

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

Thurston Public Utility District
Thurston County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010561

Issue Date
September 27, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 27, 2013

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,

TROY KELLEY
STATE AUDITOR

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Thurston County
January 1, 2012 through December 31, 2012**

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Federal Summary

Thurston Public Utility District Thurston County January 1, 2012 through December 31, 2012

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 unmodified 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 unmodified 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 qualified 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 Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**Thurston Public Utility District
Thurston County
January 1, 2012 through December 31, 2012**

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Thurston Public Utility District, Thurston County, Washington, as of and for the year ended December 31, 2012, 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 16, 2013. The District has omitted the information on postemployment benefits other than pensions that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

In addition, we noted certain matters that we have reported to the management of the District in a separate letter dated September 16, 2013.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

September 16, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**Thurston Public Utility District
Thurston County
January 1, 2012 through December 31, 2012**

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

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 each of its major federal programs for the year ended December 31, 2012. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

September 16, 2013

Independent Auditor's Report on Financial Statements

Thurston Public Utility District Thurston County January 1, 2012 through December 31, 2012

Board of Commissioners
Thurston Public Utility District
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Thurston Public Utility District, Thurston County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurston Public Utility District, as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the information on postemployment benefits other than pensions that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted 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 basic 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 basic financial statements or to the basic 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 16, 2013

Financial Section

**Thurston Public Utility District
Thurston County
January 1, 2012 through December 31, 2012**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012

Combined Statement of Revenues, Expenses and Changes in Net Position – 2012

Statement of Cash Flows – 2012

Notes to Financial Statements – 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012

Notes to the Schedule of Expenditures of Federal Awards – 2012

Management's Discussion and Analysis

December 31, 2012 and 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, 2012 with additional comparative data for 2011. 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, 2012, 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, 2012. 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, 2012, and 2011

BALANCE SHEET	Combined Total		Increase (Decrease)	% Change
	As of December 31			
	2012	2011	2012 - 2011	2012 - 2011
Current Assets	\$ 1,594,882	\$ 1,690,842	\$ (95,960)	-5.68%
Other Non-Current Assets	7,976,505	6,416,275	1,560,230	24.32%
Total Assets	<u>\$ 9,571,387</u>	<u>\$ 8,107,117</u>	<u>\$ 1,464,270</u>	18.06%
Current Liabilities	\$ 255,336	\$ 192,405	\$ 62,931	32.71%
Other Liabilities	338,554	359,008	(20,454)	-5.70%
Long-Term Liabilities	5,874,502	4,915,469	959,033	19.51%
Total Liabilities	<u>\$ 6,468,393</u>	<u>\$ 5,466,883</u>	<u>\$ 1,001,511</u>	18.32%
Net Investment in Capital Assets	\$ 1,660,724	\$ 963,476	\$ 697,248	72.37%
Total Restricted funds	358,193	490,667	(132,474)	-27.00%
Net Unrestricted funds	1,084,077	1,186,091	(102,014)	-8.60%
Total Net Assets	<u>\$ 3,102,994</u>	<u>\$ 2,640,234</u>	<u>\$ 462,759</u>	17.53%
Total Liabilities and Net Assets	<u>\$ 9,571,387</u>	<u>\$ 8,107,117</u>	<u>\$ 1,464,270</u>	18.06%

Public Utility District No. 1 of Thurston County, Washington
Condensed Financial Information for December 31, 2012, and 2011

STATEMENT OF CHANGES IN NET ASSETS	Combined Total		Increase (Decrease)	% Change
	As of December 31			
	2012	2011	2012 - 2011	2012 - 2011
Operating Revenues	\$ 2,193,918	\$ 2,090,604	\$ 103,314	4.94%
Non-Operating Revenues	580,434	556,897	23,536	4.23%
Total Revenues	<u>\$ 2,774,351</u>	<u>\$ 2,647,501</u>	<u>\$ 126,850</u>	4.79%
Operating Expenses	\$ 2,156,601	\$ 2,023,942	\$ 132,659	6.55%
Non-Operating Expenses	154,991	146,410	8,582	5.86%
Total Expenses	<u>\$ 2,311,592</u>	<u>\$ 2,170,352</u>	<u>\$ 141,240</u>	6.51%
Change in Net Assets	<u>\$ 462,759</u>	<u>\$ 477,149</u>	<u>\$ (14,390)</u>	-3.02%
Net Assets				
Balance, beginning of year	\$ 2,640,234	\$ 2,163,085	\$ 477,149	22.06%
Current Year Change in Net Assets	462,759	477,149	(14,390)	-3.02%
Prior Period Adjustment	-	1	(1)	-100.00%
Balance, end of year	<u>\$ 3,102,994</u>	<u>\$ 2,640,235</u>	<u>\$ 462,758</u>	17.53%

