

# MASON COUNTY PUBLIC UTILITY DISTRICT No. 3

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT FOR THE  
FISCAL YEAR ENDED  
DECEMBER 31, 2005



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

For the fiscal year ended December 31, 2005



Prepared by the Finance and Public Information Departments

*Cover: Mason County PUD No. 3 Tree Trimmer Foreman Mike Speaks carefully shears a tree near power lines. PUD 3 has 636 miles of overhead power lines in its service area that need to be protected from tree limbs and overgrown vegetation. Working on a six year cycle, PUD 3 has a goal of clearing approximately 107 miles of right of way each year.*

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

**2005 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
TABLE OF CONTENTS**

Introductory Section

Manager's Message .....	Page 2
Commissioner's Message .....	Page 3
Fast Facts .....	Page 4
Certificate of Achievement for Excellence in Financial Reporting ....	Page 5
Letter of Transmittal .....	Page 6
Organizational Chart .....	Page 9
Commissioners and Management Staff .....	Page 10

Financial Section

Independent Auditor's Report .....	Page 13
Management's Discussion and Analysis .....	Page 14
Basic Financial Statements	
Statement of Net Assets .....	Page 17
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	Page 20
Statement of Cash Flows .....	Page 21
Statement of Fiduciary Net Assets .....	Page 23
Statement of Changes in Fiduciary Net Assets .....	Page 24
Notes to Financial Statements .....	Page 25

Statistical Section

Financial Results - 10 Years .....	Page 41
Historical Customers, Energy Sales & Revenues - 10 Years .....	Page 43
Analysis of Uncollectible Accounts - 10 Years .....	Page 45
Comparative Tax Costs - 10 Years .....	Page 47
Demographic Statistics - 10 Years .....	Page 49

# Introductory Section

## Message from the Manager



Energy issues were at the forefront of our daily news during 2005. Some of the issues the district faced in 2005 were: regional transmission organizations, Bonneville Power Administration (BPA) rates, the highest fuel and natural gas prices in history, the efforts of some members of Congress and special interest groups to reduce the benefits of the federal system of dams to Northwest ratepayers, and the costs of salmon recovery efforts paid by electric ratepayers.

We are happy to report that the BPA backed away from joining Grid West, a regional transmission organization that would have had far reaching operational and economic impacts on our region. Bonneville rates, while still high, were not as high this year as forecast. We were able to push back in Washington, D.C. and minimize political attempts to change how BPA operates and how the benefits of the federal hydroelectric system are distributed.

Salmon recovery costs are a large part of our wholesale power costs and now comprise approximately 25 percent of our wholesale power rates. The order by Judge Redden last summer to spill water rather than generate power cost the region an estimated \$74 million. We continue to work with regional advocates to develop a results-based fish plan that has a defined target for success.

In spite of these challenges, the financial condition of our utility is good. While a small rate increase was implemented during 2005, Mason County PUD No. 3's record of rate increases during these challenging times is something of which we are proud.

Our fiber optic system was modestly expanded to add to remote management capabilities for our electric system and also to extend fiber to several schools and other public entities. Because of our wholesale telecommunications authority, access to a fiber connection has become available to more of our ratepayers.

The availability of wholesale open access, non-discriminatory fiber allows our local businesses to compete in the world of e-commerce through retail service providers. We work closely with the local Economic Development Council to help attract new businesses to our county using this important tool.

The commission and staff of Mason County PUD No. 3 have a commitment to system reliability and customer satisfaction. Customer comments and suggestions are always welcome. Our staff stands ready to provide top notch customer service at the lowest possible price and to bring value to those we serve.

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, I am pleased to present our owner/ratepayers with the 2005 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 owner/ratepayers to communicate with us about our services through mail, telephone, or our web site [www.masonpud3.org](http://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, appearing to read "Bruce Jorgenson". The signature is fluid and cursive.

Bruce Jorgenson, President  
Board of Commissioners  
Mason County PUD No. 3

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

**FAST FACTS**

Unaudited

For December 31, 2005

**Electric**

Number of customers:	30,830
Number of residential customers:	28,619
Number of employees:	114
Electricity sales in kWh:	618,255,568
Average annual residential use in kWh:	13,119
Average kWh cost for residential use:	\$0.065
Number of substations:	10
Overhead primary line miles:	654
Underground primary line miles:	994
Average load in kW:	118,125
Maximum system load in kW:	153,485
2005 net budget:	\$47,000,000

**Fiber**

Number of retail service providers:	7
Number of end users:	426
Fiber miles within system:	Approx. 354

# 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, 2004

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.



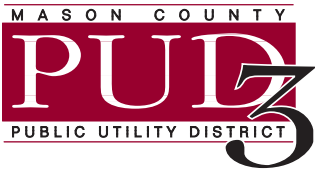
*Carla E. Fudge*

President

*Jeffrey R. Emer*

Executive Director





**COMMISSIONERS**

LINDA R. GOTT

BRUCE E. JORGENSON

JOHN H. WHALEN

**MANAGER**

WYLA J. WOOD

May 1, 2006

To the Board of Commissioners and Owner/Ratepayers

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, 2005, is hereby submitted. The report is designed to assess the district's financial condition, educate readers about the district 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 them 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, 2005, 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, 2005, 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 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 29.53 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 ten substations. It has 1,648 miles of primary lines. As of December 31, 2005, the value of the district's net plant totaled \$106 million. At that time it served 30,830 customers. Load data for the year included kilowatt-hour sales to retail customers of 618,255,568.

The district provides wholesale fiber optic services to seven retail internet service providers in the county who in turn provide connections to 426 locations over 354 miles of fiber optic line.

During 2005 the district began participation in the Gridwise Program with Clallam County PUD and Bonneville Power Administration. This is a test program to allow owners/ratepayers with broadband internet connections to use a time-of-day schedule to control the use of electricity by appliances in their homes. The district also is participating in the Power Shift Program with Mason County PUD No. 1 and Clallam County PUD. This program allows the utilities to control certain appliances, such as water heaters and electric heat sources to shift peak demands for electricity from high use periods of the day. Both Gridwise and Powershift will help determine the effectiveness of demand management to offset the need for upgraded transmission facilities or new generating resources in the Pacific Northwest.

During 2005 the district operated the Olympic View Generating Station for limited times under separate agreements with the power business line and the transmission business line of the Bonneville Power Administration.

## 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 coming 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 2,882 employees at last count, spread among 14 of the county's top 50 employers, according to the Mason County Economic Development Council. The EDC's analysis also shows that five of the top ten employers are in the government sector; including Washington Correction Center, Shelton School District, Mason General Hospital, Mason County, and North Mason School District.

The forest products industry has eight of the top 50 employers for 1,181 jobs. This group includes Simpson Timber Company, Olympic Panel Products, Skookum Lumber Company and Mason County Forest Products in the top 15. Mason County Public Utility District No. 3 ranks 17 with 114 employees.

According to information from the Economic Development Council of Mason County, the unemployment rate for Mason County in 2005 was 6.3%, somewhat higher than the state average. The population of Mason County in 2005 is estimated at 51,900, or a 5% increase since 2000.

### **Long-Term Financial Planning**

The district adopted a five-prong approach to deal with the 2001 energy crisis that included a serious threat of increased Bonneville Power Administration wholesale rates. A 15% 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 early 2005, three small rate increases of 3% on average were adopted by the Board of Commissioners for June 2005, April 2006 and October 2006. The district's rates will still compare favorably with other utilities of similar size in the state.

### **Cash Management and Investments**

The district 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 US 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**

The district 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 Self-Insurance Fund, which is currently composed of 19 members. Additional information on the district's risk management program is included in Note 14 of the Notes to the Financial Statements.

### **Acknowledgments**

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 year ended December 31, 2004. This was the first time the district had applied for this prestigious award. 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.

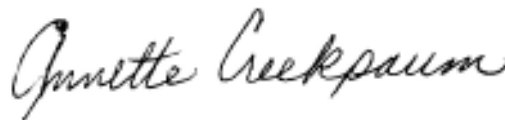
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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.

