

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Thurston Public Utility District
Thurston County

Audit Period
January 1, 2011 through December 31, 2011

Report No. 1008380

Issue Date
September 20, 2012



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

September 20, 2012

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Thurston Public Utility District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Thurston County
January 1, 2011 through December 31, 2011**

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Federal Summary

Thurston Public Utility District Thurston County January 1, 2011 through December 31, 2011

The results of our audit of Thurston Public Utility District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unqualified opinion was issued on the basic financial statements.

Internal Control Over Financial Reporting:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

Thurston Public Utility District Thurston County January 1, 2011 through December 31, 2011

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

We have audited the basic financial statements of Thurston Public Utility District, Thurston County, Washington, as of and for the year ended December 31, 2011, and have issued our report thereon dated September 13, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

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

This report is intended for the information and use of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.

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BRIAN SONNTAG, CGFM
STATE AUDITOR

September 13, 2012

Independent Auditor's Report on Compliance
with Requirements That Could Have a Direct
and Material Effect on Each Major Program and
on Internal Control over Compliance in
Accordance with OMB Circular A-133

**Thurston Public Utility District
Thurston County
January 1, 2011 through December 31, 2011**

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

COMPLIANCE

We have audited the compliance of Thurston Public Utility District, Thurston County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

INTERNAL CONTROL OVER COMPLIANCE

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Commissioners, federal awarding agencies and pass-through entities. 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.



BRIAN SONNTAG, CGFM
STATE AUDITOR

September 13, 2012

Independent Auditor's Report on Financial Statements

Thurston Public Utility District Thurston County January 1, 2011 through December 31, 2011

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

We have audited the accompanying basic financial statements of Thurston Public Utility District, Thurston County, Washington, as of and for the year ended December 31, 2011, as listed on page 9. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurston Public Utility District, as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Long Term Debt is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 13, 2012

Financial Section

**Thurston Public Utility District
Thurston County
January 1, 2011 through December 31, 2011**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Balance Sheet – 2011
Statement of Revenues, Expenses, and Changes in Net Assets – 2011
Statement of Cash Flows – 2011
Notes to Financial Statements – 2011

SUPPLEMENTARY INFORMATION

Schedule of Long Term Debt – 2011
Schedule of Expenditures of Federal Awards – 2011
Notes to the Schedule of Expenditures of Federal Awards – 2011

Management's Discussion and Analysis

December 31, 2011

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, 2011 with additional comparative data for 2010. 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, 2011, and are comprised of:

• **Balance Sheet:** The District presents its statement of position using the balance sheet format. The balance sheet reflects the assets, liabilities and net assets (equity) of the District as of the end of the fiscal year which, for the purposes of this report, is December 31, 2011. The net assets section of the balance sheet is separated into three categories:

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

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

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

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

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

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2011, and 2010				
	Combined Total		Increase (Decrease)	% Change
	As of December 31			
BALANCE SHEET	2011	2010	2011 - 2010	2011 - 2010
Current Assets	\$ 1,690,842	\$ 1,546,297	\$ 144,545	9.35%
Other Non-Current Assets	6,416,275	4,595,086	1,821,189	39.63%
Total Assets	<u>\$ 8,107,117</u>	<u>\$ 6,141,383</u>	<u>\$ 1,965,733</u>	32.01%
Current Liabilities	\$ 192,405	\$ 274,008	\$ (81,603)	-29.78%
Other Liabilities	359,008	188,131	170,877	90.83%
Long-Term Liabilities	4,915,469	3,516,160	1,399,310	39.80%
Total Liabilities	<u>\$ 5,466,883</u>	<u>\$ 3,978,298</u>	<u>\$ 1,488,584</u>	37.42%
Invested in Capital Assets Net of Related Debt	\$ 963,476	\$ 675,125	\$ 288,352	42.71%
Total Restricted funds	490,667	428,738	61,929	14.44%
Net Unrestricted funds	1,186,091	1,059,223	126,868	11.98%
Total Net Assets	<u>\$ 2,640,234</u>	<u>\$ 2,163,085</u>	<u>\$ 477,149</u>	22.06%
Total Liabilities and Net Assets	<u>\$ 8,107,117</u>	<u>\$ 6,141,383</u>	<u>\$ 1,965,733</u>	32.01%

