



Washington State Auditor's Office

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Financial Statements Audit Report

Public Utility District No 1 of Thurston County (Thurston PUD)

For the period January 1, 2014 through December 31, 2014

Published January 28, 2016

Report No. 1015722





Washington State Auditor's Office

January 28, 2016

Board of Commissioners
Thurston PUD
Olympia, Washington

Report on Financial Statements

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

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Schedule Of Audit Findings And Responses.....	4
Independent Auditor’s Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	9
Independent Auditor’s Report On Financial Statements	12
Financial Section.....	15
About The State Auditor’s Office.....	66

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**Thurston PUD
Thurston County
January 1, 2014 through December 31, 2014**

2014-001 The District should establish adequate internal controls over its financial reporting, to avoid the risk of material misstatements.

Background

District Board members, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. It is the responsibility of the District to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting.

Since issuing a management letter in the prior audit, the District has taken steps to improve its internal controls over financial reporting; however it continues to have deficiencies that could affect the District's ability to produce reliable financial statements.

Description of Condition

Our audit identified the following deficiencies in internal controls, that when taken together represent a significant deficiency:

- Although the District had procedures in place to ensure information entered into the general ledger was accurate and amounts reported on the financial statements agreed to supporting records and were prepared in accordance with the Generally Accepted Accounting Principles (GAAP); these procedures were not effective in identifying all financial statement errors prior to submission for audit.
- The District lacked sufficient procedures to ensure adequate support was maintained for some of its financial activity.

Cause of Condition

The District has made many changes over the last year to increase training and oversight, including the replacement of key staff as well as the time and effort in training and oversight. The errors identified in the financial statements are not new reporting errors, they are in most cases reported in the same method as in the prior year. The District is a small entity with limited resources and staff and has

been focusing its efforts in training the staff it has to perform more functions with the same amount of resources.

Effect of Condition

Our audit identified the following financial statement errors that were not detected by the District:

- The District did not properly classify its long-term debt, resulting in an overstatement of long-term debt by \$448,778 and an understatement of current liabilities by the same amount. This was corrected in the final financial statements.
- At the time of the audit, the District lacked support for the restricted classification of \$176,859 that it included in its restricted for debt service balance. The District adopted a resolution on November 10, 2015, that allows for the original classification of the restricted for debt service balance and therefore did not correct this error.
- The net office furniture and equipment balance was overstated by \$9,996. The District did not correct this error. There was also no documentation to support \$23,269 worth of office furniture purchased in 2005. The net value of this furniture was \$10,083 in 2014.
- The accrued taxes balance was understated by \$19,056, and the accounts payable balance was overstated by the same amount. The District did not correct these errors.
- The District's Statement of Net Position, Notes to the Financial Statements, and Management Discussion & Analysis contained several minor errors and omissions. These were corrected in the final financial statements.

Recommendation

We recommend the District dedicate the necessary time and resources to ensure:

- Effective procedures are in place to ensure general ledger balances are valid, accurate, complete and adequately supported and that financial statements agree to supporting records and are prepared in accordance with GAAP.
- Supporting documentation is retained for all financial activity.

District's Response

The District recognizes the errors noted in this finding and has already made steps to correct these misclassification errors and to modify procedures in order to detect and correct issues before preparation of the financial statements. The elected officials of Thurston PUD place a high priority on supporting and directing resources to safeguard and protect the financial resources of the District. The management of the District views internal control as an ongoing process that is built into our daily routine, and are making a concerted effort to review these controls for effectiveness and document our efforts along the way. Our bond rating of AA- is very important to us, and we strive to ensure that all financial and internal controls are stringent so that we are careful custodians of public funds for the benefit of our rate payers and the citizens of Thurston County.

We would like to stress that we are a small entity with very limited resources and personnel, and that mistakes can occur even under the best conditions. We would also like to point out the timing of the audit report release is already after the end of the 2015 fiscal year and that any improvements made may not be evidenced in the next audit of this period. The District has hired qualified staff and will continue to invest in training to stay on top of current issues. We intend to implement the recommendations of this report, and respectfully request that in all future review of our internal control procedures that the overlapping timing of the report and implementation of corrective controls is considered.

Auditor's Remarks

We appreciate the District's response and recognize that the District is committed to ongoing quality improvement and working to improve its internal controls.

Additional financial statement reporting tools and resources can be found in our Local Government Performance Center, which provides assistance and direction to local governments, on our website at www.sao.wa.gov.

We look forward to working with the District on this issue and will follow up on it during the next audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class.

Budgeting Accounting and Reporting System Manual – Accounting, Accounting Principles and General Procedures, Internal Control states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process affected by those charged with governance, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has ultimate responsibility for ensuring adequate controls to achieve objectives, even though primary responsibility has been delegated to management.