Financial Analysis

Operating Revenues

In 2012, operating revenue for the District increased \$103,314 or 4.94% from that of 2011. This increase in revenue is attributable to two primary factors. First, water rates were increased in 2012 on the base charge only. The second factor attributable to the increase in revenue is that the District saw a full year of billings for new commercial customers added in 2011.

Operating Expenses

Overall operating expenses increased in 2012 by \$132,659 or 6.55%. The largest contributor to this increase in expense was: Salaries & Benefits increasing \$120,562 or 14.25%. 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 2012 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 \$250,375 in property tax assessments in 2012. The 2011 tax assessments amounted to \$244,605, representing a 2.36% increase from 2011 to 2012. Property tax revenues are used by the District to support general District operations which can be tied to a benefit to taxpayers, rather than ratepayers of the District.

Election of PUD commissioners is held each even year; the cost of the election is paid out of the property tax revenues, and is reported as a non-operating expense. The District's share of the 2012 election was \$69,168. The District requested and received an extension to pay this expense over two years, and therefore incurred 2012 costs of \$42,000 and deferred \$27,168 to 2013.

Interest income and interest expense are included as non-operating revenue and expense. Interest income increased slightly to \$23,368 in 2012 compared to \$20,998 in 2011 due mainly to a slight improvement in investment earnings. Interest expense decreased to \$112,991 in 2012 from \$126,022 in 2011 due to interest payments on the low-interest loans in the year.

Net Assets

The District's total net assets increased in 2012 by \$462,758 or 17%.

A Closer Look at 2012

2012 was a busy and challenging year. Early in 2012, a grassroots effort was initiated to place on the ballot a proposition authorizing Thurston PUD to be an electrical provider. The initiative was successful gathering the required signatures and the proposition was added to the general election in November. During the initiative effort, District 1 Commissioner Paul Pickett declined to run for re-election and resigned from his position as Commissioner effective end of May 2012. Jim Lazar was appointed Commissioner of District 1 for the interim period June – November 2012. Following the general election in November 2012, Linda Oosterman was elected and was sworn in for the remaining short period as well as the new term beginning in 2013. In the last days of 2012, Alan Corwin, District 2 Commissioner resigned from his position leaving the position vacant at year end.

Financial and operating highlights by area are listed below.

Financial Successes and or Issues

1. The PUD added three water systems to manage under contract: the JDF water system, Webster Hill, and the Thurston County – Tilley Road Water system; providing revenues to help keep rates as low as possible.
2. The PUD reviewed multiple systems for acquisition and sent out approximately 45 letters to utilities seeking to acquire them. Two are still pending consideration.
3. A preliminary assessment of Thurston PUD entering the electrical utility service business was completed.
4. The PUD submitted 10 new Drinking Water State Revolving Fund Loan applications, receiving funding for 5 of the projects.
5. The PUD continued to look for ways to cut spending and for smarter ways to do things and find efficiencies. In 2012:
 - a. We were able to utilize our new wells to almost eliminate our need to purchase City of Olympia water for the Tanglewilde and Thompson Place communities; savings of \$79,600.
 - b. The change we made in insurance providers in 2011 continued to cut our expenses by \$1,000.
 - c. Our ability to borrow low interest federal loans coupled with the 2011 refinance of our bond saved \$13,031 in 2012.
 - d. We used bond proceeds to do needed infrastructure improvements, saving our operations budget \$4,100.
 - 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.
6. Submitted new Public Works Trust Fund loan applications for 10 new capital projects totaling \$1,282,701.

