



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

**Financial Statements Audit Report**  
**Public Utility District No 1 of Thurston**  
**County**  
**(Thurston PUD)**

**For the period January 1, 2018 through December 31, 2018**

**Published October 28, 2019**

**Report No. 1024800**





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

October 28, 2019

Board of Commissioners  
Thurston PUD  
Lacey, Washington

**Report on Financial Statements**

Please find attached our report on Thurston PUD's financial statements.

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### Thurston PUD January 1, 2018 through December 31, 2018

This schedule presents the status of findings reported in prior audit periods.

<b>Audit Period:</b> January 1, 2017 – December 31, 2017	<b>Report Ref. No.:</b> 1023234	<b>Finding Ref. No.:</b> 2017-001
<b>Finding Caption:</b> The District's internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.		
<b>Background:</b> District management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting. Our audit identified that the District's financial statements over-reported net investment in capital assets by \$9,060,912, over-reported restricted for capital projects by \$884,024 and under-reported unrestricted net position by the combined amount.		
<b>Status of Corrective Action: (check one)</b> <input checked="checked" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
<b>Corrective Action Taken:</b> <i>The District has provided proper training and a plan to ensure accurate financial reporting and an effective review process.</i>		

**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**

**Thurston PUD  
January 1, 2018 through December 31, 2018**

Board of Commissioners  
Thurston PUD  
Lacey, 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 the business-type activities and the aggregate remaining fund information of Thurston PUD, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2019.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

October 8, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Thurston PUD** **January 1, 2018 through December 31, 2018**

Board of Commissioners  
Thurston PUD  
Lacey, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Thurston PUD, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

### **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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Thurston PUD, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 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 October 8, 2019 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy  
State Auditor  
Olympia, WA

October 8, 2019

## **FINANCIAL SECTION**

### **Thurston PUD January 1, 2018 through December 31, 2018**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2018

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Cash Flows – 2018

Statement of Fiduciary Net Position – Agency Funds – 2018

Notes to Financial Statements – 2018

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2018

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2018

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

## **Management's Discussion and Analysis**

December 31, 2018

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, 2018, with additional comparative data for 2017. 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, 2018, and are comprised of:

• **Statement of Net Position:** The Statement of Net Position reflects the assets, deferred inflows, deferred outflows, 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, 2018. The net position section is separated into three categories:

- net investment in capital assets
- 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 and expenses are classified as operating or non-operating based on the nature of the transaction. The net position increases when revenues exceed expenses.

• **Statement of Cash Flow:** The statement of cash flow provides information on the sources and uses of cash separated into four categories of activities: operating, non-capital, capital and related financing, and investing.

• **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, 2018, and 2017				
STATEMENT OF NET POSITION	Combined Total As of December 31		Increase (Decrease)	% Change
	2018	2017	2018 - 2017	2018 - 2017
Current Assets	\$ 3,253,128	\$ 2,375,250	\$ 877,878	36.96%
Other Non-Current Assets	2,362,463	647,802	1,714,661	264.69%
Capital Assets	31,389,853	32,740,123	(1,350,270)	-4.12%
Total Assets	<u>\$ 37,005,444</u>	<u>\$ 35,763,175</u>	<u>\$ 1,242,269</u>	3.47%
DEFERRED OUTFLOWS of RESOURCES	\$ 289,534	\$ 127,616	\$ 161,918	126.88%
Current Liabilities	\$ 1,093,501	\$ 11,671,108	\$ (10,577,607)	-90.63%
Noncurrent Liabilities	16,291,290	4,651,464	11,639,826	250.24%
Total Liabilities	\$ 17,384,791	\$ 16,322,572	\$ 1,062,219	6.51%
DEFERRED INFLOWS of RESOURCES	272,905	124,575	148,330	119.07%
Net Investment in Capital Assets	\$ 16,885,150	\$ 18,591,960	\$ (1,706,810)	-9.18%
Restricted Net Position	\$ 2,362,463	\$ 1,081,844	\$ 1,280,619	118.37%
Unrestricted Net Position	\$ 389,668	\$ (230,160)	\$ 619,828	-269.30%
Total Net Position	<u>\$ 19,637,281</u>	<u>\$ 19,443,644</u>	<u>\$ 193,637</u>	1.00%

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2018, and 2017				
STATEMENT OF CHANGES IN NET POSITION	Combined Total As of December 31		Increase (Decrease)	% Change
	2018	2017	2018 - 2017	2018 - 2017
Operating Revenues	\$ 6,170,625	\$ 3,595,701	\$ 2,574,924	71.61%
Non-Operating Revenues	380,179	488,294	(108,115)	-22.14%
Total Revenues	\$ 6,550,804	\$ 4,083,995	\$ 2,466,809	60.40%
Operating Expenses	\$ 5,126,336	\$ 3,473,946	\$ 1,652,390	47.57%
Non-Operating Expenses	1,477,105	245,981	1,231,124	500.50%
Total Expenses	\$ 6,603,440	\$ 3,719,926	\$ 2,883,514	77.52%
Net Operating Revenue (Expenses)	\$ (52,636)	\$ 364,069	\$ (416,705)	-114.46%
Capital Contributions	246,274	14,089,512	(13,843,238)	-98.25%
Change in Net Position	<u>\$ 193,637</u>	<u>\$ 14,453,581</u>	<u>\$ (14,259,943)</u>	-98.66%
Net Position Balance, BOY	\$ 19,443,644	\$ 4,990,064	\$ 14,453,580	289.65%
Current Year Change in Net Position	193,637	14,453,580	(14,259,943)	-98.66%
Balance, EOY	<u>\$ 19,637,281</u>	<u>\$ 19,443,644</u>	<u>\$ 193,637</u>	1.00%

