



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, 2019 through December 31, 2019

Published December 7, 2020

Report No. 1027393





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

December 7, 2020

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".

Pat McCarthy
State Auditor
Olympia, WA

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

**Thurston PUD
January 1, 2019 through December 31, 2019**

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 Thurston PUD, as of and for the year ended December 31, 2019, 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 2, 2020.

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy

State Auditor

Olympia, WA

December 2, 2020

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Thurston PUD **January 1, 2019 through December 31, 2019**

Board of Commissioners
Thurston PUD
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Thurston PUD, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurston PUD, as of December 31, 2019, 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.

Matters of Emphasis

As discussed in Note 13 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2020 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

December 2, 2020

FINANCIAL SECTION

Thurston PUD January 1, 2019 through December 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2019

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2019

Statement of Revenues, Expenses and Changes in Net Position – 2019

Statement of Cash Flows – 2019

Notes to Financial Statements – 2019

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2019

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2019

Public Utility District No. 1 of Thurston County

Management's Discussion and Analysis

December 31, 2019

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, 2019, with additional comparative data for 2018. 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, 2019, 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, 2019. 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, 2019, and 2018

	Combined Total As of December 31		Increase (Decrease)	% Change
STATEMENT OF NET POSITION	2019	2018	2019 - 2018	2019 - 2018
Current Assets	\$ 4,441,646	\$ 3,253,128	\$ 1,188,518	36.53%
Other Non-Current Assets	998,329	2,362,463	(1,364,134)	-57.74%
Capital Assets	31,368,192	31,389,853	(21,661)	-0.07%
Total Assets	<u>\$ 36,808,167</u>	<u>\$ 37,005,444</u>	<u>\$ (197,277)</u>	-0.53%
DEFERRED OUTFLOWS of RESOURCES	\$ 380,280	\$ 289,534	\$ 90,746	31.34%
Current Liabilities	\$ 1,131,654	\$ 1,093,501	\$ 38,153	3.49%
Noncurrent Liabilities	15,913,962	16,291,290	(377,328)	-2.32%
Total Liabilities	<u>\$ 17,045,616</u>	<u>\$ 17,384,791</u>	<u>\$ (339,175)</u>	-1.95%
DEFERRED INFLOWS of RESOURCES	368,622	272,905	95,717	35.07%
Net Investment in Capital Assets	\$ 15,993,904	\$ 16,885,150	\$ (891,246)	-5.28%
Restricted Net Position	\$ 998,329	\$ 2,362,463	\$ (1,364,134)	-57.74%
Unrestricted Net Position	<u>\$ 2,781,976</u>	<u>\$ 389,668</u>	<u>\$ 2,392,309</u>	613.94%
Total Net Position	<u>\$ 19,774,209</u>	<u>\$ 19,637,281</u>	<u>\$ 136,927</u>	0.70%

Public Utility District No. 1 of Thurston County, Washington

Condensed Financial Information for December 31, 2019, and 2018

	Combined Total As of December 31		Increase (Decrease)	% Change
STATEMENT OF CHANGES IN NET POSITION	2019	2018	2019 - 2018	2019 - 2018
Operating Revenues	\$ 6,200,838	\$ 6,170,625	\$ 30,213	0.49%
Non-Operating Revenues	351,202	380,179	(28,977)	-7.62%
Total Revenues	<u>\$ 6,552,040</u>	<u>\$ 6,550,804</u>	<u>\$ 1,236</u>	0.02%
Operating Expenses	\$ 6,135,129	\$ 5,126,336	\$ 1,008,793	19.68%
Non-Operating Expenses	516,759	1,477,105	(960,346)	-65.02%
Total Expenses	<u>\$ 6,651,888</u>	<u>\$ 6,603,441</u>	<u>\$ 48,447</u>	0.73%
Excess (Deficiency)	<u>\$ (99,848)</u>	<u>\$ (52,637)</u>	<u>\$ (47,211)</u>	89.69%
Capital Contributions	236,776	246,274	(9,498)	-3.86%
Change in Net Position	<u>\$ 136,928</u>	<u>\$ 193,637</u>	<u>\$ (56,709)</u>	-29.29%
Net Position Balance, BOY	\$ 19,637,281	\$ 19,443,644	\$ 193,637	1.00%
Current Year Change in Net Position	136,928	193,637	(56,709)	-29.29%
Balance, EOY	<u>\$ 19,774,209</u>	<u>\$ 19,637,281</u>	<u>\$ 136,928</u>	0.70%

Financial Analysis

Operating Revenues

In 2019, operating revenue for the District increased \$30,213 or 0.49% from that of 2018. This increase in revenue is primarily attributable to the rate increase. The District implemented a 2.99% increase on water rates over the rates charged in 2018, but did not increase the capital surcharge established in 2015.