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2011, and 2010				
	Combined Total		Increase (Decrease)	% Change
	As of December 31			
STATEMENT OF CHANGES IN NET ASSETS	2011	2010	2011 - 2010	2011 - 2010
Operating Revenues	\$ 2,090,604	\$ 1,944,989	\$ 145,615	7.49%
Non-Operating Revenues	556,897	864,844	(307,947)	-35.61%
Total Revenues	<u>\$ 2,647,501</u>	<u>\$ 2,809,833</u>	<u>\$ (162,332)</u>	-5.78%
Operating Expenses	\$ 2,023,942	\$ 1,955,449	\$ 68,493	3.50%
Non-Operating Expenses	146,410	115,887	30,523	26.34%
Total Expenses	<u>\$ 2,170,352</u>	<u>\$ 2,071,336</u>	<u>\$ 99,015</u>	4.78%
Change in Net Assets	<u>\$ 477,149</u>	<u>\$ 738,497</u>	<u>\$ (261,348)</u>	-35.39%
Net Assets				
Balance, beginning of year	\$ 2,163,085	\$ 1,424,589	\$ 738,497	51.84%
Current Year Change in Net Assets	477,149	738,497	(261,348)	-35.39%
Prior Period Adjustment	-	-	-	0.00%
Balance, end of year	<u>\$ 2,640,234</u>	<u>\$ 2,163,085</u>	<u>\$ 477,149</u>	22.06%

Financial Analysis

Operating Revenues

In 2011, operating revenue for the District increased \$145,615 or 7.49% from that of 2010. This increase in revenue is attributable to two primary factors. First, water rates were increased in 2011 on the base charge as well as the upper tiers of our consumption rates. While consumption was again down in 2011 due to wetter than normal weather patterns, the base charge was increased and is responsible for a small amount of new revenue. The second factor attributable to the increase in revenue is that the District saw a full year of billings for new customers added in 2010.

Operating Expenses

Overall operating expenses increased in 2011 by \$68,493 or 3.5%. The largest contributor to this increase in expense was: Salaries & Benefits increasing \$105,548 or 14.26%. During the year when it was apparent that the summer months would be cooler and wetter and lower revenues could be expected, the District took several steps in reducing our expenses as much as possible as we discuss in more depth later in this analysis.

Non-Operating Revenues & Expenses

There were two significant sources of non-operating revenue recognized in 2011 that contributed to the strength of the District's financial position. The first was Grant Revenue in the amount of \$290,250, received to assist the construction of infrastructure replacements at the Tanglewilde water system.

The second source of non-operating revenue recognized is the District's tax levy. The District, like all public utility districts organized in the State of Washington, has taxing authority. The District exercises this authority at a minimum level, collecting \$244,605 in property tax assessments in 2011. The 2010 tax assessments amounted to \$243,258, representing a 0.55% increase from 2010 to 2011. 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 2010 election was \$40,676. The District requested and received an extension to pay this expense over two years, and therefore incurred 2011 costs of \$20,388.

Interest income and interest expense are included as non-operating revenue and expense. Interest income decreased slightly to \$20,998 in 2011 compared to \$30,988 in 2010 due mainly to the continued drop in investment earnings. Interest expense increased to \$126,022 in 2011 from \$95,499 in 2010 due to interest payments on the increase of debt incurred in the year.

Net Assets

The District's total net assets increased in 2011 by \$477,149 or 22%.

A Closer Look at 2011

2011 was a busy and challenging year. Highlights by area are listed below.

Operations Manager Kim Gubbe was selected as the *2011 Operator of the Year* by the State of Washington, Department of Health, Office of Drinking Water.

