is rated AAA by Moody's Investor Services and AAA by Standard & Poor's.

Custodial credit risk – Deposits. For a deposit, this is the risk that in the event of a bank failure, the district's deposits may not be returned to it. The district's deposits and certificates of deposit are entirely covered by the Federal Depository Insurance Commission (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the PDPC. Under state law, public depositories under the PDPC may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. As a result, deposits covered by collateral held in the multiple financial institution collateral pool are considered to be insured. State law requires that deposits may only be made with institutions that are approved by the PDPC.

NOTE 4 - CONSTRUCTION IN PROGRESS

The district has active construction projects as of December 31, 2007. The projects include build-outs to new housing developments and upgrading existing facilities. At year end the district's construction in progress is as follows:

2007 Construction in Progress
For Year Ending December 31, 2007

Description	Expended
Arcadia Build-out	\$ 115,372
Cloquallum Road Regulator Rack	186,986
Cloquallum Road Rebuild	160,529
State Route 108 Upgrade	154,510
Subtotal	617,397
Various Projects Under \$100,000	7,292,709
Work in Progress Balance	\$ 7,910,106

NOTE 5 – LEASE COMMITMENTS

Capital Leases: The district had no capital leases during 2007.

Operating Leases: The district is committed under operating leases for personal computers and other office machines. These leases are considered operating leases for accounting purposes. Total costs for leases were \$83,737 for the year ended December 31, 2007. The future minimum lease payments for these leases are as follows:

Year Ending Dec. 31	Amount
2008	\$ 43,405
2009	34,793
2010	18,213
2011	12,430
2012	2,445
Total	\$ 111,286

NOTE 6 - LONG-TERM DEBT

The following is a list of the revenue bond debt activity and year-end summary as of December 31, 2007. The original amounts of the remaining five revenue bonds totaled \$37,935,000 and the funds were used for the acquisition and construction of major capital facilities.

Revenue Bond Debt Activity
For Year Ending December 31, 2007

Issue	Beginning Balance	Added	Redeemed	Ending Balance	Amounts Due Within One Year
1997 Electric Revenue Bonds, due in annual installments of \$25,000 - \$265,000 through July 1, 2011; interest at 4.05% - 5.2%	\$ 1,200,000	-	\$ 215,000	\$ 985,000	\$ 225,000
1998 Electric Revenue Bonds, due in annual installments of \$115,000 - \$800,000 through December 1, 2012; interest at 3.75% - 4.75%	4,310,000	-	640,000	3,670,000	670,000
2001 Electric Revenue Bonds, due in annual installments of \$400,000 - \$845,000 through December 1, 2021; interest at 4.375% - 5.10%	9,180,000	-	440,000	8,740,000	460,000
2001A Electric Revenue Bonds, due in annual installments of \$469,196 - \$750,279 through December 1, 2011; interest at 3.75%	3,389,569	-	608,947	2,780,622	641,945
2002 Electric Revenue Bonds, due in annual installments of \$210,000 - \$4,070,000 through December 1, 2021; interest at 4.45% - 5.10%	12,585,000	-	-	12,585,000	-
Total Long-Term Debt	\$ 30,664,569	-	\$ 1,903,947	\$ 28,760,622	\$ 1,996,945

The future debt service requirements on these bonds are as follows:

Year	Principal	Interest	Total
2008	1,996,945	1,357,324	3,354,269
2009	2,090,813	1,270,880	3,361,793
2010	2,407,104	1,180,478	3,587,582
2011	3,160,761	1,074,851	4,235,612
2012	2,260,000	954,770	3,214,770
2013-2017	8,405,000	3,498,458	11,903,458
2018-2021	8,440,000	1,098,947	9,538,947
Total	\$ 28,760,622	\$ 10,435,708	\$ 39,196,430

Debt service in subsequent years decreases to an annual total of \$2,372,830 in 2013. Debt service fully matures in the year 2021. The total amount of principal scheduled for repayment on the revenue bonds for 2008 is \$1,996,945.

There are \$370,894 in assets of the district representing sinking fund requirements as contained in various indentures.

There are a number of other limitations and requirements contained in the various bond indentures. The district is in compliance with all significant limitations and restrictions.

Pursuant to bond resolutions, the district elected to purchase a surety bond in lieu of maintaining bond reserve funds to guarantee the principal and interest payments to the bondholders. Accordingly, cash and securities previously held in reserve accounts are now available to meet other obligations of the electric system.

A ten year variable rate term loan for \$6,000,000 from Bank of America was secured to build the Olympic View Generating Station in November 2001. The original interest rate was calculated at 75 percent of the prime rate and changed with adjustments in the prime rate. From January through February 28 of 2005 the rate was 3.93 percent. On March 1, it was increased to 4.12 percent until March 21. It then rose to 4.31 percent through May 2. From May 3 through June 22 it stayed at 4.50 percent. Because interest

rates continued to increase, on June 23, 2005, a new fixed rate bond was secured from Bank of America with the rate set at 3.75 percent.

NOTE 7 - PENSION PLANS

All full-time and qualifying part-time district employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer defined benefit and defined contribution public employee retirement plans. 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 98504-8380. The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

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

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after September 1, 2002, for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service. The annual benefit is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 retirements from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of-living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an additional COLA amount (indexed to the Seattle Consumer Price Index), capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or at age 55 with 10 years of service. Retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

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

There are 1,188 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of September 30, 2006:

Retirees and Beneficiaries Receiving Benefits	70,201
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	25,610
Active Plan Members Vested	105,215
Active Plan Members Non-vested	49,812
Total	250,838

Funding Policy - Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent for local government unit employees. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the state legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plans, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2007, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	6.13%	6.13%	6.13%**
Employee	6.00%	4.15%	***

* The employer rates include the employer administrative expense fee currently set at 0.16 percent.

** Plan 3 defined benefit portion only.

*** Variable from 5 percent minimum to 15 percent maximum based on rate selected by the PERS 3 member.

Both the district and the employees made the required contributions. The district's required contributions for the years ended December 31, were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2007	\$28,066	\$334,817	\$98,085
2006	\$15,128	\$169,175	\$49,635
2005	\$11,962	\$94,969	\$27,886

NOTE 8 - DEFERRED CHARGES

In accordance with generally accepted accounting principles for regulated businesses, the district has deferred the following costs, some of which will be amortized on the straight-line method over 19 years.

These costs resulted from discounts related to the various bond issues and costs deferred on possible future projects.

Deferred Charges	2007
Unamortized Debt Expense - 1997 Bond	\$ 6,600
Unamortized Debt Expense - 1998 Bond	24,142
Unamortized Debt Expense - 2001 Bond	113,414
Unamortized Debt Expense - 2002 Bond	171,127
Preliminary Surveys	57,991
Total	\$ 373,274

NOTE 9 - ASSOCIATION WITH ENERGY NORTHWEST

Overview - Energy Northwest (previously Washington Public Power Supply System or WPPSS), a municipal corporation and joint operating agency of the state of Washington, was organized in 1957. It is empowered to finance, acquire, construct and operate facilities for the generation and transmission of electric power. Its membership consists of 17 public utility districts and the cities of Richland, Seattle, and Tacoma. Mason County PUD 3 (hereafter the district) withdrew its membership on September 11, 1984. In July 2001 the district once again became a member of Energy Northwest. All members own and operate electric systems within the state of Washington. Energy Northwest has no taxing authority. Financial statements for Energy Northwest may be obtained by writing to: Energy Northwest, P.O. Box 968, Richland, WA 99352-0969. A website is available at www.energy-northwest.com.

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

The district purchased 1.262 percent of WPPSS Nuclear Project (WNP) No. 1, 1.446 percent of WNP No. 2, and 1.265 percent of the capability of Energy Northwest's 70 percent ownership share of WNP No. 3. The district in turn sold this capacity to BPA. Under the "Net Billing Agreements," BPA is unconditionally obligated to pay the district, and the district is unconditionally obligated to pay Energy Northwest the pro rata share of the total annual costs of each project, including debt service on revenue bonds issued to finance the projects, whether or not the projects are completed, operable or operating and notwithstanding the suspension, reduction or curtailment of the projects' output.

WNP No. 2, now referred to as the Columbia Generating Station, commenced commercial operation in December 1984. In May 1994 the BPA and WPPSS terminated WNP No. 1 and WNP No. 3, subject to repayment of the debt service on the outstanding revenue bonds.

The district's obligations under the Net Billing Agreements are presently scheduled to be fulfilled on WNP No. 2 in 2012, on WNP No. 1 in 2017, and on WNP No. 3 in 2018.

Bonneville Power Administration worked with Energy Northwest to refinance some of the bond issues for the Net Billed Projects which may affect the fulfillment dates.

Packwood Hydroelectric Project- The Packwood Hydroelectric Project is located near Packwood in eastern Lewis County, Washington. The project is a 30 MW peaking resource. Commercial operation began in June 1964.