Government Auditing Standards, July 2007 Revision Section 5.11 provides that auditors should report material weaknesses and significant deficiencies in internal control, which it defines as:

- a. Significant deficiency: a deficiency in internal control or combination of deficiencies, that adversely affects the entity ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

RCW 40.14.070 Destruction, disposition, donation of local government records – Preservation for historical interest – Local records committee, duties – Record retention schedules – Sealed records, states in part:

(2)(a) Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee.

Local Government Common Records Retention Schedule Version 3.2:

GS2011-184 Financial Transactions—General; Retain for 6 years after the end of the fiscal year then destroy.

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

**Thurston PUD
Thurston County
January 1, 2014 through December 31, 2014**

Board of Commissioners
Thurston PUD
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Thurston PUD, Thurston County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 25, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2014-001 that we consider to be significant deficiencies.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 25, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Thurston PUD Thurston County January 1, 2014 through December 31, 2014

Board of Commissioners
Thurston PUD
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Thurston PUD, Thurston County, Washington, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Thurston PUD, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

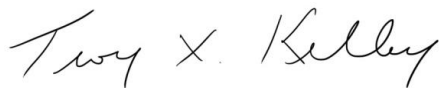
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 16 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 25, 2016

FINANCIAL SECTION

**Thurston PUD
Thurston County
January 1, 2014 through December 31, 2014**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2014

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2014

Statement of Revenues, Expenses and Changes in Net Position – 2014

Statement of Cash Flows – 2014

Notes to Financial Statements – 2014

Management's Discussion and Analysis

December 31, 2014 and 2013

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, 2014 with additional comparative data for 2013. 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, 2014, and are comprised of:

• **Statement of Net Position:** The Statement of Net Position reflects the assets, 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, 2014. The net position section is separated into three categories:

- net position invested in capital assets net of related debt
- 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 are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

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

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

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

Public Utility District No. 1 of Thurston County, Washington
Condensed Financial Information for December 31, 2014, and 2013

STATEMENT OF NET POSITION	Combined Total		Increase (Decrease)	% Change
	As of December 31			
	2014	2013	2014 - 2013	2014 - 2013
Current Assets	\$ 1,641,031	\$ 1,586,130	\$ 54,900	3.46%
Other Non-Current Assets	8,454,770	7,804,343	650,428	8.33%
Total Assets	<u>\$ 10,095,801</u>	<u>\$ 9,390,473</u>	<u>\$ 705,328</u>	7.51%
Current Liabilities	\$ 667,014	\$ 255,393	\$ 411,621	161.17%
Noncurrent Liabilities	5,429,406	5,498,148	(68,741)	-1.25%
Total Liabilities	<u>\$ 6,096,420</u>	<u>\$ 5,753,540</u>	<u>\$ 342,880</u>	5.96%
Deferred Inflows of Resources	277,023	271,874	5,148	1.89%
Net Investment in Capital Assets	\$ 2,067,791	\$ 1,929,957	\$ 137,834	7.14%
Total Restricted	862,428	722,247	140,181	19.41%
Net Unrestricted	792,139	712,855	79,284	11.12%
Total Net Position	<u>\$ 3,722,359</u>	<u>\$ 3,365,059</u>	<u>\$ 357,300</u>	10.62%
Total Liabilities and Net Position	<u>\$ 10,095,801</u>	<u>\$ 9,390,473</u>	<u>\$ 705,328</u>	7.51%

Public Utility District No. 1 of Thurston County, Washington
Condensed Financial Information for December 31, 2014, and 2013

STATEMENT OF CHANGES IN NET POSITION	Combined Total		Increase (Decrease)	% Change
	As of December 31			
	2014	2013	2014 - 2013	2014 - 2013
Operating Revenues	\$ 2,571,640	\$ 2,254,756	\$ 316,884	14.05%
Non-Operating Revenues	447,597	359,247	88,350	24.59%
Total Revenues	<u>\$ 3,019,237</u>	<u>\$ 2,614,003</u>	<u>\$ 405,234</u>	15.50%
Operating Expenses	\$ 2,491,026	\$ 2,206,713	\$ 284,313	12.88%
Non-Operating Expenses	170,912	145,225	25,687	17.69%
Total Expenses	<u>\$ 2,661,937</u>	<u>\$ 2,351,938</u>	<u>\$ 309,999</u>	13.18%
Change in Net Position	<u>\$ 357,300</u>	<u>\$ 262,065</u>	<u>\$ 95,235</u>	36.34%
Net Position Balance, BOY	<u>\$ 3,365,059</u>	<u>\$ 3,102,994</u>	<u>\$ 262,065</u>	8.45%
Current Year Change in Net Position	357,300	262,065	95,235	36.34%
Prior Period Adjustment	-	-	-	0.00%
Balance, EOY	<u>\$ 3,722,359</u>	<u>\$ 3,365,059</u>	<u>\$ 357,300</u>	10.62%

Financial Analysis

Operating Revenues

In 2014, operating revenue for the District increased \$316,884 or 14.05% from that of 2013. This increase in revenue is attributable primarily to the increased number of customers from water system acquisitions in 2014 and to a lesser degree the increase in water rates on January 1, 2014.