Capital Projects

The PUD's 2012 capital projects budget was \$12,035,702, including an anticipated \$9.8 million mainline replacement in Tanglewilde for which the PUD continues to look for funding.

In 2012, the PUD placed in service a new 750,000 gallon steel reservoir at the Tanglewilde/Thompson Place water system, replacing a 500,000 gallon reservoir built in 1964 . This multiyear project totaling \$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 pump replacements at various water systems; 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 20 small works projects valued at over \$200,000.

SMA Capital Projects

SMA capital projects are projects we manage for non-owned water systems. In 2012, 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 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

STATEMENT OF NET POSITION

	Total As of December 31, (Note 1)
	<u>2012</u>
ASSETS	
Current Assets	
Cash and cash equivalents	
General Fund	212,558
Capital Improvement Fund	353,908
Water Revenue Fund	743,264
Customer Deposits	47,223
Receivables	
Customer Accounts Receivable (net)	183,691
Property Tax Receivable	9,385
Other Receivables	15,830
Interfund Loan (To) From	-
Prepaid Expenses	29,023
Total Current Assets	<u>\$ 1,594,882</u>
Non-Current Assets	
Restricted Funds	
Grant Fund	8,465
Bond Reserve Fund	352,167
PUD Project Reserve Fund	602,717
Total Special Funds	<u>\$ 963,349</u>
Other Non-Current Assets	
Unamortized Debt Discount & Expense	80,646
Total Other Non-Current Assets	<u>\$ 80,646</u>
Capital Assets	
Land and Land Rights	90,554
Water Plant	4,349,864
Office Furniture & Equipment	213,471
Vehicles & Equipment	244,406
Other Utility Plant	676,874
Total Capital Assets	5,575,169
Construction in Progress	3,484,071
Less Accumulated Depreciation	(2,126,730)
Net Utility Plant	<u>\$ 6,932,510</u>
Total Non-Current Assets	<u>\$ 7,976,505</u>
Total Assets	<u>\$ 9,571,387</u>
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable	105,904
Accrued compensated absences	64,016
Accrued taxes	37,044
Refundable Deposits	48,372
Total Current Liabilities	<u>\$ 255,336</u>
Other Liabilities	
Unamortized Premium on Bond Issue	77,380
Contributions In Aid of Construction	261,174
Total Other Liabilities	<u>\$ 338,554</u>
Long-Term Liabilities	
Bonds Payable	2,790,000
PWTF Note - Preconstruction 05	631,579
PWTF Note - Planning 08	32,476
DWSRF Loan - Source	832,857
DWSRF Loan - Reservoir	1,587,590
Total Long-Term Liabilities	<u>\$ 5,874,502</u>
Net Position	
Net Investment in Capital Assets	1,660,724
Net Position Restricted for:	
Capital Projects	6,026
Debt Service	352,167
Total Restricted funds	<u>\$ 358,193</u>
Unrestricted funds	1,084,077
Total Net Position	<u>\$ 3,102,994</u>
Total Liabilities and Net Position	<u>\$ 9,571,387</u>

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

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

For the Year Ended December 31, 2012	2012
Operating Revenues	
Unmetered Water Revenue	\$ 13
Metered Water Revenue	1,928,572
Sales to Irrigation	64,774
Miscellaneous Service Revenue	48,156
Other Water Revenue	152,403
Total Operating Revenue	\$ 2,193,918
Operating Expenses	
Salaries & Benefits Employees	\$ 966,346
Salaries Commissioners	59,951
Purchased Water	67,075
Purchased Power	79,622
Chemicals	28,510
System Repairs & Maintenance	71,862
Contract Engineering	27,765
Contract Legal	27,019
Contract Testing	40,332
Contract State Auditor	13,334
Rent and Janitorial	53,741
Transportation	45,146
Insurance	24,847
Advertising	2,974
Office Expense	45,546
Meeting Costs Commissioners	4,936
Meeting Costs Staff	1,917
Dues & Subscriptions	14,225
Telephone	9,684
Staff Training	3,450
Postage	20,863
Printing	17,963
Miscellaneous	41,052
Taxes	174,505
Depreciation/Amortization	313,937
Total Operating Expenses	\$ 2,156,601
Net Operating Income	\$ 37,317
Non-Operating Revenues (Expenses)	
Interest Income	\$ 23,368
Property Tax Revenue	250,374
Interest on Long Term Debt	(112,991)
Election costs	(42,000)
Contributed Capital	6,839
Grant Revenues	290,250
Other, net	9,603
Total Non-Operating Revenues (Expenses)	\$ 425,442
Net Revenue (Expenses)	\$ 462,759
Net Position	
Balance, beginning of year	\$ 2,640,234
Prior Period Adjustment	-
Balance, end of year	\$ 3,102,994

