



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Public Utility District No. 1 of Thurston County

(Thurston PUD)

For the period January 1, 2021 through December 31, 2021

Published December 5, 2022

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

December 5, 2022

Board of Commissioners
Thurston PUD
Lacey, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Thurston PUD January 1, 2021 through December 31, 2021

Board of Commissioners
Thurston PUD
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Thurston PUD, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 28, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

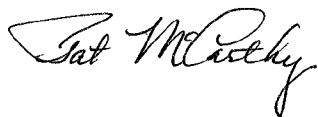
REPORT ON COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



Pat McCarthy, State Auditor

Olympia, WA

November 28, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Thurston PUD January 1, 2021 through December 31, 2021

Board of Commissioners
Thurston PUD
Lacey, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Thurston PUD, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Thurston PUD, as of December 31, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time; and
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2022 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

November 28, 2022

**Thurston PUD
January 1, 2021 through December 31, 2021**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2021

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2021

Statement of Revenues, Expenses and Changes in Net Position – 2021

Statement of Cash Flows – 2021

Notes to Financial Statements – 2021

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2021

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2021

Public Utility District No. 1 of Thurston County

Management's Discussion and Analysis

December 31, 2021

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, 2021, with additional comparative data for 2020. 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, 2021, and are comprised of:

• **Statement of Net Position:** The Statement of Net Position reflects the assets, deferred inflows, deferred outflows, liabilities and net position of the District as of the end of the fiscal year which, for the purposes of this report, is December 31, 2021. The net position section is separated into three categories:

- net investment in capital assets
- restricted net position
- unrestricted net position

• **Statement of Revenues, Expenses, and Changes in Net Position:** This statement reflects the transactions and events that have increased or decreased the District's total resources during the period. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction. The net position increases when revenues exceed expenses.

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

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

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

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2021, and 2020				
	Combined Total As of December 31		Increase (Decrease)	% Change
STATEMENT OF NET POSITION	2021	2020	2021 - 2020	2021 - 2020
Current Assets	\$ 11,478,176	\$ 9,675,798	\$ 1,802,378	18.63%
Capital Assets, net of depreciation	44,036,803	31,147,869	12,888,934	41.38%
Other Assets	3,168,631	1,428,914	1,739,716	121.75%
Total Assets	\$ 58,683,609	\$ 42,252,581	\$ 16,431,028	38.89%
Deferred Outflows of Resources	\$ 2,013,683	\$ 2,050,784	\$ (37,101)	-1.81%
Current Liabilities	\$ 1,847,238	\$ 1,495,720	\$ 351,518	23.50%
Noncurrent Liabilities	26,718,352	22,436,577	4,281,775	19.08%
Total Liabilities	\$ 28,565,589	\$ 23,932,297	\$ 4,633,293	19.36%
Deferred Inflows of Resources	\$ 1,788,867	\$ 197,872	\$ 1,590,995	804.05%
Net Investment in Capital Assets	\$ 22,189,677	\$ 15,063,189	\$ 7,126,488	47.31%
Restricted Net Position	\$ 1,873,434	\$ 1,428,914	\$ 444,520	31.11%
Unrestricted Net Position	\$ 6,279,727	\$ 3,681,093	\$ 2,598,634	70.59%
Total Net Position	\$ 30,342,838	\$ 20,173,196	\$ 10,169,642	50.41%
Total Liabilities and Net Position	\$ 60,697,294	\$ 44,303,365	\$ 16,393,929	37.00%

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2021, and 2020				
	Combined Total As of December 31		Increase (Decrease)	% Change
STATEMENT OF CHANGES IN NET POSITION	2021	2020	2021 - 2020	2021 - 2020
Operating Revenues				
Metered & Unmetered Water Revenue	\$ 6,939,638	\$ 5,699,450	\$ 1,240,187	21.76%
Sales to Irrigation	\$ 186,089	\$ 87,346	\$ 98,743	113.05%
Operating Revenue - Other	\$ 1,644,830	\$ 954,011	\$ 690,819	72.41%
Non-Operating Revenues				
Interest Income	\$ 67,368	\$ 110,438	\$ (43,070)	-39.00%
Gain (Loss) on Disposal of Capital Assets	\$ (26,682)	\$ 3,542	\$ (30,224)	-853.20%
Non-Operating Revenues - Other	\$ 657,276	\$ 431,581	\$ 225,695	52.29%
Total Revenues	\$ 9,468,519	\$ 7,286,369	\$ 2,182,150	29.95%
Operating Expenses				
Operations, Maintenance, Admin and General	\$ 4,064,251	\$ 4,299,227	\$ (234,977)	-5.47%
Taxes and Depreciation Expense	\$ 2,580,059	\$ 2,009,959	\$ 570,100	28.36%
Non-Operating Expenses				
Interest on Long Term Debt	\$ 708,967	\$ 639,043	\$ 69,924	10.94%
Non-Operating Expenses - Other	31,160	31,160	-	0.00%
Total Expenses	\$ 7,384,437	\$ 6,979,389	\$ 405,047	5.80%
Excess (Deficiency)	\$ 2,084,082	\$ 306,979	\$ 1,777,103	578.90%
Capital Contributions	\$ 8,085,559	\$ 72,886	\$ 8,012,672	10993.42%
Change in Net Position	\$ 10,169,641	\$ 379,865	\$ 9,789,775	2577.17%
Prior Period Adjustment	\$ -	\$ 19,122	\$ (19,122)	0.00%
Net Position Balance, Beginning of Year	\$ 20,173,197	\$ 19,774,209	\$ 398,988	2.02%
Current Year Change in Net Position	\$ 10,169,641	\$ 379,865	\$ 9,789,775	2577.17%
Net Position Balance, End of Year	\$ 30,342,838	\$ 20,173,196	\$ 10,169,642	50.41%