Respectfully submitted,

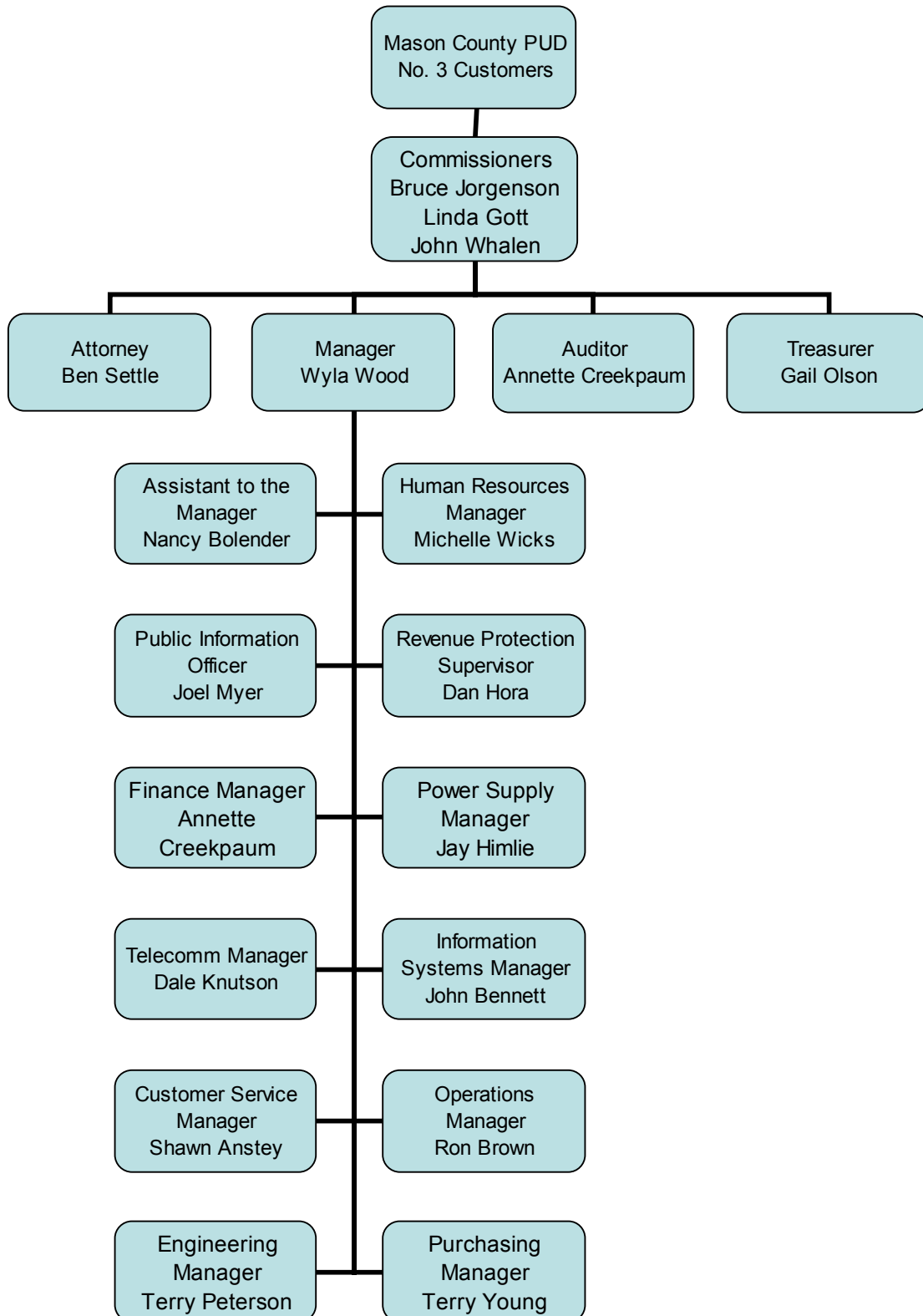


Wyla Wood, Manager



Annette Creekpau, Finance Manager/Auditor

## Organizational Chart for Mason County PUD No. 3



**MASON COUNTY  
PUBLIC UTILITY DISTRICT NO. 3**

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

[www.masonpud3.org](http://www.masonpud3.org)

**Board of Commissioners:**

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

**Key District Management:**

Wyla Wood, Manager  
Annette Creekpaum, Finance Manager/Auditor  
Michelle Wicks, Human Resources Manager  
Ron Brown, Operations Manager  
Terry Peterson, Engineering Manager  
Gail A. Olson, 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:**

Settle & Johnson  
P. O. Box 1400  
Shelton, WA 98584  
360-426-9728



**Mason County PUD No. 3 Commissioners, 2005**

Bruce Jorgenson, President • Linda Gott, Vice President • John Whalen, Secretary



## **Financial Section**



Legislative Building  
P.O. Box 40021  
Olympia, Washington 98504-0021

(360) 902-0370  
FAX (360) 753-0646  
TDD Relay 1-800-833-6388  
<http://www.sao.wa.gov>

## INDEPENDENT AUDITOR'S REPORT

May 1, 2006

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

We have audited the accompanying basic financial statements of the Public Utility District No. 3 of Mason County, Mason County, Washington, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Utility District No. 3 of Mason County, Mason County, Washington, as of December 31, 2005, and the changes in financial position and cash flows, where applicable, 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,

**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, 2005. 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 power resources in 2005. BPA continues to be the lowest cost source of wholesale power in the region. The district has a contract for power through September 30, 2006. In early 2004 the district began negotiations with BPA for an extension on the power sales contract until 2011. This contract was agreed to by resolution on June 15, 2004

Each six months a cost reduction adjustment clause (CRAC) rate adjustment is put in place by BPA. At the beginning of 2005, BPA CRAC levels were 21.66% above the October 2001 base rate for the load based CRAC and 11.16% for the financial based CRAC. In April of 2005, the load based CRAC was raised to 25.77% of the base rate. In October, the load based CRAC was reduced to 24.40% and the financial based CRAC was reduced to 9.58%. The safety net CRAC was reinstated at 4.07%. PUD 3 anticipates an adjustment every six months for the duration of the contract.

The district buys a small amount (2 megawatts) of power from Energy Northwest as renewable energy, or green power, produced by the Nine Canyon Wind Farm (Phase I and Phase II) Project near Kennewick, WA. A third phase of Nine Canyon is being investigated by Energy Northwest. The district has indicated a preliminary interest in participating in this 32 MW project also. Another potential 50 MW wind farm in Reardan, Washington, is also being investigated by Energy Northwest. The district has also expressed preliminary interest in this project.

During 2005, Energy Northwest announced another potential project in which the district may be interested. In April, it announced investigation of a 600 MW integrated gasification combined cycle (IGCC) facility near Kalama, Washington. This project has since been named the Pacific Mountain Energy Center (PMEC).

Retail kilowatt hour sales increased by 3% in 2005, a

little down from the 4% increase in 2004.

The district grew in customers at a higher rate than the previous year by adding 895 new service connections compared to 727 in 2004. Nearly twenty-one miles of primary electric lines were added in 2005, bringing the total to 1,648 miles. Wholesale telecommunications efforts grew to include seven retail internet service providers in the county providing services to 426 connections over 354 miles of fiber optic line.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

Mason County Public Utility District No. 3 is a single enterprise fund even though it provides various utility services for its ratepayers. This section of the annual report consists of the basic financial statements and the accompanying notes to the financial statements.

Like other state and local governments, the district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The two funds of the district are a proprietary fund and a fiduciary fund. The proprietary fund is maintained as an enterprise fund to account for its electric distribution operation. The fiduciary fund is used to account for resources held for the benefit of parties outside the district. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic financial statements for the proprietary fund include the statement of net assets, the statement of revenues, expenses and changes in fund net assets, and the statements of cash flows.

The statement of net assets presents the district's assets and liabilities, with the difference between the two reported as net assets. This statement provides information about the amount of investments in resources (assets), and the obligations to creditors (liabilities). The net assets increase when revenues exceed expenses. This statement also provides a basis for computing rate of return, evaluating the capital structure of the district and assessing the liquidity and financial flexibility of the district.

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

The statements of cash flows provide information about

the district's cash receipts and payments from operations, as well as funds provided and used in investing and financing activities.

The statement of fiduciary net assets and statement of changes in fiduciary net assets follow the proprietary fund statements. See Note 18 on page 38 for more details on this trust.

The notes to the financial statements provide additional information that is essential to a full understanding of the figures provided in the basic financial statements for the proprietary and fiduciary funds.

## FINANCIAL ANALYSIS

Overall, the district's financial position has improved, as evidenced by a \$398,000 increase in net assets. The following information provides analysis of the 2005 and 2004 comparative financial information provided in Table 1.

## ASSETS

Current assets and special funds decreased by \$3.49 million during 2005 primarily due to the decision to pay for capital construction from reserves built up as a result of \$28 million new debt in 2001 and 2002.

At December 31, 2005, the district had \$105.75 million invested in utility capital assets, up \$3.66 million from the previous year. Several large projects including the transmission line over John's Prairie to the prospective substation, the Fish Hatchery Road rebuild, Little Egypt Road rebuild and the Crestview Drive rebuild were completed in 2005.

The John's Prairie substation project began with the installation of approximately four miles of transmission lines from the Mountain View substation to the site during 2005. This is a very large, multi-year project with the substation completion projected for 2006. This project will improve reliability and accommodate growth in that area of the county.

**Table 1**  
**Condensed Financial Information for December 31, 2005 and 2004**  
(In Thousands)

	2005	2004	Change	% Change
<b>Statement of Net Assets</b>				
Current Assets and Special Funds	\$19,796	\$23,286	-\$3,490	-14.99%
Net Capital Assets	105,753	102,089	3,664	3.59%
Other Noncurrent Assets	451	500	-49	-9.80%
<b>Total Assets</b>	<b>126,000</b>	<b>125,875</b>	<b>125</b>	<b>0.10%</b>
Current Liabilities	10,659	9,115	1,544	16.94%
Noncurrent Liabilities	30,665	32,482	-1,817	-5.59%
<b>Total Liabilities</b>	<b>41,324</b>	<b>41,597</b>	<b>-273</b>	<b>-0.66%</b>
Invested in Capital Assets, Net of Debt	74,406	69,098	5,308	7.68%
Unrestricted	10,270	15,180	-4,910	-32.35%
<b>Total Net Assets</b>	<b>84,676</b>	<b>84,278</b>	<b>398</b>	<b>0.47%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$126,000</b>	<b>\$125,875</b>	<b>\$125</b>	<b>0.10%</b>
<b>Statement of Revenue, Expenses and Changes in Net Assets</b>				
<b>Operating Revenues</b>				
Utility Sales and Service Fees	\$38,034	\$36,139	\$1,895	5.24%
Other	2,185	1,799	386	21.46%
<b>Nonoperating Revenues</b>				
Interest Income	457	278	179	64.39%
Other Income	145	115	30	26.09%
<b>Total Revenue</b>	<b>40,821</b>	<b>38,331</b>	<b>2,490</b>	<b>6.50%</b>
<b>Operating Expenses</b>				
Power Supply	21,096	20,872	224	1.07%
Operation and Maintenance	12,059	11,049	1,010	9.14%
Taxes/Depreciation Expense	5,608	5,237	371	7.08%
<b>Nonoperating Expenses</b>				
Other Expense	15	6	9	150.00%
Interest Expense	1,645	1,667	-22	-1.32%
<b>Total Expenses</b>	<b>40,423</b>	<b>38,831</b>	<b>1,592</b>	<b>4.10%</b>
<b>Change in Net Assets</b>	<b>398</b>	<b>-500</b>	<b>898</b>	<b>179.60%</b>
Net Assets -beginning of year	84,278	84,778	-500	-0.59%
<b>Net Assets -end of year</b>	<b>\$84,676</b>	<b>\$84,278</b>	<b>\$398</b>	<b>0.47%</b>

Additional information on Mason County PUD 3's capital assets can be found in Note 2 on page 26 of this report.