Under power sales agreements, the Energy Northwest member public utility districts have purchased the project at Packwood. The district has a 10 percent share in the project (participant owners are not equally invested in the project). The participant owners are obligated to pay annual costs of the project, including debt service, whether or not the project is operable, until outstanding bonds are paid or provision is made for their retirement, in accordance with provisions of the bond resolution. Debt service on the Packwood Hydroelectric Project is scheduled to conclude in 2012.

In September of 2002, BPA notified Energy Northwest it was invoking the termination option and would no longer purchase the output from Packwood under terms of the 1996 contract as of October 2002. A contract was signed for two Packwood participants (Benton and Franklin County PUDs) to purchase the output at cost for one year, and allow the participants time to investigate other options, in September 2003. This contract has been subsequently renewed each year.

The FERC license for Packwood expires in 2010. Energy Northwest began the relicensing process in 2005. Participants have elected to receive no payments from the project to provide funds for the relicensing efforts.

Nine Canyon Wind Project - In early 2001 Energy Northwest approached public utilities about developing a wind generation project. In September of 2001, the district signed an agreement with Energy Northwest to purchase a one MW share (2.08 percent) of the Nine Canyon Wind Project.

Nine Canyon Phase I consists of 37 Bonus wind turbines with a peak generating capacity of 48 MW near Kennewick, Washington. The project began commercial operation in October of 2002. As with the Packwood Hydroelectric Project, participants of Nine Canyon are obligated to pay the annual costs of the project, including debt service, whether or not the project is operable, until the outstanding bonds are paid or provision is made for their retirement in accordance with the bond resolution. Bonds in the amount of \$71 million were sold to finance construction of the project and are scheduled to conclude in 2023.

On April 22, 2003, the district agreed to enter into Phase II of the Nine Canyon Wind Project with Energy Northwest and four other participants. Twelve more Bonus wind turbines were erected in the same area as Phase I. They have a peak generating capacity of an additional 15.6 MW. The district's share of Phase I and Phase II is 2 MW or 3.14 percent. Bonds in the amount of \$32.9 million were sold to finance the construction of this second phase. Commercial operation of the second phase of this wind generation project began in September 2003.

In December of 2004, Energy Northwest refinanced the Phase I bonds, resulting in a savings of \$5.3 million.

In October of 2005, Energy Northwest announced the investigation of an expansion of the Nine Canyon Wind Project. On October 3, 2006, the district signed a power purchase agreement for one MW of output from the Phase III expansion, remaining at 3.14 percent of the overall project. In 2006, bonds in the amount of \$68 million were sold to finance the construction. Phase III consists of 14 – 2.3 MW Siemens wind turbines totaling 32.2 MW. Construction began in June 2007 and commercial operation is expected in April of 2008.

In April of 2005, Energy Northwest announced investigation of a 600 MW integrated gasification combined cycle (IGCC) facility near Kalama, Washington named the Pacific Mountain Energy Center (PMEC). In 2007, the Washington State Legislature passed Senate Bill 6001, which placed restrictions on the ability to begin construction until issues related to potential carbon sequestration have been resolved. Energy Northwest has approached members about changing the generating technology to a conventional natural gas combustion turbine, which will meet the emissions restrictions in the legislation. The district has signed a preliminary, non-binding expression of interest in the new project.

Another potential 50 MW wind project in Reardan, Washington, was being investigated by Energy Northwest. The district expressed preliminary interest in this project, however there was insufficient interest in moving forward with the project and Energy Northwest will be selling its development rights to the site.

Hanford Generating Project - The Hanford Generating Project (HGP), an 860 MW plant completed in 1966, previously used by-product steam from the Department of Energy's (DOE) dual-purpose New Production Reactor (N-Reactor) and has not operated since the shutdown of the N-Reactor in 1987.

The Secretary of Energy's decision to place the N-Reactor in permanent shutdown eliminated the N-Reactor as an energy source for HGP. Energy Northwest has evaluated alternative energy uses for the plant to no avail. Current options include a transfer to DOE for removal and site restoration, or removal and site restoration by Energy Northwest. At this time the eventual disposition of HGP is unknown. Energy Northwest has reduced the assets of HGP to its net realizable value and has accrued for the estimated cost of removal and site restoration.

Energy Northwest redeemed the remaining HGP bonds in the principal amount of \$6.635 million on September 1, 1992.

NOTE 10 - POWER SUPPLY/POWER SALES CONTRACT

Bonneville Power Administration - BPA is a federal power marketing agency, established by the Bonneville Power Act of 1937. BPA is part of the U.S. Department of Energy, but is self financing and receives no tax revenues. Its costs are recovered through the revenue it generates. Additionally, the BPA makes annual payments to the U.S. Treasury for money appropriated to the Corps of Engineers and Bureau of Reclamation, or for money borrowed to construct dams, substations, and transmission facilities. About one half of all the power used in the Northwest is sold by the BPA. BPA also has funded fish costs associated with the system of rivers in the Northwest.

The BPA owns no generation resources. Its function is to market the output of federal resources, and transmit non-federal power over its transmission grid. The U.S. Army Corps of Engineers and the U.S. Bureau of Reclamation operate and maintain 31 hydro-electric projects which constitute the backbone of the federal base system. The BPA owns and operates approximately 75 percent of the region's transmission capacity. The agency owns no distribution facilities.

The BPA sells electric power at wholesale rates to utilities, industrial and governmental customers inside and outside of the Pacific Northwest region.

Due to the high cost of market power purchases during the 2001 energy crisis, BPA asked all customers to reduce their load by 10 percent. The district signed this "Rate Mitigation Agreement" in June of 2001. In addition to the energy conservation measures taken to reduce load, the district also decided to install generation capacity to help meet the load reduction.

The district secured a term loan for \$6 million to finance the construction of a natural gas generation facility utilizing two 2.3 megawatt Wartsila reciprocating engines. Also, in June of 2001 BPA signed a contract with the district to purchase the output of the generation from completion of the plant (planned for early in 2002) until September 30, 2003. The district signed a contract for gas supply matching the term of the purchase contract with BPA. The district agreed to participate in a BPA pilot program to delay planned transmission line construction on the Olympic Peninsula by operating the generating plant during times of anticipated peak load. BPA publishes an offered price on its Demand Exchange website which the district can accept if the offer is sufficient to purchase gas at spot market prices to operate for the requested period (since the district's long-term contract expired on September 30, 2003.)

The district is free to operate the plant at other times for its own peaking requirements, meeting local utility load, selling into the market, emergency backup or other applications depending on the conditions at the time.

During 2005, BPA issued a draft contract to begin discussions with utilities whose contracts expire in the 2009-2011 time period. While the contract provisions are not final, based on the proposed contract provisions, BPA has indicated that the capacity of the Federal Columbia River Power System (FCRPS) may be reached soon. BPA is proposing to allocate the capacity of the existing FCRPS and maintain the relatively low cost of that resource by requiring any energy purchased in excess of that capacity to be at BPA's cost of acquiring those additional resources.

Utilities that do not wish to rely on BPA to acquire resources for them at an as yet unknown "second tier" cost will need to acquire or contract for their own resources to meet loads beyond their allocated portion of the FCRPS.

The District entered a new BPA rate period on October 1, 2006. All previous Cost Recovery Adjustment Clauses (CRAC's), Load Based, Financial Based and Safety Net, were eliminated under the new rate schedule, however the new base rate without surcharges is approximately equal to the previous rate with all surcharges in place.

Initiative 937, known as "The Energy Independence Act" and codified into law at 19.285 RCW, was passed by Washington voters in November of 2006. It requires utilities to acquire set percentages of their load from qualifying renewable resources by specific timelines (3 percent by 2012, 9 percent by 2016 and 15 percent by 2020) and develop a plan to acquire all cost-effective energy conservation between 2010 and 2020.

The rulemaking process was conducted during 2007 and the final rules are expected to be released in early 2008. Once the final rules are in place, the district will begin developing a compliance strategy. Several preliminary steps have already been taken, including joining the Central Washington Power Agency, a joint operating agency similar to Energy Northwest, which intends to assist its members in acquiring the renewable resources necessary to meet the requirements imposed by I-937.

NOTE 11-LITIGATION

There is no litigation pending or threatened against the district which could have a materially adverse effect upon its financial condition.

NOTE 12 - BONNEVILLE POWER ADMINISTRATION CONSERVATION PROGRAMS

In October of 2006, the district signed a new power sales contract with the Bonneville Power Administration. Two new voluntary conservation programs were offered under this contract, the Conservation Rate Credit (CRC) and the Conservation Acquisition Agreement (CAA). The district is participating in both programs.

Similar to the previous Conservation and Renewables Discount program, the CRC is funded by a one half mill (a mill is one one-thousandth of a dollar, \$.001) surcharge per kilowatt-hour purchased from BPA. The district must document spending this amount (approximately \$350,000 per year, based on the district's 2006 kilowatt-hour purchases) on qualifying conservation and/or renewable energy activities during the current rate period (through September of 2009).