Financial Analysis

Operating Revenues

In 2021, operating revenue for the District increased \$2,029,750 or 30.11% from that of 2020. This increase in revenue is primarily attributable to the acquisition of 4 water system and 1,748 customers in 2021. The District implemented a 3.99% increase on District standard water rates over the rates charged in 2020. In 2021, the District adopted transitional water rates for the newly acquired water system customers as they transition to the District's standard water rates. Also, the capital surcharge established in 2015 increased from \$9.35 to \$10.00 or 6.95% in 2021.

Operating Expenses

Overall operating expenses increased in 2021 \$335,124 or 5.31%. The largest contributor to this increase in expense was Depreciation, which increased \$470,954 or 28.74%, as a result of the newly acquired water systems assets requiring depreciation.

Other expenses with larger increases are Contractual Services which increased \$57,059 or 25.87% due to additional water system engineering services and regulatory water system quality testing and Taxes increased \$99,146 or 26.70% due to the state public utility taxes payable to Department of Revenue for the increase to water revenues derived from the water systems acquired in 2021.

In 2021, the pension liability calculation for all District retirement plans, significantly decreased the Employees & Commissioners Salaries & Benefits expense by \$367,599. See Note 6 of the accompanying notes to the financial statements for further detail related to pension plans.

Non-Operating Revenues & Expenses

Non-operating revenue recognized in 2021 increased \$152,401 or 27.93% over 2020. 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 \$321,596 in property tax assessments in 2021, compared to \$307,102 in 2020, representing a 4.72% increase from 2020 to 2021. 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 2020 election was \$62,320. The District requested and received an extension to pay this expense over two years, and therefore incurred election costs in 2021 and 2020 of \$31,160 in each year.

Interest income and interest expense are included as non-operating revenue and expense. Interest income decreased from \$110,438 in 2020 to \$67,368 in 2021 due to a decrease in investment earnings. Interest expense increased to \$708,967 in 2021 from \$639,043 in 2020.

In 2021, Other, net revenues increased to \$96,131 compared to \$90,675 in 2020 due to the additional rental income relating to the building purchased in January 2020.

Capital Contributions

In 2021, with the acquisition of 4 water systems, the capital contribution was calculated to be \$8,085,559, which was an increase of \$8,012,672 or 10,993.42% compared to 2020.

Net Position

The District's total net position in 2021 increased by \$10,169,641 compared to the increase of \$379,865 in 2020.

Capital Assets

The District's capital assets (after depreciation) including capital work in progress, were \$44,036,803 in 2021 and \$31,147,869 in 2020. The capital asset additions consisted of the acquisition of 4 water systems and several projects completed during the year as the District identified in the water system asset management plans. See Note 4 of the accompanying notes to the financial statements for further detail related to capital asset activity.

Long-Term Debt Activity

At year-end 2021 the District's long-term debt changed to \$25.7 million from \$19.9 million reported in 2020. In February 2021, newly issued debt of \$6,735,000 was used for the purchase of water systems, refund the outstanding 2018B Water System Revenue Bond and for future capital projects. In March 2021, newly issued debt of \$905,000 was used to refund the outstanding 2011 Water System Revenue Bond, and for future capital projects. Long-term debt payments are funded for from water revenues. See Notes 8 and 9 of the accompanying notes to the financial statements for further detail related to long-term debt activity.

Contacting the District's Financial Management

The financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate District accountability for the money it receives. If you have questions about this report, or require additional or clarifying financial information, contact the Public Utility District No. 1 of Thurston County, 1230 Ruddell Road SE, Lacey, WA 98503.



Julie Parker
Assistant General Manager



TaSeana Tartt
Finance and Customer Service Manage

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF NET POSITION
31-Dec-21

ASSETS	2021
Current Assets	
Unrestricted - Cash and Investments	6,941,721
Restricted - Cash and Investments	3,788,173
Customer Accounts Receivable (net)	682,221
Property Tax Receivable	4,722
Other Receivables	2,111
Prepaid Expenses	59,227
Total Current Assets	<u>\$11,478,176</u>
Non-Current Assets	
Restricted - Bond Reserve	1,429,135
Land and Land Rights	2,165,107
Construction in Progress	1,483,785
<i>Capital Assets Being Depreciated:</i>	
Water Plant	48,341,293
Office Furniture & Equipment	278,942
Vehicles & Equipment	1,086,815
Other Utility Plant	1,065,915
Less: Accumulated Depreciation	-10,385,054
Total Capital Assets (Net)	<u>44,036,803</u>
Net Pension Asset	1,739,496
Total Non-Current Assets	<u>\$47,205,433</u>
Total Assets	<u><u>\$58,683,609</u></u>
 DEFERRED OUTFLOWS of RESOURCES	
Deferred Outflows - Bond Refunding	32,589
Deferred Outflows Related to Pensions	349,206
Deferred Outflows Related to Asset Retirement Obligation	1,631,888
Total Deferred Outflows of Resources	<u><u>\$2,013,683</u></u>