## **LIABILITIES**

Current liabilities increased by \$1.54 million in 2005 over the previous year. Long-term debt (shown as Revenue Bonds under Noncurrent Liabilities) was reduced by fiscal agent payments of \$1.82 million during 2005 from \$32.48 to \$30.67 million. \$1.9 million in fiscal agent payments will pay down the revenue bonds in 2006.

Additional information on Long Term Debt of the district can be found in Note 6 on page 28 of this report.

## **OPERATING REVENUES**

Utility sales and service fees increased \$1.9 million over the prior year. The number of customers at year end grew to 30,830 in 2005, an increase of 971 over 2004. Retail sales to customers were up nearly 20 million kilowatt hours from the prior year. Other Revenues increased \$386,000 over 2004 figures.

## **OPERATING EXPENSES**

Purchased power increased in 2005 by \$224,000. This was a 1% increase over the previous year. Operating and maintenance expenses increased by \$1.01 million, 9% from the previous year. Taxes and depreciation increased \$371,000 for 2005.

## **NONOPERATING REVENUES AND EXPENSES**

The other nonoperating revenues increased by \$9,000 in 2005 and interest expense decreased by \$22,000. Total expenses increased by \$1.59 million over 2004.

## **NET ASSETS**

Net assets increased by \$398,000 in 2005. This was \$898,000 more than year end 2004 which came in at a \$500,000 reduction in net assets. Year end net assets totaled \$84.68 million.

## **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, P. O. Box 2148, Shelton, WA 98584.

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

**STATEMENT OF NET ASSETS**

DECEMBER 31, 2005

**ASSETS**

**Current Assets**

Cash and Cash Equivalents (Note 3)	\$9,883,041
Temporary Investments	3,861,021
Accounts Receivable	3,670,072
Less Uncollectibles	(10,387)
Plant Material & Oper. Supplies	2,346,879
Prepayments	24,055
Interest & Dividend Receivable	<u>20,845</u>
Total Current Assets	19,795,526

**Noncurrent Assets**

Deferred Charges (Note 8)	451,208
Capital Assets	
Land	2,085,382
Plant	115,997,954
Structures and Improvements	6,356,219
Machinery and Equipment	14,111,656
Construction Work in Progress (Note 4)	8,788,217
Less Accumulated Depreciation	<u>(41,586,071)</u>
Total Capital Assets (Net) (Note 2)	105,753,358
Total Noncurrent Assets	106,204,566
<b>TOTAL ASSETS</b>	<b><u>\$126,000,092</u></b>

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

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

**STATEMENT OF NET ASSETS**

DECEMBER 31, 2005

**LIABILITIES**

**Current Liabilities**

Current Portion Long-Term Debt	\$1,818,045
Warrants Payable	1,589,638
Accounts Payable	3,224,718
Customer Deposits	362,335
Taxes Accrued	797,629
Interest Accrued - Long Term Debt	125,289
Other Current & Accrued Liabilities	<u>2,741,794</u>
Total Current & Accrued Liabilities	10,659,448

**Noncurrent Liabilities**

Revenue Bonds	32,482,565
Subtotal Noncurrent Liabilities	32,482,565
Less: Portion Maturing Within One Year	<u>1,818,045</u>
Total Noncurrent Liabilities	30,664,520

**TOTAL LIABILITIES** 41,323,968

**Net Assets**

Invested in Capital Assets, Net of Debt	74,406,093
Restricted	-
Unrestricted	<u>10,270,031</u>
Total Net Assets	84,676,124

**TOTAL NET ASSETS AND LIABILITIES** \$126,000,092

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



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

**STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND NET ASSETS**

FOR THE YEAR ENDING DECEMBER 31, 2005

**Operating Revenues**

Utility Sales and Service Fees	\$38,034,493
Other Charges for Services	2,072,568
Miscellaneous Operating Revenues	<u>112,163</u>
Total Operating Revenue	40,219,224

**Operating Expenses**

Purchased Power	21,095,946
Operation	2,256,736
Maintenance	2,629,800
Customer Accounts	1,536,440
Customer Service, Info., Advertising	346,086
Administrative & General	4,755,392
Maintenance of General Plant	534,186
Depreciation	4,118,737
Taxes Other than Income	<u>1,489,142</u>
Total Operating Expenses	38,762,465

OPERATING INCOME 1,456,759

**Nonoperating Revenues (Expenses)**

Revenue from Merchandising	24,580
Cost of Merchandising	(15,246)
Interest Income	456,620
Interest and Amortization on Long Term Debt	(1,645,045)
Other Nonoperating Revenues	<u>120,326</u>
Total Nonoperating Revenues (Expenses)	(1,058,765)

Change in Net Assets 397,994

Total Net Assets, January 1 84,278,130

Total Net Assets, December 31 \$84,676,124

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

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

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDING DECEMBER 31, 2005

**Cash Flows From Operating Activities:**

Cash received from customers	\$41,444,879
Cash payments to supplies and employees	(31,357,763)
Taxes Paid	(2,764,418)
Misc. other revenue	<u>120,326</u>
Net cash provided by operating activities	7,443,024

**Cash Flows From Noncapital Financing Activities:**

-

**Cash Flows From Capital Financing Activities:**

Interest paid on revenue bonds	(1,690,885)
Deferred credits	268,938
Acquisition and construction of capital assets	(7,784,109)
Principal payments on long term debt	(1,733,136)
Provision for debt payment	<u>49,847</u>
Net cash used for capital financing activities	(10,889,345)

**Cash Flows From Investing Activities:**

Sale of Investments	2,015,717
Interest received on investments	<u>465,385</u>
Net cash flow provided by investing activities	2,481,102

Net Increase (Decrease) in Cash (965,219)

Cash and Cash Equivalents at Beginning of Year 10,848,260

\*Cash and Cash Equivalents at End of Year  
(including Cash and Cash Equivalents and  
Bond Surety Reserve) \$9,883,041

\*Cash and cash equivalents represent investments

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



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

**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDING DECEMBER 31, 2005

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net Operating Income	\$1,456,759
Adjustments to reconcile operating income to net cash provided by operating activities:	
Merchandising - Net	9,334
Customer Deposits	14,479
Depreciation	4,118,737
Customer Accounts Receivable	(105,197)
Miscellaneous	113,529
Other Accounts Receivable	8,464
Uncollectibles	(1,258)
Material Inventory	554,609
Prepayments	2,265
Outstanding Warrants	1,326,936
Accounts Payable	(183,751)
Taxes Accrued	39,036
Misc. Accrued Liabilities	<u>89,082</u>
Total Adjustments	5,986,265
Net Cash Provided by Operating Activities	<u>\$7,443,024</u>

**VEBA FOR EMPLOYEES OF WASHINGTON  
PUBLIC UTILITY DISTRICTS TRUST**

**STATEMENT OF FIDUCIARY NET ASSETS**

DECEMBER 31, 2005

	2005
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ -
Registered Investments in Vanguard Group Funds	1,520,224
	1,520,224
 <b>LIABILITIES</b>	 -
 <b>NET ASSETS</b>	 <u>\$1,520,224</u>

The accompanying notes are an integral part of the financial statement

**VEBA FOR EMPLOYEES OF WASHINGTON  
PUBLIC UTILITY DISTRICTS TRUST**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

FOR THE YEAR ENDING DECEMBER 31, 2005

	2005
<b>ADDITIONS:</b>	
Contributions	\$471,899
Net Investment Income	<u>62,488</u>
Total Additions	534,387
 <b>DEDUCTIONS:</b>	
Benefits paid to or for participants	<u>277,033</u>
Total Deductions	277,033
 <b>NET INCREASE IN PLAN ASSETS</b>	 257,354
 <b>NET ASSETS</b>	
Beginning of year	1,262,870
End of Year	<u><u>\$1,520,224</u></u>

The accompanying notes are an integral part of the financial statement

**MASON COUNTY  
PUBLIC UTILITY DISTRICT NO. 3  
NOTES TO FINANCIAL STATEMENT  
January 1, 2005 through December 31, 2005**

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 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 30,830 customers as of December 31, 2005.

- 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. The Management's Discussion and Analysis precedes the financial statements as required supplementary information under GASB 34.

- c. Cash and Cash Equivalents - For purposes of the Statement of Cash Flows, the district considers all highly liquid investments maturing within three months to be cash equivalents.
- d. Utility Plant and Depreciation - See Note 2, page 26.
- 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 27.
- i. Personal Time Off - 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. The balance as of December 31, 2005, was \$1,489,439 compared to \$1,244,129 at year end 2004 and it appears on the Statement of Net Assets as Other Current & Accrued Liabilities.
- 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 30.
- k. Separate fund financial statements are provided for the proprietary fund and the fiduciary fund.
- l. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating

revenues and expenses generally result from providing services and producing and delivering goods in connection with 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 nonoperating 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 38.

**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. Accumulated depreciation is charged or credited with gain or loss on disposition. This policy is not in accordance with generally accepted accounting principles.

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.

Utility plant activity for the year ended December 31, 2005 is shown in Table 2.