The CAA is a negotiated amount between the district and BPA based on proposed conservation activities. Customer incentives paid by the district are reimbursed by BPA upon submission of qualifying invoices and documentation on a project by project basis.

Qualifying measures for both programs are determined by the Regional Technical Forum (RTF) and reported on the Northwest Power Planning Council's Planning, Tracking and Reporting (PTR) website. The RTF is an advisory committee of the Northwest Power Planning Council, established in 1999 to develop standards to verify and evaluate conservation savings. Members are appointed by the Council and include individuals experienced in conservation program planning, implementation and evaluation. Both agreements include residential, commercial and industrial conservation measures.

NOTE 13 - PRELIMINARY SURVEY AND INVESTIGATION CHARGES

Preliminary survey and investigation charges incurred for proposed projects are deferred pending construction of the facility or facilities. Charges relating to projects ultimately constructed are transferred to utility plant and charges relating to abandoned projects are charged to expense.

NOTE 14 - PUBLIC ENTITY RISK POOLS

- a. Liability Risk Pool – The Public Utility Risk Management Services (hereinafter, "PURMS") provides liability insurance coverages for its members participating in the Liability Risk Pool ("Liability Pool") and to a limited extent for their employees, under an agreement entitled "PURMS Joint Self-Insurance Agreement" (amended and restated as of December 1, 2005, "SIA"). Under the SIA, from 1977 through 1995, the Liability Pool had a self-insured retention (or "Liability Coverage Limit") of \$500,000 per occurrence. Effective January 1, 1996, PURMS increased the Liability Coverage Limit to \$1,000,000 per occurrence.

At all times, PURMS also maintains Excess Liability Insurance for its members in the Liability Pool (“Excess Liability Insurance”). For 2007, the amount of the Excess Liability Insurance was \$35,000,000, with coverage attaching at the \$1,000,000 Liability Coverage Limit.

The Liability Pool is financed through assessments of its participating members (“Liability Assessment”) in accordance with the terms of the Liability General Assessment Formula (“Liability Assessment Formula”). Liability Assessments are levied at the beginning of each calendar year to replenish the Liability Pool to the designated Liability Pool balance, and at any time during the year that the actual Liability Pool balance becomes \$500,000 less than the designated Liability Pool balance. For 2007, the designated Liability Pool balance was \$2 million. As a result, during 2007, the Liability Pool maintained cash reserves between \$1.5 and \$2 million to pay for Liability Claims and Liability Pool Operational Expenses (“Liability Pool Reserves”).

The total paid for Liability Claims in 2007 was \$431,727 (including attorneys’ fees for defending claims but excluding Liability Pool operational expenses).

As of December 31, 2007, there were 75 known incidents and/or unresolved Liability Claims pending against one or more members or former members of the Liability Pool (“Pending Liability Claims”). The total dollar amount of the risk posed by these claims to such members and to the Liability Pool itself is unknown and can only be estimated. However, based on the total of the reserves established by the Administrator for these Pending Liability Claims that had not been paid out as of December 31, 2007, the Administrator estimates that there is approximately \$644,812 of outstanding liabilities to the Liability Pool relating to these claims.

In addition, in accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustment expenses for the Liability Pool (“Liability Pool Actuarial Report”). A copy of the Liability Pool Actuarial Report is provided to the Washington State Risk Manager (“State Risk Manager”) and made available to the Washington State Auditor’s Office (“State Auditor”).

Because the total dollar amount of the risk posed by the Pending Liability Claims cannot be known with certainty, no opinion can be provided as to the risk these claims pose to the solvency of the Liability Pool. However, since members participating in the Liability Pool are required under the SIA to pay their Liability Assessments levied any time the money held for the Liability Pools falls more than \$500,000 below the designated Liability Pool balance, assuming that these assessment obligations of members under the SIA are enforceable and that the members are at the time solvent and pay such assessments, the Liability Pool would have the assets to pay the Pending Liability Claims on behalf of its participating members regardless of the amount of risk such claims pose to the Liability Pool.

- b. Property Risk Pool - Effective April 1, 1997, the Mason County PUD No. 3 commission authorized PUD 3’s participation in the PURMS property risk pool and vehicle coverage.

PURMS provides property insurance coverage for its members participating in the Property Risk Pool (“Property Pool”) in accordance with the terms of the SIA (identified above). Under the SIA, from its inception in 1997 to present, the Property Pool has had a self-insured retention (or “Property Coverage Limit”) of \$250,000 per property loss.

At all times, PURMS also maintains Excess Property Insurance for its members in the Property Pool (“Excess Property Insurance”). For 2007, the amount of the Excess Property Insurance was \$150 million, with excess coverage attaching at the \$250,000 Property Coverage Limit for all property losses except those subject to increased retention levels for certain property risks (“Increased Retentions”).

The Property Pool is financed through assessments of its participating members (“Property Assessments”) under the Property General Assessment Formula (“Property Assessment Formula”). Property Assessments are levied at the beginning of each calendar year to replenish the Property Pool to the designated Property Pool balance, and at any time during the year that the actual Property Pool balance becomes \$250,000 less than the designated Property Pool balance. From 1997 to November 21, 2002, the designated Property Pool balance was \$500,000. As a result, during that period of time, the Property Pool maintained cash reserves between \$250,000 and \$500,000 to pay Property Pool Operational Expenses (“Property Pool Reserves”).

Effective as of November 21, 2002, the Property Pool began providing its members with Automatic Extended Property Coverage for property losses that exceed the Property Pool’s \$250,000 Property Coverage Limit if those losses were also subject to Increased Retentions under the Excess Property Insurance. Pursuant to PURMS Board Resolution No. 11-20-

03-2, the designated Property Pool balance was increased over time from \$500,000 to \$750,000, and funding for the increased Property Pool Reserves was completed in 2005.

For 2007, the designated risk pool balance was \$750,000, thereby triggering a Property Assessment any time the actual Property Pool balance dropped below \$500,000. Under the Excess Property Insurance retentions effective for 2007, the maximum exposure to the Property Pool from a property loss that exceeded \$250,000, and that was subject to an increased retention, was \$500,000, less the applicable deductible, or maximum of \$250,000 more than the Property Coverage Limit.

The total paid for property claims in 2007 was \$92,692 (excluding attorneys' fees and Property Pool Operational Expenses).

As of December 31, 2007, there were 20 known property claims pending from the members of the Property Pool ("Pending Property Claims"). The total dollar amount of the risk posed by these claims to the Property Pool is unknown and can only be estimated. However, based on the total of the reserves established by the Administrator for these Pending Property Claims that had not been paid out as of December 31, 2007, the Administrator estimates that there is approximately \$63,372 of outstanding liabilities to the Property Pool relating to these claims.

In addition, in accordance with Washington State regulatory requirements applicable to public entity risk pools, on an annual basis, PURMS engages an independent qualified actuary to determine the claim financing levels and liabilities for unpaid claims and claims adjustment expenses for the Property Pool ("Property Pool Actuarial Report"). A copy of the Property Pool Actuarial Report is provided to the State Risk Manager and made available to the State Auditor.

Because the total dollar amount of the risk posed by the Pending Property Claims cannot be known with certainty, no opinion can be provided as to the risk these Pending Property Claims pose to the solvency of the Property Pool. However, since members participating in the Property Pool are required under the SIA to pay their Property Assessments levied any time the money held for the Property Pool falls more than \$250,000 below the Designated Property Pool Balance, assuming that these assessment obligations of members under the SIA are enforceable and that the members are at the time solvent and pay such assessments, the Property Pool would have the assets to pay the Pending Property Claims on behalf of its participating Members regardless of the amount of the risk such claims pose to the Property Pool.

- c. Health and Welfare Risk Pool - PURMS provides health and welfare insurance coverage for the employees of each of its members participating in the Health and Welfare Risk Pool ("H&W Pool") in accordance with the terms of the Health and Welfare Coverage of the SIA ("H&W Coverage") and the terms of each member's respective coverage booklet provided to its employees. The H&W Pool was established as one of PURMS' Risk Pools effective March 31, 2000. PUD 3 joined the fund as of January 1, 2002, after being self-insured for a number of years.

Under the terms of the SIA and the H&W General Assessment Formula ("H&W Assessment Formula"), the H&W Pool was initially funded with cash reserves for paying H&W Pool Operational Expenses and H&W Claims ("H&W Pool Reserves") in an amount approximately equal to the sum of three (3) times the amount of each member's historical average monthly H&W Claims Experience ("H&W Claims Experience") for its respective Employees and their Dependents. (Hereinafter, "Employees" includes "Dependents.") By amendment to the SIA effective December 1, 2005, the H&W Pool Reserves may be established from time to time by majority vote of the board at no lower than 2.5 and no greater than 3.0 times the total of all members' H&W Claims Experience. As of December 31, 2007 the H&W Pool Reserves were established at 2.5 times the total of all members' H&W Claims Experience.