The accompanying notes are an intergral part of these financial statements

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF NET POSITION
31-Dec-21

LIABILITIES

Current Liabilities:

Accounts Payable	548,025	
Current Accrued Compensated Absences	149,969	
Accrued Payroll Liabilities	60,194	
Refundable Deposits	119,022	
Current Portion of Bonds, Notes and Loans Payable	970,028	
Total Current Liabilities		<u>\$1,847,238</u>

Noncurrent Liabilities:

Water Revenue Bonds	22,756,361	
Public Works Trust Fund Loans	246,426	
Drinking Water State Revolving Fund Loans	1,695,071	
Long Term Compensated Absences	139,848	
Asset Retirement Obligations	1,714,680	
Net Pension Liability	165,966	
Total Noncurrent Liabilities		<u>\$26,718,352</u>
Total Liabilities		<u>\$28,565,589</u>

DEFERRED INFLOWS of RESOURCES

Deferred Inflows Related to Pensions	\$1,788,867	
Total Deferred Inflows of Resources		<u>\$1,788,867</u>

NET POSITION

Net Investment in Capital Assets		22,189,677
Restricted for Pension	444,137	
Restricted for Debt Service	1,429,296	
Restricted Net Position		<u>\$1,873,433</u>
Unrestricted Net Position		<u>6,279,727</u>
Total Net Position		<u>\$30,342,838</u>

The accompanying notes are an intergral part of these financial statements

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2021

Operating Revenues	
Metered & Unmetered Water Revenue	6,939,638
Sales to Irrigation	186,089
Miscellaneous Service Revenue	535,117
Other Water Revenue	1,109,713
Total Operating Revenue	<u>\$8,770,557</u>
Operating Expenses	
Salaries & Benefits Employees & Commissioners	\$2,279,068
Water System Operations	\$693,266
Contractual Services	\$277,640
Rent and Janitorial	\$85,294
Transportation	\$144,209
Insurance	\$106,153
Administrative Operations	\$327,689
Miscellaneous	\$150,932
Taxes	\$470,525
Depreciation	2,109,534
Total Operating Expenses	<u>\$6,644,310</u>
Operating Income (Loss)	<u><u>\$2,126,247</u></u>
Non-Operating Revenues (Expenses)	
Interest Income	\$67,368
Property Tax Revenue	\$317,455
Interest on Long Term Debt	(\$708,967)
Election costs	(\$31,160)
Grant Revenues	\$357,950
Gain (Loss) on Disposal of Capital Assets	(\$26,682)
Debt Issuance Costs	(\$114,260)
Other, net	96,131
Total Non-Operating Revenues (Expenses)	(\$42,165)
Capital Contributions	<u>\$8,085,559</u>
Change in Net Position	<u><u>\$10,169,641</u></u>
Net Position	
Total Net Position, January 1	\$20,173,196
Total Net Position, December 31	<u><u>\$30,342,838</u></u>

The accompanying notes are an intergral part of these financial statements

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

Cash Flows from Operating Activities

Cash received from customers	8,675,136	
Cash payments to supplies and employees	-4,385,211	
Taxes paid	-470,526	
Net Cash Provided by Operating Activities		<u>\$3,819,399</u>

Cash Flows from Non-Capital Financing Activities

Property Tax Income	317,992	
Other Non Operating Income	96,131	
Election Expenses	-31,160	
Net Cash Provided by Non-Capital Financing Activities		<u>\$ 382,963</u>

Cash Flows from Capital Financing Activities

Payments to 2020 Revenue Bond	-217,831	
Payments to 2021A Revenue Bond	-270,000	
Payments to 2021B Revenue Bond	-80,000	
Payments to Public Works Trust Fund Loan	-61,453	
Payments to DWSRF Loans	-220,639	
Proceeds from debt issuance - 2021A Water Revenue Bond	6,735,000	
Proceeds from debt issuance - 2021B Water Revenue Bond	905,000	
Proceeds from premium received - 2021 water revenue bond	979,346	
Payment to escrow - refunded debt	-3,042,589	
Debt issuance costs	-114,260	
Proceeds from DWSRF Loans	127,602	
Proceeds from Grants	357,950	
Acquisition and construction of capital assets	-6,939,591	
Interest paid on long term debt	-734,459	
Net Cash from Capital Financing Activities		<u>(\$2,575,924)</u>

Cash Flows from Investing Activities

Interest received on cash on deposit	\$67,368	
Net Cash Provided by Investing Activities	\$67,368	
Net Increase (Decrease) in Cash	\$1,693,806	
Beginning of Year	\$10,465,222	
End of Year		<u>\$12,159,029</u>

