



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, 2022 through December 31, 2022

*Published September 21, 2023*

Report No. 1033281



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

September 21, 2023

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

### 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, 2022 through December 31, 2022**

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 13, 2023.

### **REPORT ON 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) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

September 13, 2023

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Thurston PUD January 1, 2022 through December 31, 2022**

Board of Commissioners  
Thurston PUD  
Lacey, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Opinion**

We have audited the accompanying financial statements of Thurston PUD, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the financial section of our report.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Thurston PUD, as of December 31, 2022, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## 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 in the financial section of our report be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 September 13, 2023 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 the effectiveness of the District's 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.



Pat McCarthy, State Auditor

Olympia, WA

September 13, 2023

**Thurston PUD  
January 1, 2022 through December 31, 2022**

**REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2022

**BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2022

Statement of Revenues, Expenses and Changes in Net Position – 2022

Statement of Cash Flows – 2022

Notes to Financial Statements – 2022

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Proportionate Share of the Net Pension Liability – PERS 1 and PERS 2/3 –  
2022

Schedule of Employer Contributions – PERS 1 and PERS 2/3 – 2022

# Public Utility District No. 1 of Thurston County

## Management's Discussion and Analysis

December 31, 2022

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, 2022, with additional comparative data for 2021. 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, 2022, 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, 2022. 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, 2022, and 2021				
STATEMENT OF NET POSITION	Combined Total		Increase (Decrease)	% Change
	As of December 31			
	2022	2021	2022 - 2021	2022 - 2021
Current Assets	\$ 12,500,971	\$ 11,478,176	\$ 1,022,795	8.91%
Capital Assets, net of depreciation	43,932,890	44,036,803	(103,912)	-0.24%
Other Assets	2,058,083	3,168,631	(1,110,548)	-35.05%
<b>Total Assets</b>	<b>\$ 58,491,944</b>	<b>\$ 58,683,609</b>	<b>\$ (191,665)</b>	<b>-0.33%</b>
Deferred Outflows of Resources	\$ 2,395,555	\$ 2,013,683	\$ 381,872	18.96%
Current Liabilities	\$ 2,109,986	\$ 1,847,238	\$ 262,748	14.22%
Noncurrent Liabilities	26,090,301	26,718,352	(628,051)	-2.35%
<b>Total Liabilities</b>	<b>\$ 28,200,287</b>	<b>\$ 28,565,589</b>	<b>\$ (365,302)</b>	<b>-1.28%</b>
Deferred Inflows of Resources	\$ 674,508	\$ 1,788,867	\$ (1,114,359)	-62.29%
Net Investment in Capital Assets	\$ 21,997,857	\$ 22,189,677	\$ (191,820)	-0.86%
Restricted Net Position	\$ 2,070,426	\$ 1,873,434	\$ 196,992	10.52%
Unrestricted Net Position	\$ 7,816,257	\$ 6,279,727	\$ 1,536,530	24.47%
<b>Total Net Position</b>	<b>\$ 31,884,539</b>	<b>\$ 30,342,838</b>	<b>\$ 1,541,702</b>	<b>5.08%</b>

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2022, and 2021				
STATEMENT OF CHANGES IN NET POSITION	Combined Total		Increase (Decrease)	% Change
	As of December 31			
	2022	2021	2022 - 2021	2022 - 2021
Operating Revenues				
Metered & Unmetered Water Revenue	\$ 7,410,982	\$ 6,939,638	\$ 471,344	6.79%
Sales to Irrigation	\$ 116,781	\$ 186,089	\$ (69,308)	-37.24%
Operating Revenue - Other	\$ 1,268,476	\$ 1,644,830	\$ (376,354)	-22.88%
Non-Operating Revenues				
Interest Income	\$ 118,163	\$ 67,368	\$ 50,795	75.40%
Gain (Loss) on Disposal of Capital Assets	\$ (37,888)	\$ (26,682)	\$ (11,206)	42.00%
Non-Operating Revenues - Other	\$ 966,458	\$ 657,276	\$ 309,182	47.04%
<b>Total Revenues</b>	<b>\$ 9,842,972</b>	<b>\$ 9,468,519</b>	<b>\$ 374,453</b>	<b>3.95%</b>
Operating Expenses				
Operations, Maintenance, Admin and General	\$ 4,833,916	\$ 4,064,251	\$ 769,665	18.94%
Taxes, Depreciation and Amortization Expense	\$ 2,736,657	\$ 2,580,059	\$ 156,598	6.07%
Non-Operating Expenses				
Interest Expense	\$ 730,226	\$ 708,967	\$ 21,259	3.00%
Non-Operating Expenses - Other	48,764	31,160	17,603	56.49%
<b>Total Expenses</b>	<b>\$ 8,349,563</b>	<b>\$ 7,384,437</b>	<b>\$ 965,126</b>	<b>13.07%</b>
Excess (Deficiency)	\$ 1,493,410	\$ 2,084,082	\$ (590,673)	-28.34%
Capital Contributions	\$ 48,292	\$ 8,085,559	\$ (8,037,266)	-99.40%
<b>Change in Net Position</b>	<b>\$ 1,541,702</b>	<b>\$ 10,169,641</b>	<b>\$ (8,627,939)</b>	<b>-84.84%</b>
<b>Net Position Balance, Beginning of Year</b>	<b>\$ 30,342,838</b>	<b>\$ 20,173,197</b>	<b>\$ 10,169,641</b>	<b>50.41%</b>
Current Year Change in Net Position	\$ 1,541,702	\$ 10,169,641	\$ (8,627,939)	-84.84%
<b>Net Position Balance, End of Year</b>	<b>\$ 31,884,539</b>	<b>\$ 30,342,838</b>	<b>\$ 1,541,702</b>	<b>5.08%</b>