The H&W Pool's operations are financed through assessments of its participating members ("H&W Assessments") in accordance with the H&W Assessment Formula. Under the H&W Assessment Formula, each month, each member of the H&W Pool is assessed for: (a) the cost the H&W Pool incurred during the preceding month for the H&W claims for such member's employees ("H&W Claims Costs"); and (b) for such member's share of Shared H&W Costs. "Shared H&W Costs" consist of administrative expenses incurred by the H&W Pool, premiums for Stop-Loss Insurance, Preferred Provider Organization ("PPO") charges and shared H&W claims. Thus, under the H&W Assessment Formula, each month, the operational expenses of the H&W Pool and all members' H&W Claims Costs for that month are paid and the H&W Pool Reserves are fully replenished.

The exposure of each H&W Pool member to the H&W Claims Costs of its employees is limited by two different pairs of stop-loss points ("Stop-Loss Points"). The first pair of Stop-Loss Points is established annually by the Excess Stop-Loss Insurance that the H&W Pool acquires and maintains for its members. These Stop-Loss Points represent the dollar amounts at which the Stop-Loss Insurance attaches and begins paying either the H&W Claim Costs relating to an individual employee's total medical claims for the year ("H&W Pool Individual Stop Loss Point") or the H&W Claims Costs of all Employees of all Members for the year ("H&W Pool Aggregate Stop Loss Point"). For 2007, the H&W Pool

Individual Stop Loss Point was \$170,000 per employee and the H&W Pool Aggregate Stop Loss Point was \$8,967,900 for the combined H&W Claims Costs of the employees of all members of the H&W Pool.

Each H&W Pool member's exposure to the H&W Claims Costs of its employees is further limited by even lower Stop-Loss Points determined by the H&W Pool for its Members ("Member Stop-Loss Points"). Medical expenses that exceed these Stop-Loss Points become "Shared H&W Claims" and therefore are assessed as "Shared H&W Costs" which are paid by all H&W Pool members. The Member Stop-Loss Points are calculated annually under the H&W Assessment Formula based on the amounts of the Individual and Aggregate Stop-Loss Points established for the year by the Stop-Loss Insurance. As a result of this process, each member is assigned a dollar amount at which any further payments by the H&W Pool on claims for a particular employee constitute Shared H&W Costs ("Member's Individual Stop-Loss Point") and a dollar amount at which any further payments by the H&W Pool on the H&W Claims of all of a member's employees constitute Shared H&W Costs ("Member's Aggregate Stop-Loss Point").

The total paid by the H&W Pool for H&W Claims costs in 2007 was \$6,075,614 (including Shared H&W Claims but excluding H&W Pool Operational Expenses).

As of December 31, 2007, there were no "open" H&W Claims pending for employees of members of the H&W Pool. The actual total exposure of the H&W Pool to H&W Claims Costs at any particular point in time cannot be known with certainty. However, the Administrator estimates that, as of December 31, 2007, the total "incurred-but-not-reported" claims for the H&W Pool was approximately \$423,430 ("IBNR Claims"). State regulatory requirements for an annual audit by an actuary do not apply to the H&W Pool because it maintains Stop-Loss Insurance.

Because IBNR Claims can only be estimated, no opinion can be provided as to the risk those claims pose to the solvency of the H&W Pool. However, since members participating in the H&W Pool are required under the SIA to pay their H&W Assessments levied on a monthly basis to fully replenish the H&W Pool Reserves, assuming that these assessment obligations of members under the SIA are enforceable and that the members are at the time solvent and pay such assessments, the H&W Pool would have the assets to pay the IBNR Claims on behalf of its participating members regardless of the amount of the risk those claims pose to the H&W Pool.

- d. State and Independent Audits – Each of 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. Finally, on an annual basis, PURMS engages the services of the accounting firm of Moss Adams to perform a claims audit for each of the Risk Pools.

NOTE 15 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFIT

In addition to the pension benefits described in Note 7, the district provides post employment health care benefits, in accordance with the International Brotherhood of Electrical Workers Local Union No. 77 agreement, to employees who retire from the district after a minimum of ten years of service.

The district medical plan pays the same for claims on costs incurred by retirees and their dependents as it does active employees.

Employer contributions are financed on a pay-as-you-go basis. Expenses for post-retirement health care benefits are recognized as retirees report claims.

During the year 2007, expenses of \$525,892 were recognized for post-retirement health care, including premiums and claims for all 48 eligible retirees and their eligible dependents.

NOTE 16 – PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. d.b.a. NOANET:

The district, along with 15 other Washington State Public Utility Districts and Energy Northwest, is a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over public benefit fibers leased from Bonneville Power Administration. This communications backbone throughout Washington will assist its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

In July 2001, NoaNet issued \$27 million in telecommunications network revenue bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The bonds become due beginning in December 2003 through 2016 with interest due semi-annually at rates ranging from 5.05 percent to 7.09 percent. Each member of NoaNet has entered into a repayment agreement to guarantee the debt of NoaNet. The district's guarantee is limited to approximately 10 percent interest. In addition, in January 2003 NoaNet opened a \$5 million line of credit with Bank of America to fund capital expenses.

The management of NoaNet anticipates meeting debt obligations through profitable operations but it will be necessary for NoaNet to assess members to cover operating deficits during the initial years of operation. The district's share of assessments and related contributions to NoaNet of \$242,177 and \$242,116 in 2007 and 2006, respectively, has been expensed as incurred. Assessments for 2008 will be determined by the NoaNet board of directors if needed for debt service payments on outstanding bonds.

NoaNet recorded a decrease in net assets of \$1,307,191 (unaudited) and \$2,046,529 for 2007 and 2006, respectively. Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Corporate Office – 5802 Overlook Avenue NE, Tacoma, Washington 98422. A website is available at www.noanet.net.

The district's connection to NoaNet and construction of its local fiber optic loop occurred in June 2001 at a cost of approximately \$3,000,000. In November 2005, four members (including Mason County PUD No. 3) increased their percentage shares in NoaNet by contributing additional funds under a capital contribution agreement. As of December 31, 2007, the district's percentage interest in NoaNet is 7.88 percent.

NOTE 17 – TELECOMMUNICATION SERVICES

The district was a founding member of NoaNet in 1999, so with the passage of wholesale telecommunications authority by the 2000 state legislature, high-speed communication capability was brought to Mason County. The district acts as a wholesaler for several retailers that provide services over the fiber optic network to consumers in the area.

Mason County PUD No. 3 uses its fiber optic network for internal communications, communications with other utilities, and long-haul data transmission via the Northwest Open Access Network. The district leases the capacity in excess of what it needs to retailers.

A summary of telecommunications revenues, expenses and capital investment for 2007 is listed as follows:

Telecommunications Revenues, Expenses and Capital Investment
For the year ending December 31, 2007

Operating Revenue	
Wholesale Fiber Services to ISP	\$ 345,886
Dark Fiber Lease	8,603
Installation Charges	17,671
Total	372,160
Operating Expenses	
Operating Expenses	957,692
Depreciation	521,712
Taxes Other than Income	(749)
Total	1,478,655
Non-Operating Revenue	140,148
Net Income (Loss)	(966,347)
Capital Investment	
Current Year Net Plant	(157,217)
Cumulative Net Plant	\$ 8,776,071

NOTE 18 – VEBA TRUST

In February 2004 the Board of Commissioners directed the Finance Manager/Auditor to notify MSA Voluntary Employees' Beneficiary Association ("VEBA") that the district would be terminating its membership in the state-wide, employer directed, tax exempt medical savings account trust. Because of concerns regarding the financial difficulties of a company in which a major portion of the trust funds were invested, it was decided to explore other possibilities for a trust. After months of research, on May 11, 2004, the board voted to proceed with implementing a trust for VEBA for Employees of Washington PUDs with PUD 3 self-administering the plan. Annette Creekpaum, Finance Manager/Auditor, was named as trustee. On May 14, 2004, funds in the amount of \$1,042,089 were transferred from the MSA VEBA investments to the district. They were subsequently transferred for investment in Vanguard Federal Money Market Funds until employees had an opportunity to choose from three Vanguard Fund investment options.

The district has set up a 501 (c)(9) trust with the assistance and advice from an attorney with expertise in this area, and filed the appropriate forms with the IRS to establish the new trust. The trust is administered by the district under supervision of the trustee. The final approval from the IRS for the trust was received by the trustee in early 2005. The funds held in trust belong to the employees not the district.

The December 31, 2007, market value of the trust was \$2,195,620. The allocations between investment options were: 22.4 percent in the Vanguard Federal Money Market Fund, 28.3 percent in the Vanguard Balanced Fund, and 49.3 percent in the Vanguard US 500 Stock Fund. During 2007, \$470,048 in contributions from both employees and employer was added; \$285,147 was paid out in 605 claims, and there was a gain of \$111,563 on the investments held in the trust.