## **Financial Analysis**

### **Operating Revenues**

In 2018, operating revenue for the District increased \$2,574,924 or 71.61% from that of 2017. This increase in revenue is primarily attributable to the increase of customers when the District acquired 140 water systems and approximately 4,000 customers in October 2017. The District implemented a 2.99% increase on water rates over the rates charged in 2017, but did not increase the capital surcharge established in 2015.

### **Operating Expenses**

Overall operating expenses increased in 2018 \$1,652,390 or 47.57%. The largest contributor to this increase in expense was Purchased Power increased \$153,214 or 107.86% over 2017, due primarily to purchased power required for the additional systems purchased in 2017. Other expenses with large increases are Salaries & Benefits Employees which increased \$1,030,310 or 73.22%, Transportation increased \$62,702 or 94.29% and Telephone expenses increased \$20,156 or 158.19% over 2017 due to the additional employees and vehicles added in 2017 to provide service to our expanded service area.

### **Non-Operating Revenues & Expenses**

Non-operating revenue recognized in 2018 decreased \$108,115 or -22.14% over 2017. The District received \$23,954 in grant revenues, which was a decrease of -86.76% over that received in 2017. 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 \$286,252 in property tax assessments in 2018, compared to \$281,046 in 2017, representing a 1.85% increase from 2017 to 2018. 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 2018 election was \$62,108. The District requested and received an extension to pay this expense over two years, and therefore incurred election costs in 2018 of \$31,054 and deferred the remainder of the 2018 costs, \$31,054 to 2019.

Interest income and interest expense are included as non-operating revenue and expense. Interest income increased from \$26,286 in 2017 to \$65,514 in 2018 due to an increase in investment earnings. Interest expense increased to \$615,700 in 2018 from \$216,940 in 2017 due to the additional borrowing required to purchase water systems in 2017.

The remainder of the non-operating expense recognized in 2018 is the Loss on Disposal of Capital Assets of \$830,351, compared to \$0 in 2017. In 2017, the District purchased 167 water systems and valued the assets at the equivalent service value booking contributed capital for the difference above the cash purchase price. In 2018, the District sold a number of these water systems to another public entity for the actual cash value of

the purchased systems. There was no true economic gain or loss as the sale price was fixed at the average per customer price of the 2017 acquisition.

#### Capital Contributions

In 2018 with the acquisition of a water system, the capital contribution was calculated to be \$246,274 which was a decrease of \$13,843,238 or -98.25% compared to 2017.

#### Net Position

The District's total net position in 2018 was adjusted by \$193,637 or 1.00%. The increase in net position is a result of the value in newly acquired water systems exceeding the acquisition price.

#### Capital Assets

Assets valued at \$4,703,268 were disposed of including a transaction to transfer water systems located in Mason County to Public Utility District 1 of Mason County and assets valued at \$3,352,998 were purchased for a net decrease of \$1,350,270, compared to an increase of \$23,599,839 in 2017. The decrease in 2018 was primarily due to disposal of capital assets of the Mason County water systems.

#### Long-Term Debt Activity

At year-end 2018 the District's long-term debt changed to \$13.5 million from \$4.5 million reported in 2017. Newly issued debt was used to refinance the bond anticipation notes outstanding at year end 2017 and to provide funding for future capital projects. Funds for payment of long-term debt are provided for from water revenues. See Notes 8 and 9 of the accompanying notes to the financial statements for further detail related to long-term debt activity.

#### Debt Service Coverage

The debt service coverage ratio measures cash flow from operations in comparison to annual debt service for the District's parity bonds. The covenants governing the District's 2011 & 2018 bond issues require the District to maintain a debt service coverage ratio of 1.25 or above. In 2018, the District's debt service coverage ratio is 2.84, compared to 4.05 in 2017.