**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

**Table 2**  
**Utility Plant Activity**  
For Year Ending December 31, 2005

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$2,085,382	-	-	\$2,085,382
Construction in Progress	9,411,579	-	623,360	8,788,219
Total not being depreciated	11,496,961	-	623,360	10,873,601
Capital assets being depreciated				
Olympic View Generating Plant	6,096,548	101,386	-	6,197,934
Transmission Plant	3,742,838	1,070,257	17,927	4,795,169
Distribution Plant	113,407,462	6,828,575	1,080,595	119,155,440
General Plant	6,251,901	532,986	467,603	6,317,285
Total utility plant being depreciated	129,498,750	8,533,204	1,566,124	136,465,828
Less accumulated depreciation for:				
Olympic View Generating Plant	-683,588	-204,242	-	-887,830
Transmission Plant	-2,089,284	-563,379	442,205	-2,210,458
Distribution Plant	-30,240,221	-2,975,172	842,937	-32,372,456
General Plant	-5,894,101	-375,944	154,717	-6,115,328
Total accumulated depreciation	-38,907,193	-4,118,737	1,439,859	-41,586,071
Total utility plant being depreciated (net)	90,591,557	4,414,467	126,265	94,879,757
Total Utility Plant (Net)	\$102,088,518	\$4,414,467	\$749,625	\$105,753,358

FSLIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission. These investments are not categorized because they are not evidenced by securities requiring categorization.

Cash and temporary investments for the year ending December 31, 2005 are shown in Table 3.

All temporary investments are stated at cost plus accrued interest which approximates market value. Market value of these investments as of December 31, 2005, was \$13,680,744. Management intends to hold the time deposits and securities until maturity.

It is the district's policy to invest all temporary cash surpluses. At December 31, 2005, the treasurer was holding \$3,813,685 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The district also had investments of \$6,069,354 in the Washington State Treasurer's Local Government Investment Pool and \$3,502,588 in U.S. Government Agency Securities.

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

**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects totaling \$8,788,217 at year end. Some of these projects were started prior to the beginning of 2005 and are still in progress (see Table 4).

**NOTE 5 - LEASE COMMITMENTS**

Capital Leases: The district had no capital leases during 2005.

Operating Leases: The district is committed under operating leases for personal computers. Two of the operating leases that expired in 2002 were replaced with new leases. These leases are considered operating leases for accounting purposes. Lease expenses for the year ended December 31, 2005 amounted to \$61,682. A new lease was entered into in April 2005 for some equipment that was replaced after the leases expired in that month.

**Table 3**  
**Cash and Temporary Investments**  
For Year Ending December 31, 2005

	Carrying Amount	Market Value
Time deposits	\$ 358,433	\$ 358,735
Cash & Cash Equivalents	3,813,685	3,814,035
Investment in State Treasurer's Investment Pool	6,069,354	6,069,354
U.S. Government Agency Securities	3,502,588	3,438,620
Total Investments	<u>\$13,744,060</u>	<u>\$13,680,744</u>

**Table 4**  
**2005 Construction in Progress**  
For Year Ending December 31, 2005

	Work Order	Expended
John's Prairie New Substation	WF0059664	\$468,640
Terrace Heights Rebuild	WF0074816	195,634
Morgan Road Rebuild	WF0074819	159,031
Export Road	WF0088664	149,599
Grapeview Loop Rebuild	WF0092945	572,043
Port of Shelton	WF0097983	206,078
Ballow Road URD Rebuild	WF0087398	132,679
Subtotal		1,883,704
Various Projects Under \$100,000		6,904,513
Work in Progress Balance		<u>\$8,788,217</u>

Minimum rental commitments for these leases are as follows for the years indicated:

Year	Amount
2005	\$61,682
2006	41,127
2007	42,662
2008	10,745
Total	\$156,216

## NOTE 6 - LONG-TERM DEBT

The following is a list of the revenue bond debt activity and year end summary as of December 31, 2005. 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 (see Table 5).

The annual requirements to amortize all debts outstanding as of December 31, including interest, are shown in Table 6.

Debt service in subsequent years rises to an annual total of \$4,232,249 in 2011. Beginning in 2012, debt service decreases and fully matures in the year 2021. The total amount of principal scheduled for repayment on the revenue bonds for 2006 is \$1,818,045.

There is \$358,433 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% of the prime rate and changed with adjustments in the prime rate. From January through February 28 of 2005 the rate was 3.93%. On March 1, it was increased to 4.12% until March 21. It then rose to 4.31% through May 2. From May 3 through June 22 it stayed at 4.50%. 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%.

**Table 5**  
**Revenue Bond Debt Activity**  
For Year Ending December 31, 2005

Issued	Maturity	Int. Rate	Begin. Bal	Added	Redeemed	End. Bal
3/20/01	2021	4.37%-5.1%	\$10,000,000	-	\$400,000	\$9,600,000
11/13/01	2011	3.75%	4,515,701	-	548,136	3,967,565
1/23/02	2021	4.45%-5.1%	12,585,000	-	-	12,585,000
07/01/97	2011	4.05%-5.2%	1,600,000	-	195,000	1,405,000
02/27/98	2012	3.75%-4.75%	5,515,000	-	590,000	4,925,000
TOTAL			\$34,215,701	-	\$1,733,136	\$32,482,565

**Table 6**  
**Annual Requirements to Amortize all Debts Outstanding**  
For Year Ending December 31, 2005

	Principal	Interest	Total
2006	\$1,818,045	\$1,516,758	\$3,334,803
2007	1,903,898	1,439,134	3,343,032
2008	1,996,845	1,357,324	3,354,169
2009	2,090,913	1,270,880	3,361,793
2010	2,407,104	1,180,478	3,587,582
2011-2015	10,210,760	4,372,331	14,583,091
2016-2021	12,055,000	2,244,696	14,299,696
Total	\$32,482,565	\$13,381,601	\$45,864,166

## 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 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 combination defined benefit/defined contribution plan. Membership in the system includes elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining 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 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at age 60 with five years of service, or at age 55

with 25 years of service. The annual pension 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. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at three percent annually.

Plan 2 retirement benefits are vested after an employee completes 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 per year of service of the average final compensation. The average final compensation is based on the greatest compensation during any eligible consecutive 60 month period. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 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 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60 month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirees prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.



There are 1,166 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2004 (see Table 7).

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 rates. Employee contribution rates for Plan 1 are established by statute at six percent for local government unit employees and do not vary from year to year. 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. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the portions are graduated rates dependent on the employee's age. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

See Table 8 for the required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2005.

Both district and the employees made the required contributions. The district's required contributions for the years ended December 31 are shown in Table 9.

**Table 9  
District PERS Contributions**

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2005	\$11,962	\$94,969	\$27,886
2004	\$10,192	\$67,699	\$19,940
2003	\$12,522	\$67,425	\$14,825

**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.

**Unamortized Discount**

Remainder of 97 Bond	\$ 14,221
Remainder of 98 Bond	43,482
Remainder of 01 Bond	141,922
Remainder of 02 Bond	206,981
Preliminary Surveys	<u>44,602</u>
Total	\$451,208

**Table 7  
PERS Membership  
As of September 30, 2004**

Retirees and Beneficiaries Receiving Benefits	66,896
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	21,031
Active Plan Members Vested	103,039
Active Plan Members Nonvested	<u>53,217</u>
Total	<u>244,183</u>

**Table 8  
District Required Contribution Rates PERS  
For Year Ending December 31, 2005**

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	2.44%*	2.44%*	2.44%**
Employee	6.00%	1.18%	***

- \* The employer rates do not include the employer administrative expense fee currently set at 0.19%.
- \*\* Plan 3 defined benefit portion only.
- \*\*\* Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

## **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. On June 30, 1995, its membership consisted of 11 public utility districts and the cities of Richland, Seattle, and Tacoma. Grays Harbor PUD rejoined WPPSS in April 1995. Mason County PUD 3 (hereafter the district) withdrew its membership on September 11, 1984. All members own and operate electric systems within the state of Washington. Energy Northwest has no taxing authority. In July 2001 the district once again became a member of Energy Northwest.

Nuclear Projects 1, 2, and 3- The district continues to fulfill its obligation consistent with 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 the Energy Northwest 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 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 megawatt (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.

The participant members commissioned a study of the Packwood Hydroelectric Project by D. Hittle & Associates, Inc. in early October of 1995. This study was initiated because of the proposed changes in BPA's power and transmission rates (1996 Rate Case Proceeding). These rates went into effect October 1, 1996, and had two significant impacts on the net revenues of the Packwood project. First, there was a significant increase in the transmission rate charged Energy Northwest. Second, the new rates dramatically reduce the value of capacity, changed the value of energy by season, and decreased the priority firm rate by approximately eight percent overall. These changes combined with the transmission expenses under the Lewis/ Energy Northwest Packwood wheeling contract could result in costs exceeding revenues for years when plant generation is below average. The focus of the study was to evaluate alternatives that may enhance project net revenues over the next five years.

The alternative accepted by the participants was to negotiate a five year agreement with BPA for the purchase of the plant's generation (output). This simplified the existing agreements, maintaining a positive net revenue for average generation, and limited the cost impact on the participants that had previously purchased plant generation.

This agreement between Energy Northwest and BPA was negotiated and accepted by the participants in December 1996. The agreement was retroactive to October 1996 when the new BPA rates went into effect. The plant sold the generation to BPA and BPA was responsible for the transmission costs to the point of delivery (location). The rate for the power was fixed through the year 2001 with an option to continue the arrangement upon agreement of the parties on the payment provisions beyond 2001.

Because of major upgrades at Packwood in 2005, expenses exceed revenues. Therefore, we received no payment for the year. Because the expenses also exceeded revenues in 2004 no payment was received in the previous year either.

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.

**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 1 MW share (2.08%) 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, WA. 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 dollars 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 will be 2 MW or 3.14%. 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.