## **Financial Analysis**

### **Operating Revenues**

In 2022, operating revenue for the District increased \$25,682 or 0.29% from that of 2021. This increase in revenue is primarily attributable to the District implementing a 3.99% increase on District standard water rates over the rates charged in 2021. In 2022, the District adopted transitional water rates for the newly acquired water system customers as they transition to the District's standard water rates. Also, the capital surcharge established in 2015 increased from \$10.00 to \$11.00 or 10.00% in 2022.

### **Operating Expenses**

Overall operating expenses increased in 2022 by \$926,263 or 13.94%. The largest contributor to this increase in expenses was Insurance, which increased \$38,252 or 36.03%, as a result of the vehicles purchased in 2022 and added to the District's automobile liability insurance.

Additionally, Transportation expense increased \$50,111 or 34.75% due to related expenses for the vehicles purchased in 2022.

In 2022, the pension liability calculation for all District retirement plans, decreased the Employees & Commissioners Salaries & Benefits expense by \$225,295. See Note 6 of the accompanying notes to the financial statements for further detail related to pension plans.

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

Non-operating revenue recognized in 2022 increased by \$270,847 or 137.19% over 2021. 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 \$326,429 in property tax assessments in 2022, compared to \$317,455 in 2021, representing a 2.83% increase from 2021 to 2022. 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 2022 election was \$41,104. The District requested and received an extension to pay this expense over two years, and therefore incurred election costs in 2022 and 2023 of \$41,104 in each year.

Interest income and interest expense are included as non-operating revenue and expense. Interest income increased to \$118,163 in 2022 from \$67,368 in 2021 due to an increase in investment earnings. Interest expense increased to \$730,226 in 2022 from \$708,967 in 2021.

Other, net revenues decreased to \$71,000 in 2022 compared to \$96,131 in 2021 due to the reduction of rental income relating to the building purchased in January 2020.

Capital Contributions

In 2022, the capital contribution was calculated to be \$48,292, which was a decrease of \$8,037,266 or 99.40% compared to 2021. The significant decrease in 2022 was a direct result of the District not acquiring any water systems in 2022 compared to four (4) water system acquisitions in 2022.

Net Position

The District's total net position in 2022 increased by \$1,541,702 compared to the increase of \$10,169,641 in 2021.

Capital Assets

The District's capital assets (after depreciation) including capital work in progress, were \$43,932,890 in 2022 and \$44,036,803 in 2021. The capital asset additions consisted of 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.

Long-Term Debt Activity

At year-end 2022 the District's long-term debt changed to \$24.9 million from \$25.7 million reported in 2021. Long-term debt payments are funded 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.

**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



TaSeana Tartt  
Finance and Customer Service Manage

Public Utility District No. 1 of Thurston County, Washington

**STATEMENT OF NET POSITION**

December 31, 2022

<b>ASSETS</b>	2022
<b>Current Assets</b>	
Unrestricted - Cash and Investments	8,782,636
Restricted - Cash and Investments	3,038,143
Customer Accounts Receivable (net)	563,684
Property Tax Receivable	5,155
Other Receivables	991
Lease Receivables	42,770
Prepaid Expenses	67,591
Total Current Assets	<u>\$ 12,500,971</u>
<b>Non-Current Assets</b>	
Restricted - Bond Reserve	1,304,598
Lease Receivables	89,502
Capital Assets Not Being Depreciated:	
Land and Land Rights	2,165,107
Construction in Progress	1,882,279
Capital Assets Being Depreciated:	
Water Plant	49,558,882
Office Furniture & Equipment	439,638
Vehicles & Equipment	1,217,731
Other Utility Plant	1,161,940
Less: Accumulated Depreciation and Amortization	(12,492,687)
Total Capital Assets (Net)	43,932,890
Net Pension Asset	663,983
Total Non-Current Assets	<u>\$ 45,990,973</u>
<b>Total Assets</b>	<u><u>\$ 58,491,944</u></u>
 <b>DEFERRED OUTFLOWS of RESOURCES</b>	
Deferred Outflows - Bond Refunding	29,898
Deferred Outflows Related to Pensions	751,927
Deferred Outflows Related to Asset Retirement Obligation	1,613,730
Total Deferred Outflows of Resources	<u>\$ 2,395,555</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, 2022