#### **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, 1230 Ruddell Road SE, Lacey, WA 98503.

Julie Parker  
Assistant General Manager

## Public Utility District No. 1 of Thurston County, Washington

**STATEMENT OF NET POSITION**

December 31, 2018

<b>ASSETS</b>	2018
<b>Current Assets</b>	
Cash and Investments	2,805,722
Customer Accounts Receivable (net)	435,959
Property Tax Receivable	5,467
Other Receivables	2,760
Prepaid Expenses	3,220
Total Current Assets	<u>\$ 3,253,128</u>
<b>Non-Current Assets</b>	
Restricted - Bond Reserve	831,072
Restricted - Capital Projects Reserve	1,531,391
Capital Assets Not Being Depreciated:	
Land and Land Rights	2,155,107
Construction in Progress	398,810
Capital Assets Being Depreciated:	
Water Plant	32,081,260
Office Furniture & Equipment	228,948
Vehicles & Equipment	831,305
Other Utility Plant	834,257
Less: Accumulated Depreciation	<u>(5,139,834)</u>
Total Capital Assets (Net)	31,389,853
Total Non-Current Assets	<u>\$ 33,752,316</u>
<b>Total Assets</b>	<u>\$ 37,005,444</u>
<b>DEFERRED OUTFLOWS of RESOURCES</b>	
Deferred Outflows Related to Pensions	<u>\$ 289,534</u>

*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, 2018

**LIABILITIES****Current Liabilities:**

Accounts Payable	363,091
Current Accrued Compensated Absences	90,422
Accrued Payroll Liabilities	51,803
Refundable Deposits	95,145
Current Portion of Bonds, Notes and Loans Payable	493,040
Total Current Liabilities	<u>\$ 1,093,501</u>

**Noncurrent Liabilities:**

Bonds Payable	1,225,000
2018A Water Revenue Bond	9,550,000
2018B Water Revenue Bond	2,030,000
Unamortized Premium on Bond	427,318
PWTF Note - Preconstruction 05	263,158
DWSRF Loan - Tanglewilde Source	489,916
DWSRF Loan - Tanglewilde Reservoir	941,577
DWSRF Loan - Sward/Platt Consolidation	44,629
DWSRF Loan - Consolidate Lew's 81st	241,565
DWSRF Loan - Hawk Acres Main	42,281
DWSRF Loan - Hawk Acres Source	40,135
DWSRF Loan - Horsfall Improvements	80,006
DWSRF Loan - Ridgewood Improvements	38,764
DWSRF Loan - Webster Hill Improvements	20,563
DWSRF Loan - Skookumchuck 4Log	81,262
DWSRF Loan - Forest Glen	23,038
Long Term Compensated Absences	72,444
Net Pension Liability	679,634
Total Noncurrent Liabilities	<u>\$ 16,291,290</u>
Total Liabilities	<u>\$ 17,384,791</u>

**DEFERRED INFLOWS of RESOURCES**

Deferred Inflows Related to Pensions	272,905
Total Deferred Inflows of Resources	<u>\$ 272,905</u>

**NET POSITION**

Net Investment in Capital Assets	16,885,150
Restricted for Capital Projects	1,531,391
Restricted for Debt Service	831,072
Restricted Net Position	<u>\$ 2,362,463</u>
Prior Unrestricted Funds	
Retained Earnings	193,637
Unrestricted Net Position	<u>389,668</u>
Total Net Position	<u>\$ 19,637,281</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, 2018

	2018
<b>Operating Revenues</b>	
Metered & Unmetered Water Revenue	5,167,711
Sales to Irrigation	120,104
Miscellaneous Service Revenue	136,910
Other Water Revenue	745,900
Total Operating Revenue	<u>\$ 6,170,625</u>
<b>Operating Expenses</b>	
Salaries & Benefits Employees	2,437,366
Salaries Commissioners	83,446
Purchased Water	10,174
Purchased Power	295,262
Chemicals	47,125
System Repairs & Maintenance	201,076
Contract Engineering	4,295
Contract Accounting	1,800
Contract Legal	58,952
Contract Testing	67,054
Contract State Auditor	20,090
Contract Other	46,504
Rent and Janitorial	108,107
Transportation	129,203
Insurance	33,615
Advertising	3,587
Bad Debt Expense	-
Office Expense	139,856
Office Building	39,932
Meeting Costs Commissioners	17,698
Meeting Costs Staff	5,200
Dues & Subscriptions	13,429
Telephone	32,898
Staff Training	17,389
Postage	54,227
Printing	35,735
Miscellaneous	88,186
Taxes	333,697
Depreciation/Amortization	800,433
Total Operating Expenses	<u>\$ 5,126,336</u>
<b>Net Operating Income</b>	<u>\$ 1,044,289</u>
<b>Non-Operating Revenues (Expenses)</b>	
Interest Income	65,514
Property Tax Revenue	286,252
Interest on Long Term Debt	(615,700)
Election costs	(31,054)
Grant Revenues	23,954
Gain (Loss) on Disposal of Capital Assets	(830,351)
Other, net	4,459
<b>Total Non-Operating Revenues (Expenses)</b>	<u>\$ (1,096,926)</u>
<b>Capital Contributions</b>	<u>\$ 246,274</u>
<b>Change in Net Position</b>	<u>\$ 193,637</u>
<b>Net Position</b>	
Total Net Position, January 1	<u>\$ 19,443,644</u>
Total Net Position, December 31	<u>\$ 19,637,281</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, 2018