STATISTICAL SECTION



STATISTICAL SECTION

This part of Mason County PUD No. 3's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the district's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the district's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the district's most significant local revenue source, electric sales.

Debt Capacity

These schedules present information to help the reader assess the affordability of the district's current levels of outstanding debt and the district's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the district's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the district's financial report related to the services the utility provides and the activities it performs.

Mason County Public Utility District No. 3
Statement of Revenues, Expenses and Changes in Net Assets
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating Revenues									
Utility Sales and Service Fees	28,562,265	30,144,997	30,110,297	32,453,968	37,698,736	37,103,134	36,138,566	38,034,493	41,036,115
Other Charges for Services ⁽¹⁾	1,378,702	1,185,119	1,019,696	1,212,253	1,180,790	1,873,113	1,687,244	2,072,568	2,230,546
Miscellaneous Operating Revenues	83,550	108,405	102,520	114,575	110,560	109,530	112,073	112,163	141,803
<u>Total Operating Revenue</u>	<u>30,024,517</u>	<u>31,438,521</u>	<u>31,232,513</u>	<u>33,780,796</u>	<u>38,990,086</u>	<u>39,085,777</u>	<u>37,937,883</u>	<u>40,219,224</u>	<u>43,408,464</u>
Operating Expenses									
Purchased Power	13,386,231	13,975,628	14,212,649	15,727,800	20,066,443	20,797,617	20,872,530	21,095,946	22,160,973
Operation	1,536,309	1,638,600	1,962,113	1,629,310	4,178,280	3,508,663	2,290,182	2,256,736	3,087,790
Maintenance	1,615,639	1,819,233	2,252,788	2,678,639	2,231,141	2,271,861	2,336,816	2,629,800	4,389,822
Customer Accounts	866,419	1,252,250	1,168,371	1,077,400	1,311,429	1,333,627	1,317,541	1,536,440	1,482,642
Customer Service, Information, Advertising	202,510	163,894	166,133	412,743	497,083	459,361	334,551	346,086	776,217
Administrative & General	2,117,776	2,520,290	2,568,605	3,237,750	3,461,681	3,782,824	4,297,399	4,755,392	3,561,293
Maintenance of General Plant	254,400	363,487	359,531	460,309	453,282	463,826	472,559	534,186	539,625
Depreciation	2,862,859	2,407,643	2,566,210	2,834,426	3,397,871	3,503,119	3,917,013	4,118,737	4,259,505
Taxes Other than Income	1,053,217	1,061,062	1,052,419	1,152,700	1,300,419	1,325,264	1,319,610	1,489,142	1,620,619
<u>Total Operating Expenses</u>	<u>23,895,360</u>	<u>25,202,087</u>	<u>26,308,819</u>	<u>29,211,077</u>	<u>36,897,629</u>	<u>37,446,162</u>	<u>37,158,201</u>	<u>38,762,465</u>	<u>41,878,486</u>
Operating Income (Loss)	6,129,157	6,236,434	4,923,694	4,569,719	2,092,457	1,639,615	779,682	1,456,759	1,529,978
Non-Operating Revenues & Expenses									
Revenue from Merchandising	9,058	17,484	3,592	9,165	5,623	24,974	7,959	24,580	16,749
Cost of Merchandising	(13,723)	(13,631)	(3,291)	(12,619)	(13,394)	(12,046)	(6,463)	(15,246)	(16,670)
Interest Income	651,229	622,661	827,153	788,529	509,547	293,364	278,215	456,620	594,197
Interest & Amortization on LT Debt	(678,345)	(651,293)	(599,785)	(920,719)	(1,793,830)	(1,789,286)	(1,666,548)	(1,645,045)	(1,558,056)
Other Non-operating Revenues	(415,477)	79,751	180,636	267,365	208,054	223,540	107,061	120,326	824,662
<u>Total Non-operating Revenues (Expenses)</u>	<u>(447,258)</u>	<u>54,972</u>	<u>408,305</u>	<u>131,721</u>	<u>(1,084,000)</u>	<u>(1,259,454)</u>	<u>(1,279,776)</u>	<u>(1,058,765)</u>	<u>(139,118)</u>
Change in Net Assets	5,681,899	6,291,406	5,331,999	4,701,440	1,008,457	380,161	(500,094)	397,994	1,390,860
Net Assets									
Invested in Capital Assets, Net of Debt	56,836,722	63,058,603	68,312,057	64,057,202	58,562,982	64,494,162	68,373,231	73,721,999	76,854,776
Unrestricted	10,228,039	10,297,564	10,376,109	19,332,404	25,835,082	20,284,063	15,904,898	10,954,125	9,212,208
<u>Total Net Assets</u>	<u>67,064,761</u>	<u>73,356,167</u>	<u>78,688,166</u>	<u>83,389,606</u>	<u>84,398,064</u>	<u>84,778,225</u>	<u>84,278,129</u>	<u>84,676,124</u>	<u>86,066,984</u>

(1) Government Accounting Standards Board Statement No. 33 was implemented effective 2001 reclassifying contributions in aid of construction as revenue. Calendar years 1998 - 2001 were restated for comparative purposes.

Mason County Public Utility District No. 3
Revenues and Consumption by Customer Class
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of Customers										
Residential	25,115	25,583	26,003	26,091	26,638	27,177	27,657	28,619	29,279	29,940
Commercial ⁽¹⁾	1,762	1,806	1,838	1,939	1,950	2,039	2,074	2,121	2,160	2,161
Large Industrial ⁽²⁾	1	1	1	1	1	1	1	1	1	1
Other ⁽³⁾	85	82	84	86	89	88	86	89	88	88
Total	26,963	27,472	27,926	28,117	28,678	29,305	29,818	30,830	31,528	32,190
Retail Energy Sales (kWh)										
Residential	329,084,469	356,340,701	357,713,571	344,668,590	351,661,448	350,011,988	363,915,264	369,780,401	389,004,242	420,059,433
Commercial	148,830,267	154,630,706	164,544,662	156,783,759	162,559,086	158,716,217	162,880,230	171,614,419	184,284,662	182,430,877
Large Industrial	67,301,300	69,422,400	64,425,600	64,771,200	70,992,000	64,123,200	69,436,800	74,793,600	70,416,000	64,065,600
Other	2,158,894	1,982,193	2,024,901	2,030,171	2,042,676	2,120,681	2,046,464	2,067,158	2,114,701	2,131,552
Total	547,374,930	582,376,000	588,708,734	568,253,720	587,255,210	574,972,086	598,278,758	618,255,578	645,819,605	668,687,462
Revenues from Sales of Energy										
Residential	\$ 18,355,634	\$ 19,424,792	\$ 19,599,437	\$ 20,666,406	\$ 22,366,839	\$ 22,433,267	\$ 23,166,516	\$ 24,051,725	\$ 26,140,240	\$ 28,721,012
Commercial ⁽¹⁾	7,554,022	7,857,686	7,768,982	8,616,814	9,277,119	9,157,959	9,265,698	10,049,534	11,031,717	11,454,329
Large Industrial ⁽²⁾	2,198,384	2,252,079	2,125,673	2,282,894	2,828,778	2,738,929	2,888,372	3,079,556	2,922,458	2,720,256
Other ⁽³⁾	229,050	437,456	443,869	485,456	507,160	503,319	514,289	516,088	541,632	561,541
Sale for Resale	225,175	172,984	112,336	402,398	-	-	-	-	-	-
Total	\$ 28,562,265	\$ 30,144,997	\$ 30,050,297	\$ 32,453,988	\$ 34,979,896	\$ 34,833,474	\$ 35,834,875	\$ 37,696,903	\$ 40,636,047	\$ 43,457,138
Annual kWh per Customer										
Residential	13,103	13,929	13,757	13,210	13,201	12,879	13,158	12,921	13,286	14,030
Commercial	84,467	85,621	89,524	80,858	83,364	77,840	78,534	80,912	85,317	84,420
Large Industrial	67,301,300	69,422,400	64,425,600	64,771,200	70,992,000	64,123,200	69,436,800	74,793,600	70,416,000	64,065,600
Other	25,399	24,173	24,106	23,607	22,951	24,099	23,796	23,226	24,031	24,222
Average - All Classes	20,301	21,199	21,081	20,210	20,478	19,620	20,064	20,054	20,484	20,773
Revenue per kWh (in cents)										
Residential	5.58	5.45	5.48	6.00	6.36	6.41	6.37	6.50	6.72	6.84
Commercial	5.08	5.08	4.72	5.50	5.71	5.77	5.69	5.86	5.99	6.28
Large Industrial	3.27	3.24	3.30	3.52	3.98	4.27	4.16	4.12	4.15	4.25
Other	10.61	22.07	21.92	23.91	24.83	23.73	25.13	24.97	25.61	26.34
Average - All Classes	5.22	5.18	5.10	5.71	5.96	6.06	5.99	6.10	6.29	6.50

(1) Includes commercial customers and public authorities.