<b>LIABILITIES</b>	2022
<b>Current Liabilities:</b>	
Accounts Payable	590,983
Current Accrued Compensated Absences	174,471
Accrued Payroll Liabilities	60,749
Refundable Deposits	129,819
Current Portion of Bonds, Notes and Loans Payable	1,118,717
Current Portion of Leases	35,247
Total Current Liabilities	<u>\$ 2,109,986</u>
<b>Noncurrent Liabilities:</b>	
Water Revenue Bonds	21,921,988
Public Works Trust Fund Loans	184,972
Drinking Water State Revolving Fund Loans	1,667,195
Long Term Compensated Absences	120,070
Long Term Leases	74,959
Asset Retirement Obligations	1,738,880
Net Pension Liability	382,238
Total Noncurrent Liabilities	<u>\$ 26,090,301</u>
Total Liabilities	<u>\$ 28,200,287</u>
<b>DEFERRED INFLOWS of RESOURCES</b>	
Deferred Inflows Related to Pensions	674,508
Deferred Inflows - Leases	128,165
Total Deferred Inflows of Resources	<u>\$ 802,673</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	21,997,857
Restricted for Pension	765,828
Restricted for Debt Service	1,304,598
Unrestricted Net Position	7,816,257
Total Net Position	<u>\$ 31,884,539</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, 2022

	2022
<b>Operating Revenues</b>	
Metered & Unmetered Water Revenue	7,410,982
Sales to Irrigation	116,781
Miscellaneous Service Revenue	147,719
Other Water Revenue	1,120,757
Total Operating Revenue	\$ 8,796,240
<b>Operating Expenses</b>	
Salaries & Benefits Employees & Commissioners	2,861,232
Water System Operations	763,695
Contractual Services	237,568
Rent and Janitorial	77,242
Transportation	194,319
Insurance	144,405
Administrative Operations	412,420
Miscellaneous	143,034
Taxes	487,616
Depreciation and Amortization	2,249,041
Total Operating Expenses	\$ 7,570,573
<b>Operating Income (Loss)</b>	\$ 1,225,667
<b>Non-Operating Revenues (Expenses)</b>	
Interest Income	118,163
Property Tax Revenue	326,429
Interest Expense	(730,226)
Election costs	(41,104)
Grant Revenues	569,028
Gain (Loss) on Disposal of Capital Assets	(37,888)
Debt Issuance Costs	(7,660)
Other, net	71,000
<b>Total Non-Operating Revenues (Expenses)</b>	\$ 267,743
<b>Capital Contributions</b>	\$ 48,292
<b>Change in Net Position</b>	\$ 1,541,702
<b>Net Position</b>	
Total Net Position, January 1	\$ 30,342,838
Total Net Position, December 31	\$ 31,884,539

*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, 2022

	<u>2022</u>
<b>Cash Flows from Operating Activities</b>	
Cash received from customers	8,926,693
Cash payments to supplies and employees	(4,976,982)
Taxes paid	<u>(487,616)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,462,095</u>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Property Tax Income	325,997
Other Non Operating income	66,896
Election Expenses	(41,104)
Net Cash Provided by Non-Capital Financing Activities	\$ 351,789
<b>Cash Flows from Capital Financing Activities</b>	
Payments to 2020 Revenue Bond	(224,366)
Payments to 2021A Revenue Bond	(350,000)
Payments to 2021B Revenue Bond	(70,000)
Payments to Public Works Trust Fund Loan	(61,454)
Payments to DWSRF Loans	(340,761)
Principal paid - Leases	(25,133)
Debt issuance costs	(7,660)
Proceeds from DWSRF Loans	309,814
Proceeds from Grants	569,028
Acquisition and construction of capital assets	(1,999,385)
Interest paid on long term debt	<u>(765,782)</u>
Net Cash from Capital Financing Activities	\$ (2,965,699)
<b>Cash Flows from Investing Activities</b>	
Interest received on cash on deposit	<u>\$ 118,163</u>
Net Cash Provided by Investing Activities	\$ 118,163
Net Increase (Decrease) in Cash	\$ 966,348
<b>Beginning of Year</b>	<u>\$ 12,159,029</u>
<b>End of Year</b>	<u>\$ 13,125,377</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, 2022

	2022
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ 1,225,667
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation and Amortization Expense	2,249,042
Customer Accounts Receivable	118,536
Other Accounts Receivable	1,120
Prepaid Expenses	(8,364)
Accounts Payable	42,957
Refundable Deposit Payable	10,797
Asset Retirement Obligations and Related Deferred Outflows	42,358
Payroll Liabilities	555
Accrued Compensated Absences	4,724
Pension Assets/Liabilities, net Deferred Inflows/Outflows	(225,296)
Total Adjustments	\$ 2,236,428
Net Cash Provided by Operating Activities	\$ 3,462,095
<b>NonCash Investing, Capital and Financing Activities</b>	
Capital Assets Acquired through Lease Financing	(55,802)
Capital Assets Acquired by Contribution	\$ 48,292
Total Noncash Activities	\$ (7,510)

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

## NOTES TO FINANCIAL STATEMENTS

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 279 water systems serving approximately 9,836 active connections in 6 counties (Thurston, Lewis, Pierce, Grays Harbor, King and Kitsap Counties). 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.

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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
January 1, 2022 through December 31, 2022

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

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, net pension asset, 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.

For purposes of calculating the restricted net position related to the net pension asset, the District includes the net pension asset and related deferred outflows and inflows.

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

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 \$1,304,598 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 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).

Leases

The District is a lessee for noncancelable leases. The District recognizes a lease liability and an intangible right-to-use lease asset in the government-wide and proprietary fund financial statements. The District recognizes lease liabilities with an initial value of \$79,537.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized using the straight-line basis over its useful life.