Operating Expenses

Overall operating expenses increased in 2014 by \$284,313 or 12.88%. The largest contributor to this increase in expense was Salaries and Benefits increasing \$126,017 or 14.09% with the annual expense of an additional employee authorized in late 2013. Smaller contributors to this increase in expense were System Repairs & Maintenance increasing 44.89% or \$27,871, and Depreciation and Amortization Expense increasing \$29,859 or 7.22% from attributable to annual depreciation costs relating to new plant associated with the water systems purchased in 2014.

Non-Operating Revenues & Expenses

Non-operating revenue recognized in 2014 is primarily the District's tax levy. The District, like all public utility districts organized in the State of Washington, has taxing authority. The District exercises this authority at a minimum level, collecting \$260,342 in property tax assessments in 2014, compared to \$256,389 in 2013, representing a 1.54% increase from 2013 to 2014. 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 2014 election was \$87,368. The District requested and received an extension to pay this expense over two years, and therefore incurred election costs in 2014 of \$47,556 and deferred the remainder of the 2014 costs, \$39,812 to 2015.

Interest income and interest expense are included as non-operating revenue and expense. Interest income decreased from \$13,965 in 2013 to \$13,195 in 2014 due to a decrease in investment earnings. Interest expense increased to \$123,356 in 2014 from \$118,056 in 2013 due to interest payments on the debt assumed in the acquisition of water systems.

Net position

The District's total net position increased in 2014 by \$357,300 or 10.62%.

A Closer Look at 2014

To stay as forward looking as possible, the District's governing board understands that the future of Thurston PUD as an affordable water utility depends upon expanding the services of the District to more customers while continuing to reinvest in the water systems already under the umbrella of the District.

The District has pursued the acquisition of several water systems over the last 5 years and in 2014 was successful in three acquisitions adding five water systems and 307 additional customers to the District. To finance the water system acquisitions the District obtained additional debt through a Bond Anticipation Note as disclosed in Note 8 in the Notes to

the Financial Statement. The District has a policy that all new water systems come into the PUD “whole” and do not add to the burden of the existing customers. As such, each of these water systems have unique needs and the customers of the water systems may be charged a surcharge in addition to their monthly rate to pay for any improvements or obligations that they have brought into the PUD. Using this same philosophy, the District expect to continue to grow in 2015 as more water systems continue to approach the PUD for service.

The District currently owns and operates 159 water systems ranging in size from 4 to 1,320 connections. As the opportunity to obtain low interest loans from the Public Works Trust Fund declined in 2014, the District began to develop a plan to fund future infrastructure needs after the proceeds of our 2011 Revenue Bond issue were exhausted. The Drinking Water State Revolving Fund is still a viable option for funding the infrastructure improvements of our water systems with 15 or more connections. Unfortunately, the Drinking Water State Revolving Fund cannot be used as a source of funding for small water systems with less than 15 connections, leaving the District looking for alternative means to fund infrastructure improvements for our more than 130 small water systems.

An Asset Management Plan (AMP) was developed to identify the life expectancy of each component of the water systems owned by the District and the cost to replace each component at the end of its useful life. The AMP is designed to be updated constantly as each component is evaluated for changes in the condition of each of the component providing a good planning tool for future capital replacement plans. Following the development of the AMP, the District hired a consultant to prepare a cost of service study to help the District in developing strategies for funding future capital replacements. Throughout 2014 as the District held public meetings throughout our service area to present the results of the cost of service study and receive input from our customers on the best way to finance these replacements into the future.

The Commissioners of the District then met in October 2014 and voted to adopt the recommendations of the cost of service study to implement a capital surcharge beginning January 1, 2015 to be dedicated to the capital needs identified in the Asset Management Plan. The proceeds of this capital surcharge are deposited into the Capital Improvements Reserve of the District. The surcharge is proposed to begin at \$1.00 per month per residential customer in 2014 and is adjusted annually to grow with the capital infrastructure needs of the District.