Operating Expenses

Overall operating expenses increased in 2019 \$1,008,793 or 19.68%. The largest contributor to this increase in expense was Contract Engineering, which increased \$22,350 or 520.38%, due primarily to the capital projects requiring engineering services. Other expenses with large increases are Purchased Water which increased \$24,670 or 242.48%, Insurance increased \$43,436 or 129.22% and Staff Training increased \$19,131 or 110.02% due to emergency water outages, additional vehicles and properties added in 2019 and additional certificate program training for staff.

Non-Operating Revenues & Expenses

Non-operating revenue recognized in 2019 decreased \$28,977 or 7.62% over 2018. 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 \$299,763 in property tax assessments in 2019, compared to \$288,252 in 2018, representing a 4.72% increase from 2018 to 2019. 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 \$65,514 in 2018 to \$99,120 in 2019 due to an increase in fund balances and investment earnings. Interest expense decreased to \$485,705 in 2019 from \$615,700 in 2018 as non-recurring related expenses with the 2018 bond issuance were not incurred in 2019.

In 2019, there was a loss on the disposal of capital assets of \$73,778 compared to the loss of \$830,351 in 2018.

Capital Contributions

In 2019, including an acquisition of one water system, the capital contribution was calculated to be \$236,776 which was a decrease of \$9,498 or -3.86% compared to 2018.

Net Position

The District's total net position in 2019 was adjusted by \$136,928 or 0.70%.

Capital Assets

The District's capital assets (after depreciation) including capital work in progress, were \$31,368,192 in 2019 and 31,389,853 in 2018. The assets added in 2019 consisted of the acquisition of one water system, remodel of an office building and several projects completed during the year as the District identified in the water system asset management plans. See Note 4 of the accompanying notes to the financial statements for further detail related to capital asset activity.

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, 2019

ASSETS	2019
Current Assets	
Cash and Investments	3,949,272
Customer Accounts Receivable (net)	442,695
Property Tax Receivable	5,298
Other Receivables	1,745
Prepaid Expenses	42,636
Total Current Assets	<u>\$ 4,441,646</u>
Non-Current Assets	
Restricted - Bond Reserve	998,329
Capital Assets Not Being Depreciated:	
Land and Land Rights	2,155,107
Construction in Progress	140,819
Capital Assets Being Depreciated:	
Water Plant	33,555,805
Office Furniture & Equipment	241,327
Vehicles & Equipment	1,038,631
Other Utility Plant	1,040,923
Less: Accumulated Depreciation	<u>(6,804,421)</u>
Total Capital Assets (Net)	31,368,192
Total Non-Current Assets	<u>\$ 32,366,521</u>
Total Assets	<u><u>\$ 36,808,167</u></u>
DEFERRED OUTFLOWS of RESOURCES	
Deferred Outflows Related to Pensions	<u>\$ 380,280</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, 2019

LIABILITIES**Current Liabilities:**

Accounts Payable	254,947
Current Accrued Compensated Absences	148,493
Accrued Payroll Liabilities	108,959
Refundable Deposits	102,089
Current Portion of Bonds, Notes and Loans Payable	517,165
Total Current Liabilities	<u>\$ 1,131,654</u>

Noncurrent Liabilities:

Bonds Payable	980,000
Water Revenue Bonds	11,989,513
PWTF Note - Preconstruction 05	210,526
DWSRF Loans	2,033,835
Long Term Compensated Absences	66,980
Net Pension Liability	633,107
Total Noncurrent Liabilities	<u>\$ 15,913,962</u>
Total Liabilities	<u>\$ 17,045,616</u>

DEFERRED INFLOWS of RESOURCES

Deferred Inflows Related to Pensions	<u>\$ 368,622</u>
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NET POSITION

Net Investment in Capital Assets	15,993,904
Restricted for Debt Service	998,329
Unrestricted Net Position	2,781,976
Total Net Position	<u><u>\$ 19,774,209</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, 2019