	2018
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	6,246,795
Cash payments to supplies and employees	(4,808,151)
Taxes paid	(333,697)
Net Cash Provided by Operating Activities	<u>\$ 1,104,947</u>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Property Tax Income	286,441
Other Non Operating Income	4,459
Election Expenses	(31,054)
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 259,846</u>
<b>Cash Flows from Capital Financing Activities</b>	
Payments to 2011 Revenue Bond	(235,000)
Payments to Public Works Trust Fund Loan	(52,632)
Payments to DWSRF Loans	(188,012)
Proceeds from debt issuance - 2018 water revenue bond	11,580,000
Proceeds from premium received - 2018 water revenue bond	427,318
Principal payment - BAN	(9,735,500)
Proceeds from DWSRF Loans	51,151
Proceeds from Grants & Capital Contributions	36,584
Proceeds from sale of capital assets	1,186,744
Acquisition and construction of capital assets	(1,233,614)
Interest paid on long term debt	(615,700)
Net Cash from Capital Financing Activities	<u>\$ 1,221,339</u>
<b>Cash Flows from Investing Activities</b>	
Interest received on cash on deposit	<u>\$ 65,514</u>
Net Cash Provided by Investing Activities	<u>\$ 65,514</u>
Net Increase (Decrease) in Cash	<u>\$ 2,651,646</u>
<b>Beginning of Year</b>	<u>\$ 2,516,539</u>
<b>End of Year</b>	<u><u>\$ 5,168,185</u></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, 2018

	2018
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ 1,044,289
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	800,433
Customer Accounts Receivable	41,424
Other Accounts Receivable	17,292
Prepaid Expenses	202
Accounts Payable	(821,048)
Refundable Deposit Payable	17,454
Payroll Liabilities	(20,278)
Accrued Compensated Absences	16,105
Net Pension Deferred Inflow/Outflows	9,074
Total Adjustments	<u>\$ 60,658</u>
Net Cash Provided by Operating Activities	<u>\$ 1,104,947</u>
<b>NonCash Investing, Capital and Financing Activities</b>	
Capital Assets Acquired by Contribution	<u>\$ 233,644</u>
Total Noncash Activities	<u>\$ 233,644</u>

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

Public Utility District No. 1 of Thurston County, Washington  
**STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS**  
December 31, 2018

		<u>Total</u>
Assets:		
Cash with County	\$	117,313
Liabilities:		
Custodial Accounts	\$	117,313

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
January 1, 2018 through December 31, 2018

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

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Public Utility District No. 1 of Thurston County, Washington (Thurston PUD or the District) 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 274 water systems serving approximately 7,182 active connections in 6 counties (Thurston, Lewis, Pierce, Grays Harbor, King and Kitsap Counties). Thurston PUD also manages two water systems under contract as a Satellite Management Agency (SMA). The District employs 26 full time employees.

Basis of Accounting

The accounting policies of Thurston PUD 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.

Proprietary Fund Financial Statements

The District's financial statements include the financial position and results of operations of its water utility operations. In accordance with governmental accounting principles, all Thurston PUD funds are considered proprietary.

Fiduciary Fund Financial Statements

The District uses agency funds to report assets that are held in a custodial relationship. Agency funds are not used to support the District's own programs so these funds are excluded from the government-wide financial statements. Agency funds do not have a measurement focus and report only assets and liabilities. The District's has two agency funds represents amounts held on behalf of homeowner's associations.

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

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Operating and Non-Operating 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.

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

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

Revenues are recognized as soon as they are earned, measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 30 days of the end of the current fiscal period.

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

Pensions

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

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Restricted Net Position

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 \$2,362,463 including \$831,072 in the Bond Reserve, and \$1,531,391 restricted for Capital Projects.

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).

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.

Thurston PUD modified the Shared Leave program in 2018 to allow employees to donate vacation leave that would otherwise be forfeited at year end. The donated vacation leave belongs to the leave bank, not associated with any employee upon being transferred. The cost of the leave bank is included in vacation leave and is recorded as earned with a liability representing the balance earned but not taken. Of the Vacation Leave liability, the Shared Leave bank had a balance of \$12,238 at December 31, 2018.

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 leave at the time of separation of service may be converted to cash 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.

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Income Tax Status

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

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 2018 was \$0.008757171208 per \$1,000 on an assessed valuation of \$32.216 billion for a total regular levy of \$282,128. In 2017 the regular levy was \$275,952. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash on hand at December 31, 2018, was \$1,500. The carrying amount of the District's deposits including certificates was \$5,168,185 and the bank balance of \$5,145,622.

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.



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All deposits held at December 31, 2018, and throughout the year, were classified as category 2, insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party.

Investments

The District is a participant in the Thurston County Investment Pool, an external investment pool. The District reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of the participants. The County's investment policy is established by the County Finance Management Committee consisting of the County Treasurer, the County Auditor, and the County Manager, who perform oversight of the pool's performance. The county external investment pool does not have a credit rating and had a weighted average maturity of 1.9 years as of December 31, 2018.

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

Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;

Level 3 – Unobservable inputs for an asset or liability.