Contacting the District's Financial Management

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

Julie Parker
Chief Financial Officer

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF NET POSITION

December 31, 2014

ASSETS	2014
Current Assets	
General Reserve	206,210
Capital Improvement Reserve	438,106
Water Revenue Reserve	645,946
Customer Deposits	57,037
Customer Accounts Receivable (net)	240,976
Property Tax Receivable	8,181
Other Receivables	14,752
Prepaid Expenses	29,823
Total Current Assets	<u>\$ 1,641,031</u>
Non-Current Assets	
Restricted Assets	
Grant Reserve	-
Bond Reserve	501,559
PUD Project Reserve	222,325
Total Restricted Assets	<u>\$ 723,884</u>
Capital Assets Not Being Depreciated:	
Land and Land Rights	103,679
Construction in Progress	157,497
Capital Assets Being Depreciated:	
Water Plant	9,226,089
Office Furniture & Equipment	248,719
Vehicles & Equipment	241,332
Other Utility Plant	674,785
Less Accumulated Depreciation	<u>(2,921,214)</u>
Total Capital Assets (Net)	7,730,887
Total Non-Current Assets	<u>\$ 8,454,770</u>
Total Assets	<u><u>\$ 10,095,801</u></u>

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

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF NET POSITION

December 31, 2014

LIABILITIES AND EQUITY**Current Liabilities:**

Accounts payable	80,200
Accrued compensated absences	70,709
Accrued taxes	(67)
Refundable Deposits	59,293
Note Payable Webster Hill	8,100
Current Portion of Bonds, Notes and Loans Payable	448,778
Total Current Liabilities	<u>\$ 667,014</u>

Noncurrent Liabilities:

Bonds Payable	2,160,000
Bond Anticipation Note	403,000
PWTF Note - Preconstruction 05	473,684
DWSRF Loan - Tanglewilde Source	685,882
DWSRF Loan - Tanglewilde Reservoir	1,318,208
DWSRF Loan - Consolidate Garden Acres	864
DWSRF Loan - Sward/Platt Consolidation	1,638
DWSRF Loan - Consolidate Lew's 81st	32,393
DWSRF Loan - Hawk Acres Main	76,105
DWSRF Loan - Hawk Acres Source	72,244
DWSRF Loan - Horsfall Improvements	101,341
DWSRF Loan - Ridgewood Improvements	69,775
DWSRF Loan - Webster Hill Improvements	34,272
Total Noncurrent Liabilities	<u>\$ 5,429,406</u>
Total Liabilities	<u>\$ 6,096,420</u>

Deferred Inflows of Resources

Contributions In Aid of Construction	277,023
Total Deferred Inflows of Resources	<u>\$ 277,023</u>

Net Position

Net Investment in Capital Assets	2,067,791
Restricted for Capital Projects	360,869
Restricted for Debt Service	501,559
Total Restricted funds	<u>\$ 862,428</u>
Net Unrestricted	792,139
Total Net Position	<u>\$ 3,722,359</u>

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

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

For the Year Ended December 31, 2014

	2014
Operating Revenues	
Metered Water Revenue	2,196,358
Sales to Irrigation	86,380
Miscellaneous Service Revenue	46,615
Other Water Revenue	242,286
Total Operating Revenue	\$ 2,571,640
Operating Expenses	
Salaries & Benefits Employees	\$ 1,020,444
Salaries Commissioners	76,353
Purchased Water	76,039
Purchased Power	97,464
Chemicals	41,177
System Repairs & Maintenance	89,955
Contract Engineering	31,257
Contract Legal	32,669
Contract Testing	37,596
Contract State Auditor	10,761
Contract Other	43,829
Rent and Janitorial	52,508
Transportation	40,787
Insurance	20,877
Advertising	5,203
Office Expense	51,605
Meeting Costs Commissioners	4,333
Meeting Costs Staff	1,892
Dues & Subscriptions	13,927
Telephone	9,523
Staff Training	5,221
Postage	23,306
Printing	15,268
Miscellaneous	51,177
Taxes	194,508
Depreciation/Amortization	443,349
Total Operating Expenses	\$ 2,491,026
Net Operating Income	\$ 80,614
Non-Operating Revenues (Expenses)	
Interest Income	\$ 13,195
Property Tax Revenue	260,342
Interest on Long Term Debt	(123,356)
Election costs	(47,556)
Grant Revenues	180,142
Other, net	(6,082)
Total Non-Operating Revenues (Expenses)	\$ 276,685
Change in Net Position	\$ 357,300
Net Position	
Total Net Position, January 1	\$ 3,365,059
Prior Period Adjustment	-
Total Net Position, December 31	\$ 3,722,359