(2) Simpson Timber Company.

(3) Includes outdoor lighting and unmetered signs.

Mason County Public Utility District No. 3
Retail Rates ⁽¹⁾
Last Ten Fiscal Years

	January 1 1998	May 1 2001	October 1 2001	June 1 2005	April 1 2006	October 1 2006
Schedule 12 - Residential						
Energy Rate (per kWh)	\$ 0.0449	\$ 0.0516	\$ 0.0516	\$ 0.0532	\$ 0.0551	\$ 0.0566
Daily Customer Charge						
Single Phase	\$ 0.4000	\$ 0.4600	\$ 0.4600	\$ 0.4800	\$ 0.4800	\$ 0.4800
Three Phase	\$ 0.6400	\$ 0.7400	\$ 0.7400	\$ 0.7800	\$ 0.7800	\$ 0.7800
Schedule 20 - General Service without Demand						
Energy Rate (per kWh)	\$ 0.0491	\$ 0.0565	\$ 0.0565	\$ 0.0582	\$ 0.0601	\$ 0.0621
Daily Customer Charge						
Single Phase	\$ 0.5900	\$ 0.6800	\$ 0.6800	\$ 0.7200	\$ 0.7200	\$ 0.7200
Three Phase	\$ 0.8200	\$ 0.9400	\$ 0.9400	\$ 1.0000	\$ 1.0000	\$ 1.0000
Schedule 21 - General Service with Demand						
Energy Rate (per kWh)	\$ 0.0298	\$ 0.0343	\$ 0.0343	\$ 0.0359	\$ 0.0370	\$ 0.0381
Daily Customer Charge	\$ 1.5800	\$ 1.8200	\$ 1.8200	\$ 1.9400	\$ 1.9400	\$ 1.9400
Demand Rate (per measured kWh of demand)	\$ 5.4000	\$ 6.2100	\$ 6.2100	\$ 6.1800	\$ 6.3700	\$ 6.5600
Schedule 61 - Large Industrial						
Energy Rate (per kWh)	\$ 0.0238	\$ 0.0238	\$ 0.0307	\$ 0.0307	\$ 0.0307	\$ 0.0307
Demand Rate (per measured kWh of demand)	\$ 4.3300	\$ 4.3300	\$ 5.5900	\$ 5.5900	\$ 5.5900	\$ 5.5900

*(1) These rates represent the typical customer in that class.
Other rate schedules also in effect are outdoor lighting, tax exempt status and miscellaneous.
Renewable resource option rates were added January 1, 2003 (also known as "Green Power").*

Mason County Public Utility District No. 3
District's Principal Ratepayers
December 31, 2007

Ratepayer's Rate Class	2007				1998			
	Energy Sales (kWh)	Rank	Percentage of Total kWh	Revenue	Percentage of Total kWh	Rank	Revenue	Percentage of Sales Revenue
Large Industrial Customer (61)	64,065,600	1	9.6%	\$ 2,720,256		1	\$ 2,198,384	7.7%
Large General Service Customer (22)	14,910,000	2	2.2%	769,770		4	435,823	1.5%
Large General Service Customer (22)	10,445,400	3	1.6%	769,890		-	-	-
Large General Service Customer (33)	9,981,600	4	1.5%	475,548		9	30,988	0.1%
Large General Service Customer (22)	8,778,000	5	1.3%	445,078		3	420,111	1.5%
Large General Service Customer (21)	5,226,400	6	0.8%	260,936		-	-	-
Large General Service Customer (23)	5,107,200	7	0.8%	277,824		-	-	-
Large General Service Customer (23)	4,011,120	8	0.6%	214,026		-	-	-
Large General Service Customer (23)	3,830,400	9	0.6%	212,267		6	207,003	0.7%
Large General Service Customer (23)	3,565,800	10	0.5%	187,293		-	-	-
Large General Service Customer (23)	-	-	-	-		2	512,779	1.8%
Large General Service Customer (22)	-	-	-	-		5	303,544	1.1%
Large General Service Customer (23)	-	-	-	-		7	104,897	0.4%
Large General Service Customer (21)	-	-	-	-		8	114,908	0.4%
Large General Service Customer (21)	-	-	-	-		10	89,011	0.3%
	129,921,520		19.4%	\$ 6,332,887			\$ 4,417,448	15.5%
Total All Ratepayers	669,928,231			\$ 43,811,627			\$ 28,562,265	

Mason County Public Utility District No. 3
Comparative Tax Costs
Last Ten Fiscal Years

Current Rate	1998	1999	2000	2001	2002	2003	2004	2005	2006
State Public Utility Tax	3.873% \$ 1,024,948	\$ 1,057,517	\$ 1,054,803	\$ 1,105,090	\$ 1,256,733	\$ 1,286,317	\$ 1,360,927	\$ 1,460,042	\$ 1,596,247
State Privilege Tax	2.140% 594,144	617,821	652,854	652,267	697,926	755,211	743,610	754,337	878,294
City of Shelton Utility Tax	6.000% 424,604	439,740	437,154	465,233	521,620	519,716	543,104	561,876	574,468
Leasehold Tax	12.840% 3,904	3,958	4,229	7,495	10,853	14,053	14,224	20,010	14,873
Payroll Taxes	Various 400,594	419,713	442,064	468,167	493,935	527,171	526,534	587,265	599,101
L & I, Employment Security	Various 176,038	122,781	125,277	148,527	166,948	188,077	142,741	123,419	113,715
Miscellaneous Taxes	Various 35,369	46,372	38,280	51,312	47,237	117,409	53,319	54,331	69,962
Total Taxes	\$ 2,659,601	\$ 2,707,902	\$ 2,754,661	\$ 2,898,091	\$ 3,195,252	\$ 3,407,954	\$ 3,384,459	\$ 3,561,280	\$ 3,846,660
Total Operating Revenues	\$ 28,896,886	\$ 30,508,195	\$ 30,456,017	\$ 32,862,532	\$ 38,990,085	\$ 39,085,777	\$ 37,937,883	\$ 40,219,223	\$ 43,408,464
% of Operating Revenues	9.20%	8.88%	9.04%	8.82%	8.20%	8.72%	8.92%	8.85%	8.86%

Mason County Public Utility District No. 3
Uncollectible Account Analysis
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Electric Revenues ⁽¹⁾	\$ 25,820,931	\$ 27,719,934	\$ 27,812,288	\$ 29,768,676	\$ 32,151,118	\$ 32,094,545	\$ 32,946,503	\$ 34,617,347	\$ 37,713,589	\$ 40,736,882
Write-offs	\$ 82,730	\$ 122,282	\$ 139,594	\$ 123,981	\$ 120,764	\$ 204,751	\$ 113,085	\$ 135,068	\$ 154,831	\$ 182,640
Percentage Written Off	0.32%	0.44%	0.50%	0.42%	0.38%	0.58%	0.29%	0.39%	0.41%	0.45%
Allowance	\$ 81,730	\$ 87,487	\$ 89,418	\$ 116,967	\$ 119,565	\$ 112,243	\$ 213,392	\$ 114,314	\$ 136,496	\$ 143,727
Payments from Agencies	\$ 17,842	\$ 26,088	\$ 31,542	\$ 23,668	\$ 32,618	\$ 26,913	\$ 24,578	\$ 28,297	\$ 38,187	\$ 45,533
Payments to Agencies	\$ 8,490	\$ 10,040	\$ 11,965	\$ 8,771	\$ 11,676	\$ 9,308	\$ 7,518	\$ 6,055	\$ 3,933	\$ 4,043
Percent of Write-offs Collected	21.57%	21.33%	22.60%	19.09%	27.01%	13.14%	21.73%	20.95%	24.66%	24.93%

⁽¹⁾ Does not include sale for resale or Large Industrial.

