



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

**Public Utility District No 1 of Thurston
County**

For the period January 1, 2013 through December 31, 2013

Published December 22, 2014

Report No. 1013235





Washington State Auditor
Troy Kelley

December 22, 2014

Board of Commissioners
Public Utility District No 1 of Thurston County
Olympia, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR

TABLE OF CONTENTS

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	4
Independent Auditor’s Report on Financial Statements	6
Financial Section.....	8
About The State Auditor’s Office.....	57

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

**Public Utility District No 1 of Thurston County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Public Utility District No 1 of Thurston County
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No 1 of Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated December 16, 2014.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

December 16, 2014

Independent Auditor's Report on Financial Statements

Public Utility District No 1 of Thurston County January 1, 2013 through December 31, 2013

Board of Commissioners
Public Utility District No 1 of Thurston County
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No 1 of Thurston County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 8.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No 1 of Thurston County, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

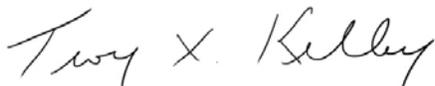
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

December 16, 2014

Financial Section

Public Utility District No 1 of Thurston County January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

Management's Discussion and Analysis

December 31, 2013 and 2012

The management of the Public Utility District No. 1 of Thurston County (District) offers readers of these financial statements this overview and summary analysis of the financial activities of the District for the year ended December 31, 2013 with additional comparative data for 2012. This analysis is intended to supplement and be used in conjunction with the basic financial statements and accompanying notes, which follow this section, and to assist the reader in focusing on significant financial activities.

Overview of the Financial Statements

The District uses fund accounting to account for its financial activities in accordance with the standards of the Governmental Accounting Standards Board (GASB). The District is considered an Enterprise Fund and the fund type used to account for its financial activities is called a Proprietary Fund. The District provides retail water service and regional water resource activities to support its water systems.

In accordance with requirements set forth by GASB, the District's financial statements are developed using the accrual method of accounting to recognize changes in District resources. Accrual accounting recognizes revenues and expenses when earned or incurred without regard for when cash is actually received or disbursed. The financial statements presented in the following pages of this document are presented just for the year ended December 31, 2013, and are comprised of:

• **Statement of Net Position:** The Statement of Net Position reflects the assets, liabilities and net position of the District as of the end of the fiscal year which, for the purposes of this report, is December 31, 2013. The net position section is separated into three categories:

- net position invested in capital assets net of related debt
- restricted net position
- unrestricted net position

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

• **Statement of Cash Flow:** The statement of cash flow reflects the sources and uses of cash separated into three categories of activities: operating, capital and related financing, and investing. The District does not include cash equivalents within its definition of cash.

• **Notes to the Financial Statements:** The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows and should be considered as part of the whole presentation. These notes are necessary to develop a full understanding of the figures provided in the basic financial statements.

The following table provides a summary of the financial data discussed in the next few pages of this report:

Public Utility District No. 1 of Thurston County, Washington
Condensed Financial Information for December 31, 2013, and 2012

STATEMENT OF NET POSITION	Combined Total As of December 31		Increase (Decrease) 2013 - 2012	% Change 2013 - 2012
	2013	2012		
Current Assets	\$ 1,586,130	\$ 1,594,882	\$ (8,751)	-0.55%
Other Non-Current Assets	7,804,343	7,976,505	(172,162)	-2.16%
Total Assets	<u>\$ 9,390,473</u>	<u>\$ 9,571,387</u>	<u>\$ (180,914)</u>	-1.89%
Current Liabilities	\$ 255,393	\$ 255,336	\$ 56	0.02%
Noncurrent Liabilities	5,498,148	5,874,502	(376,355)	-6.41%
Total Liabilities	\$ 5,753,540	\$ 6,129,839	\$ (376,299)	-6.14%
Deferred Inflows of Resources	271,874	338,554	(66,680)	-19.70%
Net Investment in Capital Assets	\$ 1,929,957	\$ 1,660,724	\$ 269,232	16.21%
Total Restricted	722,247	358,193	364,054	101.64%
Net Unrestricted	712,855	1,084,077	(371,222)	-34.24%
Total Net Position	\$ 3,365,059	\$ 3,102,994	\$ 262,065	8.45%
Total Liabilities and Net Position	<u>\$ 9,390,473</u>	<u>\$ 9,571,387</u>	<u>\$ (180,914)</u>	-1.89%