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

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

	2014
Cash Flows from Operating Activities	
Cash received from customers	\$ 2,540,363
Cash payments to supplies and employees	\$ (1,884,368)
Taxes paid	\$ (218,208)
Net Cash Provided by Operating Activities	<u>\$ 437,787</u>
Cash Flows from Non-Capital Financing Activities	
Property Tax Income	\$ 260,579
Other Non Operating Income	\$ (6,082)
Election Expenses	\$ (47,556)
Net Cash Provided by Non-Capital Financing Activities	\$ 206,941
Cash Flows from Capital Financing Activities	
Payments to 2011 Revenue Bond	\$ (210,000)
Payments to Public Works Trust Fund Loan	\$ (52,632)
Payments to 2008 PWTF Planning Loan	\$ (16,238)
Payments to DWSRF Loan Source	\$ (48,992)
Net Payments to DWSRF Loan Reservoir	\$ (81,836)
Net Proceeds from Issuance of Water Revenue Bond Anticipation Note	\$ 403,000
Net Proceeds from Assignment of DWSRF Loans	\$ 386,734
Net Proceeds from Issuance of Short Term Note	\$ 8,100
Contributions to Capital	\$ 5,148
Proceeds from Grants	\$ 180,142
Acquisition and construction of capital assets	\$ (1,122,061)
Interest paid on long term debt	\$ (123,356)
Net cash from Capital Financing Activities	\$ (671,990)
Cash Flows from Investing Activities	
Interest received on cash on deposit	\$ 13,195
Net Increase (Decrease) in Cash	\$ (14,067)
Beginning of Year	<u>\$ 2,085,250</u>
End of Year	<u>\$ 2,071,183</u>

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

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014

	<u>2014</u>
Operating Income (Loss)	\$ 80,614
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	\$ 443,349
Customer Accounts Receivable	\$ (46,338)
Other Accounts Receivable	\$ 8,262
Prepaid Expenses	\$ (2,843)
Accounts Payable	\$ (32,253)
Refundable Deposit Payable	\$ 6,799
Payroll Tax Liabilities	\$ (23,700)
Accrued Compensated Absences	\$ 3,898
Total Adjustments	<u>\$ 357,173</u>
Net Cash Provided by Operating Activities	<u>\$ 437,787</u>

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

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 159 water systems serving approximately 3447 active connections in 5 counties (Thurston, Lewis, Pierce, Grays Harbor and Mason Counties). Thurston PUD also manages 14 systems under contract as a Satellite Management Agency (SMA). The District employs 12 full time employees and one part-time temporary employee.

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. The Uniform System of Accounts for Class A Water Utilities, 1996, published by the National Association of Regulatory Utility Commissioners, is the foundation for the accounting policies of the District, and includes instructions regarding the capitalization of capital assets and the methods of accounting for and reporting contributions in aid of construction.

The District's financial statements include the financial position and results of operations of its two reporting units, general and water operations, which have been combined for this report. 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 combined financial statements follows.

New Accounting Standards

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: omnibus, -an Amendment of GASB Statements No. 14 and No. 34*. This statement modifies certain requirements and criteria for inclusion of component units in the financial reporting entity. GASB Statement No. 61 is effective for financial statements for periods beginning after

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

June 15, 2012. The District currently has no component units to report, and therefore, the statement has no reporting impact for the District.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The statement is effective for period beginning after December 15, 2012, with the effect of the accounting change to be applied retrospectively by restating previously reported amounts. The District has evaluated the impact of this statement on its combined financial statements and had chosen to adopt this pronouncement as of December 31, 2013. Amounts shown on the combined statements of net position are reported in accordance with GASB Statement No. 65.

In March 2012, the GASB issued Statement No. 66-*Technical Corrections-2012, an amendment of GASB Statements No. 10 and No. 62*, improving the accounting for operating leases, service fees, and purchase of a loan or group of loans. This statement is effective for financial statements for periods beginning after December 15, 2012. The District does not engage in material operating leases, servicing fees, or loan purchases, and, therefore, this statement had no reporting impact on the District.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The intent of this statement is to improve information provided by state and local government employers about financial support for pensions provided by other entities. This statement is effective for financial statements for periods beginning after June 15, 2014. The District is evaluating the impact of this statement on its combined financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishing accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. The District has evaluated the impact of this statement on its combined financial statements and has chosen to adopt this pronouncement as of December 31, 2014. Amounts shown on the combined statements of net position are reported in accordance with GASB No. 69.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement is effective for financial statements for periods beginning after June 15, 2013. Some governments extend financial guarantees for the obligations of another government or other entities without receiving equal value in exchange. The District does not engage in this activity, and, accordingly, this statement is not applicable to the District.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY

NOTES TO FINANCIAL STATEMENTS

January 1, 2014 through December 31, 2014

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which clarifies accounting treatment and reporting related to the measurement date outlined in Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement is an amendment to Statement No. 68 and has the same effective date. The District is evaluating the impact of the statements on its combined financial statements.

Operating and NonOperating Revenue and Expenses

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

Accounting Estimates

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

Revenue Recognition

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

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

Cash and Cash Equivalents

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

Utility Plant and Depreciation

See Note 4 – Capital Assets

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

Contribution in Aid of Construction

Contributions in Aid of Construction are District-mandated customer connection charges used to fund construction of system properties necessary to extend service to a new customer. The District treats the contributions as a deferred inflow of resources under GASB 65 as they are a regulatory asset intended to recover costs that are expected to be incurred in the future. The payments are recorded as liabilities, then reclassified to non-operating revenue (contributed capital) when the associated facilities are constructed or acquired.