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At December 31, 2018 the District has the following investments measured at fair value:

<b>Investments by Fair Value Level</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Deposits held with Thurston County Treasurer	\$0	\$5,145,622	\$0
<b>Total Investments by Fair Value</b>	<b>\$0</b>	<b>\$5,145,622</b>	<b>\$0</b>

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 capital contributions. The District amortizes as depreciation those assets acquired by contributions.

Depreciation is computed using the straight line method over their estimated useful lives of 3 to 80 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. See table below for the estimated useful life per utility plant asset type.

<b>Utility Plant Type</b>	<b>Useful Life (years)</b>
Structures & Improvements	30-50
Wells and Springs	75
Supply Mains	65
Power Generation Equipment	25
Pumping Equipment	13
Water Treatment Equipment	25
Distribution Reservoir & Standpipe	75
Transmission & Distribution Mains	65
Service Lines	65
Meters & Meter Installations	20
Hydrants	65

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Utility plant activity for the year ended December 31, 2018 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	2,506,569		(351,461)	2,155,107
Construction in Progress	2,064,608	1,020,375	(2,686,173)	398,810
Total utility plant not being depreciated	\$ 4,571,177	\$ 1,020,375	\$ (3,037,635)	\$ 2,553,917
Utility plant being depreciated				
Structures & Improvements	1,670,749	1,763,781	(103,320)	3,331,210
Wells and Springs	1,666,295	155,813	-	1,822,109
Supply Mains	390,180	-	-	390,180
Power Generation Equipment	355,956	195,483	-	551,439
Pumping Equipment	2,019,827	218,602	(139,547)	2,098,883
Water Treatment Equipment	1,240,457	193,971	-	1,434,429
Distribution Reservoir & Standpipe	2,843,845	75,250	(62,772)	2,856,323
Transmission & Distribution Mains	20,389,128	132,505	(1,597,847)	18,923,786
Services	315,641	14,647	-	330,288
Meters & Meter Installations	292,553	36,406	(17,466)	311,493
Hydrants	11,227	-	-	11,227
Other Plant & Miscellaneous Equipment	19,895	-	-	19,895
Office Furniture & Equipment	204,076	25,271	(399)	228,948
Transportation Equipment	498,226	215,405	-	713,631
Tools, Shop, & Garage Equipment	87,065	30,609	-	117,674
Communication Equipment	38,895	75,313	-	114,208
Miscellaneous Equipment	19,713	-	-	19,713
Other Tangible Plant	704,785	-	(4,449)	700,336
Total utility plant being depreciated	\$ 32,768,513	\$ 3,133,056	\$ (1,925,799)	\$ 33,975,770
Accumulated Depreciation	4,621,831	800,433	(282,430)	5,139,834
Total Utility Plant, Net	\$ 32,717,859	\$ 3,352,998	\$ (4,681,004)	\$ 31,389,853

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NOTE 5 – CONSTRUCTION IN PROGRESS

The District has active construction projects as of December 31, 2018. The projects include:

- the implementation of the replacement well on the Fuller water system
- the renovations of the District's administration building located on 1230 Ruddell Rd
- the consolidation of the Platt and Sward water systems into a group A water system
- installation of the replacement well on the Indian Crest 1 water system

At year-end the District's commitments with contractors are as follows:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Fuller Well #379 Replacement	\$ 47,928	\$ 2,523
1230 Ruddell Rd Renovations	\$ 804,876	\$ 42,611
Platt/Sward Consolidation	\$ 58,089	\$ 107,311
Indian Crest 1 Upgrade	\$ 107,763	\$ 6,448

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NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans 2018:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$679,634
Pension assets	\$0
Deferred outflows of resources	\$289,534
Deferred inflows of resources	(\$272,905)
Pension expense/expenditures	\$222,867

**State Sponsored Pension Plans**

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

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

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

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**Public Employees' Retirement System (PERS)**

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

**PERS Plan 1** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service,

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at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates:</b>	<b>Employer</b>	<b>Employee*</b>
January – August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>
July – December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.83%</b>	<b>6.00%</b>

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

- With a benefit that is reduced by three percent for each year before age 65; or

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- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five 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 credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

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Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates:</b>	<b>Employer 2/3</b>	<b>Employee 2*</b>
January – August 2018		
PERS Plan 2/3	7.23%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>
September – December 2018		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.83%</b>	<b>7.41%</b>

The District's actual PERS plan contributions were \$86,131 to PERS Plan 1 and \$127,662 to PERS Plan 2/3 for the year ended December 31, 2018.

**Actuarial Assumptions**

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



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Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.5% salary inflation
- **Salary increases:** In addition to the base 3.5% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4

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

There were changes in methods and assumptions since the last valuation.

- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent). Consistent with the long-term expected rate of return, a 7.4 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3 employers, whose rates include a component for the PERS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

### **Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that

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produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

**Estimated Rates of Return by Asset Class**

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

**Sensitivity of the Net Pension Liability/(Asset)**

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$559,386	\$445,178	\$364,914
PERS 2/3	\$1,026,668	\$224,456	(\$433,268)

**Pension Plan Fiduciary Net Position**

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

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

At June 30, 2018, the District reported a total pension liability of \$679,634 for its proportionate share of the net pension liabilities as follows:

	<b>Liability</b>
PERS 1	\$455,178
PERS 2/3	\$224,456

At June 30, the District's proportionate share of the collective net pension liabilities was as follows:

	<b>Proportionate Share 6/30/17</b>	<b>Proportionate Share 6/30/18</b>	<b>Change in Proportion</b>
PERS 1	0.007130%	0.010192%	0.003062%
PERS 2/3	0.009171%	0.013146%	0.003975%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1. The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

**Pension Expense**

For the year ended December 31, 2018, the District recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$193,588
PERS 2/3	\$29,279

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**Deferred Outflows of Resources and Deferred Inflows of Resources**

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PERS 1</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$18,089)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$44,075	\$0
<b>TOTAL</b>	<b>\$44,075</b>	<b>(\$18,089)</b>

<b>PERS 2/3</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$27,512	(\$39,298)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$137,737)
Changes of assumptions	\$2,626	(\$63,878)
Changes in proportion and differences between contributions and proportionate share of contributions	\$150,280	(\$13,902)
Contributions subsequent to the measurement date	\$65,039	\$0
<b>TOTAL</b>	<b>\$245,457</b>	<b>(\$254,815)</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
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Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS 1</b>
2019	\$791
2020	(\$3,954)
2021	(\$11,866)
2022	(\$3,060)
2023	\$0
Thereafter	\$0
Total	(\$18,089)

<b>Year ended December 31:</b>	<b>PERS 2/3</b>
2019	\$5,934
2020	(\$24,169)
2021	(\$63,801)
2022	(\$10,713)
2023	\$8,952
Thereafter	\$9,399
Total	(\$74,398)

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.

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NOTES TO FINANCIAL STATEMENTS  
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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 161 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, police, 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 in limits above the self-insured layer is provided by re-insurance. 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 for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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.

The District has no settlements in the last 3 years exceeding coverage.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
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NOTE 8– LONG-TERM DEBT

Thurston PUD issues revenue bonds to finance the purchase of capital assets and the acquisition or construction of water systems. Bonded indebtedness has also been entered into in prior years to advance refund the District's previous revenue bond issues. Revenue bonds are repaid using the water revenue of the District. The District is also liable for other loans obtained through state and federal programs to improve the condition of existing water infrastructure.

The District has pledged future water revenue, net of operating expenses to repay \$2,990,000 in water revenue bonds issued in 2011. Proceeds from the bonds provide financing for water system improvements and replacements as well as new water system construction and acquisition. The bonds are payable solely from water revenue and are payable through 2031. The total principal and interest remaining to be paid on this bond series is \$1,843,975.

In 2018 the District pledged future water revenue, net of operating expenses to repay \$11,580,000 in water revenue bonds issued January 3, 2018. Proceeds from the bonds provide financing for water system improvements and replacements as well as refunded bond anticipation notes used for new water system and office building acquisition and construction. The bonds are payable solely from water revenue and are payable through 2042. The total principal and interest remaining to be paid on this bond series is \$18,493,293.

Annual principal and interest payments on the bonds are expected to require less than 40 percent of net revenues in future years. Principal and interest paid for all bonds in the current year and total water revenue, net of operating expenses were \$673,332 and \$1,844,722 respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
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The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Original Amount	Amount of 2018 Installment
Public Works Loan PW04-691-PRE126	2024	0.5%	\$ 1,000,000	\$ 52,632
Water Revenue Bond 2011	2011 - 2031	3.0% - 4.45%	\$ 2,990,000	\$ 235,000
Water Revenue Bond 2018A	2018 - 2042	3.0%-4.0%	\$ 9,550,000	\$ -
Water Revenue Bond 2018B	2018 - 2026	2.65%-3.35%	\$ 2,030,000	\$ -
Unamortized Bond Premium 2018	2042		\$ 427,318	\$ -
Drinking Water State Revolving Fund Loan DM09-952-026	2029	0.5%	\$ 1,028,180	\$ 48,992
Drinking Water State Revolving Fund Loan DM09-952-027	2029	0.5%	\$ 2,109,661	\$ 94,158
Drinking Water State Revolving Fund Loan DM12-952-103	2036	1.0%	\$ 165,400	\$ 2,597
Drinking Water State Revolving Fund Loan DM12-952-113	2036	1.0%	\$ 370,725	\$ 9,268
Drinking Water State Revolving Fund Loan DM15-952-035	2038	1.0%	\$ 194,350	\$ -
Drinking Water State Revolving Fund Loan 03-65103-029	2024	0.5%	\$ 93,017	\$ 8,456
Drinking Water State Revolving Fund Loan 03-65103-030	2024	0.5%	\$ 88,298	\$ 8,027
Drinking Water State Revolving Fund Loan 03-65103-031	2034	0.0%	\$ 112,009	\$ 5,334
Drinking Water State Revolving Fund Loan 03-65103-032	2024	1.5%	\$ 85,281	\$ 7,753
Drinking Water State Revolving Fund Loan 01-65101-039	2025	1.5%	\$ 41,127	\$ 3,427
Drinking Water State Revolving Fund Loan 16-952-034	2036	1.0%	\$ 84,007	\$ -
Drinking Water State Revolving Fund Loan 04-65104-011	2025	0.5%	\$ 26,877	\$ -
Total Authorized Debt			\$ 20,396,250	\$ 475,644



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In 2013, the District obtained loan financing for two capital projects through the Drinking Water State Revolving Fund loan program. The cost of these capital projects is expected to total \$536,125. One was completed in 2016 and the other is expected to be completed in 2019. Principal and interest on these obligations has been deferred until 2017, each of these loans has a term of 20 years and interest rate of 1.0%.