During 2005, Energy Northwest announced several potential new generation projects. The district has indicated preliminary interest in these three projects.

In April it announced investigation of interest in a 600 MW integrated gasification combined cycle (IGCC) facility near Kalama, WA. This project has since been named the Pacific Mountain Energy Center (PMEC).

In July it announced it was investigating a potential new 50 MW wind project near Reardan, Washington, just west of Spokane. In October it announced investigation of a 32 MW expansion of the Nine Canyon Wind Project.

**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 hydroelectric 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.

In May 2000, Bonneville issued a Record of Decision establishing fees and charges for services to be provided to its customers under the new contracts effective October 1, 2001. The Record of Decision included a Cost Recovery Adjustment Clause ("CRAC"), which authorizes Bonne-

ille to impose a surcharge on its power rates (except rates applicable to the Slice product) in order to deal with a number of contingencies that might affect adversely its ability to make required payments of debt service to the U.S. Treasury Department.

Bonneville's current rate structure contains three different CRAC's: a load based (LB) CRAC, which triggers based on costs related to market purchases to augment the federal base system and sales of surplus power; the financial based (FB) CRAC triggers if BPA's reserve level falls below \$660 million; and the safety net (SN) CRAC triggers if BPA estimates that it would miss a payment to the U.S. Treasury.

Early in 2001, a combination of factors required BPA to purchase large amounts of power in the open market at the same time those prices were highly inflated. In discussions with customers prior to implementing the LB CRAC, BPA customers agreed to rate adjustments every six months, to allow for more accurate tracking of rapidly changing conditions

Each six months a cost reduction adjustment clause (CRAC) rate adjustment is put in place by BPA. At the beginning of 2005, BPA CRAC levels were 21.66% above the October 2001 base rate for the load based CRAC and 11.16% for the financial based CRAC. In April of 2005, the load based CRAC was raised to 25.77% of the base rate. In October, the load based CRAC was reduced to 24.40% and the financial based CRAC was reduced to 9.58%. The safety net CRAC was reinstated at 4.07%. We are anticipating an adjustment every six months for the duration of our contract.

Also due to the high cost of market power purchases, BPA asked all customers to reduce their load by 10%. 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 dollars 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.

#### **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 2001, the district began participating in several Bonneville Power Administration conservation programs.

The Conservation and Renewables Discount (C&RD) 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 \$300,000 per year, based on our 2000 kilowatt hour purchases) on qualifying conservation and/or renewable energy activities during the current rate period (through September of 2006).

Qualifying measures are determined by the Regional Technical Forum (RTF). 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. If the district cannot document this spending, BPA will bill the district

for the amount not spent and acquire the resources on its own.

The district plans to comply with this program through loans and grants to residential, commercial and industrial customers installing qualifying measures. Qualifying measures include such things as added insulation, heat pumps, lighting improvements, energy efficient motors and energy efficient new construction.

The district has contracted for a portion of the output of Energy Northwest's Nine Canyon Wind project, which is a qualifying renewable energy resource.

The district is also participating in BPA's Conservation Augmentation program. The district is participating in a program to save energy through improvements in the compressed air systems used by large industrial customers (predominantly wood products). BPA will provide reimbursement of up to \$400,000 for this program in addition to the C&RD spending requirement (for which there is no reimbursement).

### **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 - PURMS provides liability insurance coverage for its members participating in the Liability Risk Pool ("Liability Pool") and 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 has had a self-insured retention (or liability coverage limit) of \$500,000 per occurrence. Effective January 1, 1996, the fund's liability pool increased its self-insurance retention to \$1,000,000 per occurrence.

The Liability Pool is financed through assessments of its participating members in accordance with the terms of the liability general assessment formula. Liability assessments are levied at the beginning of each calendar year to replenish the liability pool to the designated risk pool balance, and at any time during the year that the actual risk pool balance becomes \$500,000 less than the designated risk pool balance. For 2005 the designated risk pool balance was \$2 million. As a result, during 2005 the liability

pool maintained cash reserves between \$1.5 and \$2 million to pay for operating expenses and liability claims ("liability pool reserves").

At all times, PURMS also maintains excess liability insurance for its members in the liability pool. For 2005 the amount of the excess liability insurance was \$35,000,000.

As of December 31, 2005, there were 184 known incidents and/or unresolved liability claims pending against one or more members or former members of the PURMS liability pool ("pending liability claims"). The total dollar value of the risk posed by these claims to such members and to the liability pool itself is unknown and can only be estimated. Therefore, no opinion is expressed as to the risk these pending liability 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 pool 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 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. 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.

The property pool is financed through assessments of its participating members under the property general assessment formula. Property assessments are levied at the beginning of each calendar year to replenish the property pool to the designated balance, and at any time during the year that the actual risk pool balance becomes \$250,000 less than the designated risk pool balance. From 1997 to November 21, 2002, the 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 for operating expenses and property claims.

Effective November 21, 2002, the property pool began providing its members with automatic extended property coverage. This coverage extends property coverage for property losses that exceed the property pool's \$250,000 property coverage limit if those losses are also subject to excess property insurance retentions that exceed \$250,000. Under the excess property insurance retentions in effect for 2005, the maximum exposure to the property pool from a property loss that exceeded \$250,000, and that was subject to such increased retentions, was \$500,000, or \$250,000 more than the property coverage limit.

On November 20, 2003, the PURMS Board adopted Resolution No. 11-20-03-2 ("funding resolution") which established a procedure for funding the additional exposure to the property pool under the automatic extended property coverage. The funding resolution provided that an additional \$50,000 be added to each of the next five property assessments that occur, starting with the annual automatic general assessment in January 2004, to replenish the property pool to the designated property pool balance. In 2005, the property pool issued the last of the property assessments subject to the terms of the funding resolution, and as of December 31, 2005, the designated property pool balance was effectively \$750,000, thereby triggering a property assessment when the actual property pool balance drops to \$500,000. As a result, PURMS now deems the property pool reserves fully funded for the additional risk posed to the property pool by virtue of the automatic extended property coverage.

At all times, the fund also maintains excess property insurance for its members in the property pool. For 2005, the amount of such excess insurance was \$150,000,000.

As of December 31, 2005, there were 28 known property claims pending from the members of the property pool ("pending property claims"). The total dollar value of the risk posed by these claims to the property pool is unknown and can only be estimated. Therefore, no opinion is expressed 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 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 such 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 SIA 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. The district joined the fund as of January 1, 2002, after being self-insured for a number of years.

The H & W pool's operations are financed through assessments of its participating members in accordance with the H & W general assessment formula. Under the terms of the SIA and the H & W assessment formula, the H & W pool was initially funded with, and on a monthly basis consistently maintains, cash reserves for paying operating expenses and H & W claims ("H & W pool reserves") in an amount approximately equal to the sum of three times the amount of each member's historical average monthly H & W claims experience for its respective employees and their dependents (Hereinafter, "employees" includes dependents).

Pursuant to PURMS Board Resolution 5-20-05-1, effective as of May 20, 2005, the amount of the H & W pool reserves was reduced to 2.5 times the total of all members' H & W claims experience. By amendment to the SIA, approved by the PURMS Board Resolution 12-1-05-2 at the Board's December 1, 2005 meeting, 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, 2005, the H & W pool reserves were established at 2.5 times the total of all members' H & W claims experience.

Under the H & W assessment formula, each month, each member of the H & W pool is assessed for: the cost of the H & W pool incurred during the preceding month for H & W claims for such member's employees; and for such member's share of shared H & W costs. "Shared H & W costs" consist of administrative expenses incurred by the H & W pool, premiums for stop-loss insurance, PPO charges and shared H & W claims.

H & W claims become “shared H & W claims,” and therefore “shared H & W costs,” when and to the extent the cost of such claims exceed the member’s aggregate stop-loss point or its individual stop-loss point. The amounts of each member’s aggregate and individual stop-loss points are calculated each year under the H & W assessment formula, based on the aggregate and individual stop-loss points in the stop-loss insurance acquired for the H & W pool and its members (see information below re: “stop loss insurance”).

Thus, under the terms of the H & W assessment formula, each month, the operating expenses of the H & W pool are paid and the H & W reserves are substantially, if not completely, replenished.

At all times, PURMS maintains excess stop-loss insurance with a commercial carrier for the H & W pool and its members. For 2005, PURMS maintained excess stop-loss insurance with an aggregate stop-loss for the H & W pool and all its members of \$7,789,000 and with an individual stop-loss (per employee) of \$150,000. Based on these numbers, the H & W assessment formula is used to calculate and establish for each member an aggregate stop-loss point (i.e., the 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) and an individual stop-loss point (i.e., the dollar amount at which any further payments by the H & W pool on claims for a particular employee constitute shared H & W costs).

As of December 31, 2005, 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. However, the administrator estimates that, as of December 31, 2005, the total “incurred-but-not-reported” claims for the H & W pool was approximately \$452,000 (“IBNR claims”). Because IBNR claims can only be estimated, no opinion is expressed 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.

## **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 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 pay-as-you-go basis. Expenses for post-retirement health care benefits are recognized as retirees report claims.

During the year 2005, expenses of \$519,365 were recognized for post-retirement health care, including premiums and claims for all 45 eligible retirees and their eligible dependents.

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

The district, along with 11 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% to 7.09%. 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% 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

\$242,246 and \$242,650 in 2005 and 2004, respectively, has been expensed as incurred. Assessments for 2006 will be determined by the NoaNet board of directors if needed for debt service payments on outstanding bonds.