Restricted Funds

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, dedicated capital project funds, and other reserve requirements. At year-end there are restricted funds of Thurston PUD in the amount of \$723,884; PUD Project Reserve \$222,325, and Bond Reserve \$501,559.

Assets and liabilities shown as current in the accompanying Statement of Net Position exclude current maturities on revenue bonds and accrued interest, thereon, because debt service funds are provided for their payment.

Receivables

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

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

Unamortized Debt Expenses

In accordance with GASB 65, the District has recorded all new 2014 debt issuance costs as an expense in the period incurred.

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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2014 through December 31, 2014

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

Income Tax Status

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

Statement of Cash Flows

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

Changes in Accounting

There are no changes to the accounting presentation in these 2014 financial statements.

NOTE 2 – PROPERTY TAXES

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

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

Property taxes are recorded as receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred 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 2014 was \$0.010118464208 010506673916 per \$1,000 on an assessed valuation of \$25.261 billion for a total regular levy of \$255,599. In 2013 the regular levy was \$250,092. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Deposits

All receipts received by the District are deposited into qualified bank 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, 2014, and throughout the year, were classified as category 1, insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name.

Investments

In 2014, Thurston PUD held no other investments than the deposits with the County Treasurer. Investments are governed by State statute and County investment policy. All investment instruments are those allowed by statute, which may include U.S. Treasury Notes, Federal Agencies, bankers' acceptances, short-term commercial paper, money market account and the State Treasurer's Local Government Investment Pool (LGIP). There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. The fair value of County shares in the LGIP is dollar for dollar equal to the value of pool shares.

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit this risk, state law does not allow general governments to invest in corporate equities. Thurston County policy further limits risk to investments in securities that have one of the three highest ratings of a national rating agency at the time of investment.

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, 2014 through December 31, 2014

Contributions by developers and customers are recorded, at cost, as contributions in aid of construction. The District amortizes as depreciation those assets acquired by contributions. Utility plant activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	90,554	13,124	-	103,679
Construction in Progress	99,901	57,596		157,497
Total utility plant not being depreciated	\$ 190,455	\$ 70,721	\$ -	\$ 261,176
Utility plant being depreciated				
Structures & Improvements	384,376	63,278		447,654
Wells and Springs	835,888	137,422		973,311
Supply Mains	387,299	2,881		390,180
Power Generation Equipment	6,443			6,443
Pumping Equipment	1,112,285	145,421		1,257,707
Water Treatment Equipment	993,488	24,170		1,017,658
Distribution Reservoir & Standpipe	1,865,520	17,742		1,883,262
Transmission & Distribution Mains	2,163,709	582,913		2,746,621
Services	120,123	90,103		210,226
Meters & Meter Installations	261,905			261,905
Hydrants	11,227			11,227
Other Plant & Miscellaneous Equipment	19,895			19,895
Office Furniture & Equipment	248,719	-		248,719
Transportation Equipment	277,487		(72,855)	204,632
Tools, Shop, & Garage Equipment	6,705			6,705
Power Operated Equipment	542			542
Communication Equipment	9,740			9,740
Miscellaneous Equipment	19,713	-		19,713
Other Tangible Plant	676,874	-	(2,089)	674,785
Total utility plant being depreciated	\$ 9,401,939	\$ 1,063,930	\$ (74,944)	\$ 10,390,925
Accumulated Depreciation	2,540,219	443,349	(62,354)	2,921,214
Total Utility Plant, Net	\$ 7,052,175	\$ 691,302	\$ (12,590)	\$ 7,730,887

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

NOTE 5 – CONSTRUCTION IN PROGRESS

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

NOTE 6 – RETIREMENT BENEFIT PLAN

Pension Plan

Substantially all Thurston PUD's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, Washington, 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov.

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

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in the Judicial Retirement System); employees of legislative committees; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state government. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977, and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

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

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at the age of 55 with 25 years of service, or at the age of 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

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

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

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

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

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 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.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

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

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

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

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

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

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2013:

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2014 through December 31, 2014

Retirees and Beneficiaries Receiving Benefits	85,328
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	31,047
Active Plan Members Vested	150,706
Terminated Plan Members Nonvested	101,191
Total	368,272

Funding Policy

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2014 through December 31, 2014

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

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2014	\$0.00	\$107,210.06	\$2,569.41
2013	\$0.00	\$92,633.19	\$0.00
2012	\$0.00	\$51,343.64	\$1,324.71

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 175 members.

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

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible up to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance. Settlements in each of the past three years have not exceeded insurance coverage paid.