In 2015, the District was awarded a Drinking Water State Revolving Fund loan to finance the installation of disinfection treatment on a small water system in Thurston County. The cost of the treatment system is expected be \$194,350 and was completed in early 2018. Principal and interest on this obligation has been deferred until 2019, the loan has a term of 20 years and interest rate of 1.0%, with forgiveness of loan principal at completion of 50%.

In 2017 the District was awarded a Drinking Water State Revolving Fund loan to complete the financing of a project begun in 2013. The additional funding obtained was \$84,007. Principal and interest on this obligation has been deferred until 2020, the loan has a term of 16 years and interest rate of 1.0%.

The annual requirements to amortize all debts outstanding as of December 31, 2018, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2019	\$ 493,040	\$ 483,754	\$ 976,794
2020	\$ 498,043	\$ 477,769	\$ 975,812
2021	\$ 638,106	\$ 467,039	\$ 1,105,145
2022	\$ 653,168	\$ 454,438	\$ 1,107,606
2023	\$ 663,232	\$ 440,722	\$ 1,103,954
2024-2028	\$ 3,197,862	\$ 1,971,415	\$ 5,169,277
2029-2033	\$ 2,990,546	\$ 1,490,763	\$ 4,481,309
2034-2038	\$ 3,352,552	\$ 925,954	\$ 4,278,506
2039-2043	\$ 3,118,387	\$ 246,414	\$ 3,364,801
Total	\$ 15,604,936	\$ 6,958,267	\$ 22,563,204

There is \$2,362,463 in restricted assets of the district, \$831,072 in Bond Reserve and \$1,531,391 in Capital Projects Reserve. 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.

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NOTES TO FINANCIAL STATEMENTS  
January 1, 2018 through December 31, 2018

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2018	Additions	Reductions	Ending Balance 12/31/2018	Due Within One Year
Revenue Bonds	\$ 1,705,000	\$ 12,007,318	\$ 235,000	\$ 13,477,318	\$ 245,000
Total Bonds Payable	\$ 1,705,000	\$ 12,007,318	\$ 235,000	\$ 13,477,318	\$ 245,000
Public Works Trust Fund Loans	\$ 368,421	\$ -	\$ 52,632	\$ 315,789	\$ 52,632
Drinking Water State Revolving Fund Loans	\$ 2,376,009	\$ 51,151	\$ 188,012	\$ 2,239,148	\$ 195,409
Pension Liability	\$ 656,972	\$ 22,662	\$ -	\$ 679,634	\$ -
Compensated Absences	\$ 146,761	\$ 16,105	\$ -	\$ 162,866	\$ 90,422
Total Long-Term Liabilities	\$ 5,253,163	\$ 12,097,236	\$ 475,644	\$ 16,874,755	\$ 583,462

NOTE 10 – SHORT-TERM DEBT

Short-term activities for the year ended December 31, 2018 was as follows:

	Beginning Balance 01/01/2018	Issued	Redeemed	Ending Balance 12/31/2018
Water Revenue Bond Anticipation Note 2014	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Water Revenue Bond Anticipation Note 2017	\$ 1,213,750	\$ -	\$ 1,213,750	\$ -
Water Revenue Bond Anticipation Note 2017B	\$ 7,521,750	\$ -	\$ 7,521,750	\$ -
Total Short-Term Debt	\$ 9,735,500	\$ -	\$ 9,735,500	\$ -

All of the short term notes were repaid in January 2018 with the issuance of the two 2018 Water Revenue Bonds. In June 2014, the District authorized a Registered Revenue Bond Anticipation Note in the form of a non-revolving line of credit with Cashmere Valley Bank in the amount of \$1,000,000 to provide available funds for water system acquisitions and/or improvements. The District did not utilize the line of credit in 2018.

NOTE 11 – LEASES

In 2014 the District entered into a 5 year operating lease for a color copier/network printer at the main office, replacing a printer purchased in 2005. The total cost for this lease in 2015-2019 is \$3,673 annually.

In 2017, the District entered into a new five-year lease for the satellite office space located at 8421 Old Highway 99 SE, Tumwater WA 98501. In 2018, the cost for the lease was \$5,600

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monthly and is adjusted October 1 of each year by the greater of 1.5% or the percentage increase of the Consumer Price Index for all Urban Consumers (CPI-U) published by the *Bureau of Labor Statistics of the United States Department of Labor*. The terms of the lease allow the District the option to extend the lease for two options of five years each, and grants the District the exclusive option to purchase the space at the end of the first five-year lease term at a mutually agreed upon price not to exceed a then-current appraisal of the property.