Mason County Public Utility District No. 3
Debt Service Coverage
Last Ten Fiscal Years

	1998	1999	2000	2001 ⁽¹⁾	2002	2003	2004	2005	2006	2007
Debt Service Calculation										
Change in Net Assets	\$ 5,681,899	\$ 6,291,406	\$ 5,331,999	\$ 4,701,440	\$ 1,008,457	\$ 380,161	\$ (500,094)	\$ 397,994	\$ 1,390,860	\$ 6,596,093
Adjustments to (from) Change in Net Assets										
Depreciation & Amortization	\$ 2,862,859	\$ 2,407,644	\$ 2,566,208	\$ 2,834,423	\$ 3,397,872	\$ 3,503,119	\$ 3,917,013	\$ 4,118,739	\$ 4,259,504	\$ 4,428,965
Interest Expense	631,661	604,712	519,396	874,747	1,724,261	1,658,920	1,615,663	1,595,838	1,511,166	1,405,859
Amortization Debt Discount and Expense	46,686	46,580	80,389	45,972	69,569	130,366	50,885	49,208	46,890	44,431
Extraordinary Item	497,118	-	(107,745)	(2,244)	-	-	-	-	-	-
Revenue Available for Debt Service	\$ 9,720,223	\$ 9,350,342	\$ 8,390,247	\$ 8,454,338	\$ 6,200,159	\$ 5,672,566	\$ 5,083,467	\$ 6,161,779	\$ 7,208,420	\$ 12,475,348
Annual Debt Service⁽²⁾	\$ 2,011,242	\$ 2,033,903	\$ 2,052,914	\$ 1,460,444	\$ 2,128,117	\$ 2,685,045	\$ 2,221,050	\$ 2,653,275	\$ 2,585,710	\$ 2,620,705
Debt Service Coverage Ratio	4.83	4.60	4.09	5.79	2.91	2.11	2.29	2.32	2.79	4.76

Debt Margin Information

	1998	1999	2000	2001 ⁽¹⁾	2002	2003	2004	2005	2006	2007
Revenue Available for Debt Service	\$ 9,720,223	\$ 9,350,342	\$ 8,390,247	\$ 8,454,338	\$ 6,200,159	\$ 5,672,566	\$ 5,083,467	\$ 6,161,779	\$ 7,208,420	\$ 12,475,348
Annual Debt Service ⁽²⁾	\$ 2,011,242	\$ 2,033,903	\$ 2,052,914	\$ 1,460,444	\$ 2,128,117	\$ 2,685,045	\$ 2,221,050	\$ 2,653,275	\$ 2,585,710	\$ 2,620,705
Maximum Allowable Annual Debt Service per Bond Covenants ⁽³⁾	\$ 7,776,178	\$ 7,480,274	\$ 6,712,198	\$ 6,763,470	\$ 4,960,127	\$ 4,538,053	\$ 4,066,774	\$ 4,929,423	\$ 5,766,736	\$ 9,980,278
Allowable Additional Annual Debt Service	\$ 5,764,936	\$ 5,446,371	\$ 4,659,284	\$ 5,303,026	\$ 2,832,010	\$ 1,853,008	\$ 1,845,724	\$ 2,276,148	\$ 3,181,026	\$ 7,359,573

(1) GASB Statement No. 33 was implemented in 2001 reclassifying capital contributions as revenue.

(2) Does not include Term Loan - Junior Lien Loan.

(3) The bond covenants state that new bonds may be issued if the amount of the net revenue for any twelve consecutive months in a 24 month period divided by the maximum annual debt service in any future year is not less than 125%.

Mason County Public Utility District No. 3
Ratios of Outstanding Revenue Bond Debt
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005
Revenue Bonds	\$ 13,215,000	\$ 11,825,000	\$ 10,335,000	\$ 25,705,000	\$ 37,160,804	\$ 35,491,486	\$ 34,215,701	\$ 32,482,565
Unamortized Premium (Discount)	(384,858)	(338,278)	(257,889)	(425,137)	(637,063)	(506,698)	(455,813)	(406,605)
Total Outstanding Debt	\$ 12,830,142	\$ 11,486,722	\$ 10,077,111	\$ 25,279,863	\$ 36,523,741	\$ 34,984,788	\$ 33,759,888	\$ 32,075,960
Total Revenue Debt to Operating Revenues	43%	37%	32%	75%	94%	90%	89%	80%
Total Revenue Debt to Total Assets	15%	12%	10%	21%	28%	27%	27%	25%
Total Revenue Debt per Ratepayer	\$ 476	\$ 418	\$ 361	\$ 899	\$ 1,274	\$ 1,194	\$ 1,132	\$ 1,040
Total Revenue to Median Household Income	\$ 333	\$ 290	\$ 244	\$ 591	\$ 848	\$ 814	\$ 773	\$ 725

Mason County Public Utility District No. 3
Demographic Statistics
Last Ten Fiscal Years

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population of County ⁽¹⁾	48,454	48,753	49,405	50,001	50,711	51,635	52,333	53,294	54,915	56,384
Unemployment Rate ⁽²⁾	5.8%	5.9%	6.4%	7.7%	8.4%	8.6%	7.4%	6.5%	5.8%	5.8%
Median Household Income ⁽³⁾	\$ 38,517	\$ 39,586	\$ 41,272	\$ 42,758	\$ 43,063	\$ 42,980	\$ 43,661	\$ 44,253	\$ 47,462	\$ 49,293
Per Capita Personal Income ⁽²⁾	\$ 21,150	\$ 21,776	\$ 22,791	\$ 23,880	\$ 24,079	\$ 24,644	\$ 25,699	\$ 26,645	N/A	N/A
School Enrollment ⁽⁴⁾	8,528	8,457	8,454	8,452	8,185	8,212	8,138	8,191	8,236	8,122

(1) Source: NW Income Indicators Project - WSU

(2) Source: Workforce Explorer Washington

(3) Source: Washington State OFM

(4) Source: Washington State Office of Superintendent of Public Instruction

Mason County Public Utility District No. 3
Principal Employers
Current Year and Nine Years Ago

Principal Employers in County	2007				1998			
	Product/Service	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment	
Little Creek Casino Hotel	Casino and hotel	714	1	3.02%	336	4	1.73%	
Shelton School District	Education provider	675	2	2.86%	650	2	3.36%	
Washington Correction Center	State prison	646	3	2.73%	634	3	3.27%	
Mason General Hospital	Medical facility	511	4	2.16%	325	5	1.68%	
Mason County	Government	421	5	1.78%	321	6	1.66%	
Wal-Mart	Retail store	406	6	1.72%	203	10	1.05%	
Taylor Shellfish	Shellfish	400	7	1.69%	250	8	1.29%	
Simpson Timber Company	Lumber	360	8	1.52%	911	1	4.70%	
North Mason School District	Education provider	358	9	1.51%	271	7	1.40%	
Olympic Panel Products	Plywood, veneer	340	10	1.44%	-	-	0.00%	
Fred Meyer Marketplace	Groceries	-	-	0.00%	238	9	1.23%	
Total		4,831		20.44%	3,901		21.37%	

Source: Shelton-Mason County Journal Visitors' Guide and Mason County Profile

Mason County Public Utility District No. 3
Operating Indicators
Last Ten Fiscal Years