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

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

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 to advance refund the District's previous bond issues. Revenue bonds are repaid using the water revenue of the District. The District is also liable for other loans obtained through state and federal programs to improve the condition of existing water infrastructure.

The District has pledged future water revenue, net of operating expenses to repay \$2,990,000 in water revenue bonds issued in 2011. Proceeds from the bonds provide financing for water system improvements and replacements as well as new water system construction and acquisition. The bonds are payable solely from water revenue and are payable through 2031. Annual principal and interest payments on the bonds are expected to require less than 31 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,047,200. Principal and interest paid for the current year and total water revenue, net of operating expenses were \$299,656 and \$971,560 respectively.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2014 through December 31, 2014

The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Outstanding Balance	Amount of 2014 Installment
Public Works Loan PW04-691- PRE126	2024	0.5%	\$ 526,316	\$ 52,632
Water Revenue Bond 2011	2011 - 2031	3.0% - 4.45%	\$2,380,000	\$ 210,000
Water System Revenue Bond Anticipation Note 2014	2028	2.6%	\$ 403,000	\$ -
Drinking Water State Revolving Fund Loan DM09-952-026	2029	0.5%	\$ 734,874	\$ 48,992
Drinking Water State Revolving Fund Loan DM09-952-027	2029	0.5%	\$1,412,366	\$ 94,158
Drinking Water State Revolving Fund Loan DM12-952-102	2036	1.0%	\$ 864	\$ -
Drinking Water State Revolving Fund Loan DM12-952-103	2036	1.0%	\$ 1,638	\$ -
Drinking Water State Revolving Fund Loan DM12-952-113	2036	1.0%	\$ 32,393	\$ -
Drinking Water State Revolving Fund Loan 03-65103-029	2024	0.5%	\$ 84,561	\$ 8,456
Drinking Water State Revolving Fund Loan 03-65103-030	2024	0.5%	\$ 80,271	\$ 8,027
Drinking Water State Revolving Fund Loan 03-65103-031	2034	0.0%	\$ 106,675	\$ 5,334
Drinking Water State Revolving Fund Loan 03-65103-032	2024	1.5%	\$ 77,528	\$ 7,753
Drinking Water State Revolving Fund Loan 01-65101-039	2025	1.5%	\$ 37,699	\$ 3,427
Compensated Absences			\$ 70,709	
Total			\$5,948,893	

In 2013, the District obtained loan financing for 3 capital projects through the Drinking Water State Revolving Fund loan program. The cost of these three capital projects is expected to total \$623,344 and are expected to be complete in 2015. Principal and interest on these obligations has been deferred until 2017, each of these loans has a term of 20 years and interest rate of 1.0%.

In June 2014, the District authorized a Registered Revenue Bond Anticipation Note in the form of a non-revolving line of credit with Cashmere Valley Bank in the amount of \$1,000,000 to provide available funds for water system acquisitions and/or improvements. In June 2014 the

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2014 through December 31, 2014

District acquired 3 water systems and issued a total of \$403,000 against this note. The initial draw will have a fixed rate of 2.5731% for the initial four years with semi-annual interest payments due December 1 and June 1 beginning December 1, 2014 to and including June 1, 2018. Whatever principal amount remains outstanding as of that date will then be converted to an amortizing ten year term loan.

Other new debt of the District in 2014 includes the assumption of five Drinking Water State Revolving fund loans that were acquired with water systems purchased by the District in 2014. The proceeds of the original loans were used for water system upgrades, the five loans assumed have a combined balance of \$419,127, maturity dates between 2024 and 2034, annual combined installment of \$32,997 and bear interest rates of 0.0%-1.5%. The District has adopted monthly surcharges to the residents on these acquired water systems for the repayment of these loans.

The annual requirements to amortize all debts outstanding as of December 31, 2014, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2015	\$ 448,778	\$ 109,142	\$ 557,920
2016	\$ 453,778	\$ 101,313	\$ 555,091
2017	\$ 460,523	\$ 94,757	\$ 555,280
2018	\$ 483,246	\$ 85,959	\$ 569,205
2019	\$ 511,680	\$ 77,375	\$ 589,055
2020-2024	\$ 1,898,436	\$ 269,391	\$ 2,167,827
2025-2029	\$ 1,367,862	\$ 127,084	\$ 1,494,947
2030-2034	\$ 250,392	\$ 14,655	\$ 265,047
2035-2039	\$ 3,489	\$ 52	\$ 3,542
Total	\$ 5,878,184	\$ 879,731	\$ 6,757,915

There is \$723,884 in restricted assets of the district. These represent sinking funds and reserve requirements contained in the various indentures. There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 9 – LEASES