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

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

Operating Income (Loss)		2,126,247
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:		
Depreciation Expense	2,109,534	
Customer Accounts Receivable	-102,017	
Other Accounts Receivable	-1,120	
Prepaid Expenses	-6,190	
Accounts Payable	299,389	
Refundable Deposit Payable	7,716	
Asset retirement obligations and related deferred outflows	42,035	
Payroll Liabilities	-51,832	
Accrued Compensated Absences	6,586	
Net Pension Deferred Inflow/Outflows	-610,948	
Total Adjustments		<u>\$1,693,152</u>
Net Cash Provided by Operating Activities		<u><u>\$3,819,399</u></u>

NonCash Investing, Capital and Financing Activities

Capital Assets Acquired by Contribution	8,085,559	
Total Noncash Activities		<u><u>8,085,559</u></u>

The accompanying notes are an integral part of these financial statements

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTES TO FINANCIAL STATEMENTS

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

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Public Utility District No. 1 of Thurston County, Washington (Thurston PUD or the District) is a municipal corporation governed by an elected three-person Commission, authorized under Title 54 RCW. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. Thurston PUD has no component units.

Nature of Activities

Thurston PUD owns and operates 279 water systems serving approximately 9,704 active connections in 6 counties (Thurston, Lewis, Pierce, Grays Harbor, King and Kitsap Counties). The District employs 26 full time employees.

Basis of Accounting

The accounting policies of Thurston PUD conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 RCW. The full accrual basis of accounting is used, where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

Proprietary Fund Financial Statements

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

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

Operating and Non-Operating Revenue and Expenses

The District distinguishes between operating revenues and expenses from those that are nonoperating. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the district's principal ongoing operations. The principal operating revenues of the District are charges to customers relating to the provision of retail water utility services, as well as special charges relating to the administration of customer accounts.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

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

Operating expenses for the District include the cost of providing water utility services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues & expenses.

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

Accounting Estimates

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Utility Plant and Depreciation See

Note 4 – Capital Assets

Pensions

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

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

Restricted Net Position

In accordance with bond resolutions and other agreements, separate reserve accounts have been established for restricted or limited-use resources. The assets held in these funds are limited as to their use, including debt service and other reserve requirements. At year-end there are restricted funds of Thurston PUD in the amount of \$1,429,135 in the Bond Reserve.

Receivables

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

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

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.

In 2020, due to the COVID-19 pandemic, District employees were not able to or had to cancel scheduled vacations and were at risk of forfeiting accrued vacation leave over 240 hours on December 31, 2020. Resolution 20-30, Vacation Leave Carryover was adopted at the public meeting held on August 11, 2020. This resolution allows an employee who exceeds the 240 maximum hours on December 31, 2020 to carryover the balance through and until December 31, 2022.

Thurston PUD modified the Shared Leave program in 2018 to allow employees to donate vacation leave that would otherwise be forfeited at year end. The donated vacation leave belongs to the leave bank, not associated with any employee upon being transferred. The cost of the leave bank is included in vacation leave and is recorded as earned with a liability representing the balance earned but not taken. Of the Vacation Leave liability, the Shared Leave bank had a balance of \$29,938 at December 31, 2021.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

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

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

Income Tax Status

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

Outflows/Deferred Inflows of Resources

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

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 2 – PROPERTY TAXES (Continued)

Property taxes are recorded as receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred inflow and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually. A revaluation of all property is required every four years.

The District's regular levy for 2021 was \$0.007585249322 per \$1,000 on an assessed valuation of \$40,681,000,000 for a total regular levy of \$308,575. In 2020 the regular levy was \$298,591. Washington State Constitution and Washington State law, RCW 84.55.010, limits the rate.

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash on hand at December 31, 2021, was \$1,500. The carrying amount of the District's deposits including certificates was \$12,159,029, and the bank balance was \$12,142,361.

Deposits

All receipts received by the District are deposited into qualified bank depositories as directed by the County Treasurer and specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits, are entirely covered by federal 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, 2021, and throughout the year, were classified as Level 2, insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name.

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

Investments

The District is a voluntary participant in the Thurston County Investment Pool (TCIP), an external investment pool operated by the Thurston County Treasurer. The pool is not rated or registered with the Securities and Exchange Commission (SEC). Rather, oversight is provided by the Thurston County Finance Committee in accordance with RCW 36.48.070. Investments in the TCIP are reported at fair value, which, as of 12/31/2021, is reporting at an unrealized loss from book value of 0.7305%. The TCIP does not impose any restrictions on participant withdrawals.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

The Thurston County Investment Pool does not have a credit rating and had a weighted average maturity of 2.13 years as of December 31, 2021.

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

Investments Measured at Fair Value

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

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

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

Level 3 – Unobservable inputs for an asset or liability.

At December 31, 2021, the District has the following investments measured at fair value: (Table below:)

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deposits held with Thurston County Treasurer	\$0	\$12,142,361	\$0
Total Investments by Fair Value	\$0	\$12,142,361	\$0

NOTE 4 – CAPITAL ASSETS

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

Utility plant in service and other capital assets are recorded at cost (where the historical cost is known). Where historical cost is not known, assets are recorded at the estimated cost to construct the plant, discounted to the year the plant was originally dedicated to public service.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 4 – CAPITAL ASSETS (Continued)

Contributions by developers and customers are recorded, at cost, as capital contributions. The District amortizes as depreciation those assets acquired by contributions.