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, 2012:

	Combined Total
Cash Flows from Operating Activities	
Cash received from customers	\$ 2,185,138
Cash payments to supplies and employees	\$ (1,641,775)
Taxes paid	\$ (157,114)
Net Cash Provided by Operating Activities	<u>\$ 386,249</u>
Cash Flows from Non-Capital Financing Activities	
Property Tax Income	\$ 250,374
Property Tax Receivable	\$ 1,551
Other Non Operating Income	\$ 9,603
Election Expenses	\$ (42,000)
Net Cash Provided by Non-Capital Financing Activities	\$ 219,528
Cash Flows from Capital Financing Activities	
Payments to 2011 Revenue Bond	\$ (200,000)
Payments to Public Works Trust Fund Loan	\$ (52,632)
Payments to 2008 PWTF Planning Loan	\$ (16,238)
Payments to DWSRF Loan Source	\$ (48,992)
Proceeds from Issuance DWSRF Loan Reservoir	\$ 1,276,894
Contributions to Capital	\$ (9,413)
Proceeds from Grants	\$ 290,250
Acquisition and construction of capital assets	\$ (2,135,096)
Interest paid on long term debt	\$ (114,498)
Net cash from Capital Financing Activities	\$ (1,009,723)
Cash Flows from Investing Activities	
Interest received on cash on deposit	<u>\$ 23,368</u>
Net Increase (Decrease) in Cash	\$ (380,579)
Beginning of Year	<u>\$ 2,700,880</u>
End of Year	<u>\$ 2,320,301</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 37,317
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	\$ 313,937
Customer Accounts Receivable	\$ (14,825)
Other Accounts Receivable	\$ (5,549)
Prepaid Expenses	\$ (7,562)
Accounts Payable	\$ 23,898
Refundable Deposit Payable	\$ 11,594
Payroll Tax Liabilities	\$ 17,391
Wages Payable	\$ -
Accrued Compensated Absences	\$ 10,049
Total Adjustments	<u>\$ 348,932</u>
Net Cash Provided by Operating Activities	<u>\$ 386,249</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

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. 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 3217 active connections in 5 counties (Thurston, Lewis, Pierce, Grays Harbor and Mason Counties). Thurston PUD also manages 16 systems under contract as a Satellite Management Agency (SMA). The District employs 12 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.

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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

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, 2012 through December 31, 2012

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 \$963,349; PUD Project Fund \$602,717, Bond Reserve \$352,167, and Grant Fund \$8,465.

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, 2012 through December 31, 2012

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 2012 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 2012 was \$0.009581906236 per \$1,000 on an assessed valuation of \$25.689 billion for a total regular levy of \$246,146. In 2011 the regular levy was \$239,840. 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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

(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, 2012 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 2012, 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, 2012 through December 31, 2012

Utility plant activity for the year ended December 31, 2012 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	1,642,973	2,166,579	(325,480)	3,484,071
Total utility plant not being depreciated	\$ 1,733,527	\$ 2,166,579	\$ (325,480)	\$ 3,574,625
Utility plant being depreciated				
Structures & Improvements	358,799	25,578		384,376
Wells and Springs	220,246	1,607		221,853
Power Generation Equipment	6,443			6,443
Pumping Equipment	322,295	73,454		395,749
Water Treatment Equipment	980,990	6,600		987,590
Distribution Reservoir & Standpipe	127,258			127,258
Transmission & Distribution Mains	1,798,170	15,274		1,813,444
Services	100,602	19,521		120,123
Meters & Meter Installations	261,905			261,905
Hydrants	11,227			11,227
Other Plant & Miscellaneous Equipment	19,895			19,895
Office Furniture & Equipment	148,880	64,591		213,471
Transportation Equipment	175,276	32,430		207,706
Tools, Shop, & Garage Equipment	3,230	3,475		6,705
Power Operated Equipment	542			542
Communication Equipment	9,740			9,740
Miscellaneous Equipment	19,713			19,713
Other Tangible Plant	625,407	51,467		676,874
Total utility plant being depreciated	\$ 5,190,617	\$ 293,997	\$ -	\$ 5,484,614
Accumulated Depreciation	1,812,793	313,937		2,126,730
Total Utility Plant, Net	\$ 5,111,351	\$ 2,146,639	\$ (325,480)	\$ 6,932,510