Public Utility District No. 1 of Thurston County, Washington
Condensed Financial Information for December 31, 2013, and 2012

STATEMENT OF CHANGES IN NET POSITION	Combined Total As of December 31		Increase (Decrease) 2013 - 2012	% Change 2013 - 2012
	2013	2012		
Operating Revenues	\$ 2,254,756	\$ 2,193,918	\$ 60,838	2.77%
Non-Operating Revenues	359,247	580,434	(221,187)	-38.11%
Total Revenues	\$ 2,614,003	\$ 2,774,351	\$ (160,349)	-5.78%
Operating Expenses	\$ 2,206,713	\$ 2,156,601	\$ 50,112	2.32%
Non-Operating Expenses	145,225	154,991	(9,767)	-6.30%
Total Expenses	\$ 2,351,938	\$ 2,311,592	\$ 40,346	1.75%
Change in Net Position	<u>\$ 262,065</u>	<u>\$ 462,759</u>	<u>\$ (200,694)</u>	-43.37%
Net Position Balance, BOY	\$ 3,102,994	\$ 2,640,234	\$ 462,759	17.53%
Current Year Change in Net Position	262,065	462,759	(200,694)	-43.37%
Prior Period Adjustment	-	-	-	0.00%
Balance, EOY	<u>\$ 3,365,059</u>	<u>\$ 3,102,994</u>	<u>\$ 262,065</u>	8.45%

Financial Analysis

Operating Revenues

In 2013, operating revenue for the District increased \$60,838 or 2.77% from that of 2012. This increase in revenue is attributable to the increase in water rates on January 1, 2013.

Operating Expenses

Overall operating expenses increased in 2013 by \$50,112 or 2.32%. The largest contributor to this increase in expense was Depreciation and Amortization Expense increasing \$99,553 or 31.71% from placing in service the new wells and reservoir at the Tanglewilde Water System

Non-Operating Revenues & Expenses

Non-operating revenue recognized in 2013 is primarily the District's tax levy. The District, like all public utility districts organized in the State of Washington, has taxing authority. The District exercises this authority at a minimum level, collecting \$256,389 in property tax assessments in 2013, compared to \$250,375 in 2012, representing a 2.4% increase from 2012 to 2013. Property tax revenues are used by the District to support general District operations which can be tied to a benefit to taxpayers, rather than ratepayers of the District.

Election of PUD commissioners is held each even year; the cost of the election is paid out of the property tax revenues, and is reported as a non-operating expense. The District's share of the 2012 election was \$69,168. The District requested and received an extension to pay this expense over two years, and therefore paid the remainder of the 2012 costs, \$27,169 in 2013.

Interest income and interest expense are included as non-operating revenue and expense. Interest income decreased significantly from \$23,368 in 2012 to \$13,965 in 2013 due mainly to a decrease in investment earnings. Interest expense increased to \$118,056 in 2013 from \$112,991 in 2012 due to interest payments on the reduced principle owed this year.

Net position

The District's total net position increased in 2013 by \$262,085 or 8.45%.

A Closer Look at 2013

In early 2013, the District learned that the \$1.2 Million for capital projects expected to be funded through the Public Works Trust Fund was withdrawn from the budget passed by the State Legislature. This reduction in the future ability of Thurston PUD to obtain inexpensive financing for needed capital projects prompted the District to begin a strategic process of planning for the future.

An Asset Management Plan (AMP) was developed to identify the life expectancy of each component of the water systems owned by the District and the cost to replace each component at the end of its useful life. The AMP is designed to be updated constantly as each component is evaluated for changes in the condition of each of the component

providing a good planning tool for future capital replacement plans. Following the development of the AMP, the District hired a consultant to prepare a cost of service study to help the District in developing strategies for funding future capital replacements. This process will continue throughout 2014 as the District takes the findings of the cost of service study and holds public meetings throughout our service area to receive input from our customers on the best way to finance these replacements into the future.

Contacting the District's Financial Management

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate District accountability for the money it receives. If you have questions about this report, or require additional or clarifying financial information, contact the Public Utility District No. 1 of Thurston County, 921 Lakeridge Way SW, Suite 301, Olympia, WA 98502.