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

Key estimates and judgements related to lease include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

The District is a lessor for a noncancelable lease. The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and fund financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measure as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term using the straight-line basis.

Key estimates and judgements related to lease include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease receipts included in the measurement of the lease liability are compose of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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-

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

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 \$69,475 at December 31, 2022.

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.

Income Tax Status

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

Deferred Outflows/Deferred Inflows of Resources

In addition to assets, the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement section represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. Deferred outflows presented in this manner on the accompanying financial statements are related to outstanding debt, pension liabilities and asset retirement obligations.

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This section represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows presented in this manner on the accompanying financial statements are related to pension liabilities.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**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.

<b>Property Tax Calendar</b>	
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 2022 was \$0.007585249322 per \$1,000 on an assessed valuation of \$47,275,000,000 for a total regular levy of \$317,038. In 2021 the regular levy was \$308,575. Washington State Constitution and Washington State law, RCW 84.55.010, limits the rate.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Cash on hand at December 31, 2022, was \$1,500. The carrying amount of the District's deposits including certificates was \$13,123,877, and the bank balance was \$13,091,337.

Deposits

All receipts received by the District are deposited into qualified bank depositaries as directed by the County Treasurer and specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits, are entirely covered by federal depositary insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. PDPC coverage is of the nature of insurance pursuant to the Governmental Accounting Standards Board Statement No. 3. All deposits held at December 31, 2022, 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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

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 voluntary participant in the Thurston County Investment Pool (TCIP), an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. Investments in the TCIP are reported at fair value, which, as of 12/31/2022, is reporting at an unrealized loss from book value of 5.5204%. The TCIP does not impose any restrictions on participant withdrawals.

The Thurston County Investment Pool does not have a credit rating and had a weighted average maturity of 1.71 years as of December 31, 2022.

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.

At December 31, 2022, 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	\$13,091,337	\$0
<b>Total Investments by Fair Value</b>	<b>\$0</b>	<b>\$13,091,337</b>	<b>\$0</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**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.

<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
Leases	*

*\*Leases Useful Life varies based on type of equipment.*

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 4 – CAPITAL ASSETS (Continued)**

Utility plant activity for the year ended December 31, 2022, was as follows:

	<b>Beginning Balance 1/1/2022</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance 12/31/2022</b>
Utility plant not being depreciated:				
Land and Land Rights	2,165,107	-	-	2,165,107
Construction in Progress	1,483,785	1,844,608	(1,446,114)	1,882,279
Total utility plant not being depreciated	\$ 3,648,892	\$ 1,844,608	\$ (1,446,114)	\$ 4,047,387
Utility plant being depreciated				
Water Plant	48,341,293	1,369,214	(151,625)	49,558,882
Office Furniture & Equipment	358,479	95,696	(14,538)	439,638
Transportation & Equipment	1,086,815	293,814	(162,898)	1,217,731
Other Utility Plant	1,065,915	96,025	-	1,161,940
Total utility plant being depreciated	\$ 50,852,501	\$ 1,854,749	\$ (329,060)	\$ 52,378,190
Accumulated Depreciation				
Water Plant	8,793,337	2,062,651	(23,200)	10,832,787
Office Furniture & Equipment	230,713	42,382	(11,894)	261,201
Transportation & Equipment	578,718	88,721	(106,313)	561,126
Other Utility Plant	782,286	55,287	-	837,573
Total accumulated depreciation	\$ 10,385,054	\$ 2,249,041	\$ (141,407)	\$ 12,492,687
<b>Total Utility Plant, Net</b>	<b>\$ 44,116,340</b>	<b>\$ 1,450,317</b>	<b>\$ (1,633,767)</b>	<b>\$ 43,932,890</b>

**NOTE 5 – CONSTRUCTION IN PROGRESS**

The District has one active construction project as of December 31, 2022. The project includes:

1. Upgrades to the Timberline Village water system including leak loss assessment and repairs, pump house replacement and meter installation.

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

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Commitment</b>
Timberline Village Upgrades	\$ 372,408	\$ 19,578

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 6 – PENSION PLANS**

The following table represents the aggregate pension amounts for all plans for the year 2022:

<b>Aggregate Pension Amounts – All Plans</b>	
Pension liabilities	\$ (382,238)
Pension assets	\$ 663,983
Deferred outflows of resources	\$ 751,928
Deferred inflows of resources	\$ (674,509)
Pension expense/expenditures	\$ (1,039)

**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 annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR 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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 6 – PENSION PLANS (Continued)**

**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 2022 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January – August 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.25%</b>	<b>6.00%</b>
September – December 2022		
PERS Plan 1	6.36%	6.00%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
<b>Total</b>	<b>10.39%</b>	<b>6.00%</b>

**NOTE 6 – PENSION PLANS (Continued)**

**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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 6 – PENSION PLANS (Continued)**

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 2022 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 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>10.25%</b>	<b>6.36%</b>
September – December 2022		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.85%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>10.39%</b>	<b>6.36%</b>

The District’s actual PERS plan contributions were \$83,194 to PERS Plan 1 and \$141,062 to PERS Plan 2/3 for the year ended December 31, 2022.

**Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2022 with a valuation date of June 30, 2021. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary’s (OSA) *2013-2018 Demographic Experience Study* and the *2021 Economic Experience Study*.