Depreciation is computed using the straight line method over their estimated useful lives of 3 to 80 years. Initial depreciation on utility plant is recorded on a pro-rata basis in the year it is placed in service. When operating property is retired, or otherwise disposed of, the original cost is removed from the utility plant accounts and from accumulated depreciation.

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

Utility plant activity for the year ended December 31, 2021, was as follows: (Table below:)

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	2,155,107	10,000	-	2,165,107
Construction in Progress	407,209	7,596,101	(6,519,525)	1,483,785
Total utility plant not being depreciated	\$ 2,562,316	\$ 7,606,101	\$ (6,519,525)	\$ 3,648,892
Utility plant being depreciated				
Water Plant	34,639,844	13,775,067	(73,619)	48,341,293
Office Furniture & Equipment	253,560	41,991	(16,608)	278,942
Transportation & Equipment	1,038,629	48,186	-	1,086,815
Other Utility Plant	1,096,522	90,926	(121,534)	1,065,915
Total utility plant being depreciated	\$ 37,028,555	\$ 13,956,170	\$ (211,761)	\$ 50,772,964
Accumulated Depreciation				
Water Plant	6,874,695	1,962,943	(44,301)	8,793,337
Office Furniture & Equipment	221,753	10,606	(1,646)	230,713
Transportation & Equipment	493,187	85,531	-	578,718
Other Utility Plant	853,366	50,454	(121,534)	782,286
Total accumulated depreciation	\$ 8,443,001	\$ 2,109,534	\$ (167,481)	\$ 10,385,054
Total Utility Plant, Net	\$ 31,147,869	\$ 19,452,737	\$ (6,563,804)	\$ 44,036,803

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 5 – CONSTRUCTION IN PROGRESS

The District has three active construction projects as of December 31, 2021. The projects include:

1. Upgrades to the Timberline Village water system including leak loss assessment and repairs, pump house replacement and meter installation.
2. Upgrades to the reservoir and meter installations at the ROM water system.
3. Consolidation of four Thurston County water systems.

At year-end the District’s commitments with contractors are as follows: (Table below:)

Project	Spent to Date	Remaining Commitment
Timberline Village Upgrades	\$ 365,874	\$ 17,348
ROM Reservoir Upgrades & Meter Installations	\$ 190,134	\$ 7,881
Thurston County Consolidation	\$ 223,927	\$ 27,076

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans for the year 2021:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$ (165,966)
Pension assets	\$ 1,739,496
Deferred outflows of resources	\$ 349,206
Deferred inflows of resources	\$ (1,788,867)
Pension expense/expenditures	\$ (367,599)

State Sponsored Pension Plans

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

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

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

Or the DRS ACFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

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

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January – June 2021		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%
July – December 2021		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	10.25%	6.00%

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee
January – June 2021		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%
July – December 2021		
PERS Plan 2/3	6.36%	6.36%
PERS Plan 1 UAAL	3.71%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	10.25%	6.36%

The District’s actual PERS plan contributions were \$91,492 to PERS Plan 1 and \$151,897 to PERS Plan 2/3 for the year ended December 31, 2021.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2021 with a valuation date of June 30, 2020. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Demographic Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2021. Plan liabilities were rolled forward from June 30, 2020, to June 30, 2021, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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

There were no changes in assumptions since the last valuation. There were changes in methods since the last valuation.

- For purposes of the June 30, 2020 Actuarial Valuation Report (AVR), a non-contribution rate setting valuation under current funding policy, the Office of the State Actuary (OSA) introduced temporary method changes to produce asset and liability measures as of the valuation date. See high-level summary below. OSA will revert back to the methods outlined in the 2019 AVR when preparing the 2021 AVR, a contribution rate-setting valuation, which will serve as the basis for 2022 ACFR results.
- To produce measures at June 30, 2020, unless otherwise noted in the 2020 AVR, OSA relied on the same data, assets, methods, and assumptions as the June 30, 2019 AVR. OSA projected the data forward one year reflecting assumed new hires and current members exiting the plan as expected. OSA estimated June 30, 2020, assets by relying on the fiscal year end 2019 assets, reflecting actual investment performance over FY 2020, and reflecting assumed contribution amounts and benefit payments during FY 2020. OSA reviewed the actual June 30, 2020, participant and financial data

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

to determine if any material changes to projection assumptions were necessary. OSA also considered any material impacts to the plans from 2021 legislation. See the 2020 AVR for more information.