Julie Parker
Chief Financial Officer

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF NET POSITION

December 31, 2013

ASSETS	2013
Current Assets	
General Reserve	224,493
Capital Improvement Reserve	428,714
Water Revenue Reserve	628,921
Customer Deposits	50,953
Customer Accounts Receivable (net)	194,638
Property Tax Receivable	8,417
Other Receivables	23,014
Prepaid Expenses	26,980
Total Current Assets	\$ 1,586,130
Non-Current Assets	
Restricted Assets	
Grant Reserve	1,325
Bond Reserve	377,196
PUD Project Reserve	373,647
Total Restricted Assets	\$ 752,168
Capital Assets Not Being Depreciated:	
Land and Land Rights	90,554
Construction in Progress	99,901
Capital Assets Being Depreciated:	
Water Plant	8,162,159
Office Furniture & Equipment	248,719
Vehicles & Equipment	314,187
Other Utility Plant	676,874
Less Accumulated Depreciation	(2,540,219)
Total Capital Assets (Net)	7,052,175
Total Non-Current Assets	\$ 7,804,343
Total Assets	\$ 9,390,473

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

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF NET POSITION

December 31, 2013

LIABILITIES AND EQUITY**Current Liabilities:**

Accounts payable	112,453
Accrued compensated absences	66,812
Accrued taxes	23,633
Refundable Deposits	52,494
Total Current Liabilities	<u>\$ 255,393</u>

Noncurrent Liabilities:

Bonds Payable	2,590,000
PWTF Note - Preconstruction 05	578,947
PWTF Note - Planning 08	16,238
DWSRF Loan - Source	783,866
DWSRF Loan - Reservoir	1,494,202
DWSRF Loan - Consolidate Garden Acres	864
DWSRF Loan - Sward/Platt Consolidation	1,638
DWSRF Loan - Consolidate Lew's 81st	32,393
Total Noncurrent Liabilities	<u>\$ 5,498,148</u>
Total Liabilities	<u>\$ 5,753,540</u>

Deferred Inflows of Resources

Contributions In Aid of Construction	271,874
Total Deferred Inflows of Resources	<u>\$ 271,874</u>

Net Position

Net Investment in Capital Assets	1,929,957
Restricted for Capital Projects	345,051
Restricted for Debt Service	377,196
Net Unrestricted	<u>712,855</u>
Total Net Position	<u>\$ 3,365,059</u>

Total Net Position	<u><u>\$ 9,390,473</u></u>
---------------------------	----------------------------

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

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2013

		2013
Operating Revenues		
Metered Water Revenue		1,994,419
Sales to Irrigation		62,788
Miscellaneous Service Revenue		44,505
Other Water Revenue		153,044
Total Operating Revenue	\$	2,254,756
Operating Expenses		
Salaries & Benefits Employees	\$	894,427
Salaries Commissioners		64,893
Purchased Water		70,632
Purchased Power		82,917
Chemicals		24,859
System Repairs & Maintenance		62,084
Contract Engineering		10,738
Contract Legal		30,913
Contract Testing		37,085
Contract State Auditor		13,958
Contract Other		18,110
Rent and Janitorial		52,433
Transportation		47,566
Insurance		21,285
Advertising		5,003
Office Expense		57,964
Meeting Costs Commissioners		2,436
Meeting Costs Staff		2,643
Dues & Subscriptions		13,886
Telephone		9,928
Staff Training		9,511
Postage		21,644
Printing		14,104
Miscellaneous		49,966
Taxes		174,238
Depreciation/Amortization		413,489
Total Operating Expenses	\$	2,206,713
Net Operating Income	\$	48,043

The accompanying notes are an integral part of these combined financial statements.

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2013

		2013
Non-Operating Revenues (Expenses)		
Interest Income	\$	13,965
Property Tax Revenue		256,389
Interest on Long Term Debt		(118,056)
Election costs		(27,169)
Grant Revenues		38,891
Other, net		50,003
Total Non-Operating Revenues (Expenses)	\$	214,022
Change in Net Position	\$	262,065
Net Position		
Total Net Position, January 1	\$	3,102,994
Total Net Position, December 31	\$	3,365,059

The accompanying notes are an integral part of these combined financial statements.