Financial Successes and or Issues

1. Standard and Poor's Ratings Services assigned its AA- rating to the PUD as its first bond rating.
2. The PUD issued \$3 million in bonds with an average rate of 3.37% for 20 years. \$2.1 million was used to refund senior-lien bonds outstanding, \$900,000 is used to finance capital projects.
3. The Bi-annual State Audit went well and the District was commended on its clean audit.
4. The District completed a Salary and Benefits Survey and made appropriate adjustments to the salaries of all employees.
5. Boiler plate contracts for small works projects and professional services were updated, working with the Washington Cities Insurance Authority Pool and legal counsel.
6. The District purchased its first "green" vehicle, a hybrid Ford Escape.
7. The PUD added three water systems to manage under contract: Forest Glen, Nisqually Commercial Park, and the Back Trails Water system; providing revenues to help keep rates as low as possible.
8. The PUD reviewed nine systems for acquisition and sent out approximately 30 letters to utilities seeking to acquire them. Three are still pending consideration.
9. Draft Requests for Proposal (RFP) to investigate opportunities in other lines of business were prepared for electrical and telecommunications; neither RFP was issued.
10. In the early summer of 2011, we found that our budgeted revenues were lower than we projected as we monitored them: a potential \$140,000 revenue shortfall. It was a cold summer and that means revenues are lower because people use less water; good for water conservation, but hard on cash flow. We carefully watched our revenues and cut back on spending to help keep costs low. One of our most important priorities is always to look for ways to cut spending and for smarter ways to do things and find efficiencies.
 - a. We were able to utilize the refurbished and restored wells to almost eliminate our need to purchase City of Olympia water for the Tanglewilde and Thompson Place communities; savings of \$70,000.
 - b. We changed insurance providers and cut our expenses by \$10,120.
 - c. Our ability to issue a bond and refinance monies at a significantly lower interest rate saved significant funds, \$47,000. We then used bond proceeds to do the needed infrastructure improvements.
 - d. We renegotiated our lease for rental space saving a considerable amount of monies over time; \$4,000 annually.
 - e. We, of course, did all things which frugal and efficient businesses and households do by shopping for the best bargains, minimizing waste and getting bids on key items to ensure we are as efficient and fiscally conservative as possible. We take the need to be frugal, efficient and effective seriously and were able to live on a significantly lower revenue base than was budgeted.

11. The operational changes put into action in 2011 allowed us to implement a less than 2% rate increase while working on over 30 capital projects to improve many of our water systems. Reserves will be used in 2012 to cover another 2% that would have been covered in rates. The PUD Commissioners and Staff work hard to be good stewards of the resources we are entrusted to manage for the County's taxpayers and our ratepayers.

Capital Projects

The PUD's 2011 capital projects budget was \$5,233,688. In 2011, the PUD placed in service two new wells to support the Tanglewilde/Thompson Place water system. These wells, with the capability to pump up to 900 gallons per minute, will allow the PUD to almost eliminate purchased water from the City of Olympia except during emergencies and peak day periods. Other improvements for this water system include replacing 1,300 linear feet of the water main and replacing the 500,000 gallon reservoir with a 750,000 gallon reservoir to be completed in 2012.

These \$4+ million in improvements in Tanglewilde were made possible by a grant from the Washington State Public Works Board at the Department of Commerce and by Department of Health Drinking Water State Revolving Fund loans.

Other important projects included public health required projects for chlorination of the Cornerstone water system and corrosion control for the Cornerstone and Pederson Place water systems. Monies expended for these projects will be paid back via surcharges over the next ten plus years. Numerous pump houses were repaired and or rebuilt. Extensive leak detection on several systems was successful and the leaks were repaired. The Commissioners approved funding for over 30 small works projects valued at over \$300,000.

SMA Capital Projects

SMA capital projects are projects we manage for non-owned water systems. In 2011, the PUD, after successfully helping the Tempo Lake Glade Homeowners Association and the Cedarwood Homeowners Association secure funding for multimillion dollar water system improvements became very busy managing the process through engineering and preparing these major projects to go to bid for construction in 2012.

Contacting the District's Financial Management

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

Julie Parker
Chief Financial Officer

Public Utility District No. 1 of Thurston County, Washington

BALANCE SHEET

Total As of December 31, (Note 1)

2011

ASSETS

Current Assets

Cash and cash equivalents	
General Fund	223,879
Capital Improvement Fund	360,291
Water Revenue Fund	860,046
Customer Deposits	35,082
Receivables	
Customer Accounts Receivable (net)	168,866
Property Tax Receivable	10,936
Other Receivables	10,281
Interfund Loan (To) From	-
Prepaid Expenses	21,461
Total Current Assets	<u>\$ 1,690,842</u>

Non-Current Assets

Restricted Funds	
Grant Fund	132,196
Bond Reserve Fund	321,792
PUD Project Reserve Fund	767,595
Total Special Funds	<u>\$ 1,221,582</u>

Other Non-Current Assets

Unamortized Debt Discount & Expense	83,342
Total Other Non-Current Assets	<u>\$ 83,342</u>