Discount Rate

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

To determine that rate, an asset sufficiency test was completed to test whether each pension plan’s fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA’s assumptions, the pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMA’s) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA’s and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2021 are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB’s most recent long-term estimate of broad economic inflation.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability/(Asset)

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

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$282,732	\$165,966	\$64,134
PERS 2/3	\$(495,549)	\$(1,739,496)	\$(2,763,887)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2021, the District reported its proportionate share of the net pension liabilities as follows:

	Liability/Asset
PERS 1	\$165,966
Total Net Pension Liability	\$165,966
PERS 2/3	\$(1,739,496)
Total Net Pension Asset	\$(1,739,496)

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

	Proportionate Share 6/30/20	Proportionate Share 6/30/21	Change in Proportion
PERS 1	0.013039%	0.013590%	0.000551%
PERS 2/3	0.016986%	0.017462%	0.000476%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2021 are used as the basis for determining each employer’s proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations*.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

Pension Expense

For the year ended December 31, 2021, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$(11,548)
PERS 2/3	\$(356,011)
Total Pension Expense	\$(367,559)

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(184,166)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$39,864	\$0
TOTAL	\$39,864	\$(184,166)

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 6 – PENSION PLANS (Continued)

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$84,485	\$(21,325)
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$(1,453,811)
Changes of assumptions	\$2,542	\$(123,533)
Changes in proportion and differences between contributions and proportionate share of contributions	\$154,382	\$(6,033)
Contributions subsequent to the measurement date	\$67,933	\$0
TOTAL	\$309,342	\$(1,604,701)
TOTAL PERS 1 & PERS 2/3	\$349,206	\$(1,788,867)

Deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2022	\$(48,786)
2023	\$(44,705)
2024	\$(42,271)
2025	\$(48,040)
2026	\$0
Thereafter	\$0

Year ended December 31:	PERS 2/3
2022	\$(359,103)
2023	\$(332,982)
2024	\$(315,029)
2025	\$(360,637)
2026	\$1,568
Thereafter	\$2,890

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 7 – INSURANCE / RISK MANAGEMENT

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

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

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

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

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 7 – INSURANCE / RISK MANAGEMENT (Continued)

the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, reinsurance and other administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

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

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

NOTE 8– LONG-TERM DEBT

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

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

In February 2021, the District pledged future water revenue, net of operating expenses to repay \$6,735,000 in water revenue bond issued, 2021A Bond. These bonds were issued with a premium of \$867,297. \$5,145,000 plus a premium of \$732,526 provided financing for water system improvements and replacements. The remaining \$1,590,000 plus a premium of \$134,771 was used to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 8– LONG-TERM DEBT (Continued)

generating resources for all future debt service payments on \$2,030,000 of refunded debt, 2018B Water Revenue Bond. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$2,177,869 and resulted in an economic gain of \$149,824.

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

The total principal and interest remaining to be paid on the 2021A and 2021B bond series is \$9,264,000. At December 31, 2021, the unspent bond proceeds are \$3,788,173.

Annual principal and interest payments on the bonds are expected to require approximately 68.15 percent of net revenues in future years. Principal and interest paid for all bonds in the current year and total water revenue, net operating income excluding depreciation is \$1,352,159 and \$4,244,972 respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 8– LONG-TERM DEBT (Continued)

The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Original Amount	Amount of 2021 Installment
Public Works Loan PW04-691-PRE126---	2024	0.5%	\$ 1,000,000	\$ 52,631
Public Works Loan PC18-96103-13---	2038	1.2%	\$ 167,631	\$ 8,823
Water Revenue Bond 2011	2011 - 2031	3.0% - 4.45%	\$ 2,990,000	\$ 980,000
Water Revenue Bond 2018A	2018 - 2042	3.0%-4.0%	\$ 9,550,000	\$ -
Water Revenue Bond 2018B	2018 - 2026	2.65%-3.35%	\$ 2,030,000	\$ 2,030,000
Water Revenue Bond 2020---	2020 - 2039	3.0%	\$ 5,656,969	\$ 217,831
Water Revenue Bond 2021A	2021-2040	3.0%	\$ 6,735,000	\$ 270,000
Water Revenue Bond 2021B	2021-2031	3.0%	\$ 905,000	\$ 80,000
Unamortized Bond Premium 2018	2042		\$ 391,708	\$ -
Unamortized Bond Premium 2021A	2040		\$ 867,297	\$ -
Unamortized Bond Premium 2021B	2031		\$ 112,050	\$ -
Drinking Water State Revolving Fund Loan DM09-952-026---	2029	0.5%	\$ 1,028,180	\$ 48,991
Drinking Water State Revolving Fund Loan DM09-952-027---	2029	0.5%	\$ 2,109,661	\$ 94,157
Drinking Water State Revolving Fund Loan DM12-952-103	2036	1.0%	\$ 165,400	\$ 2,619
Drinking Water State Revolving Fund Loan DM12-952-113---	2036	1.0%	\$ 370,725	\$ 9,268
Drinking Water State Revolving Fund Loan DM15-952-035---	2038	1.0%	\$ 194,350	\$ 8,457
Drinking Water State Revolving Fund Loan 03-65103-029---	2024	0.5%	\$ 93,017	\$ 8,028
Drinking Water State Revolving Fund Loan 03-65103-030---	2024	0.5%	\$ 88,298	\$ 5,334
Drinking Water State Revolving Fund Loan 03-65103-031---	2034	0.0%	\$ 112,009	\$ 7,753
Drinking Water State Revolving Fund Loan 03-65103-032---	2024	1.5%	\$ 85,281	\$ 3,428
Drinking Water State Revolving Fund Loan 01-65101-039---	2025	1.5%	\$ 41,127	\$ 4,941
Drinking Water State Revolving Fund Loan 16-952-034---	2036	1.0%	\$ 84,007	\$ 4,248
Drinking Water State Revolving Fund Loan 04-65104-011---	2025	0.5%	\$ 26,877	\$ 3,839
Drinking Water State Revolving Fund Loan 09-952-045---	2029	0.5%	\$ 210,341	\$ 19,122
Drinking Water State Revolving Fund Loan DWL24059	2018	1.8%	\$ 127,602	\$ 455
Total Authorized Debt			\$ 35,142,530	\$ 3,859,922