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

	2013
Cash Flows from Operating Activities	
Cash received from customers	\$ 2,240,747
Cash payments to supplies and employees	\$ (1,607,596)
Taxes paid	\$ (187,650)
Net Cash Provided by Operating Activities	<u>\$ 445,501</u>
Cash Flows from Non-Capital Financing Activities	
Property Tax Income	\$ 257,357
Other Non Operating Income	\$ 50,003
Election Expenses	\$ (27,169)
Net Cash Provided by Non-Capital Financing Activities	\$ 280,191
Cash Flows from Capital Financing Activities	
Payments to 2011 Revenue Bond	\$ (200,000)
Payments to Public Works Trust Fund Loan	\$ (52,632)
Payments to 2008 PWTF Planning Loan	\$ (16,238)
Payments to DWSRF Loan Source	\$ (48,992)
Payments to DWSRF Loan Reservoir	\$ (93,388)
Proceeds from Issuance DWSRF Loan Lew's 81st	\$ 32,393
Proceeds from Issuance DWSRF Loan Garden Acres	\$ 864
Proceeds from Issuance DWSRF Loan Sward/Platt	\$ 1,638
Contributions to Capital	\$ 10,700
Proceeds from Grants	\$ 38,891
Acquisition and construction of capital assets	\$ (533,154)
Interest paid on long term debt	\$ (114,790)
Net cash from Capital Financing Activities	\$ (974,708)
Cash Flows from Investing Activities	
Interest received on cash on deposit	\$ 13,965
Net Increase (Decrease) in Cash	\$ (235,052)
Beginning of Year	<u>\$ 2,320,301</u>
End of Year	<u>\$ 2,085,250</u>

The accompanying notes are an integral part of these combined financial statements.

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2013

	2013
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 48,043
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	\$ 413,489
Customer Accounts Receivable	\$ (10,948)
Other Accounts Receivable	\$ (7,184)
Prepaid Expenses	\$ 2,044
Accounts Payable	\$ 6,550
Refundable Deposit Payable	\$ 4,122
Payroll Tax Liabilities	\$ (13,411)
Wages Payable	\$ -
Accrued Compensated Absences	\$ 2,796
Total Adjustments	\$ 397,458
Net Cash Provided by Operating Activities	\$ 445,501

The accompanying notes are an integral part of these combined financial statements.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

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

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Thurston PUD is a municipal corporation governed by an elected three-person Commission, authorized under Title 54 RCW. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Thurston PUD has no component units.

Nature of Activities

Thurston PUD owns and operates 155 water systems serving approximately 3217 active connections in 5 counties (Thurston, Lewis, Pierce, Grays Harbor and Mason Counties). Thurston PUD also manages 15 systems under contract as a Satellite Management Agency (SMA). The District employs 12 full time employees and one part-time temporary employee.

Basis of Accounting

The accounting policies of Public Utility District No. 1 of Thurston County, Washington (Thurston PUD or the District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. The full accrual basis of accounting is used, 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 Uniform System of Accounts for Class A Water Utilities, 1996, published by the National Association of Regulatory Utility Commissioners, is the foundation for the accounting policies of the District, and includes instructions regarding the capitalization of capital assets and the methods of accounting for and reporting contributions in aid of construction.

The District's financial statements include the financial position and results of operations of its two reporting units, general and water operations, which have been combined for this report. In accordance with governmental accounting principles, all Thurston PUD funds are considered proprietary.

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

New Accounting Standards

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: omnibus, -an Amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements and criteria for inclusion of component units in the financial reporting

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

entity. GASB Statement No. 61 is effective for financial statements for periods beginning after June 15, 2012. The District currently has no component units to report, and therefore, the statement has no reporting impact for the District.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The statement is effective for period beginning after December 15, 2012, with the effect of the accounting change to be applied retrospectively by restating previously reported amounts. The District has evaluated the impact of this statement on its combined financial statements and had chosen to adopt this pronouncement as of December 31, 2013. Amounts shown on the combined statements of net position are reported in accordance with GASB Statement No. 65.