**NOTE 6 – PENSION PLANS (Continued)**

Additional assumptions for subsequent events and law changes are current as of the 2021 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2022. Plan liabilities were rolled forward from June 30, 2021, to June 30, 2022, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases:** In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Methods did not change from the prior contribution rate setting June 30, 2019 Actuarial Valuation Report (AVR), however OSA introduced a temporary method change to produce asset and liability measures for the June 30, 2020 AVR. There were also the following assumption changes:

- OSA updated the Joint-and-Survivor Factors and Early Retirement Factors in the model. Those factors are used to value benefits for early retirement and survivors of members that are deceased prior to retirement. These factors match the administrative factors provided to DRS for future implementation that reflect current demographic and economic assumptions.
- OSA updated the economic assumptions based on the 2021 action of the PFC and the LEOFF Plan 2 Retirement Board. The investment return assumption was reduced from 7.5% (7.4% for LEOFF 2) to 7.0%, and the salary growth assumption was lowered from 3.5% to 3.25%. This action is a result of recommendations from OSA's biennial economic experience study.

**NOTE 6 – PENSION PLANS (Continued)**

**Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan’s fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA’s 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 7.0% 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 7.0% was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA’s) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA’s and their target asset allocation to simulate future investment returns at various future times.

**Estimated Rates of Return by Asset Class**

The table below summarizes the 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, 2022. The inflation component used to create the table is 2.2% and represents the WSIB’s most recent long-term estimate of broad economic inflation.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.5%
Tangible Assets	7%	4.7%
Real Estate	18%	5.4%
Global Equity	32%	5.9%
Private Equity	23%	8.9%
	<b>100%</b>	

**NOTE 6 – PENSION PLANS (Continued)**

**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 7.0%, 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 (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	<b>1% Decrease (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
PERS 1	\$510,665	\$382,238	\$270,152
PERS 2/3	\$781,927	\$(663,983)	\$(1,851,890)

**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 (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2022, the District reported its proportionate share of the net pension liabilities as follows:

	<b>Liability/Asset</b>
PERS 1	\$(382,238)
<b>Total Net Pension Liability</b>	<b>\$(382,238)</b>
PERS 2/3	\$663,983
<b>Total Net Pension Asset</b>	<b>\$663,983</b>

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

	<b>Proportionate Share 6/30/21</b>	<b>Proportionate Share 6/30/22</b>	<b>Change in Proportion</b>
PERS 1	0.013590%	0.013728%	0.000138%
PERS 2/3	0.017462%	0.017903%	0.000441%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2022 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*.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 6 – PENSION PLANS (Continued)**

**Pension Expense**

For the year ended December 31, 2022, the District recognized pension expense as follows:

	<b>Pension Expense</b>
PERS 1	\$179,590
PERS 2/3	\$(180,629)
<b>Total Pension Expense</b>	<b>\$(1,039)</b>

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

At December 31, 2022, 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	\$(63,348)
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	\$38,922	\$0
<b>TOTAL</b>	<b>\$38,922</b>	<b>\$(63,348)</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 6 – PENSION PLANS (Continued)**

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$164,519	\$(15,031)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(490,888)
Changes of assumptions	\$370,079	\$(96,900)
Changes in proportion and differences between contributions and proportionate share of contributions	\$113,241	\$(8,342)
Contributions subsequent to the measurement date	\$65,166	\$0
<b>TOTAL</b>	<b>\$713,006</b>	<b>\$(611,161)</b>
<b>TOTAL PERS 1 &amp; PERS 2/3</b>	<b>\$751,928</b>	<b>\$(674,509)</b>

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, 2023. 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
2023	\$(26,808)
2024	\$(24,348)
2025	\$(30,544)
2026	\$18,352
2027	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2023	\$(113,558)
2024	\$(95,197)
2025	\$(141,517)
2026	\$230,256
2027	79,807
Thereafter	\$76,888

**NOTE 7 – INSURANCE / RISK MANAGEMENT**

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

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

Thurston PUD is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 166 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, prior wrongful acts, 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.

All Members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides Members with a \$2 million incident limit and \$10 million pool aggregate subject to a \$100,000 per incident Member deductible.

**NOTE 7 – INSURANCE / RISK MANAGEMENT (Continued)**

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown 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 \$400 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.

**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 pledged future water revenue, net of operating expenses to repay \$5,656,969 in water revenue bonds issued January 16, 2020. Proceeds from the bonds provide financing for water system improvements and replacements as well as an acquisition of property with an office building. The bonds are payable solely from water revenue and are payable through 2039. The total principal and interest remaining to be paid on this bond series is \$6,875,436.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
January 1, 2022 through December 31, 2022

**NOTE 8– LONG-TERM DEBT (Continued)**

In February 2021, the District pledged future water revenue, net of operating expenses to repay \$6,735,000 in water revenue bond issued, 2021A Bond. These bonds were issued with a premium of \$867,297. \$5,145,000 plus a premium of \$732,526 provided financing for water system improvements and replacements. The remaining \$1,590,000 plus a premium of \$134,771 was used to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$2,030,000 of refunded debt, 2018B Water Revenue Bond. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$2,177,869 and resulted in an economic gain of \$149,824.