Capital Assets

Land and Land Rights	90,554
Water Plant	4,207,830
Office Furniture & Equipment	148,880
Vehicles & Equipment	208,501
Other Utility Plant	625,407
Total cost	5,281,172
Construction in Progress	1,642,973
Less Accumulated Depreciation	(1,812,793)
Net Utility Plant	<u>\$ 5,111,351</u>
Total Non-Current Assets	<u>\$ 6,416,275</u>

Total Assets

\$ 8,107,117

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

Public Utility District No. 1 of Thurston County, Washington

BALANCE SHEET

Total As of December 31, (Note 1)

2011

LIABILITIES AND EQUITY

Current Liabilities

Accounts payable	82,006
Accrued compensated absences	53,967
Accrued taxes	19,654
Refundable Deposits	36,778
Total Current Liabilities	\$ 192,405

Other Liabilities

Unamortized Premium on Bond Issue	81,582
Contributions In Aid of Construction	277,426
Total Other Liabilities	\$ 359,008

Long-Term Liabilities

Bonds Payable	2,990,000
PWTF Note - Preconstruction 05	684,211
PWTF Note - Planning 08	48,714
DWSRF Loan - Source	881,849
DWSRF Loan - Reservoir	310,696
Contract Payable	-
Total Long-Term Liabilities	\$ 4,915,469

Net Assets

Invested in Capital Assets Net of Related Debt	963,476
Net Assets Restricted for:	
Capital Projects	168,875
Debt Service	321,792
Total Restricted funds	\$ 490,667
Prior Unrestricted Funds	
Retained Earnings	
Net Unrestricted funds	1,186,091
Total Net Assets	\$ 2,640,234

Total Liabilities and Net Assets

\$ 8,107,117

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

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

For the Year Ended December 31, 2011	As of December 31, (Note 1) 2011
Operating Revenues	
Unmetered Water Revenue	\$ 12,489
Metered Water Revenue	1,860,720
Sales to Irrigation	59,727
Miscellaneous Service Revenue	49,081
Other Water Revenue	108,587
Total Operating Revenue	<u>\$ 2,090,604</u>
Operating Expenses	
Salaries & Benefits Employees	\$ 845,784
Salaries Commissioners	62,197
Purchased Water	146,751
Purchased Power	71,936
Chemicals	23,818
System Repairs & Maintenance	75,996
Contract Engineering	8,457
Contract Accounting	-
Contract Legal	28,338
Contract Testing	31,891
Contract State Auditor	17,336
Contract Other	-
Rent and Janitorial	47,992
Transportation	46,355
Insurance	25,903
Advertising	4,561
Bad Debt Expense	(354)
Office Expense	42,462
Meeting Costs Commissioners	1,947
Meeting Costs Staff	1,529
Dues & Subscriptions	14,077
Telephone	8,936
Staff Training	4,882
Postage	20,815
Printing	12,008
Miscellaneous	35,982
Taxes	173,578
Depreciation/Amortization	270,767
Total Operating Expenses	<u>\$ 2,023,942</u>
Net Operating Income	<u>\$ 66,662</u>

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

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

For the Year Ended December 31, 2011	As of December 31, (Note 1) 2011
Non-Operating Revenues (Expenses)	
Interest Income	\$ 20,998
Property Tax Revenue	244,605
Interest on Long Term Debt	(126,022)
Election costs	(20,388)
Contributed Capital	-
Grant Revenues	290,250
Other, net	1,044
Total Non-Operating Revenues (Expenses)	<u>\$ 410,487</u>
Net Revenue (Expenses)	<u>\$ 477,149</u>
Net Assets	
Balance, beginning of year	\$ 2,163,085
Prior Period Adjustment	-
Balance, end of year	<u>\$ 2,640,234</u>

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

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011:

Cash Flows from Operating Activities

Cash received from customers	\$ 2,082,002
Cash payments to supplies and employees	\$ (1,678,229)
Taxes paid	<u>\$ (182,259)</u>
Net Cash Provided by Operating Activities	<u>\$ 221,514</u>

Cash Flows from Non-Capital Financing Activities

Property Tax Income	\$ 244,605.21
Property Tax Receivable	\$ 832
Other Non Operating Income	\$ 1,044
Election Expenses	<u>\$ (20,388)</u>
Net Cash Provided by Non-Capital Financing Activities	\$ 226,094