	2019
Operating Revenues	
Metered & Unmetered Water Revenue	5,291,278
Sales to Irrigation	131,608
Miscellaneous Service Revenue	129,929
Other Water Revenue	648,023
Total Operating Revenue	<u>\$ 6,200,838</u>
Operating Expenses	
Salaries & Benefits Employees & Commissioners	2,569,509
Water System Operations	557,360
Contractual Services	207,944
Rent and Janitorial	98,826
Transportation	133,177
Insurance	77,051
Administrative Operations	373,002
Miscellaneous	109,283
Taxes	344,391
Depreciation/Amortization	1,664,587
Total Operating Expenses	<u>\$ 6,135,129</u>
Net Operating Income	<u>\$ 65,709</u>
Non-Operating Revenues (Expenses)	
Interest Income	\$ 99,120
Property Tax Revenue	299,763
Interest on Long Term Debt	(485,705)
Election costs	(31,054)
Gain (Loss) on Disposal of Capital Assets	(73,778)
Other, net	26,097
Total Non-Operating Revenues (Expenses)	<u>\$ (165,557)</u>
Capital Contributions	<u>\$ 236,776</u>
Change in Net Position	<u>\$ 136,928</u>
Net Position	
Total Net Position, January 1	<u>\$ 19,637,281</u>
Total Net Position, December 31	<u><u>\$ 19,774,209</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, 2019

	2019
Cash Flows from Operating Activities	
Cash received from customers	6,202,061
Cash payments to supplies and employees	(4,205,504)
Taxes paid	(344,390)
Net Cash Provided by Operating Activities	<u>\$ 1,652,166</u>
Cash Flows from Non-Capital Financing Activities	
Property Tax Income	299,933
Other Non Operating Income	26,097
Election Expenses	(31,054)
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 294,976</u>
Cash Flows from Capital Financing Activities	
Payments to 2011 Revenue Bond	(245,000)
Payments to Public Works Trust Fund Loan	(52,632)
Payments to DWSRF Loans	(215,240)
Proceeds from DWSRF Loans	229,463
Proceeds from sale of capital assets	(73,778)
Acquisition and construction of capital assets	(1,406,150)
Interest paid on long term debt	(503,510)
Net Cash from Capital Financing Activities	<u>\$ (2,266,848)</u>
Cash Flows from Investing Activities	
Interest received on cash on deposit	<u>\$ 99,120</u>
Net Cash Provided by Investing Activities	<u>\$ 99,120</u>
Net Increase (Decrease) in Cash	<u>\$ (220,585)</u>
Beginning of Year	<u>\$ 5,168,185</u>
End of Year	<u><u>\$ 4,947,602</u></u>

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2019

	2019
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 65,709
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	1,664,587
Customer Accounts Receivable	(6,736)
Other Accounts Receivable	1,015
Prepaid Expenses	(39,416)
Accounts Payable	(108,144)
Refundable Deposit Payable	6,944
Payroll Liabilities	57,156
Accrued Compensated Absences	52,608
Net Pension Deferred Inflow/Outflows	(41,556)
Total Adjustments	<u>\$ 1,586,457</u>
Net Cash Provided by Operating Activities	<u>\$ 1,652,166</u>
NonCash Investing, Capital and Financing Activities	
Capital Assets Acquired by Contribution	<u>\$ 236,776</u>
Total Noncash Activities	<u>\$ 236,776</u>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

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 275 water systems serving approximately 7,891 active connections in 6 counties (Thurston, Lewis, Pierce, Grays Harbor, King and Kitsap Counties). The District employs 29 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.

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

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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

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.

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 and other reserve requirements. At year-end there are restricted funds of Thurston PUD in the amount of \$998,328 in the Bond Reserve.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

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 \$31,303 at December 31, 2019.

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 2019 was \$0.008280417740 per \$1,000 on an assessed valuation of \$34.968 billion for a total regular levy of \$289,546. In 2018 the regular levy was \$282,128. 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, 2019, was \$1,500. The carrying amount of the District's deposits including certificates was \$4,947,602, and the bank balance was \$4,928,680.

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, 2019, and throughout the year, were classified as Level 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 as 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 participants. The County's investment policy is established by the County Finance Committee consisting of the County Treasurer, the County Auditor and the Chairman of the Board of County Commissioners. The object of the policy is to invest public funds in a manner which will provide maximum security with the highest investment return while meeting daily cash flow demands and conforming to all state and local statutes governing the investment of public funds.

The Thurston county Investment Pool does not have a credit rating and had a weighted average maturity of 1.46 years as of December 31, 2019.