In March 2021, the District pledged future water revenue, net of operating expenses to repay \$905,000 in water revenue bond issued, 2021B Bond. These bonds were issued with a premium of \$112,050 and were used to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$980,000 of refunded debt, 2011 Water Revenue Bond. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$1,192,291 and resulted in an economic gain of \$175,642.

The total principal and interest remaining to be paid on the 2021A and 2021B bond series is \$8,625,300. At December 31, 2022, the unspent bond proceeds are \$3,038,143.

Annual principal and interest payments on the bonds are expected to require approximately 58.09 percent of net revenues in future years. Principal and interest paid for all bonds in the current year and total water revenue, net operating income excluding depreciation is \$1,444,530 and \$3,446,992 respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 8– LONG-TERM DEBT (Continued)**

The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Original Amount	Amount of 2022 Installment
Public Works Loan PW04-691-PRE126	2024	0.5%	\$ 1,000,000	\$ 52,632
Public Works Loan PC18-96103-13	2038	1.2%	\$ 167,631	\$ 8,823
Water Revenue Bond 2018A	2018 - 2042	3.0%-4.0%	\$ 9,550,000	\$ -
Water Revenue Bond 2020	2020 - 2039	3.0%	\$ 5,656,969	\$ 224,366
Water Revenue Bond 2021A	2021-2040	3.0%	\$ 6,735,000	\$ 350,000
Water Revenue Bond 2021B	2021-2031	3.0%	\$ 905,000	\$ 70,000
Unamortized Bond Premium 2018	2042		\$ 338,294	\$ -
Unamortized Bond Premium 2021A	2040		\$ 861,262	\$ -
Unamortized Bond Premium 2021B	2031		\$ 110,397	\$ -
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	\$ 25,368
Drinking Water State Revolving Fund Loan 03-65103-029	2024	0.5%	\$ 93,017	\$ 24,081
Drinking Water State Revolving Fund Loan 03-65103-030	2024	0.5%	\$ 88,298	\$ 69,339
Drinking Water State Revolving Fund Loan 03-65103-031	2034	0.0%	\$ 112,009	\$ 23,258
Drinking Water State Revolving Fund Loan 03-65103-032	2024	1.5%	\$ 85,281	\$ 3,427
Drinking Water State Revolving Fund Loan 01-65101-039	2025	1.5%	\$ 41,127	\$ 4,942
Drinking Water State Revolving Fund Loan 16-952-034	2036	1.0%	\$ 84,007	\$ 4,248
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%	\$ 210,341	\$ 19,122
Drinking Water State Revolving Fund Loan DWL24059	2018	1.8%	\$ 51,119	\$ 8,103
Drinking Water State Revolving Fund Loan DWL26240	2045	1.3%	\$ -	\$ -
Drinking Water State Revolving Fund Loan DWL26320	2045	1.3%	\$ -	\$ -
Drinking Water State Revolving Fund Loan DWL26321	2045	1.3%	\$ -	\$ -
Drinking Water State Revolving Fund Loan DWL24061	2031	0.0%	\$ -	\$ -
<b>Total Authorized Debt</b>			<b>\$ 29,984,944</b>	<b>\$ 1,046,581</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
January 1, 2022 through December 31, 2022

**NOTE 8– LONG-TERM DEBT (Continued)**

In 2021, the District obtained loan financing for the Tanglewilde water system through the Drinking Water State Revolving Fund. The costs of this capital project are expected total \$398,320. The District anticipates the projects to be completed by December 2023. The 10-year term loan start date was for an amount of \$398,320 with an interest rate of 0.00%.

In 2021, the District obtained loan financing for the Glen Alder water system through the Drinking Water State Revolving Fund. The costs of these capital projects are expected total \$517,480. The District anticipates the projects to be completed by December 2023. The 24-year term loan start date was for an amount of \$517,480 with an interest rate of 1.25% and 50% principal loan forgiveness.

In 2021, the District obtained loan financing for the Country Club Estates water system through the Drinking Water State Revolving Fund. The costs of these capital projects are expected total \$756,400. The District anticipates the projects to be completed by December 2023. The 24-year term loan start date was for an amount of \$756,400 with an interest rate of 1.25% and 50% principal loan forgiveness.

In 2021, the District obtained loan financing for the Pattison water system through the Drinking Water State Revolving Fund. The costs of these capital projects are expected total \$3,141,500. The District anticipates the projects to be completed by December 2024. The 24-year term loan start date was for an amount of \$3,141,500 with an interest rate of 1.25% and 50% principal loan forgiveness.

In 2020, the District obtained loan financing for a Public Works Trust Fund loan for three capital projects. The costs of these capital projects are expected total \$167,631. The District anticipates the projects to be completed by December 2023. The 20-year term loan start date was for an amount of \$167,631 with an interest rate of 1.20%.

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 0.50%.