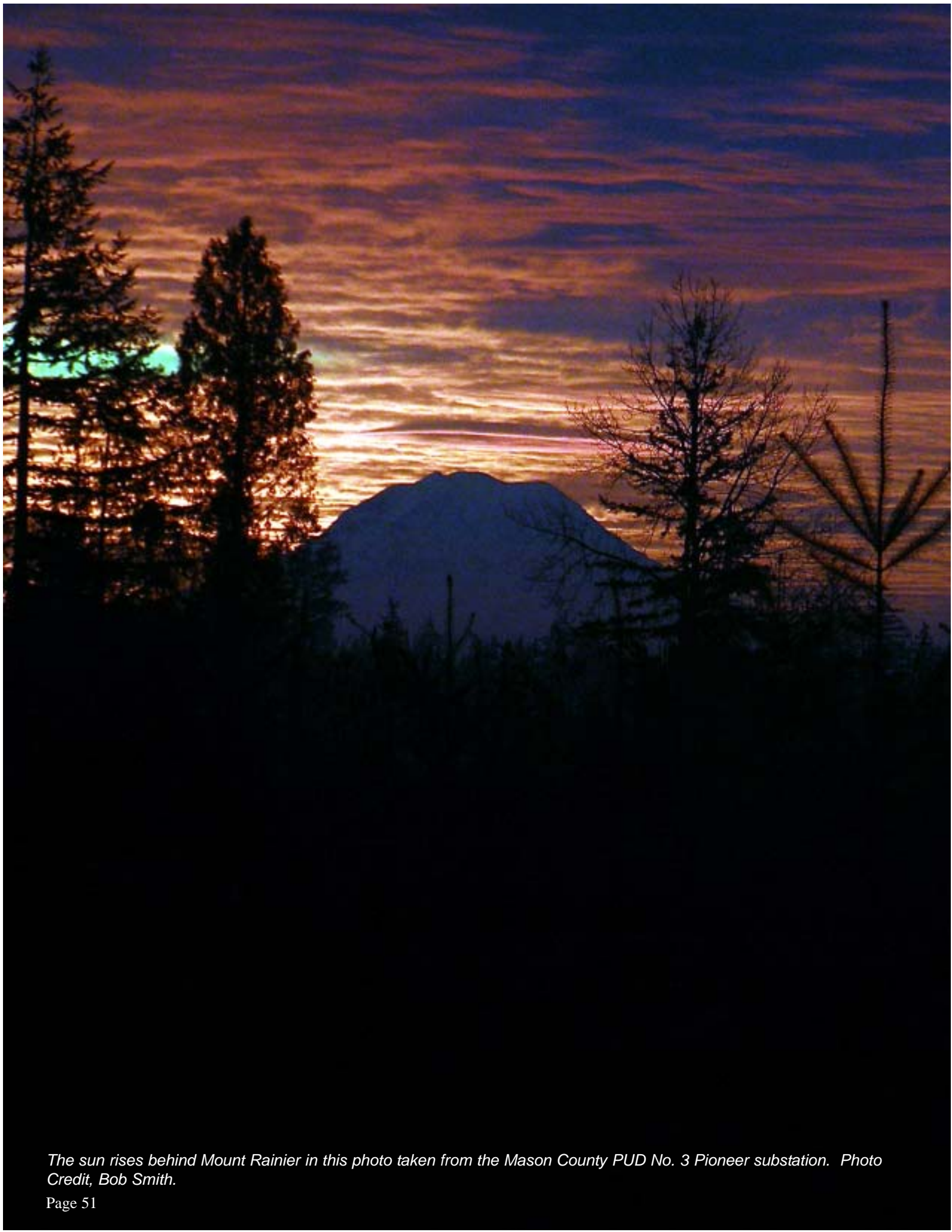
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating Expenses / Revenues										
	79.6%	80.2%	84.5%	86.5%	94.6%	95.8%	97.9%	96.4%	96.5%	88.4%
Total Electric Sales in MWh										
Retail Sales	547,375	582,376	588,709	568,254	587,255	574,972	598,279	618,256	645,820	668,687
Sales for Resale	11,272	6,964	4,936	7,635	-	-	-	-	-	-
Total MWh	558,647	589,340	593,645	575,889	587,255	574,972	598,279	618,256	645,820	668,687
Annual kWh per Customer										
Residential	13,103	13,929	13,757	13,210	13,201	12,879	13,158	12,921	13,286	14,030
General Service	84,467	85,621	89,524	80,858	83,364	77,840	78,534	80,912	85,317	84,420
Industrial	67,301,300	69,422,400	64,425,600	64,771,200	70,992,000	64,123,200	69,436,800	74,793,600	70,416,000	64,065,600
Miscellaneous	25,399	24,173	24,106	23,335	22,951	24,099	23,796	23,226	24,031	24,222
Average Annual kWh per Customer-All Classes	20,301	21,199	21,081	20,210	20,478	19,620	20,064	20,054	20,484	20,773
Average Revenue per Residential Customer	731	765	760	791	847	836	844	853	901	967
Annual Revenue per Customer - All Classes	1,059	1,097	1,076	1,154	1,220	1,189	1,202	1,223	1,289	1,350
Additions to Electric Plant, excluding work-in-progress ⁽¹⁾										
	3,937,612	6,209,718	4,753,478	6,178,879	13,306,544	5,788,403	6,194,450	6,967,080	4,569,715	5,976,049
Net Utility Plant	69,400,797	73,724,768	78,187,003	89,101,770	95,042,121	99,434,348	102,088,517	105,753,357	107,101,640	108,026,826
Number of Substations	10	10	10	10	10	10	10	10	11	11
Primary Line Miles										
Overhead	602	614	620	632	636	638	643	654	658	660
Underground	919	927	932	943	958	971	984	993	1,010	1,030
Total Primary Line Miles	1,521	1,541	1,552	1,575	1,594	1,609	1,627	1,647	1,668	1,690
Capitalized Payroll	1,262,281	1,238,723	1,355,150	1,448,074	1,543,649	1,748,421	1,839,435	1,722,558	1,709,384	1,758,612
Total Payroll Expense	5,333,670	5,558,916	5,941,026	6,463,182	6,785,462	7,330,838	7,424,612	7,607,202	7,963,194	8,628,890
Number of Full Time Employees	109	109	114	113	115	117	117	116	115	116
Power Outages										
Overhead	418	408	396	398	298	354	322	289	340	296
Underground	239	171	214	158	187	222	238	215	243	193
Total Power Outages	657	579	610	556	485	576	560	504	583	489

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Applications Received										
New	678	618	536	586	622	806	852	1,083	963	687
Altered	405	434	441	361	424	449	481	577	553	648
Backbone	11	2	5	5	5	10	19	11	34	20
Total Applications Received	1,094	1,054	982	952	1,051	1,265	1,352	1,671	1,550	1,355
Connects										
Permanent	377	340	289	241	350	406	419	662	586	468
Commercial	36	35	58	129	50	107	83	75	52	34
Seasonal	28	27	28	16	20	36	106	24	22	13
Miscellaneous	132	146	124	98	97	114	119	134	161	166
Total Connects	573	548	499	484	517	663	727	895	821	681
Tree Trimming										
Miles of Lines	62	44	142	140	93	53	53	70	50	57
Heating Degree Days ⁽²⁾	5,125	5,572	5,668	5,800	5,626	5,146	5,024	5,135	5,240	5,478
Annual Precipitation (inches) ⁽³⁾	78.70	87.61	50.43	65.23	53.25	64.93	45.82	62.98	82.05	61.25

(1) The Olympic View Generating Facility, completed at a cost of \$5.8 million, was added to the Electric Plant account in 2002.

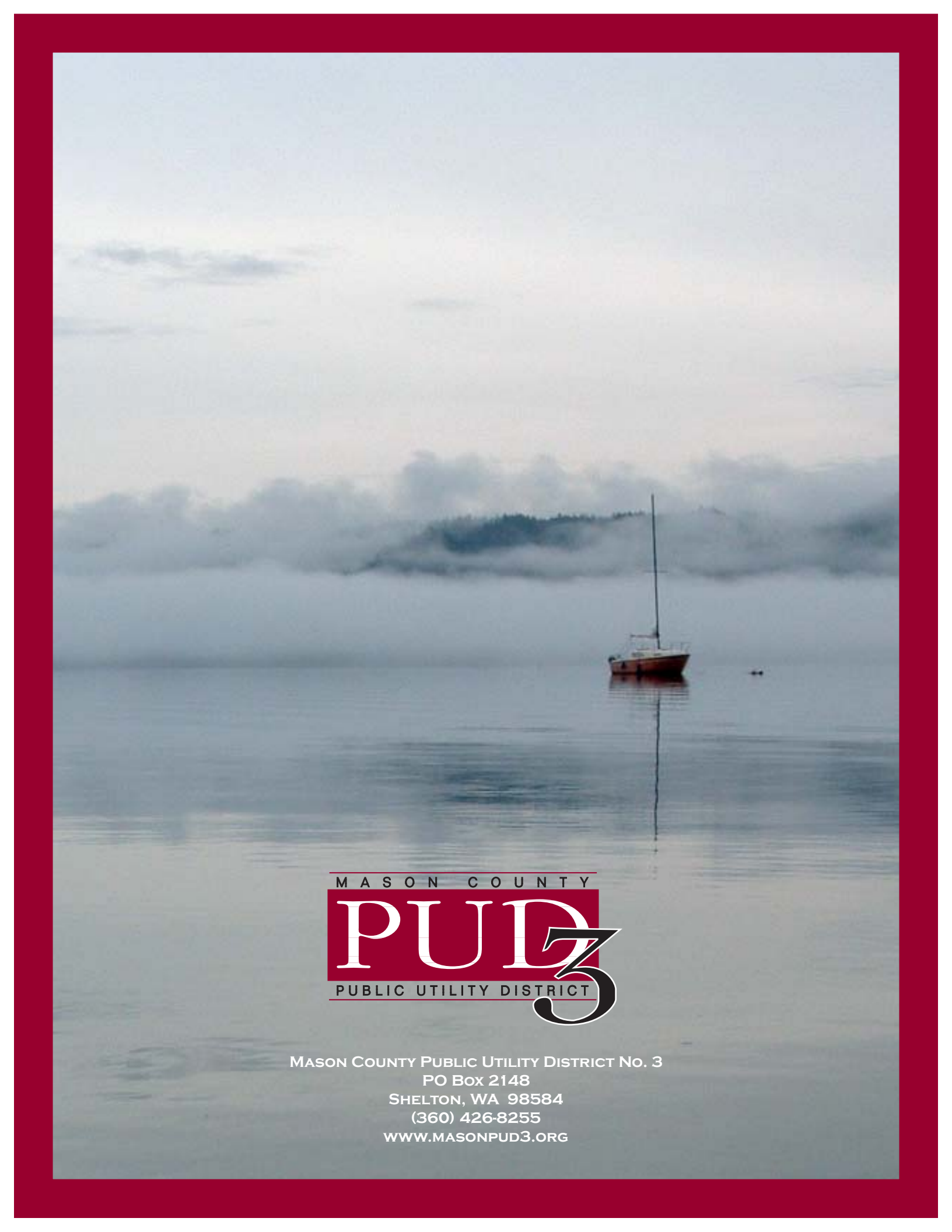
(2) Source: National Weather Service Forecast Office

(3) Source: Western Regional Climate Center



The sun rises behind Mount Rainier in this photo taken from the Mason County PUD No. 3 Pioneer substation. Photo Credit, Bob Smith.

Back Cover: Clouds roll over Hood Canal in Mason County. In the background, the Tahuya Peninsula peeks through the clouds. Photo Credit, Terri Oberg.



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3

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