In accordance with State law, the District's governing body has entered into a formal agreement with the district's *ex officio* treasurer, Thurston County, to have all its funds not required for immediate expenditure to be invested in the Thurston County Investment Pool (TCIP).

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, 2019 the District has the following investments measured at fair value:

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deposits held with Thurston County Treasurer	\$0	\$4,928,680	\$0
Total Investments by Fair Value	\$0	\$4,928,680	\$0

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.

Utility Plant Type	Useful Life (years)
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, 2019 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	2,155,107	-	-	2,155,107
Construction in Progress	398,810	960,278	(1,218,268)	140,819
Total utility plant not being depreciated	\$ 2,553,917	\$ 960,278	\$ (1,218,268)	\$ 2,295,927
Utility plant being depreciated				
Structures & Improvements	3,331,210	354,430	(5,811)	3,679,829
Wells and Springs	1,822,109	200,039	-	2,022,148
Supply Mains	390,180	-	-	390,180
Power Generation Equipment	551,439	39,120	-	590,559
Pumping Equipment	2,098,883	163,285	(5,753)	2,256,415
Water Treatment Equipment	1,434,429	225,651	-	1,660,080
Distribution Reservoir & Standpipe	2,856,323	87,783	(1,397)	2,942,709
Transmission & Distribution Mains	18,923,786	305,912	(76,109)	19,153,590
Services	330,288	43,218	-	373,506
Meters & Meter Installations	311,493	144,305	(124)	455,674
Hydrants	11,227	-	-	11,227
Other Plant & Miscellaneous Equipment	19,895	-	-	19,895
Office Furniture & Equipment	228,948	12,377	-	241,325
Transportation Equipment	713,631	324,998	-	1,038,629
Tools, Shop, & Garage Equipment	117,674	11,526	(500)	128,700
Communication Equipment	114,208	42,085	-	156,293
Miscellaneous Equipment	19,713	-	-	19,713
Other Tangible Plant	700,336	35,881	-	736,217
Total utility plant being depreciated	\$ 33,975,770	\$ 1,990,611	\$ (89,693)	\$ 35,876,687
Accumulated Depreciation	5,139,834	1,664,587		6,804,421
Total Utility Plant, Net	\$ 31,389,853	\$ 1,286,301	\$ (1,307,962)	\$ 31,368,192

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NOTE 5 – CONSTRUCTION IN PROGRESS

The District has one active construction project as of December 31, 2019. The project includes:

- the implementation of a treatment system at the Talcott Ridge water system

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

Project	Spent to Date	Remaining Commitment
Fuller Talcott Ridge Corrosion Control	\$ 19,440	\$ 38,617

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$633,107
Pension assets	\$0
Deferred outflows of resources	\$380,280
Deferred inflows of resources	(\$368,622)
Pension expense/expenditures	\$199,224

State Sponsored Pension Plans

Substantially all District 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.

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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, 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 2019 were as follows:

PERS Plan 1			
Actual	Contribution	Employer	Employee*
Rates			
January – June 2019			
PERS Plan 1		7.52%	6.00%
PERS Plan 1 UAAL		5.13%	
Administrative Fee		0.18%	
Total		12.83%	6.00%
July – December 2019			
PERS Plan 1		7.92%	6.00%
PERS Plan 1 UAAL		4.76%	
Administrative Fee		0.18%	
Total		12.86%	6.00%

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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
- 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.

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 2019 were as follows:

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PERS Plan 2/3			
Actual	Contribution	Employer 2/3	Employee 2*
Rates			
January – June 2019			
PERS Plan 2/3		7.52%	7.41%
PERS Plan 1 UAAL		5.13%	
Administrative Fee		0.18%	
Employee PERS Plan 3			Varies
Total		12.83%	7.41%
July – December 2019			
PERS Plan 2/3		7.92%	7.90%
PERS Plan 1 UAAL		4.76%	
Administrative Fee		0.18%	
Employee PERS Plan 3			Varies
Total		12.86%	7.90%

The District's actual PERS plan contributions were \$94,014 to PERS Plan 1 and \$146,769 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% 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

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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.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

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. 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). 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 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 over 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, 2019, 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.

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Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

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	\$597,858	\$477,401	\$372,888
PERS 2/3	\$1,194,202	\$155,706	(\$696,449)

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.

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

At June 30, 2019, the District's reported a total pension liability of \$633,107 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$477,401
PERS 2/3	\$155,706
Total Net Pension Liability	\$633,107

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.010192%	0.012415%	0.002223%
PERS 2/3	0.013146%	0.016030%	0.002884%

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.