Cash Flows from Capital Financing Activities

Payments to 2005 Revenue Bond	\$ (1,695,000)
Payments to 2008 Revenue Bond	\$ (500,000)
Payments to 2010 Revenue Bond	\$ (25,000)
Proceeds from Issuance of 2011 Revenue Bond	\$ 3,031,076
Payments to Public Works Trust Fund Loan	\$ (52,632)
Payments to 2008 PWTF Planning Loan	\$ (16,238)
Proceeds from Issuance DWSRF Loan Source	\$ 470,261
Proceeds from Issuance DWSRF Loan Reservoir	\$ 227,919
Contributions to Capital	\$ 89,295
Proceeds from Grants	\$ 290,250
Acquisition and construction of capital assets	\$ (1,202,207)
Interest paid on long term debt	<u>\$ (126,022)</u>
Net cash from Capital Financing Activities	\$ 491,702

Cash Flows from Investing Activities

Interest received on cash on deposit	<u>\$ 20,998</u>
Net Increase (Decrease) in Cash	\$ 960,308

Beginning of Year \$ 1,740,573

End of Year \$ 2,700,880

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by

Operating Activities

Operating Income (Loss)	\$ 66,662
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	\$ 270,767
Customer Accounts Receivable	\$ (9,969)
Other Accounts Receivable	\$ (3,238)
Prepaid Expenses	\$ (21,105)
Accounts Payable	\$ (81,142)
Refundable Deposit Payable	\$ 4,605
Payroll Tax Liabilities	\$ (8,681)
Wages Payable	\$ -
Accrued Compensated Absences	<u>\$ 3,616</u>
Total Adjustments	<u>\$ 154,852</u>
Net Cash Provided by Operating Activities	<u>\$ 221,514</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

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

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Public Utility District No. 1 of Thurston County, Washington (Thurston PUD or the District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. Thurston PUD has elected to apply Financial Accounting Standards Board (FASB) guidance issued after November 30, 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*. This and consecutive statements are reflected in the accompanying financial statements (including notes to financial statements).

The following is a summary of the most significant policies including identification of those policies which result in material departures from generally accepted accounting principles:

Reporting Entity

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

Nature of Activities

Thurston PUD owns and operates 155 water systems serving approximately 3210 active connections in 5 counties (Thurston, Lewis, Pierce, Grays Harbor and Mason Counties). Thurston PUD also manages 12 systems under contract as a Satellite Management Agency (SMA). The District employs 11 full time and two part-time temporary employees.

Basis of Accounting

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The full accrual basis of accounting is used, where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. The Uniform System of Accounts for Class A Water Utilities 1996, published by the National Association of Regulatory Utility Commissioners, is the foundation for the accounting policies of the District. This accounting system includes instructions regarding the capitalization of fixed assets and the methods of accounting for and reporting contributions in aid of construction.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

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

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

Accounting Estimates

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

Revenue Recognition

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

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

Cash and Cash Equivalents

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

Utility Plant and Depreciation

See Note 4 – Capital Assets

Contribution in Aid of Construction

Contributions in Aid of Construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. The District treats the contributions as nonexchange transactions under GASB Statement No. 33. The payments are recorded as liabilities, then reclassified to non-operating revenue (contributed capital) when the associated facilities are constructed or acquired.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

Restricted Funds

In accordance with bond resolutions and other agreements, separate funds have been established for restricted or limited-use funds. The assets held in these funds are limited as to their use, including debt service, dedicated capital project funds, and other reserve requirements. At year-end there are restricted funds of Thurston PUD in the amount of \$1,221,582; PUD Project Fund \$767,595, Bond Reserve \$321,792, and Grant Fund \$132,196.

Assets and liabilities shown as current in the accompanying statement of net assets (or balance sheet) exclude current maturities on revenue bonds and accrued interest thereon because debt service funds are provided for their payment.

Receivables

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

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

Unamortized Debt Expenses

In accordance with GAAP, Thurston PUD has deferred the costs resulting from discounts and expenses related to the 2011 bond issue and other debt issued. These deferred costs will be amortized on the straight line method over the expected life of the debt.

Compensated Absences

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

Sick leave is accrued by employees on a monthly basis at the rate of one day of sick leave per month. There is no cap to the amount of sick leave that can be accumulated. Any accrued sick leave at the time of separation of service may be converted to cash, deferred compensation, or a VEBA account at the rate of 25% of the value of the sick leave determined based on the employee's last rate of pay. Thurston PUD records the cost of sick leave as earned with a liability representing 25% of the value earned but not taken.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2011 through December 31, 2011

Income Tax Status

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

Statement of Cash Flows

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

Changes in Accounting

There are no changes to the accounting presentation in these 2011 financial statements.