NoaNet recorded net losses of \$1,915,252 (unaudited) and \$4,311,428 for 2005 and 2004, respectively. The district's proportionate share of these losses is less than \$200,000 for 2005. Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, Corporate Office – Seattle, 21507 42<sup>nd</sup> Avenue South #J-4, SeaTac, WA 98198. A website is available at [www.noanet.net](http://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, 2005, the district's percentage interest in NoaNet is 10.33%.

**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.

The district has invested \$10.1 million on this project through 2005. This has been financed by reserves, bonds and revenues. \$1 million was spent in 2000 for the fiber backbone; in 2001 \$3 million was spent for connections of PUD facilities; in 2002 \$3 million was spent for the build-outs to the Shelton, Belfair and Allyn business districts and one residential pilot project. In 2003 \$2 million was spent on several projects, including John's Prairie north of Shelton, Sherwood Creek near Allyn, Continental Floral north of Belfair plus several other residential projects. In 2004, \$800,000 in capital construction funds were spent on several major build-outs, including Lake Limerick, Sherwood Creek, Star Lake and Alpine View, as well as a number of smaller build-outs. While during 2005 no major projects were undertaken, several small projects were completed. The largest of these was beginning a build-out to the Southside School/Arcadia Road area. The telecom-

munications project is part of the district's combined financial statement, as are many other projects of the utility.

Future funding of telecommunications projects will be driven by the budget dollars available rather than by the demand for services. Each budget year an allotment will be made to cover fixed costs net of projected revenues. Hooking up customers already in the build-out areas will be a priority. Other build-out projects will be approved on a project-by-project basis as budget dollars allow. The budget allotted for capital construction in 2006 is \$163,000.

A summary of telecommunications revenues, expenses and capital investment for 2005 is listed in Table 10.

**Table 10**  
**Telecommunications Revenues, Expenses and Capital Investment**  
For Year Ending December 31, 2005

<b>OPERATING REVENUE</b>	
Wholesale fiber services to ISP	\$ 328,439
Dark fiber lease	1,800
Installation charges	14,877
Total	<u>\$345,116</u>
<b>OPERATING EXPENSES</b>	
Operating expenses	\$ 1,704,865
Kamilche tower expenses	15,050
Depreciation	478,385
Taxes other than income	-619
Total	<u>\$ 2,197,681</u>
<b>NONOPERATING REVENUE</b>	<b>\$41,477</b>
<b>NET INCOME (LOSS)</b>	<b>-\$ 1,811,088</b>
<b>CAPITAL INVESTMENT</b>	
Current year net plant	\$ 185,705
Cumulative net plant	<u>\$ 9,136,956</u>



## **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 Creekpau, 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 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 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, 2005 market value of the trust was \$1,520,224. The allocations between investment options were: 24.4% in the Vanguard Federal Money Market Fund, 28.9% in the Vanguard Balanced Fund, and 46.7% in the Vanguard US 500 Stock Fund. During 2005, \$471,899 in contributions from both employees and employer was added; \$277,033 was paid out in 691 claims, and there was a gain of \$62,488 on the investments held in the trust.



## **Statistical Section**

**Mason County PUD No. 3 - Shelton, Mason County, Washington**  
**Financial results for the years ending December 31 - Unaudited**

	2005	2004	2003	2002	2001
<b>OPERATING REVENUES</b>					
<b>Electric Revenues</b>					
Residential Sales	\$24,051,725	\$23,166,516	\$22,433,267	\$22,366,839	\$20,666,406
Outdoor Lighting	515,524	513,330	502,120	506,029	484,757
Fixed Rate Facilities	564	959	1,199	1,131	699
Commercial	10,049,534	9,265,698	9,157,959	9,277,119	8,616,814
Large Industrial	3,079,556	2,888,372	2,738,929	2,828,778	2,282,894
Public Authorities	-	-	-	-	-
Sales for Resale	-	-	-	-	402,398
Total Electric Revenues	<u>\$37,696,903</u>	<u>\$35,834,875</u>	<u>\$34,833,474</u>	<u>\$34,979,896</u>	<u>\$32,453,968</u>
<b>Generation Revenues</b>					
Sales for Resale	\$ -	\$ -	\$ 1,467,444	\$ 2,574,553	\$ -
Purchase Displacement	7,350	11,200	627,448	-	-
	<u>\$ 7,350</u>	<u>\$ 11,200</u>	<u>\$ 2,094,892</u>	<u>\$ 2,574,553</u>	<u>\$ -</u>
<b>Telecom Revenues</b>					
Commercial	\$ 330,239	\$ 292,491	\$ 174,768	\$ 144,286	\$ -
<b>Other Revenues</b>					
Forfeited Discounts	\$ 37,420	\$ 39,700	\$ 33,730	\$ 46,580	\$ 42,100
Miscellaneous Service Revenue	1,865,022	1,484,738	1,681,251	999,749	136,738
Electric Pole Rental Fees	170,126	162,806	158,132	134,461	115,151
Miscellaneous Electric Operating Revenue	112,163	112,073	109,530	110,560	114,575
Total Other Revenues	<u>\$ 2,184,731</u>	<u>\$ 1,799,317</u>	<u>\$ 1,982,643</u>	<u>\$ 1,291,350</u>	<u>\$ 408,564</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$40,219,223</b>	<b>\$37,937,883</b>	<b>\$39,085,777</b>	<b>\$38,990,085</b>	<b>\$32,862,532</b>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$21,095,946	\$20,872,530	\$20,797,617	\$20,066,443	\$15,727,800
Operation	2,256,733	2,290,180	3,508,664	4,178,280	1,629,310
Maintenance	2,629,800	2,336,816	2,271,860	2,231,141	2,678,639
Customer Accounts	1,536,440	1,317,541	1,333,627	1,311,429	1,077,400
Customer Service	346,086	334,551	459,361	497,083	412,743
Administration & General	4,755,392	4,297,399	3,782,824	3,461,681	3,237,750
Maintenance of General Plant	534,186	472,559	463,827	453,282	460,309
Total Operating Expenses	<u>\$33,154,583</u>	<u>\$31,921,576</u>	<u>\$32,617,780</u>	<u>\$32,199,339</u>	<u>\$25,223,951</u>
<b>GROSS OPERATING INCOME</b>	<b>\$ 7,064,640</b>	<b>\$ 6,016,307</b>	<b>\$ 6,467,997</b>	<b>\$ 6,790,746</b>	<b>\$ 7,638,581</b>
<b>NON-OPERATING REVENUES</b>					
Revenue from Contracting Work	\$ 24,580	\$ 7,959	\$ 24,974	\$ 5,623	\$ 9,165
Rental Income	37,761	24,992	30,772	26,261	-
Interest Earnings & Misc.	456,622	278,214	293,364	509,547	788,529
Misc Non-Operating Income	82,565	82,069	192,769	181,795	265,122
Total Non-Operating Revenues	<u>\$ 601,528</u>	<u>\$ 393,234</u>	<u>\$ 541,879</u>	<u>\$ 723,226</u>	<u>\$ 1,062,816</u>
<b>NON-OPERATING EXPENSES</b>					
Taxes	\$ 1,489,142	\$ 1,319,611	\$ 1,325,264	\$ 1,300,419	\$ 1,152,700
Cost of Contracting Work & Other	15,247	6,463	12,046	13,394	12,619
Total Non-Operating Expenses	<u>\$ 1,504,389</u>	<u>\$ 1,326,074</u>	<u>\$ 1,337,310</u>	<u>\$ 1,313,813</u>	<u>\$ 1,165,319</u>
<b>NET INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>\$ 6,161,779</b>	<b>\$ 5,083,467</b>	<b>\$ 5,672,566</b>	<b>\$ 6,200,159</b>	<b>\$ 7,536,078</b>
<b>DEBT SERVICE</b>	<b>\$ 2,653,275</b>	<b>\$ 2,221,050</b>	<b>\$ 2,685,045</b>	<b>\$ 2,128,117</b>	<b>\$ 1,460,444</b>
<b>DEBT SERVICE COVERAGE</b>	<b>2.32</b>	<b>2.29</b>	<b>2.11</b>	<b>2.91</b>	<b>5.16</b>

**Mason County PUD No. 3 - Shelton, Mason County, Washington**  
**Financial results for the years ending December 31 - Unaudited**