The collective net pension liability was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$125,049
PERS 2/3	\$74,175
Total Pension Expense	\$199,224

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Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$31,894)
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	\$49,069	\$0
<u>TOTAL</u>	\$49,069	(\$31,894)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$44,610	(\$33,476)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$226,644)
Changes of assumptions	\$3,987	(\$65,329)
Changes in proportion and differences between contributions and proportionate share of contributions	\$201,729	(\$11,279)
Contributions subsequent to the measurement date	\$80,885	\$0
TOTAL	\$331,211	(\$336,728)
TOTAL PERS 1 & PERS 2/3	\$380,280	(\$368,622)

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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, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows

Year ended December 31:	PERS 1
2020	(\$7,041)
2021	(\$16,678)
2022	(\$5,952)
2023	(\$2,224)
2024	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2020	(\$34,676)
2021	(\$82,729)
2022	(\$17,995)
2023	\$5,984
2024	\$22,616
Thereafter	\$20,399

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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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 163 members.

Thurston PUD has elected coverage to mitigate risks associated with personnel, equipment, fleet and property.

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, errors or omissions, stop gap, employment practices 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 reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. 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, reinsurance and other administrative expenses. As outlined in the interlocal, 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.

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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 \$1,542,919.

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 \$18,061,918.

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 are \$714,626 and \$1,730,296 respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Original Amount	Amount of 2019 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	\$ 245,000
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	\$ 2,616
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	\$ 4,248
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	\$ 3,840
Drinking Water State Revolving Fund Loan 09-952-045	2029	0.5%	\$ 229,463	\$ 19,122
Total Authorized Debt			\$ 20,625,713	\$ 512,872

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

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 was completed in 2019. Principal and interest on these obligations was deferred until 2017, each of these loans has a term of 20 years and interest rate of 1.0%.

In 2019, the District acquired the Cedarwood water system and assumed ownership of the Drinking Water State Revolving Fund loan awarded for capital improvements. The 20-year term loan start date was May 6, 2014 for an amount of \$333,491 with an interest rate of 0.5%.

The annual requirements to amortize all debts outstanding as of December 31, 2019, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2020	\$ 517,165	\$ 478,725	\$ 995,890
2021	\$ 657,227	\$ 467,899	\$ 1,125,126
2022	\$ 672,290	\$ 455,203	\$ 1,127,493
2023	\$ 682,354	\$ 441,391	\$ 1,123,745
2024	\$ 697,418	\$ 426,906	\$ 1,124,324
2025-2029	\$ 3,284,667	\$ 1,887,984	\$ 5,172,651
2030-2034	\$ 2,976,866	\$ 1,379,333	\$ 4,356,199
2035-2039	\$ 3,453,540	\$ 802,744	\$ 4,256,284
2040-2043	\$ 2,380,000	\$ 139,585	\$ 2,519,585
Total	\$ 15,321,527	\$ 6,479,770	\$ 21,801,297

There is \$2,767,547 in restricted assets of the district, \$998,328 in Bond Reserve and \$1,769,219 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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2019	Additions	Reductions	Ending Balance 12/31/2019	Due Within One Year
Revenue Bonds	\$ 13,477,318	\$ -	\$ 262,805	\$ 13,214,513	\$ 245,000
Total Bonds Payable	\$ 13,477,318	\$ -	\$ 262,805	\$ 13,214,513	\$ 245,000
Public Works Trust Fund Loans	\$ 315,789	\$ -	\$ 52,632	\$ 263,157	\$ 52,632
Drinking Water State Revolving Fund Loans	\$ 2,239,148	\$ 229,463	\$ 215,240	\$ 2,253,371	\$ 219,534
Pension Liability	\$ 679,634	\$ -	\$ 46,527	\$ 633,107	\$ -
Compensated Absences	\$ 162,866	\$ 52,608	\$ -	\$ 215,474	\$ 148,493
Total Long-Term Liabilities	\$ 16,874,755	\$ 282,071	\$ 577,204	\$ 16,579,622	\$ 665,659

NOTE 10 – LEASES

In 2017, the District entered a new five-year lease for the Satellite office space located at 8421 Old Highway 99 SE, Tumwater WA 98501. In 2019, the cost for the lease was \$5,920 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

In 2019, the District entered a 5-year operating lease for a color copier/network printer at the Main Administrative office, replacing a printer leased in 2015. The total cost for this lease in 2019-2024 is \$4,080 annually. Also, in 2019 the District entered into a 5-year operating lease for a color copier/network printer at the Satellite office. The total cost for this lease is \$3,408 annually.