Also in 2017 the District took over the 5-year operating lease for a color copier/network printer at the satellite office. The total cost for this lease is \$3,296 annually.

NOTE 12 – COMMITMENTS

Purchase Water Agreement

The District has entered into a purchase water agreement with the city of Lacey to supply water to a small water system served by the District after the well serving that water system was found to contain arsenic above the maximum contaminant level. The water system affected serves 15 residences and represents a very small segment of customers served by the District.

NOTE 13 – GRANTS

In 2015, the District was awarded a loan with 50% loan forgiveness from the Drinking Water State Revolving Fund (DWSRF) to install 4 Log Disinfection Treatment system on the Skookumchuck water system. The total project was completed in early 2018 at a cost of \$176,612. The District recorded \$23,954 in grant income in 2018.

NOTE 14 – ACQUISITION OF WATER SYSTEM

On November 28, 2018, Thurston PUD acquired the Forest Glen water system from the Forest Glen Water Association. The acquisition includes all related property consisting of and associated with the water system, including all wells, pump houses, storage tanks, water rights, water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities to serve 21 customers. The acquisition value of the assets acquired in this transaction is approximately \$268,412. The net position impact of this acquisition increased \$260,521 as of the acquisition date.

NOTE 15 – TRANSFER OF OPERATIONS

On June 30, 2018, Thurston PUD, sold 32 water systems in Mason County to Mason PUD No. 1. The sale includes all related property consisting of and associated with the water system, including all wells, pump houses, storage tanks, water rights, water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities to serve 655 customers. The sale reduced our net assets by \$2,017,095. The proceeds of the Purchase & Sale Agreement were \$1,186,744 and were used as payment against the 2017B Bond Anticipation Note.

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NOTE 16 – SUBSEQUENT EVENTS

On February 1, 2019, Thurston PUD acquired the Cedarwood water system from the Cedarwood Association. The acquisition includes all related property consisting of and associated with the water system, including all wells, pump houses, storage tanks, water rights, water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities to serve 62 customers.

**Schedule of Proportionate Share of the Net Pension Liability**  
Public Employees' Retirement System  
As of **June 30** (*measurement date*)  
Last 10 Fiscal Years\*

<b>Public Employees' Retirement System Plan 1</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset) %	0.010192%	0.007130%	0.007507%	0.006960%
Employer's proportionate share of the net pension liability	\$ 455,178	\$ 338,324	\$ 403,161	\$ 364,073
Covered payroll*	\$ 1,416,904	\$ 897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability as a percentage of covered payroll %	32.12%	37.69%	46.71%	45.77%
Plan fiduciary net position as a percentage of the total pension liability %	63.22%	61.24%	57.03%	59.10%
 <b>Public Employees' Retirement System Plans 2 &amp; 3</b>	 <u>2018</u>	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>
Employer's proportion of the net pension liability	0.013146%	0.009171%	0.009620%	0.008989%
Employer's proportionate share of the net pension liability	\$ 224,456	\$ 318,648	\$ 484,359	\$ 321,182
Employer's covered employee payroll	\$ 1,416,904	\$ 897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	15.84%	35.50%	56.11%	40.38%
Plan fiduciary net position as a percentage of the total pension liability	95.77%	90.97%	85.82%	89.20%

**Notes to Schedule:**

\*This schedule will be built prospectively until it contains 10 years of data

\*There were no changes in benefit terms or assumptions

**Schedule of Employer Contributions**  
Public Employees' Retirement System  
For the year ended **December 31**  
Last 10 Fiscal Years\*

<b>Public Employees' Retirement System Plan 1</b>		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$	\$ 86,131	\$ 51,400	\$ 41,877	\$ 35,597
<u>Contributions in relation to the statutorily or contractually required contributions*</u>	\$	\$ (86,131)	\$ (51,400)	\$ (41,877)	\$ (35,597)
<u>Contribution deficiency (excess)</u>	\$	\$ -	\$ -	\$ -	\$ -
<u>Covered payroll*</u>	\$	\$ 1,702,443	\$ 1,045,904	\$ 877,912	\$ 809,212
<u>Contributions as a percentage of covered payroll</u>	%	5.06%	4.91%	4.77%	4.40%

<b>Public Employees' Retirement System Plans 2 &amp; 3</b>		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$	\$ 127,662	\$ 72,478	\$ 54,694	\$ 62,787
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$	\$ (127,662)	\$ (72,478)	\$ (54,694)	\$ (62,787)
<u>Contribution deficiency (excess)</u>	\$	\$ -	\$ -	\$ -	\$ -
<u>Covered employer payroll</u>	\$	\$ 1,702,443	\$ 1,045,904	\$ 877,912	\$ 809,212
<u>Contributions as a percentage of covered employee payroll</u>		7.50%	6.93%	6.23%	7.76%

**Notes to Schedule:**

\*This schedule will be built prospectively until it contains 10 years of data

\*There were no changes in benefit terms or assumptions

## 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	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>