	2000	1999	1998	1997	1996
<b>OPERATING REVENUES</b>					
<b>Electric Revenues</b>					
Residential Sales	\$19,599,437	\$19,424,792	\$18,355,634	\$18,232,683	\$17,944,557
Outdoor Lighting	442,951	436,762	228,064	116,325	111,527
Fixed Rate Facilities	918	694	986	836	756
Commercial	5,821,031	5,975,043	6,098,553	5,810,688	5,400,331
Large Industrial	2,125,673	2,252,079	2,198,384	2,145,192	2,339,929
Public Authorities	1,947,951	1,882,643	1,455,469	1,660,399	1,594,433
Sales for Resale	172,336	172,984	225,175	101,628	106,068
Total Electric Revenues	<u>\$30,110,297</u>	<u>\$30,144,997</u>	<u>\$28,562,265</u>	<u>\$28,067,751</u>	<u>\$27,497,601</u>
<b>Generation Revenues</b>					
Sales for Resale	\$ -	\$ -	\$ -	\$ -	\$ -
Purchase Displacement	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Telecom Revenues</b>					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Other Revenues</b>					
Forfeited Discounts	\$ 51,120	\$ 53,510	\$ 46,640	\$ 50,250	\$ 41,130
Miscellaneous Service Revenue	133,773	136,775	140,469	148,953	168,797
Electric Pole Rental Fees	67,307	64,508	63,962	62,778	62,735
Miscellaneous Electric Operating Revenue	102,520	108,405	83,550	92,663	84,608
Total Other Revenues	<u>\$ 354,720</u>	<u>\$ 363,198</u>	<u>\$ 334,621</u>	<u>\$ 354,644</u>	<u>\$ 357,270</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$30,465,017</b>	<b>\$30,508,195</b>	<b>\$28,896,886</b>	<b>\$28,422,395</b>	<b>\$27,854,871</b>
<b>OPERATING EXPENSES</b>					
Purchased Power	\$14,212,649	\$13,975,628	\$13,386,231	\$13,380,323	\$16,338,942
Operation	1,969,505	1,638,600	1,536,309	1,395,011	1,298,022
Maintenance	2,252,790	1,819,233	1,615,639	4,739,832	2,009,815
Customer Accounts	1,168,371	1,252,250	866,419	1,168,940	1,076,403
Customer Service	166,133	163,894	202,510	356,295	1,026,876
Administration & General	2,561,213	2,520,290	2,117,776	2,185,367	1,723,524
Maintenance of General Plant	359,531	363,487	254,400	182,501	181,197
Total Operating Expenses	<u>\$22,690,192</u>	<u>\$21,733,382</u>	<u>\$19,979,284</u>	<u>\$23,408,269</u>	<u>\$23,654,779</u>
<b>GROSS OPERATING INCOME</b>	<b>\$ 7,774,825</b>	<b>\$ 8,774,813</b>	<b>\$ 8,917,602</b>	<b>\$ 5,014,126</b>	<b>\$ 4,200,092</b>
<b>NON-OPERATING REVENUES</b>					
Revenue from Contracting Work	\$ 3,592	\$ 17,484	\$ 9,058	\$ 17,275	\$ 10,438
Rental Income	-	-	-	-	91
Interest Earnings & Misc.	827,153	622,661	651,229	549,849	645,755
Misc Non-Operating Income	72,891	79,751	81,641	2,596,078	1,271,212
Total Non-Operating Revenues	<u>\$ 903,636</u>	<u>\$ 719,896</u>	<u>\$ 741,928</u>	<u>\$ 3,163,202</u>	<u>\$ 1,927,496</u>
<b>NON-OPERATING EXPENSES</b>					
Taxes	\$ 1,052,419	\$ 1,061,062	\$ 1,053,217	\$ 1,082,648	\$ 1,107,402
Cost of Contracting Work & Other	3,291	13,631	13,723	16,134	11,458
Total Non-Operating Expenses	<u>\$ 1,055,710</u>	<u>\$ 1,074,693</u>	<u>\$ 1,066,940</u>	<u>\$ 1,098,782</u>	<u>\$ 1,118,860</u>
<b>NET INCOME BEFORE DEPRECIATION AND AMORTIZATION</b>	<b>\$ 7,622,751</b>	<b>\$ 8,420,016</b>	<b>\$ 8,592,590</b>	<b>\$ 7,078,546</b>	<b>\$ 5,008,728</b>
<b>DEBT SERVICE</b>	<b>\$ 2,052,914</b>	<b>\$ 2,033,903</b>	<b>\$ 2,011,242</b>	<b>\$ 2,063,529</b>	<b>\$ 2,054,849</b>
<b>DEBT SERVICE COVERAGE</b>	<b>3.71</b>	<b>4.14</b>	<b>4.27</b>	<b>3.43</b>	<b>2.44</b>

**Mason County Public Utility District No. 3**  
**Shelton, Mason County, Washington**  
**Historical Customers, Energy Sales and Revenues**  
**For the years ending December 31 - Unaudited**

	2005	2004	2003	2002	2001
<b>Number of Customers</b>					
Residential	28,619	27,657	27,177	26,638	26,091
Commercial (1)	2,121	2,074	2,039	1,950	1,939
Large Industrial (2)	1	1	1	1	1
Other (3)	89	86	88	89	86
Total	30,830	29,818	29,305	28,678	28,117
<b>Energy Sales (kWh)</b>					
Residential	369,780,401	363,915,264	350,011,988	351,661,448	344,668,590
Commercial	171,614,409	162,880,230	158,716,217	162,559,086	156,783,759
Large Industrial	74,793,600	69,436,800	64,123,200	70,992,000	64,771,200
Other	2,067,158	2,046,464	2,120,681	2,042,676	2,030,171
Total	618,255,568	598,278,758	574,972,086	587,255,210	568,253,720
<b>Revenues from Sales of Energy</b>					
Residential	\$24,051,725	\$23,166,516	\$22,433,267	\$22,366,839	\$20,666,406
Commercial (1)	10,049,534	9,265,698	9,157,959	9,277,119	8,616,814
Large Industrial (2)	3,079,556	2,888,372	2,738,929	2,828,778	2,282,894
Other (3)	516,088	514,289	503,319	507,160	485,456
Sale for Resale	-	-	-	-	402,398
Total	\$37,696,903	\$35,834,875	\$34,833,474	\$34,979,896	\$32,453,968
<b>Annual kWh per Customer</b>					
Residential	12,921	13,158	12,879	13,201	13,210
Commercial	80,912	78,534	77,840	83,364	80,858
Large Industrial	74,793,600	69,436,800	64,123,200	70,992,000	64,771,200
Other	23,226	23,796	24,099	22,951	23,607
Average - All Classes	20,054	20,064	19,620	20,478	20,210
<b>Revenue per kWh (in cents)</b>					
Residential	\$ 0.07	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06
Commercial	0.06	0.06	0.06	0.06	0.05
Large Industrial	0.04	0.04	0.04	0.04	0.04
Other	0.25	0.25	0.24	0.25	0.24
Average - All Classes	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06

(1) Includes commercial customers and public authorities.

(2) Simpson Timber Company.

(3) Includes outdoor lighting and unmeted signs.

**Mason County Public Utility District No. 3**  
**Shelton, Mason County, Washington**  
**Historical Customers, Energy Sales and Revenues**  
**For the years ending December 31 - Unaudited**

	2000	1999	1998	1997	1996
<b>Number of Customers</b>					
Residential	26,003	25,583	25,115	24,819	24,370
Commercial (1)	1,838	1,806	1,762	1,732	1,698
Large Industrial (2)	1	1	1	1	1
Other (3)	84	82	85	81	76
Total	27,926	27,472	26,963	26,633	26,145
<b>Energy Sales (kWh)</b>					
Residential	357,713,571	356,340,701	329,084,469	327,149,551	332,320,921
Commercial	176,972,462	159,380,906	148,830,267	147,926,292	142,866,756
Large Industrial	64,425,600	69,422,400	67,301,300	66,435,130	65,827,300
Other	2,024,901	1,982,193	2,123,759	1,928,850	1,886,530
Total	601,136,534	587,126,200	547,339,795	543,439,823	542,901,507
<b>Revenues from Sales of Energy</b>					
Residential	\$19,599,437	\$19,424,792	\$18,355,634	\$18,232,683	\$17,944,557
Commercial (1)	7,768,982	7,857,686	7,554,022	7,471,087	6,994,764
Large Industrial (2)	2,125,673	2,252,079	2,198,384	2,145,192	2,339,929
Other (3)	443,869	437,456	229,050	117,161	112,283
Sale for Resale	112,336	172,984	225,175	101,628	106,068
Total	\$30,050,297	\$30,144,997	\$28,562,265	\$28,067,751	\$27,497,601
<b>Annual kWh per Customer</b>					
Residential	13,757	13,929	13,103	13,181	13,636
Commercial	96,285	88,251	84,467	85,408	84,138
Large Industrial	64,425,600	69,422,400	67,301,300	66,435,130	65,827,300
Other	24,106	24,173	24,985	23,813	24,823
Average - All Classes	21,526	21,372	20,300	20,405	20,765
<b>Revenue per kWh (in cents)</b>					
Residential	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.06	\$ 0.05
Commercial	0.04	0.05	0.05	0.05	0.05
Large Industrial	0.03	0.03	0.03	0.03	0.04
Other	0.22	0.22	0.11	0.06	0.06
Average - All Classes	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05

(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  
Shelton, Mason County, Washington  
Uncollectible Account Analysis  
For the years ending December 31 - Unaudited**

	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Electric Receipts (1)	\$34,926,616	\$32,946,503	\$32,094,545	\$32,151,118	\$29,768,676
Write-offs	\$135,068	\$113,085	\$204,751	\$120,764	\$123,981
Percentage Written Off	0.39%	0.29%	0.58%	0.38%	0.42%
Allowance	\$114,314	\$213,392	\$112,243	\$119,565	\$116,967
Payments from Agencies	\$28,297	\$24,578	\$26,913	\$32,618	\$23,668
Payments to Agencies	\$6,055	\$7,518	\$9,308	\$11,676	\$8,771
Percent of Write-offs Collected	20.95%	21.73%	13.14%	27.01%	19.09%

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



**Mason County Public Utility District No. 3  
 Shelton, Mason County, Washington  
 Uncollectible Account Analysis  
 For the years ending December 31 - Unaudited**

	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Electric Receipts (1)	\$27,812,288	\$27,719,934	\$25,820,931	\$24,820,931	\$24,459,479
Write-offs	\$139,594	\$122,282	\$82,730	\$86,425	\$81,678
Percentage Written Off	0.50%	0.44%	0.32%	0.35%	0.33%
Allowance	\$89,418	\$87,487	\$81,730	\$84,068	\$81,604
Payments from Agencies	\$31,542	\$26,088	\$17,842	\$26,513	\$12,255
Payments to Agencies	\$11,965	\$10,040	\$8,490	\$11,584	\$5,672
Percent of Write-offs Collected	22.60%	21.33%	21.57%	30.68%	15.00%

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

**Mason County Public Utility District 3  
Shelton, Mason County, Washington  
Comparative Tax Costs  
For the years ending December 31 - Unaudited**