NOTE 2 – PROPERTY TAXES

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

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

Property taxes are recorded as receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue 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 2011 was \$0.008835817803 per \$1,000 on an assessed valuation of \$25.689 billion for a total regular levy of \$239,840. In 2010 the regular levy was \$234,189. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Deposits

All receipts received by the District are deposited into qualified bank depositaries as directed by the County Treasurer and specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits are entirely covered

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

by federal depository 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, 2011 and throughout the year were classified as category 1, insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name.

Investments

In 2011, Thurston PUD held no other investments than the deposits with the County Treasurer. Investments are governed by State statute and County investment policy. All investment instruments are those allowed by statute, which include U.S. Treasury Notes, Federal Agencies, bankers' acceptances, short-term commercial paper, money market account and the State Treasurer's Local Government Investment Pool (LGIP). There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. The fair value of County shares in the LGIP is dollar for dollar equal to the value of pool shares.

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

NOTE 4 – CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$500 and an estimated useful life in excess of three years. Major expenses for capital assets and major repairs, in excess of \$500, that increase useful lives are capitalized. Maintenance, repairs and minor renewals are accounted for as expenses when the cost is incurred.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2011 through December 31, 2011

Utility plant activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	90,554		-	90,554
Construction in Progress	720,563	1,142,153	(219,743)	1,642,973
Total utility plant not being depreciated	\$ 811,117	\$ 1,142,153	\$ (219,743)	\$ 1,733,527
Utility plant being depreciated				
Structures & Improvements	335,228	23,570		358,799
Wells and Springs	219,422	824		220,246
Power Generation Equipment	6,443			6,443
Pumping Equipment	278,972	43,322		322,295
Water Treatment Equipment	932,595	48,394		980,990
Distribution Reservoir & Standpipe	127,258			127,258
Transmission & Distribution Mains	1,752,157	46,013		1,798,170
Services	100,602			100,602
Meters & Meter Installations	234,249	27,657		261,905
Hydrants	11,227			11,227
Other Plant & Miscellaneous Equipment	19,895			19,895
Office Furniture & Equipment	148,880			148,880
Transportation Equipment	115,221	60,055		175,276
Tools, Shop, & Garage Equipment	3,230			3,230
Power Operated Equipment	542			542
Communication Equipment	9,740			9,740
Miscellaneous Equipment	19,713			19,713
Other Tangible Plant	595,446	29,961		625,407
Total utility plant being depreciated	\$ 4,910,820	\$ 279,797	\$ -	\$ 5,190,617
Accumulated Depreciation	1,542,026	270,767		1,812,793
Total Utility Plant, Net	\$ 4,179,911	\$ 1,151,184	\$ (219,743)	\$ 5,111,351

Depreciation is computed using the straight line method over their estimated useful lives of 3 to 50 years. Initial depreciation on utility plant is recorded on a pro-rata basis in the year it is placed in service. When operating property is retired or otherwise disposed of, the original cost is removed from the utility plant accounts and from accumulated depreciation. Accumulated depreciation is charged or credited with gain or loss on disposition. This policy is in accordance with the Uniform System of Accounts for Class A Water Utilities, 1996; and is a departure from generally accepted accounting principles.

NOTE 5 – CONSTRUCTION IN PROGRESS

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

NOTE 6 – RETIREMENT BENEFIT PLAN

Pension Plan

Substantially all Thurston PUD's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, Washington, 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*:

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

Plan Description

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

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
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PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service. (AFC is the monthly average of the 24 consecutive highest-paid service credit months.) The retirement benefit may not exceed 60 percent of AFC. The monthly benefit is subject to a minimum for PERS Plan 1 retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. If a survivor option is chosen, the benefit is further reduced. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, which is increased 3 percent annually. Plan 1 members may also elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance is granted at age 66 based upon years of service times the COLA amount (based on the consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military, if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

The surviving spouse or eligible child or children of a PERS Plan 2 member who dies after leaving eligible employment having earned ten years of service credit may request a refund of the member's accumulated contributions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. The defined benefit portion provides a monthly benefit that is 1 percent of the AFC per year of service. (AFC is the monthly average of the 60 consecutive highest-paid service months.)