In March 2012, the GASB issued Statement No. 66-*Technical Corrections-2012, an amendment of GASB Statements No. 10 and No. 62*, improving the accounting for operating leases, service fees, and purchase of a loan or group of loans. This statement is effective for financial statements for periods beginning after December 15, 2012. The District does not engage in material operating leases, servicing fees, or loan purchases, and, therefore, this statement had no reporting impact on the District.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The intent of this statement is to improve information provided by state and local government employers about financial support for pensions provided by other entities. This statement is effective for financial statements for periods beginning after June 15, 2014. The District is evaluating the impact of this statement on its combined financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for financial statements for periods beginning after June 15, 2013. Some governments extend financial guarantees for the obligations of another government or other entities without receiving equal value in exchange. The District does not engage in this activity, and, accordingly, this statement is not applicable to the District.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which clarifies accounting treatment and reporting related to the measurement date outlined in Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is an amendment to Statement No. 68 and has the same effective date. The District is evaluating the impact of the statements on its combined financial statements.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

Operating and NonOperating Revenue and Expenses

The District distinguishes between operating revenues and expenses from those that are nonoperating. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the District are charges to customers relating to the provision of retail water utility services, as well as special charges relating to the administration of customer accounts. Operating expenses for the District include the cost of providing water utility services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues & expenses.

Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates may be included in the disclosure of contingent assets and liabilities at the date of the financial statements, and in the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized as billed based on rates established by Thurston PUD's Board of Commissioners. Customer meters are read monthly during the second and third weeks of the month, and billed at month end. Unbilled utility service receivables are considered to be the revenue of the following month and are not accrued, which is a departure from GAAP.

Gains and losses from the disposal of utility plant and other non-core activities are excluded from operating income.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. All investments are held in trust with the Thurston County Treasurer's Office who acts as the Treasurer of the District.

Utility Plant and Depreciation

See Note 4 – Capital Assets

Contribution in Aid of Construction

Contributions in Aid of Construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. The District treats the contributions as a deferred inflow of resources under GASB 65 as they are a regulatory asset intended to recover costs that are expected to be incurred in the future. The payments are recorded as liabilities, then reclassified to non-operating revenue (contributed capital) when the associated facilities are constructed or acquired.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

Restricted Funds

In accordance with bond resolutions and other agreements, separate reserve accounts have been established for restricted or limited-use resources. The assets held in these funds are limited as to their use, including debt service, dedicated capital project funds, and other reserve requirements. At year-end there are restricted funds of Thurston PUD in the amount of \$752,168; PUD Project Fund \$373,647, Bond Reserve \$377,196, and Grant Fund \$1,325.

Assets and liabilities shown as current in the accompanying Statement of Net Assets exclude current maturities on revenue bonds and accrued interest, thereon, because debt service funds are provided for their payment.

Receivables

All utility customers are billed monthly in arrears for water service. Customer accounts receivable consist of amounts owed from private individuals or organizations for water services rendered. Management has reviewed customer accounts receivable at year-end to determine if any receivables will potentially be uncollectible, and to establish the provision for uncollectible customer accounts. For the current year, an estimate based on a percentage of water revenue billed during the year was used to establish this provision. Actual losses are then charged against the provision as they are identified. Management believes that the provision for uncollectible accounts as of year-end was adequate. The financial statements reflect customer accounts receivable net of the provision for uncollectible accounts.

Taxes receivable consists of property taxes and related interest and penalties (see Note 2 – Property Taxes).

Unamortized Debt Expenses

In accordance with GASB 65, the District has recorded all new 2013 debt issuance costs as an expense in the period incurred.

The previous Unamortized Debt Expenses of the District have been netted against the Unamortized Premium experienced from the 2011 Bond issue and expensed in 2013 as well. This process is a departure from GAAP, however, the result of this action is immaterial to the overall operations of the District and has minimal impact on the financial statement.

Compensated Absences

Employees accrue vacation leave in accordance with years of service. The balance of vacation may be carried forward from year-to-year to a maximum accumulation of 240 hours. Upon termination or resignation any accrued vacation through the last date of employment is cashed-out at the current equivalent salary or hourly wage of the employee. Thurston PUD records the cost of vacation leave as earned with a liability representing leave balances earned but not taken.

Sick leave is accrued by employees on a monthly basis at the rate of one day of sick leave per month. There is no cap to the amount of sick leave that can be accumulated. Any accrued sick

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2013 through December 31, 2013

leave at the time of separation of service may be converted to cash, deferred compensation, or a VEBA account at the rate of 25% of the value of the sick leave determined based on the employee's last rate of pay. Thurston PUD records the cost of sick leave as earned with a liability representing 25% of the value earned but not taken.

Income Tax Status

Thurston PUD is a municipal corporation and is exempt from federal income taxes.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, all highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

Changes in Accounting

There are no changes to the accounting presentation in these 2013 financial statements, beyond that discussed regarding the implementation of GASB 65.