	<b>Current Rate</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
State Public Utility Tax	3.873%	\$1,460,042	\$1,360,927	\$1,286,317	\$1,256,733	\$1,105,090
State Privilege Tax	2.140%	754,337	743,610	755,211	697,926	652,267
City of Shelton Utility Tax	6.000%	561,876	543,104	519,716	521,620	465,233
Leasehold Tax	12.840%	20,010	14,224	14,053	10,853	7,495
Payroll Taxes	Various	587,265	526,534	527,171	493,935	468,167
L & I, Employment Security	Various	123,419	142,741	188,077	166,948	148,527
Miscellaneous Taxes	Various	54,331	53,319	117,409	47,237	51,312
<b>Total Taxes</b>		<b>\$3,561,280</b>	<b>\$3,384,459</b>	<b>\$3,407,954</b>	<b>\$3,195,252</b>	<b>\$2,898,091</b>
<b>Total Operating Revenues</b>		<b>\$40,219,223</b>	<b>\$37,937,883</b>	<b>\$39,085,777</b>	<b>\$38,990,085</b>	<b>\$32,862,532</b>
<b>% of Operating Revenues</b>		<b>8.85%</b>	<b>8.92%</b>	<b>8.72%</b>	<b>8.20%</b>	<b>8.82%</b>

**Mason County Public Utility District 3  
Shelton, Mason County, Washington  
Comparative Tax Costs  
For the years ending December 31 - Unaudited**

	<b>Current Rate</b>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
State Public Utility Tax	3.873%	\$1,054,803	\$1,057,517	\$1,024,948	\$1,023,641	\$1,053,183
State Privilege Tax	2.140%	652,854	617,821	594,144	613,058	561,634
City of Shelton Utility Tax	6.000%	437,154	439,740	424,604	431,405	438,147
Leasehold Tax	12.840%	4,229	3,958	3,904	3,886	3,949
Payroll Taxes	Various	442,064	419,713	400,594	417,207	391,808
L & I, Employment Security	Various	125,277	122,781	176,038	163,038	92,308
Miscellaneous Taxes	Various	38,280	46,372	35,369	66,292	35,132
<b>Total Taxes</b>		<b>\$2,754,661</b>	<b>\$2,707,902</b>	<b>\$2,659,601</b>	<b>\$2,718,527</b>	<b>\$2,576,161</b>
<b>Total Operating Revenue</b>		<b>\$30,456,017</b>	<b>\$30,508,195</b>	<b>\$28,896,886</b>	<b>\$28,422,395</b>	<b>\$27,854,871</b>
<b>% of Operating Revenue</b>		<b>9.04%</b>	<b>8.88%</b>	<b>9.20%</b>	<b>9.56%</b>	<b>9.25%</b>

**Mason County Public Utility District No. 3  
Shelton, Mason County, Washington  
Demographic Statistics for the years ending December 31 - Unaudited**

		2005	2004	2003	2002	2001
Population of County	(1)	51,900	50,800	52,288	51,199	50,261
Unemployment Rate	(2)	6.1%	7.3%	8.5%	8.3%	7.7%
Median Household Income	(3)	\$44,045	\$42,622	\$42,240	\$42,390	\$42,218
Heating Degree Days	(4)	5,135	5,024	5,146	5,626	5,800
Rainfall in Shelton	(5)	71.98"	52.9"	75.1"	53.4"	63.6"
New electric connects by Mason County PUD No. 3		895	727	663	517	484
Number of Electric Customers		30,830	29,818	29,305	28,678	28,117
Residential Rate December 31 (cent/kWh)		5.32	5.16	5.16	5.16	5.16

**Principal Employers in County**  
Employer (6)

Employer (6)	Product/Service	2005		1996	
		Employees	Rank	Employees	Rank
Washington Correction Center	State prison	660	1	625	2
Little Creek Casino Hotel	Casino and hotel	611	2	349	4
Shelton School District	Education provider	569	3	625	3
Wal-Mart	Retail store	500	4	210	9
Mason General Hospital	Medical facility	453	5	310	5
Simpson Timber Company	Lumber	400	6	928	1
Mason County	Government	360	7	305	6
Taylor Shellfish	Shellfish	360	7	-	-
Olympic Panel Products	Plywood, veneer	350	9	-	-
North Mason School District	Education provider	284	10	252	7
Stock Market Foods	Groceries	-	-	228	8
Fir Lane Terrace	Care provider	-	-	175	10

(1)Source: NW Income Indicators Project - WSU

(2)Source: Washington State Employment Security Department

(3)Source: Washington State OFM

(4)Source: National Weather Service Forecast Office

(5)Source: Shelton-Mason County Journal Mason County Profile and City of Shelton

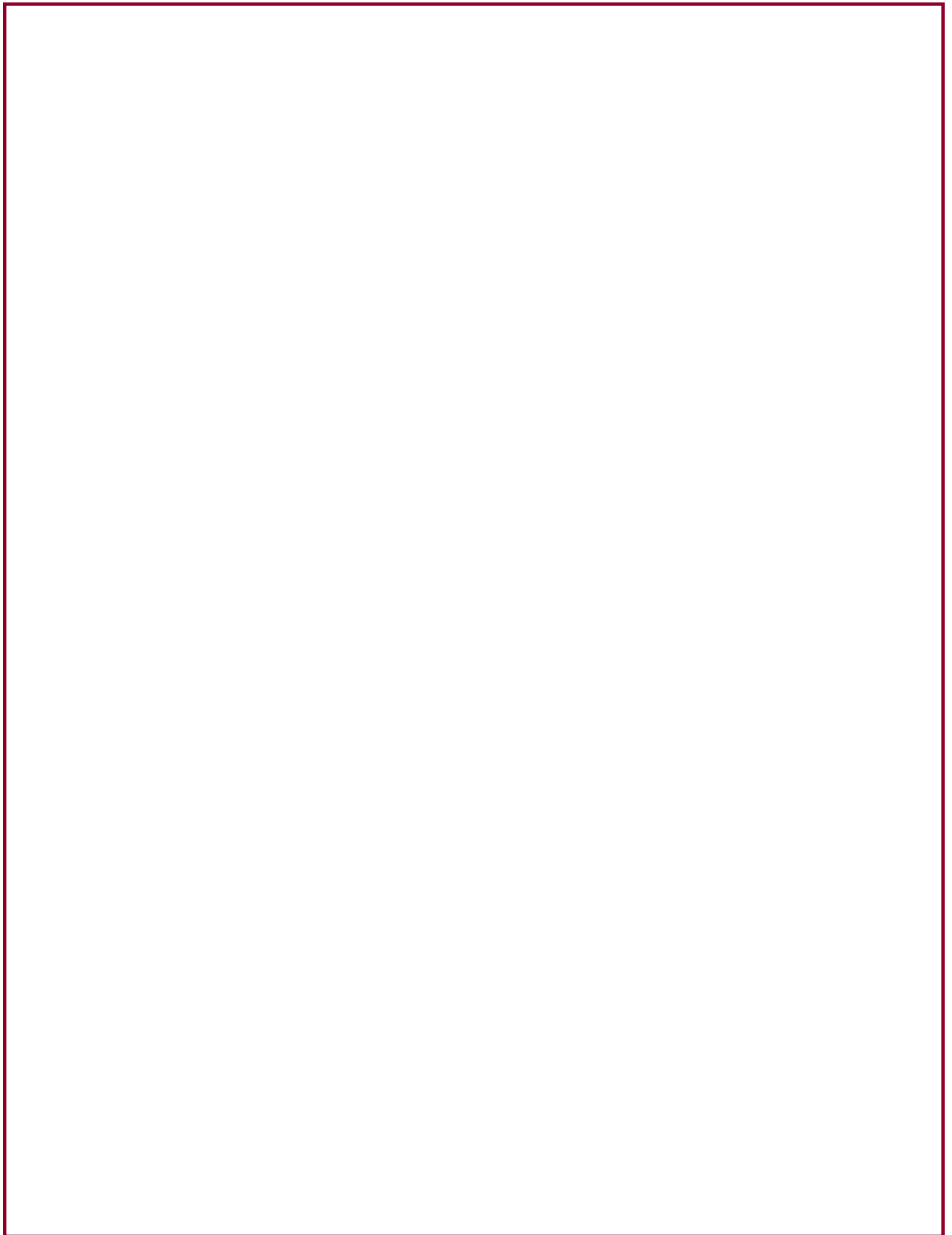
(6)Source: Shelton-Mason County Journal Visitors' Guide and Mason County Profile

**Mason County Public Utility District No. 3  
 Shelton, Mason County, Washington  
 Demographic Statistics for the years ending December 31 - Unaudited**

	2000	1999	1998	1997	1996
Population of County (1)	49,584	48,753	48,454	48,318	47,325
Unemployment Rate (2)	6.4%	5.9%	5.8%	6.3%	7.3%
Median Household Inc. (3)	\$41,273	\$39,586	\$38,512	\$36,519	\$34,744
Heating Degree Days (4)	5,668	5,572	5,125	5,007	5,558
Rainfall in Shelton (5)	49.5"	82.1"	78.7"	85.3"	82.0"
New electric connects by Mason County PUD No. 3	499	548	573	663	759
Number of Customers	27,926	27,472	26,963	26,633	26,145
Residential Rate December 31 (cent/kWh)	4.49	4.49	4.49	4.49	4.49

- (1)Source: NW Income Indicators Project - WSU
- (2)Source: Washington State Employment Security Department
- (3)Source: Washington State OFM
- (4)Source: National Weather Service Forecast Office
- (5)Source: Shelton-Mason County Journal Mason County Profile







**MASON COUNTY PUBLIC UTILITY DISTRICT No. 3**  
**P.O. Box 2148**  
**SHELTON, WA 98584**  
**(360) 426-8255**  
**[WWW.MASONPUD3.ORG](http://WWW.MASONPUD3.ORG)**