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

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

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

PERS Plan 3 defined benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2.

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities.

The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Director of the Department of Retirement Systems.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2011 through December 31, 2011

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service.

These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions. Effective July 24, 2005, a member who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible children, may apply for interruptive military service credit. Additionally, PERS Plan 2 and Plan 3 members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction, if the member was not at normal retirement age at death. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Department of Labor and Industries.

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

There are 1,197 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2010:

Retirees and Beneficiaries Receiving Benefits	76,899
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	28,860
Active Plan Members Vested	105,521
Active Plan Members Nonvested	51,005
Total	262,285

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
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 January 1, 2011 through December 31, 2011

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age. As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2011, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.25% **	7.25% **	7.25% **
Employee	6.00% ****	4.64% ****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 10.80% for Plan 1 and 7.25% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2

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

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2011	\$0.00	\$40,269.94	\$1,242.52
2010	\$0.00	\$28,544.47	\$2,640.70
2009	\$0.00	\$35,085.74	\$2,650.01

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

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. Prior to 2011 Thurston PUD was a member of all three pools. In 2011 Thurston PUD retained membership in the PURMS health & welfare (H&W) pool and became a member of the Washington Cities Insurance Authority (WCIA) liability and property pools. PURMS members that withdraw continue to receive coverage from the Pool for occurrences that happened while they were a member. 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.

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 145 Members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, public officials’ errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Property insurance and auto physical damage are self-funded from the members’ deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2011 through December 31, 2011

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

NOTE 8 – SHORT-TERM DEBT

Thurston PUD has no short-term debt as of December 31, 2011.

NOTE 9 – LONG-TERM DEBT

Schedule 09 which accompanies this report contains a list of the outstanding debt at December 31, 2011. The annual requirements to amortize all debts outstanding as of December 31, 2011, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2012	\$ 335,122	\$ 110,909	\$ 446,032
2013	\$ 335,122	\$ 104,446	\$ 439,568
2014	\$ 345,122	\$ 97,851	\$ 442,973
2015	\$ 338,884	\$ 90,957	\$ 429,841
2016	\$ 343,884	\$ 83,762	\$ 427,646
2017-2021	\$ 1,619,420	\$ 305,346	\$ 1,924,766
2022-2026	\$ 899,157	\$ 172,286	\$ 1,071,443
2027-2031	\$ 698,757	\$ 69,075	\$ 767,833
Total	\$ 4,915,470	\$ 1,034,632	\$ 5,950,101

There is \$1,221,582 in restricted assets of the district. These represent sinking funds and reserve requirements contained in the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 10 – LEASES

In December 2010, Thurston PUD entered into a second five-year lease for office space and parking stalls at 921 Lakeridge Way SW, Olympia WA 98502. In 2011, the cost for the lease was \$4,100.00 monthly commencing February 1, 2011, a decrease of 8.88% from 2010, negotiated in exchange for extending the office space lease and moving to the third floor. At the end of the 5 year lease period Thurston PUD has the option to extend the lease for two additional three year terms at a re-negotiated rental rate.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2011 through December 31, 2011

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Purchase Water Agreement

In 2011 Thurston PUD continued its wholesale water purchase contract with the City of Olympia to purchase water for the Tanglewilde system. In the contract Thurston PUD receives water from Olympia through a master meter for a fixed annual charge of \$59,550 plus volume charges of \$0.555 per hundred cubic feet (CCF) November through June, and \$0.767 per CCF July through October. The contract includes an annual increase tied to the published Seattle Consumer Price Index.

In 2011 Thurston PUD completed drilling two new wells to serve the Tanglewilde water system, placing the first well into service in July and the second well was in service in December. In drilling these wells the dependence on the city of Olympia purchase water contract has been greatly reduced from as much as 160 million gallons in 2009 to 112 million gallons in 2011. It is expected that the District will only need to rely on this purchase water contract to meet maximum day demand in the future.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Thurston PUD provides certain health care benefits for retired full-time compensated employees. Under current employment policy, eligible employees who retire from the district, and their dependents, will have the opportunity to continue the same medical/vision/dental coverage as regular employees from the time of retirement until they become eligible for Medicare coverage. All of the District's employees may become eligible for those benefits when they reach normal retirement age. In 2011 the District had no retirees receiving benefits under this policy. As of December 31, 2011 there were 11 employees with an average age of 48.25 all of whom may become eligible for those benefits when they reach normal retirement age. At the end of 2011 the OPEB liability was calculated to be \$95,256.