In December 2010, Thurston PUD entered into a second five-year lease for office space and parking stalls at 921 Lakeridge Way SW, Olympia WA 98502. In 2014, the cost for the lease was \$49,200.00 annually with no change since 2011, as negotiated in 2010 in exchange for extending the office space lease and moving to the third floor. At the end of the new 5 year lease period Thurston PUD has the option to extend the lease for two additional three year terms at a re-negotiated rental rate.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

In 2014 the District entered into a 5 year operating lease for a color copier/network printer, replacing a printer purchased in 2005. The total cost for this lease in 2014 was \$647.36, the annual cost in future years 2015-2019 will be \$3,673.20.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Purchase Water Agreement

In 2013, Thurston PUD worked with the City of Olympia to amend its wholesale water purchase contract to purchase water for the Tanglewilde-Thompson Place water system. The wells completed in 2012, greatly reduce the Districts reliance on the capacity of the Olympia water system to where the purchased water is only needed to meet the maximum day demand on the Tanglewilde-Thompson Place water system. The District and the City shared the cost of a Cost of Service Study by FCS Group that analyzed the cost of the PUD's changing demand on the City's water system. The negotiations, as a result of this study, took time to work through and continued into 2014. The District expects to cancel this purchase water agreement in 2014 and transition the agreement to emergency assistance only in the future.

In 2014 the District was successful in revising its water rights to obtain sufficient withdrawal rights to meet the maximum day demand of the water system, eliminating the need to purchase water for the daily needs of the water system. In September 2014, the District provided the City of Olympia a letter giving 9 months' notice to terminate the PUD's purchase water contract with the City and enter into a mutual aid agreement. The purchase water agreement will be terminated effective June 1, 2015.

NOTE 11 – GRANTS

In 2014 Thurston PUD was awarded a grant from the Community Development Block Grant Program as a subrecipient of the Pierce County Community Connections in the amount of \$170,000 to rehabilitate the Webster Hill water system in Pierce County. The contract was awarded to Thurston PUD in November, the PUD incurred minimal expenditure for this project in 2014 and therefore did not draw against this new grant.

In 2013 Thurston PUD was awarded a grant from the Washington State Department of Health in the amount of \$30,000 to conduct a study of the feasibility of acquiring the Webster Hill water system in Pierce County. In 2014 the District drew \$21,222 against this grant.

In 2012, the District was awarded a loan with 50% loan forgiveness from the Drinking Water State Revolving Fund (DWSRF) to consolidate a Thurston County group A water system with 2 adjacent group B water systems. In 2014 the District focused primarily on the permitting and design of the project and did not draw on this loan. The District will begin construction in 2015.

In 2009, Public Works Board of the Washington State Department of Commerce awarded Thurston PUD a Public Works Assistance Account Infrastructure Interest Rate Buy-Down Grant

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2014 through December 31, 2014

of up to \$1,161,001 to assist with the funding of improvements to the Tanglewilde water system. The grant is intended to fund 37% of the construction project in Tanglewilde to include the drilling and development of two wells, replacement and upgrade of the storage reservoir, and replacement of 1,400 linear feet of distribution main. The project was closed in 2014, with a final draw of \$158,920. As of December 31, 2014 the District has drawn and expended \$971,620 of the available grant funding on the project.

NOTE 12 – GOVERNMENT ACQUISITION

On May 30, 2014, Thurston PUD acquired three water systems, known as the Marvin Road Water Systems, from Swift Asset Management Company, Inc. The acquisition includes all water system components including the wells, well casings, pumps, reservoirs, pump houses, distribution main, water rights, service meters and other facilities to serve 271 customers. The District assumed the liability for the related outstanding loan obligations of the Swift Asset Management Company, and borrowed against the Bond Anticipation Note to acquire the water systems. All acquired liabilities are disclosed in the Schedule 09 attached to the financial statements. The acquisition value of the assets purchased in this acquisition is equal to the liabilities assumed or drawn against for the purchase. The net position impact of this acquisition was zero as of the acquisition date.

On November 1, 2014, the District acquired the Webster Hill water system from the Webster Hill Homeowners Association. The acquisition includes all water system components including the wells, well casings, pumps, reservoirs, pump houses, distribution main, water rights, service meters and other facilities to serve 20 customers. The District assumed the balance of outstanding Drinking Water State Revolving Fund Loan, \$41,127, and issued a note payable to the Homeowners Association in the amount of \$9,900 for the value of the water system. The acquisition value of the assets purchased in this acquisition is equal to the liabilities assumed or drawn against for the purchase. The net position impact of this acquisition was zero as of the acquisition date.

On December 1, 2014, the District acquired the Country Meadows East No. 2 water system from a private individual. The acquisition includes all water system components including the wells, well casings, pumps, reservoirs, pump houses, distribution main, water rights, service meters and other facilities to serve 16 customers. The District assumed no liabilities in the acquisition of this water system. The net position impact of this acquisition was zero as of the acquisition date.

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