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 8– LONG-TERM DEBT (Continued)

In 2019, the District acquired the Cedarwood water system and assumed ownership of the Drinking Water State Revolving Fund loan awarded for capital improvements. The 20-year term loan start date was May 6, 2014 for an amount of \$333,491 with an interest rate of 0.50%.

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

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

The annual requirements to amortize all debts outstanding as of December 31, 2021, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2022	\$ 931,781	\$ 723,932	\$ 1,655,713
2023	\$ 1,063,512	\$ 682,775	\$ 1,746,287
2024	\$ 1,085,445	\$ 642,930	\$ 1,728,375
2025	\$ 1,040,718	\$ 601,623	\$ 1,642,341
2026	\$ 1,050,807	\$ 564,609	\$ 1,615,416
2027-2031	\$ 6,097,778	\$ 2,475,464	\$ 8,573,242
2032-2036	\$ 6,705,243	\$ 1,586,894	\$ 8,292,137
2037-2041	\$ 5,510,480	\$ 516,660	\$ 6,027,140
2042-2043	\$ 836,559	\$ 15,497	\$ 852,056
Total	\$ 24,322,323	\$ 7,810,384	\$ 32,132,707

As of December 31, 2021, the District has \$1,429,135 in the Bond Reserves. This represent sinking funds and reserve requirements contained in the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2021 through December 31, 2021

NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2021	Additions	Reductions	Ending Balance 12/31/2021	Due Within One Year
Revenue Bonds	\$ 18,031,242	\$ 7,640,000	\$ 3,577,831	\$ 22,093,411	\$ 644,366
Unamortized Bond Premiums	\$ 391,708	\$ 979,347	\$ 25,492	\$ 1,345,563	\$ 38,247
Total Bonds Payable	\$ 18,422,950	\$ 8,619,347	\$ 3,603,323	\$ 23,438,974	\$ 682,613
Public Works Trust Fund Loans	\$ 369,334	\$ -	\$ 61,453	\$ 307,880	\$ 61,454
Drinking Water State Revolving Fund Loans	\$ 2,014,068	\$ 127,602	\$ 220,639	\$ 1,921,031	\$ 225,961
Pension Liability	\$ 677,588	\$ -	\$ 511,622	\$ 165,966	\$ -
Asset Retirement Obligations	\$ 1,693,160	\$ 21,520	\$ -	\$ 1,714,680	\$ -
Compensated Absences	\$ 283,230	\$ 6,587	\$ -	\$ 289,817	\$ 149,969
Total Long-Term Liabilities	\$ 23,460,328	\$ 8,775,056	\$ 4,397,037	\$ 27,838,348	\$ 1,119,997

NOTE 10 – LEASES

In 2017, the District entered a new five-year lease for the Satellite office space located at 8421 Old Highway 99 SE, Tumwater WA 98501. In 2021, the cost for the lease was \$6,062 monthly and is adjusted October 1 of each year by the greater of 1.5% or the percentage increase of the Consumer Price Index for all Urban Consumers (CPI-U) published by the *Bureau of Labor Statistics of the United States Department of Labor*. The District will terminate this lease agreement as of September 30, 2022.

In 2019, the District entered a five-year operating lease for a color copier/network printer at the Main Administrative office, replacing a printer leased in 2015. The total cost for this lease in 2019-2024 is \$4,080 annually. Also, in 2019 the District entered into a 5-year operating lease for a color copier/network printer at the Satellite office. The total cost for this lease is \$3,374 annually.

In 2019, the District entered a five-year lease to replace the paper/envelope folding machine at the Main Administrative office. The total cost for this lease is \$6,491 annually.

In 2019, the District entered a seven-year lease for the office building located at 1240 Ruddell Rd, Lacey WA 98503. In 2021, the cost for the lease is \$3,569 monthly and is adjusted March 1 of each year to according to the Lease Agreement Rent Rider. A Lease Extension is allowable

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 10 – LEASES (Continued)

only as mutually agreed upon by the District and the tenant. The rental income is reported as Non-Utility Income.

In 2020, the District assumed ownership of the property and office buildings located at 6800 Meridian RD SE, Olympia WA 98513. We assumed and restated the lease agreement with the current tenant, WA Water. The Lease agreement term was amended to end June 2022. In 2021, the cost for the lease is \$4,371 monthly and is adjusted December 1 of each year at 3% of the then current lease rent according to the amended and restated lease agreement. The rental income is reported as Non-Utility Income.

NOTE 11 –ASSET RETIREMENT OBLIGATIONS (ARO)

The District has identified 329 wells as asset retirement obligations. The AROs are the District’s active wells that will require decommission at the end of its useful life, estimated at 75 years. The wells will be decommissioned, pursuant to WAC 173-160-381, regulated by Department of Ecology.