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, 2012 through December 31, 2012

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.

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NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

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

PERS Plan 1 and Plan 2 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement 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, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for 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. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

(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.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

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

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

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

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, 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.

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.

PERS Plan 2 and Plan 3 members who becomes totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may apply for interruptive military service credit.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2012 through December 31, 2012

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 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Nonvested	46,839
Total	261,705

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2012 through December 31, 2012

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, 2012, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	7.21%**	7.21%**	7.21%**
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 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% 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
2012	\$0.00	\$51,343.64	\$1,324.71
2011	\$0.00	\$40,269.94	\$1,242.52
2010	\$0.00	\$28,544.47	\$2,640.70

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2012 through December 31, 2012

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. 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 153 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.

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

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the 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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2012 through December 31, 2012

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

NOTE 8 – SHORT-TERM DEBT

Thurston PUD has no short-term debt as of December 31, 2012.

NOTE 9 – LONG-TERM DEBT

Schedule 09 which accompanies this report contains a list of the outstanding debt at December 31, 2012. The annual requirements to amortize all debts outstanding as of December 31, 2012, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2013	\$ 411,249	\$ 110,915	\$ 522,164
2014	\$ 421,249	\$ 103,941	\$ 525,190
2015	\$ 415,011	\$ 96,666	\$ 511,677
2016	\$ 420,011	\$ 89,091	\$ 509,102
2017	\$ 425,011	\$ 81,366	\$ 506,377
2018-2022	\$ 1,845,054	\$ 289,955	\$ 2,135,009
2023-2027	\$ 1,242,159	\$ 162,318	\$ 1,404,478
2028-2032	\$ 694,758	\$ 47,704	\$ 742,463
Total	\$ 5,874,502	\$ 981,958	\$ 6,856,461

There is \$963,349 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 2012, the cost for the lease was \$4,100.00 monthly no change from 2011, in accordance with the lease contract negotiated in 2010 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, 2012 through December 31, 2012

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Purchase Water Agreement

In 2012 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 \$61,158 plus volume charges of \$0.57 per hundred cubic feet (CCF) November through June, and \$0.788 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. 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 1.51 million gallons in 2012. 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

In 2012 Thurston PUD changed its personnel policies to restrict the provision of certain health care benefits for retired full-time compensated employees. Under new 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 at the retirees cost 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 2012 the District had no retirees receiving benefits under this policy. As of December 31, 2012 there were 11 employees with an average age of 42.9 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; the District will recalculate this liability again in 2014.

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, 2012 the District has drawn \$812,701; and \$812,254 was expended on the project.

Public Utility District No. 1 of Thurston County, Washington
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2012

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	DM09-952-027	\$ 920,319		\$ 920,319	2
Totals				\$ 920,319	\$ -	\$ 920,319	

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
For the Year ended December 31, 2012

NOTE 1- BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Public Utility District No. 1 of Thurston County's (District) 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 by the EPA and the PWB to receive the following loans to improve its drinking water systems:

EPA (WA Public Works Board)	\$1,028,180
EPA (WA Public Works Board)	\$2,109,660
EPA (WA Public Works Board)	\$211,758
EPA (WA Public Works Board)	\$87,219
EPA (WA Public Works Board)	\$370,725
EPA (WA Public Works Board)	\$137,237
EPA (WA Public Works Board)	\$165,400

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.

State Auditor
Chief of Staff
Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of State and Local Audit
Deputy Director of Quality Assurance
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Local Government Liaison
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