In 2018, the District obtained loan financing for the Timberline Village water system through the Drinking Water State Revolving Fund. The costs of these capital projects are expected total \$401,100. The District anticipates the projects to be completed by June 2023. The 20-year term loan start date was for an amount of \$401,100 with an interest rate of 1.75%

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 8– LONG-TERM DEBT (Continued)**

The annual requirements to amortize all debts outstanding as of December 31, 2022, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2023	\$ 1,060,441	\$ 686,246	\$ 1,746,687
2024	\$ 1,077,472	\$ 645,380	\$ 1,722,852
2025	\$ 1,056,981	\$ 604,142	\$ 1,661,123
2026	\$ 1,067,070	\$ 567,000	\$ 1,634,070
2027	\$ 1,179,646	\$ 572,431	\$ 1,752,077
2028-2032	\$ 6,499,696	\$ 2,313,129	\$ 8,812,825
2033-2037	\$ 6,630,776	\$ 1,385,412	\$ 8,016,188
2038-2042	\$ 4,988,189	\$ 344,707	\$ 5,332,896
2043-2045	\$ 25,334	\$ 648	\$ 25,982
<b>Total</b>	<b>\$ 23,585,605</b>	<b>\$ 7,119,095</b>	<b>\$ 30,704,700</b>

As of December 31, 2022, the District has \$1,304,598 in the Bond Reserves. This represent sinking funds and reserve requirements contained in the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

**NOTE 9 – CHANGES IN LONG-TERM LIABILITIES**

During the year ended December 31, 2022, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2022	Additions	Reductions	Ending Balance 12/31/2022	Due Within One Year
Revenue Bonds	\$ 22,093,411	\$ -	\$ 644,366	\$ 21,449,045	\$ 776,097
Unamortized Bond Premiums	\$ 1,345,563	\$ -	\$ 38,247	\$ 1,307,316	\$ 58,276
Total Bonds Payable	\$ 23,438,974	\$ -	\$ 682,613	\$ 22,756,361	\$ 834,373
Public Works Trust Fund Loans	\$ 307,880	\$ -	\$ 61,454	\$ 246,426	\$ 61,454
Drinking Water State Revolving Fund Loans	\$ 1,921,031	\$ 309,814	\$ 340,761	\$ 1,890,083	\$ 222,889
Pension Liability	\$ 165,966	\$ -	\$ (216,272)	\$ 382,238	\$ -
Asset Retirement Obligations	\$ 1,714,680	\$ 24,200	\$ -	\$ 1,738,880	\$ -
Compensated Absences	\$ 289,817	\$ 4,725	\$ -	\$ 294,542	\$ 174,471
Leases	\$ 79,537	\$ 55,802	\$ 25,133	\$ 110,206	\$ 35,247
<b>Total Long-Term Liabilities</b>	<b>\$ 27,917,885</b>	<b>\$ 394,541</b>	<b>\$ 893,690</b>	<b>\$ 27,418,736</b>	<b>\$ 1,328,435</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 10 – LEASES (Lessors)**

In 2022, the District implemented GASB Statement No. 87, Leases. The objective of this Statement is to establish accounting and financial reporting for certain lease activities where the District has a legal or contractual obligation to incur costs for long-term leases. The District has identified one (1) lease in which the District is a lessor that must comply with GASB Statement No. 87, Leases. Implementation of this Statement did not have a significant impact to the financial position or results of operations of the District.

In 2019, the District entered a seven-year lease for the office building located at 1240 Ruddell Rd, Lacey WA 98503. In 2022, the cost for the lease is \$3,712 monthly and is adjusted March 1 of each year to according to the Lease Agreement Rent Rider. A Lease Extension is allowable only as mutually agreed upon by the District and the tenant.

As of December 31, 2022, future lease receivable principal and interest payments are as follows:

<b>Year ended December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2023	42,770	3,111	45,881
2024	45,495	1,874	47,369
2025	44,007	687	44,694
<b>Total</b>	<b>132,272</b>	<b>5,672</b>	<b>137,944</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 January 1, 2022 through December 31, 2022

**NOTE 11 – LEASES (Lessee)**

In 2022, the District implemented GASB Statement No. 87, Leases. The objective of this Statement is to establish accounting and financial reporting for certain lease activities where the District has a legal or contractual obligation to incur costs for long-term leases. The District has identified eight (8) leases in which the District is a lessee that must comply with GASB Statement No. 87, Leases. Implementation of this Statement did not have a significant impact to the financial position or results of operations of the District.

During the year ended December 31, 2022, the following changes occurred in lease liabilities:

	<b>Beginning Balance 1/1/2022</b>	<b>Increase</b>	<b>Decrease</b>	<b>Ending Balance 12/31/2022</b>
Leased Equipment	79,537	55,802	-	135,339
Total	\$ 79,537	\$ 55,802	\$ -	\$ 135,339
Accumulated Depreciation Leased Equipment	-	-	(27,265)	(27,265)
Total	\$ -	\$ -	\$ (27,265)	\$ (27,265)
<b>Total Leases, Net</b>	<b>\$ 79,537</b>	<b>\$ 55,802</b>	<b>\$ (27,265)</b>	<b>\$ 108,074</b>

As of December 31, 2022, the principal and interest requirements to maturity are as follows:

<b>Year ended December 31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2023	35,247	2,971	38,218
2024	32,394	2,082	34,476
2025	15,127	1,393	16,520
2026	15,743	795	16,538
2027	11,694	143	11,837
<b>Total</b>	<b>110,206</b>	<b>7,383</b>	<b>117,589</b>

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
January 1, 2022 through December 31, 2022

**NOTE 12 –ASSET RETIREMENT OBLIGATIONS (ARO)**

The District has identified 331 wells as asset retirement obligations. The AROs are the District's active wells that will require decommission at the end of its useful life, estimated at 75 years. The wells will be decommissioned, pursuant to WAC 173-160-381, regulated by Department of Ecology.