In 2019, the District entered a 5-year lease to replace the paper/envelope folding machine at the Main Administrative office. The total cost for this lease is \$6,485 annually.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

NOTE 11 – COMMITMENTS

Purchase Water Agreement

The District has 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 12 – ACQUISITION OF WATER SYSTEM

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. The acquisition value of the assets acquired in this transaction is approximately \$229,463. The net position impact of this acquisition increased \$223,103 as of the acquisition date.

NOTE 13 – SUBSEQUENT EVENTS

On January 9, 2020, the District purchased a property in Olympia, Washington. This purchase agreement included a rental agreement transfer. The District plans to relocate from the Satellite office to the newly owned building in summer of 2022.

In January 2020, the District was approved for two (2) Feasibility Study Grants to analyze the operational cost to own and operate a water system. The District was awarded \$30,000 for each water system, totaling \$60,000. The District plans to complete the feasibility studies in 2020.

Beginning in March 2020, the District swiftly responded to the growing COVID-19 pandemic and implemented an emergency plan and protocols. On March 16, 2020, over 80% of staff were assigned to work remotely. Mission-critical staff continued working at the District's Headquarters or Satellite office. District employees practice proper hand hygiene, wear a mask and exercise social distancing of 6 feet or more. All in-person meetings including Commissioner meetings, were converted to remote platforms. The District restructured teams both geographically and organizationally to ensure day to day business activities could continue should multiple employees become infected with the novel virus.

The District reevaluated administrative tasks to determine alternative, more efficient methods. District employees continue to diligently operate and maintain all 275 water systems, while simultaneously creating and implementing new COVID-19 related processes and procedures.

The District is monitoring the number of customers that have been financially impacted by the pandemic. Mindful of these uncertain times, the District works with these customers based on their individual financial needs.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2019 through December 31, 2019

The District collaborates with local vendors to procure essential disinfectant supplies. In addition, the District is currently working with local and state agencies for funding reimbursement for COVID-19 related expenses.

Lastly, the District works proactively with other Public Utility Districts and agencies to provide feedback to the Governor's Office that can help shape utility-related COVID-19 proclamations.

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

Public Employee's Retirement System - Plan 1		<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset) %		0.012415%	0.010192%	0.007130%	0.007507%	0.006960%
Employer's proportionate share of the net pension liability	\$	477,401	\$ 455,178	\$ 338,324	\$ 403,161	\$ 364,073
Covered payroll	\$	1,742,469	\$ 1,416,904	\$ 897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	27.40%	32.12%	37.69%	46.71%	45.77%
Plan fiduciary net position as a percentage of the total pension liability	%	67.12%	63.22%	61.24%	57.03%	59.10%
Public Employee's Retirement System - Plans 2/3		<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	%	0.016030%	0.013146%	0.009171%	0.009620%	0.008989%
Employer's proportionate share of the net pension liability	\$	155,706	\$ 224,456	\$ 318,648	\$ 484,359	\$ 321,182
Covered payroll	\$	1,742,469	\$ 1,416,904	\$ 897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	8.94%	15.84%	35.50%	56.11%	40.38%
Plan fiduciary net position as a percentage of the total pension liability	%	97.77%	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

Public Employees' Retirement System Plan 1	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 94,014	\$ 86,131	\$ 51,400	\$ 41,877	\$ 35,597
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (94,014)	\$ (86,131)	\$ (51,400)	\$ (41,877)	\$ (35,597)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered payroll</u>	\$ 1,901,163	\$ 1,702,443	\$ 1,045,904	\$ 877,912	\$ 809,212
<u>Contributions as a percentage of covered payroll</u>	% 4.95%	5.06%	4.91%	4.77%	4.40%
Public Employees' Retirement System Plans 2 & 3	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 146,769	\$ 127,662	\$ 72,478	\$ 54,694	\$ 62,787
<u>Contributions in relation to the statutorily or contractually required contributions</u>	\$ (146,769)	\$ (127,662)	\$ (72,478)	\$ (54,694)	\$ (62,787)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 1,901,163	\$ 1,702,443	\$ 1,045,904	\$ 877,912	\$ 809,212
<u>Contributions as a percentage of covered employee payroll</u>	7.72%	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	PublicRecords@sao.wa.gov
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
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