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

NOTE 12– COMMITMENTS

Purchase Water Agreement

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 13 – COVID-19 PANDEMIC

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

In response to the on-going COVID-19 pandemic, the District continues to work at modified operations and protocols. In 2021, over 80% of staff continue to work remotely. Mission-critical staff work at the District's Headquarters or Satellite office. District employees practice proper hand hygiene, wear a mask and exercise social distancing of 6 feet or more. All in-person meetings including Commissioner meetings have remained on remote platforms. The District staff remains in restructured teams both geographically and organizationally to ensure day to day business activities could continue should multiple employees become infected with the novel virus.

The District continuously reevaluates administrative tasks to determine alternative, more efficient methods. District employees continue to diligently operate and maintain all 279 water systems, while simultaneously adjusting to COVID-19 related processes and procedures. All expenditures related to COVID-19 are tracked for any potential funding available for reimbursement.

As Washington State progresses to safely reopen, the District is strategically exploring best practices to re-opening the office spaces to staff and customers in the safest environment.

The length of time these measures will continue to be in place, and the full extent of the financial impact on the District is unknown at this time.

NOTE 14 – SUBSEQUENT EVENTS

The Washington State Board of Health (SBOH) adopted rule changes effective January 1, 2022, that requires all Group A water system to test for per- and polyfluoroalkyl substances (PFAS), new class of contaminants not currently regulated by the Environmental Protection Agency (EPA). In addition, the SBOH has established State Action Levels (SAL) for five PFAS contaminants. When tap water exceeds a SAL, the State Department of Health (DOH) recommends the water system take action to bring the level below the SALs for long term drinking. Beginning in December 2021, the District took water samples from Group A water systems for PFAS testing purposes. In May 2022, District staff has started to provide customers with their water systems testing results. The District remains committed to delivering safe, clean and reliable water services to our customers and communities.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2021 through December 31, 2021

NOTE 14 – SUBSEQUENT EVENTS (Continued)

On April 1, 2022, the District re-opened the Administrative Building to the public. The lobby was closed for a 2-year period as a result of the COVID-19 pandemic. District public meetings are held in-person with an option of joining remotely.

District management is preparing for the building improvements and field operations move from the Satellite office located at 8421 Old Highway 99 SE, Tumwater WA 98501 to the property and office buildings located at 6800 Meridian Rd SE, Olympia WA 98513. The lease agreement with the current tenant, WA Water ends June 30, 2022. Construction will take place between July and August 2022. During September 2022, the field operations will relocate to the PUD owned building located at 6800 Meridian Rd SE, Olympia WA 98513.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Public Employee's Retirement System - Plan 1							
Employer's proportion of the net pension liability (asset) %	0.013590%	0.013039%	0.012415%	0.010192%	0.007130%	0.007507%	0.006960%
Employer's proportionate share of the net pension liability	\$165,966	\$460,347	\$477,401	\$455,178	\$338,324	\$403,161	\$364,073
Covered payroll	\$2,088,489	\$1,979,532	\$1,742,469	\$1,416,904	\$897,627	\$863,175	\$795,446
Employer's proportionate share of the net pension liability as a percentage of covered payroll	7.95%	23.26%	27.40%	32.12%	37.69%	46.71%	45.77%
Plan fiduciary net position as a percentage of the total pension liability	88.74%	68.64%	67.12%	63.22%	61.24%	57.03%	59.10%

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

Notes to Schedule:

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

Thurston County Public Utility District No. 1
Schedule of Employer Contributions
PERS 1, 2/3
For the year ended December 31, 2021
Last 10 Fiscal Years*

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Public Employees' Retirement System Plan 1							
Statutorily or contractually required contributions	91,492	99,428	94,014	86,131	51,400	41,877	35,597
Contributions in relation to the statutorily or contractually required contributions	<u>(\$91,492)</u>	<u>(\$99,428)</u>	<u>(\$94,014)</u>	<u>(\$86,131)</u>	<u>(\$51,400)</u>	<u>(\$41,877)</u>	<u>(\$35,597)</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-
Covered payroll \$	\$2,105,115	\$2,075,122	\$1,901,163	\$1,702,443	\$1,045,904	\$877,912	\$809,212
Contributions as a percentage of covered payroll %	4.35%	4.79%	4.95%	5.06%	4.91%	4.77%	4.40%
Public Employees' Retirement System Plan 2 & 3							
Statutorily or contractually required contributions	\$151,897	\$164,350	\$146,769	\$127,662	\$72,478	\$54,694	\$62,787
Contributions in relation to the statutorily or contractually required contributions	<u>(\$151,897)</u>	<u>(\$164,350)</u>	<u>(\$146,769)</u>	<u>(\$127,662)</u>	<u>(\$72,478)</u>	<u>(\$54,694)</u>	<u>(\$62,787)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll \$	\$2,105,115	\$2,075,122	\$1,901,163	\$1,702,443	\$1,045,904	\$877,912	\$809,212
Contributions as a percentage of covered payroll %	7.22%	7.92%	7.72%	7.50%	6.93%	6.23%	7.76%

Notes to Schedule:

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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