NOTE 2 – PROPERTY TAXES

The Thurston County Treasurer (County Treasurer) acts as an agent to collect property taxes levied in the county for all taxing authorities.

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

Property taxes are recorded as receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred inflow and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. A revaluation of all property is required every four years.

The District's regular levy for 2013 was \$0.010506673916 per \$1,000 on an assessed valuation of \$23.803 billion for a total regular levy of \$250,092. In 2012 the regular levy was \$246,146. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

The District utilizes the services of the County Treasurer to invest and disburse all District cash.

Deposits

All receipts received by the District are deposited into qualified bank depositaries as directed by the County Treasurer and specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits, are entirely covered by federal depositary insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. PDPC coverage is of the nature of insurance pursuant to the Governmental Accounting Standards Board Statement No. 3. All deposits held at December 31, 2013, and throughout the year, were classified as category 1, insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name.

Investments

In 2013, Thurston PUD held no other investments than the deposits with the County Treasurer. Investments are governed by State statute and County investment policy. All investment instruments are those allowed by statute, which include U.S. Treasury Notes, Federal Agencies, bankers' acceptances, short-term commercial paper, money market account and the State Treasurer's Local Government Investment Pool (LGIP). There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. The fair value of County shares in the LGIP is dollar for dollar equal to the value of pool shares.

The investment policy of the County Treasurer dictates that all investment instruments be transacted on the delivery vs. payment basis. Key Bank acts as safekeeping agent for the Thurston County Treasurer.

NOTE 4 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$500 and an estimated useful life in excess of three years. 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 the cost is incurred.

Utility plant in service and other capital assets are recorded at cost (where the historical cost is known). Where historical cost is not known, assets are recorded at the estimated cost to construct the plant, discounted to the year the plant was originally dedicated to public service. Contributions by developers and customers are recorded, at cost, as contributions in aid of construction. The District amortizes as depreciation those assets acquired by contributions.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2013 through December 31, 2013

Utility plant activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	90,554		-	90,554
Construction in Progress	3,484,071	-	(3,384,170)	99,901
Total utility plant not being depreciated	\$ 3,574,625	\$ -	\$ (3,384,170)	\$ 190,455
Utility plant being depreciated				
Structures & Improvements	384,376	-		384,376
Wells and Springs	221,853	614,035		835,888
Supply Mains	-	387,299		387,299
Power Generation Equipment	6,443			6,443
Pumping Equipment	395,749	716,536		1,112,285
Water Treatment Equipment	987,590	5,897		993,488
Distribution Reservoir & Standpipe	127,258	1,738,262		1,865,520
Transmission & Distribution Mains	1,813,444	350,265		2,163,709
Services	120,123	-		120,123
Meters & Meter Installations	261,905			261,905
Hydrants	11,227			11,227
Other Plant & Miscellaneous Equipment	19,895			19,895
Office Furniture & Equipment	213,471	35,248		248,719
Transportation Equipment	207,706	69,781		277,487
Tools, Shop, & Garage Equipment	6,705	-		6,705
Power Operated Equipment	542	-		542
Communication Equipment	9,740	-		9,740
Miscellaneous Equipment	19,713	-		19,713
Other Tangible Plant	676,874	-		676,874
Total utility plant being depreciated	\$ 5,484,614	\$ 3,917,324	\$ -	\$ 9,401,939
Accumulated Depreciation	2,126,730	413,489		2,540,219
Total Utility Plant, Net	\$ 6,932,510	\$ 3,503,835	\$ (3,384,170)	\$ 7,052,175

Depreciation is computed using the straight line method over their estimated useful lives of 3 to 50 years. Initial depreciation on utility plant is recorded on a pro-rata basis in the year it is placed in service. 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 in accordance with the Uniform System of Accounts for Class A Water Utilities, 1996; and is a departure from Generally Accepted Accounting Principles.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

NOTE 5 – CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$100,000.