The District's Director of Planning and Compliance was consulted when determining the method and assumptions to measure the liabilities. The District presumed all wells to have a useful life of 75 years and the remaining useful life was calculated individually for each well based on the original installation date. The District reviewed the depth of each well, the remaining useful life of each well and a cost estimate to decommission a well to calculate the asset retirement obligation. The District plans to decommission wells during the same period of time the new well is being drilled.

**NOTE 13– 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 14 – SUBSEQUENT EVENTS**

In May 2023, the District signed a Public Assistant Grant Agreement funded by Washington State Military Department and Federal Emergency Management Agency to receive reimbursement for eligible COVID cost incurred between March 2020 to October 2022. The estimated reimbursement is \$21,000.

In May 2023, the District obtained loan financing for the Hawley Hills Consolidation of four (4) Group A Water Systems through the Drinking Water State Revolving Fund. The costs of this capital project are expected total \$504,900. The District anticipates the projects to be completed by December 2023. The 20-year term loan start date was for an amount of \$504,900 with an interest rate of 2.25%.

Public Utility District No. 1 of Thurston County  
Schedule of Proportionate Share of the Net Pension Liability  
Public Employees' Retirement System  
As of June 30 (*measurement date*)  
Last 10 Fiscal Years\*

	2022	2021	2020	2019	2018	2017	2016	2015
<b>Public Employee's Retirement System - Plan 1</b>								
Employer's proportion of the net pension liability (asset)	% 0.013728%	0.013590%	0.013039%	0.012415%	0.010192%	0.007130%	0.007507%	0.006960%
Employer's proportionate share of the net pension liability	\$ 382,238	\$ 165,966	\$ 460,347	\$ 477,401	\$ 455,178	\$ 338,324	\$ 403,161	\$ 364,073
Covered payroll	\$ 2,238,303	\$ 2,088,489	\$ 1,979,532	\$ 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	% 17.08%	7.95%	23.26%	27.40%	32.12%	37.69%	46.71%	45.77%
Plan fiduciary net position as a percentage of the total pension liability	% 76.56%	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

	2022	2021	2020	2019	2018	2017	2016	2015
<b>Public Employee's Retirement System - Plans 2/3</b>								
Employer's proportion of the net pension liability (asset)	% 0.017903%	0.017462%	0.016986%	0.016030%	0.013146%	0.009171%	0.009620%	0.008989%
Employer's proportionate share of the net pension liability (asset)	\$ (663,983)	\$(1,739,496)	\$ 217,241	\$ 155,706	\$ 224,456	\$ 318,648	\$ 484,359	\$ 321,182
Covered payroll	\$ 2,238,303	\$ 2,088,489	\$ 1,979,532	\$ 1,742,469	\$ 1,416,904	\$ 897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability	% -29.66%	-83.29%	10.97%	8.94%	15.84%	35.50%	56.11%	40.38%
Plan fiduciary net position as a percentage of the total pension liability	% 106.73%	120.29%	97.22%	97.77%	95.77%	90.97%	85.82%	89.20%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

Public Utility District No. 1 of Thurston County  
 Schedule of Employer Contributions  
 Public Employees' Retirement System  
 For the year ended December 31  
 Last 10 Fiscal Years\*

	2022	2021	2020	2019	2018	2017	2016	2015
<b>Public Employees' Retirement System Plan 1</b>								
Statutorily or contractually required contributions	\$ 83,194	\$ 91,492	\$ 99,428	\$ 94,014	\$ 86,131	\$ 51,400	\$ 41,877	\$ 35,597
Contributions in relation to the statutorily or contractually required contributions	\$ (83,194)	(91,492)	\$ (99,428)	\$ (94,014)	\$ (86,131)	\$ (51,400)	\$ (41,877)	\$ (35,597)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,217,949	\$ 2,105,115	\$ 2,075,122	\$ 1,901,163	\$ 1,702,443	\$ 1,045,904	\$ 877,912	\$ 809,212
Contributions as a percentage of covered payroll	% 3.75%	4.35%	4.79%	4.95%	5.06%	4.91%	4.77%	4.40%

	2022	2021	2020	2019	2018	2017	2016	2015
<b>Public Employees' Retirement System Plans 2 &amp; 3</b>								
Statutorily or contractually required contributions	\$ 141,062	\$ 151,897	\$ 164,350	\$ 146,769	\$ 127,662	\$ 72,478	\$ 54,694	\$ 62,787
Contributions in relation to the statutorily or contractually required contributions	\$ (141,062)	\$ (151,897)	\$ (164,350)	\$ (146,769)	\$ (127,662)	\$ (72,478)	\$ (54,694)	\$ (62,787)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,217,949	\$ 2,105,115	\$ 2,075,122	\$ 1,901,163	\$ 1,702,443	\$ 1,045,904	\$ 877,912	\$ 809,212
Contributions as a percentage of covered payroll	% 6.36%	7.22%	7.92%	7.72%	7.50%	6.93%	6.23%	7.76%

**Notes to Schedule:**

\*Until a full 10-year trend is compiled, only information for those years available is presented.

## ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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