NOTE 13 – GRANTS

In 2009, Public Works Board of the Washington State Department of Commerce awarded Thurston PUD a Public Works Assistance Account Infrastructure Interest Rate Buy-Down Grant of up to \$1,161,001 to assist with the funding of improvements to the Tanglewilde water system. The grant is intended to fund 37% of the construction project in Tanglewilde to include the drilling and development of two wells, replacement and upgrade of the storage reservoir, and replacement of 1,400 linear feet of distribution main. As of December 31, 2011 the District has drawn \$522,450; and \$390,254 was expended on the project.

Public Utility District No. 1 of Thurston County, Washington
 Schedule of Long-Term Debt
 For the Year Ended December 31, 2011

GO Debt
 Revenue Debt
 Assessment Debt
 Refunded Debt
 Debt of Special Purpose District

ID No	Purpose	Date of Original Issue	Date of Maturity	Interest Rates	Total Amount Issued to Date	Beginning Outstanding Debt 01/01/2011	Amount Issued Current Period	Amount Redeemed This Period	Ending Outstanding Debt 12/31/2011
263.82	Public Works Loan PW04-691-PRE126	12/1/2004	7/1/2024	0.5%	\$ 1,000,000	\$ 736,842	\$ -	\$ 52,632	\$ 684,211
252.11	Water Revenue Bond 2005	3/31/2005	4/1/2020	4.5%	\$ 2,215,000	\$ 1,695,000	\$ -	\$ 1,695,000	\$ -
252.11	Water Revenue Bond 2008	6/9/2008	6/1/2013	1.6%	\$ 500,000	\$ 500,000	\$ -	\$ 500,000	\$ -
252.11	Water Revenue Bond 2010	6/21/2010	6/1/2013	2.6%	\$ 500,000	\$ 25,000	\$ -	\$ 25,000	\$ -
252.11	Water Revenue Bond 2011	6/8/2011	12/1/2031	3.7%	\$ 2,990,000	\$ -	\$ 2,990,000	\$ -	\$ 2,990,000
263.82	PP08-951-070 Planning Loan	5/5/2008	7/1/2013	0.0%	\$ 90,000	\$ 64,953	\$ -	\$ 16,238	\$ 48,714
263.82	Drinking Water State Revolving Fund Loan DM09-952-026	8/13/2009	10/1/2029	0.5%	\$ 1,028,180	\$ 411,588	\$ 503,954	\$ 33,693	\$ 881,849
263.82	Drinking Water State Revolving Fund Loan DM09-952-027	8/13/2009	10/1/2029	0.5%	\$ 2,109,660	\$ 82,777	\$ 242,405	\$ 14,486	\$ 310,696
259.12	Compensated Absences	--	--	--	\$ -	\$ 50,351	\$ 3,616	\$ -	\$ 53,967
					\$ -	\$ 3,566,511	\$ 3,739,974	\$ 2,337,049	\$ 4,969,436

Public Utility District No. 1 of Thurston County, Washington
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2011

1	2	3	4	5			6
Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other ID Number	Expenditures			Foot-note Ref.
				From Pass-Through Awards	From Direct Awards	Total	
Environmental Protection Agency (EPA) / pass through from state Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM09-952-026	\$ 915,542		\$ 915,542	2
Environmental Protection Agency (EPA) / pass through from state Public Works Board	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM09-952-027	\$ 325,182		\$ 325,182	2
Totals				\$ 1,240,723	\$ -	\$ 1,240,723	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
January 1, 2011 through December 31, 2011

NOTE 1- BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the District's financial statements. The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The full accrual basis of accounting is used, where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. The Uniform System of Accounts for Class A Water Utilities 1996, published by the National Association of Regulatory Utility Commissioners, is the foundation for the accounting policies of the District.

NOTE 2 – FEDERAL LOANS

The District was approved for the following loans for capital projects:

EPA (WA Public Works Board)	\$1,028,180
EPA (WA Public Works Board)	\$2,109,660

The amount listed for each loan includes the proceeds received during the year and the outstanding loan balance from prior years. Both the current and prior year loans are also reported on the District's Schedule of Long-Term Debt.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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