NOTE 6 – RETIREMENT BENEFIT PLAN

Pension Plan

Substantially all Thurston PUD's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing public employee defined benefit and defined contribution 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, PO Box 48380, Olympia, Washington, 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*:

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; judges of district and municipal courts; and employees of local governments. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or 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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

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. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at the age of 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2013 through December 31, 2013

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. 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. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW. The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2013 through December 31, 2013

Both Thurston PUD and the employees made the required contributions. The District's required contributions for the year ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$0.00	\$92,633.19	\$0.00
2012	\$0.00	\$51,343.64	\$1,324.71
2011	\$0.00	\$40,269.94	\$1,242.52

NOTE 7 – INSURANCE / RISK MANAGEMENT

Thurston PUD, along with seventeen other public utility districts and one joint operating agency, is a member of the Public Utilities Risk Management Services (PURMS) self-insurance fund. The program provides members with various liability, property and health insurance coverage in three separate pools. Thurston PUD is a member of the PURMS health & welfare (H&W) pool. As a former member of the liability and property pools of PURMS Thurston PUD continues to receive coverage from the pool for occurrences that happened while they were a member (years through 2010). Withdrawn PURMS members continue to be responsible for their share of assessments for occurrences that happen to all members while they were a member.

The PURMS H&W pool maintains funded reserves in an amount approximately equal to the sum of three (3) times the amount of each member's historical average monthly H&W claims experience for its respective employees and their dependents. The H&W pool's operations are financed through assessments of its participating members. Assessments for the H&W pool are based on a formula that takes into account the H&W claims cost of each member's employees, as well as an allocated portion of shared administrative expenses.

Thurston PUD is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence in the self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible up to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services provided by WCIA include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the governing interlocal agreement, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

.NOTE 8– LONG-TERM DEBT

In 2013, the District obtained loan financing for 3 capital projects through the Drinking Water State Revolving Fund loan program. The cost of these three capital projects is expected to total \$623,344 and are expected to be complete in 2015.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2013 through December 31, 2013

Schedule 09, which accompanies this report, contains a list of the outstanding debt at December 31, 2013. The annual requirements to amortize all debts outstanding as of December 31, 2013, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2014	\$ 421,249	\$ 103,974	\$ 525,223
2015	\$ 415,011	\$ 96,697	\$ 511,708
2016	\$ 420,011	\$ 89,120	\$ 509,131
2017	\$ 426,756	\$ 82,816	\$ 509,571
2018	\$ 431,756	\$ 73,847	\$ 505,603
2019-2023	\$ 1,698,778	\$ 259,018	\$ 1,957,796
2024-2028	\$ 1,213,251	\$ 141,371	\$ 1,354,622
2029-2033	\$ 466,103	\$ 29,112	\$ 495,215
2034-2038	\$ 5,234	\$ 105	\$ 5,339
Total	\$ 5,498,148	\$ 876,061	\$ 6,374,208

There is \$752,168 in restricted assets of the district. These represent sinking funds and reserve requirements contained in the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 9 – LEASES

In December 2010, Thurston PUD entered into a second five-year lease for office space and parking stalls at 921 Lakeridge Way SW, Olympia WA 98502. In 2013, the cost for the lease was \$4,100.00 monthly with no change since 2011, as negotiated in 2010 in exchange for extending the office space lease and moving to the third floor. At the end of the new 5 year lease period Thurston PUD has the option to extend the lease for two additional three year terms at a re-negotiated rental rate.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Purchase Water Agreement

In 2013, Thurston PUD worked with the City of Olympia to amend its wholesale water purchase contract to purchase water for the Tanglewilde-Thompson Place water system. The wells completed in 2012, greatly reduce the Districts reliance on the capacity of the Olympia water system to where the purchased water is only needed to meet the maximum day demand on the Tanglewilde-Thompson Place water system. The District and the City shared the cost of a Cost of Service Study by FCS Group that analyzed the cost of the PUD’s changing demand on the City’s water system. The negotiations, as a result of this study, took time to work through and

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2013 through December 31, 2013

continued into 2014. The District expects to cancel this purchase water agreement in 2014 and transition the agreement to emergency assistance only in the future.

NOTE 11 – GRANTS

In 2013 Thurston PUD was awarded a grant from the Washington State Department of Health in the amount of \$30,000 to conduct a study of the feasibility of acquiring the Webster Hill water system in Pierce County. In 2013 the District drew \$6,498.19 against this grant.

In 2012, the District was awarded a loan with 50% loan forgiveness from the Drinking Water State Revolving Fund (DWSRF) to consolidate a Thurston County group A water system with 2 adjacent group B water systems. In 2013 the District utilized \$64,785 of this loan of which \$32,392.50 was forgiven and recorded as grant income.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov