



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, 2015 through December 31, 2015

Published January 19, 2017

Report No. 1018439





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

January 19, 2017

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,

Pat McCarthy
State Auditor
Olympia, WA

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Thurston PUD Thurston County January 1, 2015 through December 31, 2015

This schedule presents the status of findings reported in prior audit periods. The status listed below is the representation of Thurston PUD. The State Auditor's Office has reviewed the status as presented by the District.

Audit Period: January 1, 2014 through December 31, 2014	Report Ref. No.: 1015722	Finding Ref. No.: 2014-001
Finding Caption: The District should establish adequate internal controls over its financial reporting, to avoid the risk of material misstatements.		
Background: Our audit identified the following deficiencies in internal controls, that when taken together represent a significant deficiency: <ul style="list-style-type: none"> 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. 		
Status of Corrective Action: <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="text-align: center;"> <input checked="" type="checkbox"/> Fully Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Partially Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Not Corrected </div> <div style="text-align: center;"> <input type="checkbox"/> Finding is considered no longer valid </div> </div>		
Corrective Action Taken: <i>The District has entered into a Professional Services contract with Ms. Tara Dunford CPA to review and assist in the preparation of our 2015 Financial Statement. Ms. Dunford was very helpful in deciphering the new GASB 68 requirements and suggested several modifications to the District's presentation of financial information. We intend to hire Ms. Dunford in the future to continue to provide an independent review of our financial reports prior to submission to the State Auditor's Office in the future.</i> <i>The District has also hired a very good Accountant in April 2015, who understands the importance of maintaining appropriate documentation of the District's financial activity. A review of prior practice is consistently performed and updated to ensure the security of that documentation is kept.</i>		

**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, 2015 through December 31, 2015**

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, 2015, 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 10, 2017. As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the District implemented Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

January 10, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Thurston PUD Thurston County January 1, 2015 through December 31, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Thurston PUD, as of December 31, 2015, 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.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board *Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 16 and pension plan information on pages 44 through 45 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 10, 2017 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.



Pat McCarthy

State Auditor

Olympia, WA

January 10, 2017

FINANCIAL SECTION

**Thurston PUD
Thurston County
January 1, 2015 through December 31, 2015**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2015

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2015

Statement of Revenues, Expenses and Changes in Net Position – 2015

Statement of Cash Flows – 2015

Statement of Fiduciary Net Position-Agency Funds – 2015

Notes to Financial Statements – 2015

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of the Net Position Liability PERS Plan 1 and 2 – 2015

Schedule of Employer Contributions PERS Plan 1 and 2 – 2015

Management's Discussion and Analysis

December 31, 2015 and 2014

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, 2015 with additional comparative data for 2014. 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, 2015, and are comprised of:

• **Statement of Net Position:** The Statement of Net Position reflects the assets, deferred inflows, liabilities, deferred outflows and net position of the District as of the end of the fiscal year which, for the purposes of this report, is December 31, 2015. 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 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 four categories of activities: operating activity, noncapital financing activities, capital and related financing activities, and investing activities.

• **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, 2015, and 2014

	Combined Total As of December 31		Increase (Decrease)	% Change
	2015	2014	2015 - 2014	2015 - 2014
STATEMENT OF NET POSITION				
Current Assets	\$ 1,668,321	\$ 1,863,356	\$ (195,035)	-10.47%
Other Non-Current Assets	8,817,665	8,232,446	585,219	7.11%
Total Assets	\$ 10,485,986	\$ 10,095,802	\$ 390,184	3.86%
DEFERRED OUTFLOWS of RESOURCES	\$ 94,234	\$ -	\$ 94,234	100.00%
Current Liabilities	\$ 731,072	\$ 667,014	\$ 64,058	9.60%
Noncurrent Liabilities	5,683,404	5,429,406	253,998	4.68%
Total Liabilities	\$ 6,414,476	\$ 6,096,420	\$ 318,056	5.22%
DEFERRED INFLOWS of RESOURCES	382,682	277,023	105,659	38.14%
Net Investment in Capital Assets	\$ 2,890,435	\$ 2,067,791	\$ 822,644	39.78%
Restricted Net Position	680,650	862,428	(181,778)	-21.08%
Unrestricted Net Position	211,977	792,139	(580,163)	-73.24%
Total Net Position	\$ 3,783,062	\$ 3,722,358	\$ 60,705	1.63%

Public Utility District No. 1 of Thurston County, Washington
Condensed Financial Information for December 31, 2015, and 2014

	Combined Total As of December 31		Increase (Decrease)	% Change
	2015	2014	2015 - 2014	2015 - 2014
STATEMENT OF CHANGES IN NET POSITION				
Operating Revenues	\$ 2,779,489	\$ 2,571,640	\$ 207,849	8.08%
Non-Operating Revenues	599,109	447,597	151,512	33.85%
Total Revenues	\$ 3,378,598	\$ 3,019,237	\$ 359,361	11.90%
Operating Expenses	\$ 2,470,630	\$ 2,491,026	\$ (20,395)	-0.82%
Non-Operating Expenses	149,706	170,912	(21,205)	-12.41%
Total Expenses	\$ 2,620,336	\$ 2,661,938	\$ (41,603)	-1.56%
Change in Net Position	\$ 758,263	\$ 357,299	\$ 400,964	112.22%
Net Position Balance, BOY	\$ 3,722,359	\$ 3,365,059	\$ 357,301	10.62%
Current Year Change in Net Position	758,263	357,300	400,963	112.22%
Prior Period Adjustment	(697,560)	-	(697,560)	0.00%
Balance, EOY	\$ 3,783,062	\$ 3,722,358	\$ 60,703	1.63%

A Closer Look at 2015

The strategic focus of the District has been to provide sustainable services to our customers while further serving the citizens of Thurston County. The District currently owns and operates 159 water systems in rural areas ranging in size from 4 to 1,320 connections, making maintaining and improving water service our highest priority. As the opportunity to obtain low interest loans from the Public Works Trust Fund declined throughout 2014 and 2015, the District has developed a plan to fund future infrastructure needs after the proceeds of our 2011 Revenue Bond issue were exhausted, which is further described below. The Drinking Water State Revolving Fund (DWSRF) 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.

Two current projects funded under the DWSRF program focus on improving the reliability and quality of water service to small water systems by consolidating smaller water systems with other systems to create a larger system with resource redundancy. One of these projects constructed in 2015 and completed in January 2016 involved building a larger reservoir and booster pump station to combine small water systems each having 20 or less connections. The combined water system provides more reliable service 34 homes and has the capacity to expand if requested in the future. The second DWSRF project that will be completed in 2016 is the result of well failure on a small water system served by an exempt well, the project will combine the failed water system with another small system nearby creating a larger more reliable system for all.

The District's 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 frequently as each component is evaluated for changes in the condition providing a good planning tool for future capital replacement plans. Following the development of the AMP, the District adopted a capital surcharge effective January 1, 2015 as a funding mechanism to start implementing the AMP. The proceeds of this capital surcharge are deposited into the Capital Improvements Reserve of the District. The surcharge began at the rate of \$1.00 per month per equivalent residential unit in 2015 and is adjusted annually to grow with the capital infrastructure needs of the District.

During 2015, the PUD has been exploring a new line of business in telecommunications and broadband service. In Washington State, public utility districts are authorized to provide wholesale broadband and telecommunications services. In prior years, the District has submitted two requests to the Washington State Department of Commerce to try and get funding to conduct a feasibility study in Thurston County, but did not receive funding.

The District hired Northwest Open Access Network (NoaNet), a broadband and telecommunications organization formed by public utility districts, to help evaluate opportunities in this field. Meetings were held with the elected officials from the cities of Lacey, Olympia and Tumwater to evaluate the costs and opportunities for broadband and telecommunications in our local communities. The cities picked five projects and NoaNet worked with the PUD and the cities to evaluate the services needed, the costs and the potential revenue sources from five projects. These projects scoped out what would be needed to provide specialized services for projects in which the cities were interested.

While none of these projects have moved forward at this time, the projects are engineered and ready to develop should funding sources become available. If the projects move forward, the PUD would be able to enter a new line of business service to support the citizens of Thurston County. The report is on the front page of our web site at <http://www.thurstonpud.org/docs/Final-NoaNet-Report.pdf>.

Financial Analysis

Operating Revenues

In 2015, operating revenue for the District increased \$207,849 or 8.08% from that of 2014. This increase in revenue is primarily attributable to higher usage during the very warm summer months experienced in 2015 and to a lesser degree the increase in water rates on January 1, 2015.

Operating Expenses

Overall operating expenses remained the same, decreasing slightly in 2015 \$20,395 or -0.82%. The largest contributors to this decrease in expense was Purchased Water decreasing \$40,678 or -53.50% due to the cancelation of the purchase water contract with the City of Olympia in June 2015. Other expenses that decreased in 2015 were Salaries & Benefits Employee decreasing \$20,635 or -1.91%, and Contract other decreasing \$43,793 or -99.92% signaling the end of our contract to develop a cost of service study. The largest increases in expenses in 2015 was an increase of \$14,654 (10.98% over 2014) for Public Utility Taxes on our increased revenue, and System Repairs & Maintenance increase \$12,078 or 13.43% over 2014.

Non-Operating Revenues & Expenses

Non-operating revenue recognized in 2015 increased 33.85% over 2014. The District received \$320,614 in grant revenues and capital contributions in 2015, which was an increase of 77.98% over that received in 2014. The rest of the non-operating revenue recognized in 2015 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 \$268,195 in property tax assessments in 2015, compared to \$260,342 in 2014, representing a 3.02% increase from 2014 to 2015. 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 increased from \$13,195 in 2014 to \$15,292 due to an increase in investment earnings. Interest expense decreased to \$109,894 in 2015 from \$123,356 in 2014 due to the reduced interest costs payments resulting from paying down the debt obligations of the District.

Net position

The District's total net position increased in 2015 by \$60,705 or 1.63%.

Debt Service Coverage

The debt service coverage ratio measures cash flow from operations in comparison to annual debt service for the District's parity bonds. The covenants governing the District's 2011 bond issue require the District to maintain a debt service coverage ratio of 1.25 or above. In 2015, the District's debt service coverage ratio is 3.43, compared to 3.24 in 2014.

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, 2015

ASSETS	2015
Current Assets	
General Reserve	215,343
Capital Improvement Reserve	458,985
Water Revenue Reserve	700,026
Customer Deposits	65,797
Customer Accounts Receivable (net)	177,164
Property Tax Receivable	6,839
Other Receivables	12,982
Prepaid Expenses	31,185
Total Current Assets	<u>\$ 1,668,321</u>
Non-Current Assets	
Restricted - Bond Reserve	498,688
Capital Assets Not Being Depreciated:	
Land and Land Rights	113,532
Construction in Progress	753,102
Capital Assets Being Depreciated:	
Water Plant	9,640,292
Office Furniture & Equipment	223,643
Vehicles & Equipment	230,450
Other Utility Plant	704,785
Less: Accumulated Depreciation	<u>(3,346,827)</u>
Total Capital Assets (Net)	8,318,976
Total Non-Current Assets	<u>\$ 8,817,664</u>
Total Assets	<u>\$ 10,485,986</u>
DEFERRED OUTFLOWS of RESOURCES	
Deferred Outflows Related to Pensions	<u>\$ 94,234</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, 2015

LIABILITIES AND EQUITY**Current Liabilities:**

Accounts payable	125,696
Current Accrued Compensated Absences	56,045
Accrued taxes	27,823
Refundable Deposits	67,730
Current Portion of Bonds, Notes and Loans Payable	453,778
Total Current Liabilities	<u>\$ 731,072</u>

Noncurrent Liabilities:

Bonds Payable	1,935,000
Bond Anticipation Note	403,000
PWTF Note - Preconstruction 05	421,053
DWSRF Loan - Tanglewilde Source	636,891
DWSRF Loan - Tanglewilde Reservoir	1,224,050
DWSRF Loan - Sward/Platt Consolidation	1,638
DWSRF Loan - Consolidate Lew's 81st	32,393
DWSRF Loan - Hawk Acres Main	67,649
DWSRF Loan - Hawk Acres Source	64,217
DWSRF Loan - Horsfall Improvements	96,007
DWSRF Loan - Ridgewood Improvements	62,023
DWSRF Loan - Webster Hill Improvements	30,845
Long Term Compensated Absences	23,384
Net Pension Liability	685,254
Total Noncurrent Liabilities	<u>\$ 5,683,404</u>
Total Liabilities	<u>\$ 6,414,476</u>

DEFERRED INFLOWS of RESOURCES

Deferred Inflows Related to Pensions	105,659
Contributions In Aid of Construction	277,023
Total Deferred Inflows of Resources	<u>\$ 382,682</u>

NET POSITION

Net Investment in Capital Assets	2,890,435
Restricted for Capital Projects	181,962
Restricted for Debt Service	498,688
Restricted Net Position	<u>\$ 680,650</u>
Unrestricted Net Position	211,977
Total Net Position	<u>\$ 3,783,062</u>

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

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2015

	2015
Operating Revenues	
Metered & Unmetered Water Revenue	2,411,352
Sales to Irrigation	85,392
Miscellaneous Service Revenue	72,231
Other Water Revenue	210,514
Total Operating Revenue	<u>\$ 2,779,489</u>
Operating Expenses	
Salaries & Benefits Employees	\$ 1,062,489
Salaries Commissioners	77,469
Purchased Water	35,361
Purchased Power	104,418
Chemicals	34,942
System Repairs & Maintenance	102,032
Contract Engineering	35,999
Contract Legal	33,509
Contract Testing	45,424
Contract State Auditor	11,740
Contract Other	36
Rent and Janitorial	52,786
Transportation	38,005
Insurance	27,735
Advertising	3,880
Bad Debt Expense	3,500
Office Expense	59,633
Meeting Costs Commissioners	4,717
Meeting Costs Staff	4,568
Dues & Subscriptions	13,956
Telephone	9,644
Staff Training	8,325
Postage	25,766
Printing	12,730
Miscellaneous	59,595
Taxes	148,093
Depreciation/Amortization	454,278
Total Operating Expenses	<u>\$ 2,470,630</u>
Net Operating Income	<u>\$ 308,859</u>
Non-Operating Revenues (Expenses)	
Interest Income	\$ 15,292
Property Tax Revenue	\$ 268,195
Interest on Long Term Debt	\$ (109,894)
Election costs	\$ (39,812)
Grant Revenues & Capital Contributions	\$ 320,614
Other, net	\$ (4,991)
Total Non-Operating Revenues (Expenses)	<u>\$ 449,404</u>
Change in Net Position	<u>\$ 758,263</u>
Net Position	
Total Net Position, January 1	\$ 3,722,359
Change in Accounting Principle	<u>(697,560)</u>
Total Net Position, December 31	<u>\$ 3,783,062</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, 2015

	2015
Cash Flows from Operating Activities	
Cash received from customers	\$ 2,853,510
Cash payments to supplies and employees	\$ (1,816,286)
Taxes paid	\$ (120,202)
Net Cash Provided by Operating Activities	<u>\$ 917,022</u>
Cash Flows from Non-Capital Financing Activities	
Property Tax Income	\$ 269,537
Other Non Operating Income	\$ (4,991)
Election Expenses	\$ (39,812)
Net Cash Provided by Non-Capital Financing Activities	\$ 224,733
Cash Flows from Capital Financing Activities	
Payments to 2011 Revenue Bond	\$ (220,000)
Payments to Public Works Trust Fund Loan	\$ (52,632)
Payments to DWSRF Loans	\$ (177,010)
Payments to Short Term Notes	\$ (8,100)
Proceeds from Grants	\$ 139,961
Acquisition and construction of capital assets	\$ (861,715)
Interest paid on long term debt	\$ (109,894)
Net cash from Capital Financing Activities	\$ (1,289,390)
Cash Flows from Investing Activities	
Interest received on cash on deposit	\$ 15,292
Net Cash Provided by Investing Activities	\$ 15,292
Net Increase (Decrease) in Cash	\$ (132,343)
Beginning of Year	<u>\$ 2,071,183</u>
End of Year	<u>\$ 1,938,840</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, 2015

	2015
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 308,859
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	\$ 454,278
Customer Accounts Receivable	\$ 63,812
Other Accounts Receivable	\$ 1,770
Prepaid Expenses	\$ (1,362)
Accounts Payable	\$ 45,500
Refundable Deposit Payable	\$ 8,437
Payroll Tax Liabilities	\$ 27,890
Accrued Compensated Absences	\$ 8,719
Net Pension Deferred Inflow/Outflows	\$ (881)
Total Adjustments	\$ 608,163
Net Cash Provided by Operating Activities	\$ 917,022
NonCash Investing, Capital and Financing Activities	
Capital Assets Acquired by Contribution	\$ 180,653
Total Noncash Activities	\$ 180,653

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

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
December 31, 2015

	<u>McKenna</u>	<u>Cedarwood</u>	<u>Lake Lucinda</u>	<u>Olympic View</u>	<u>Forest Glen</u>	<u>JDF</u>	<u>Dana Passage</u>	<u>Total</u>
Assets:								
Cash with County	\$ 159	\$ 47,600	\$ 90,009	\$ 40,654	\$ 13,926	\$ 21,428	\$ 10,715	\$ 224,491
Liabilities:								
Custodial Accounts	\$ 159	\$ 47,600	\$ 90,009	\$ 40,654	\$ 13,926	\$ 21,428	\$ 10,715	\$ 224,491

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

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 3466 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 13 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.

Proprietary Fund Financial Statements

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.

Fiduciary Fund Financial Statements

The District uses agency funds to report assets that are held in a custodial relationship. Agency funds are not used to support the District's own programs so these funds are excluded from the government-wide financial statements. Agency funds do not have a measurement focus and report only assets and liabilities. The District's seven agency funds represent amounts held on behalf of various homeowner's associations.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

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

New Accounting Standards

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 has implemented this pronouncement in this financial statement.

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 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 has implemented this pronouncement in this financial statement.

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.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

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.

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, 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.

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 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, dedicated capital project funds, and other reserve requirements. At year-end there are restricted funds of Thurston PUD in the amount of \$498,688 in the Bond Reserve.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

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.

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

In order to implement GASB 68 and GASB 71 a decrease in beginning net position is reported to reflect the net pension liability as of January 1, 2015. A decrease to beginning net position of \$697,560 is presented on the Statement of Revenues, Expenses and Changes in Net Position to reflect this change in accounting principle.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

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 2015 was \$0.009734709538 per \$1,000 on an assessed valuation of \$26.847 billion for a total regular levy of \$261,352. In 2014 the regular levy was \$255,599. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Deposits

All receipts received by the District are deposited into qualified bank depositaries as directed by the County Treasurer and specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits, are entirely covered by federal depositary insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington PDPC. The PDPC is a statutory authority established under Chapter 39.58 of the Revised Code of Washington. PDPC coverage is of the nature of insurance pursuant to the Governmental Accounting Standards Board Statement No. 3. All deposits held at December 31, 2015, 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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

Investments

In 2015, 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. Contributions by developers and customers are recorded, at cost, as capital contributions. The District amortizes as depreciation those assets acquired by contributions.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

Utility plant activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	103,679	9,854	-	113,532
Construction in Progress	157,497	845,929	(250,324)	753,102
Total utility plant not being depreciated	\$ 261,176	\$ 855,783	\$ (250,324)	\$ 866,635
Utility plant being depreciated				
Structures & Improvements	447,654	12,635		460,289
Wells and Springs	973,311	36,384	(3,952)	1,005,743
Supply Mains	390,180			390,180
Power Generation Equipment	6,443			6,443
Pumping Equipment	1,257,707	113,244		1,370,951
Water Treatment Equipment	1,017,658	40,034		1,057,692
Distribution Reservoir & Standpipe	1,883,262			1,883,262
Transmission & Distribution Mains	2,746,621	199,413		2,946,034
Services	210,226	16,285		226,511
Meters & Meter Installations	261,905	160		262,065
Hydrants	11,227			11,227
Other Plant & Miscellaneous Equipment	19,895			19,895
Office Furniture & Equipment	248,719		(25,076)	223,643
Transportation Equipment	204,632		(11,865)	192,767
Tools, Shop, & Garage Equipment	6,705	5,000	(3,475)	8,230
Power Operated Equipment	542		(542)	-
Communication Equipment	9,740			9,740
Miscellaneous Equipment	19,713			19,713
Other Tangible Plant	674,785	30,000		704,785
Total utility plant being depreciated	\$ 10,390,925	\$ 453,155	\$ (44,910)	\$ 10,799,170
Accumulated Depreciation	2,921,214	454,278	(28,665)	3,346,827
Total Utility Plant, Net	\$ 7,730,887	\$ 854,660	\$ (266,570)	\$ 8,318,978

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.

NOTE 5 – CONSTRUCTION IN PROGRESS

The District has active construction projects as of December 31, 2015. The projects include: the consolidation of the Platt and Sward water systems into a group A water system, consolidation of the Lew's 81st water system with two group B water systems, replacement of the Hawk Acres water system emergency generator, mainline replacement on the Crowder water system, installation of an emergency generator on the Tanglewilde-Thompson Place water system,

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2015 through December 31, 2015

development of a prototype for emergency generators on small water systems, and mainline replacement at Webster Hill water system,

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

Project	Spent to Date	Remaining Commitment
Consolidation of Lew's 81st with 2 group B water systems	\$ 445,670	\$ 83,576
Webster Hill water system upgrades	\$ 147,686	\$ 6,106

NOTE 6 – PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$685,254
Pension assets	\$0
Deferred outflows of resources	\$94,234
Deferred inflows of resources	\$105,659
Pension expense/expenditures	(\$880)

State Sponsored Pension Plans

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

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available 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
 P.O. Box 48380
 Olympia, WA 98540-8380

Or the DRS CAFR 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.

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 2015 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January through June 2015	9.21%	6.00%
July through December 2015	11.18%	6.00%

The District's actual contributions to the plan were \$35,597.28 for the year ended December 31, 2015.

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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

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 2015 were as follows:

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January through June 2015	9.21%	4.92%
July through December 2015	11.18%	6.12%
Employee PERS Plan 3		varies

The District's actual contributions to the plan were \$45,735.06 for the year ended December 31, 2015.

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

At June 30, 2015, the District reported a total pension liability of \$685,255 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$364,073
PERS 2/3	\$321,182

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

	Proportionate Share 6/30/14	Proportionate Share 6/30/15	Change in Proportion
PERS 1	0.006657%	0.006960%	0.000303%
PERS 2/3	0.008571%	0.008989%	0.000418%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 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* for all plans except LEOFF 1.

Pension Expense

For the year ended December 31, 2015, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$3,002
PERS 2/3	(\$3,822)

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NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, 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	\$19,919
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	\$20,001	\$0
TOTAL	\$20,001	\$19,919

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$34,142	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	\$85,740
Changes of assumptions	\$517	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$13,450	\$0
Contributions subsequent to the measurement date	\$26,123	\$0
TOTAL	\$74,232	\$85,740

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, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

Year ended December 31:	PERS 1
2016	\$4,980
2017	\$4,980
2018	\$4,980
2019	\$4,980

Year ended December 31:	PERS 2/3
2016	\$7,285
2017	\$7,285
2018	\$7,285
2019	\$15,775

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these 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 7.5 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 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

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, 2015, 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%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of NPL

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$443,260	\$364,073	\$295,979
PERS 2/3	\$939,153	\$321,182	(\$151,975)

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.

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 179 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, police, 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.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2015 through December 31, 2015

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 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 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 \$303,356 and \$763,140 respectively.

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January 1, 2015 through December 31, 2015

The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Original Amount	Amount of 2015 Installment
Public Works Loan PW04-691-PRE126	2024	0.5%	\$ 1,000,000	\$ 52,632
Water Revenue Bond 2011	2011 - 2031	3.0% - 4.45%	\$ 2,990,000	\$ 220,000
Water System Revenue Bond Anticipation Note 2014	2028	2.6%	\$ 1,000,000	\$ -
Drinking Water State Revolving Fund Loan DM09-952-026	2029	0.5%	\$ 1,028,180	\$ 48,992
Drinking Water State Revolving Fund Loan DM09-952-027	2029	0.5%	\$ 2,109,661	\$ 94,158
Drinking Water State Revolving Fund Loan DM12-952-103	2036	1.0%	\$ 165,400	\$ -
Drinking Water State Revolving Fund Loan DM12-952-113	2036	1.0%	\$ 370,725	\$ -
Drinking Water State Revolving Fund Loan DM15-952-035	3038	1.0%	\$ 194,350	\$ -
Drinking Water State Revolving Fund Loan 03-65103-029	2024	0.5%	\$ 93,017	\$ 8,456
Drinking Water State Revolving Fund Loan 03-65103-030	2024	0.5%	\$ 88,298	\$ 8,027
Drinking Water State Revolving Fund Loan 03-65103-031	2034	0.0%	\$ 112,009	\$ 5,334
Drinking Water State Revolving Fund Loan 03-65103-032	2024	1.5%	\$ 85,281	\$ 7,753
Drinking Water State Revolving Fund Loan 01-65101-039	2025	1.5%	\$ 41,127	\$ 3,427
Total Authorized Debt			\$ 9,278,048	\$ 448,779

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 2016. 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

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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.

In 2015, the District was awarded a Drinking Water State Revolving Fund loan to finance the installation of disinfection treatment on a small water system in Thurston County. The cost of the treatment system is expected be \$194,350 and is expected to be complete in 2016. Principal and interest on this obligation has been deferred until 2019, the loan has a term of 20 years and interest rate of 1.0%, with forgiveness of loan principal at completion of 50%.

The annual requirements to amortize all debts outstanding as of December 31, 2015, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2016	\$ 453,778	\$ 101,313	\$ 555,091
2017	\$ 460,479	\$ 94,717	\$ 555,196
2018	\$ 483,203	\$ 85,951	\$ 569,154
2019	\$ 511,636	\$ 77,367	\$ 589,003
2020	\$ 512,604	\$ 67,804	\$ 580,408
2021-2025	\$ 1,666,591	\$ 238,140	\$ 1,904,731
2026-2030	\$ 1,198,707	\$ 100,003	\$ 1,298,710
2031-2035	\$ 139,843	\$ 5,153	\$ 144,996
2036-2040	\$ 1,702	\$ 17	\$ 1,719
Total	\$ 5,428,543	\$ 770,465	\$ 6,199,008

There is \$498,688 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 – CHANGES IN LONG TERM LIABILITIES

During the year ended December 31, 2015, the following changes occurred in long-term liabilities:

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	Beginning Balance 01/01/2015	Additions	Reductions	Ending Balance 12/31/2015	Due Within One Year
Revenue Bonds	\$ 2,380,000	\$ -	\$ 220,000	\$ 2,160,000	\$ 225,000
Revenue Bond Anticipation Notes	\$ 403,000	\$ -	\$ -	\$ 403,000	\$ -
Total Bonds Payable	\$ 2,783,000	\$ -	\$ 220,000	\$ 2,563,000	\$ 225,000
Public Works Trust Fund Loans	\$ 526,316	\$ -	\$ 52,632	\$ 473,684	\$ 52,632
Drinking Water State Revolving Fund	\$ 2,568,868	\$ -	\$ 177,010	\$ 2,391,858	\$ 176,146
Pension Liability	\$ 508,601	\$ 176,654	\$ -	\$ 685,255	\$ -
Compensated absences	\$ 70,709	\$ 8,719	\$ -	\$ 79,428	\$ -
Total Long Term Liabilities	\$ 6,457,494	\$ 185,373	\$ 449,642	\$ 6,193,225	\$ 453,778

NOTE 10 – LEASES

In September 2015, Thurston PUD entered into a new three-year lease for office space and parking stalls at 921 Lakeridge Way SW, Olympia WA 98502. In 2015, the cost for the lease was \$49,200.00 annually with no change since 2011 or throughout the next three year term. At the end of the new three year lease period Thurston PUD has the option to extend the lease for an additional three year terms at a re-negotiated rental rate.

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 2015-2019 is \$3,673.20 annually.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Purchase Water Agreement

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 with the City of Olympia was terminated effective June 1, 2015.

NOTE 12 – GRANTS

In 2015 the District was awarded a loan with 50% loan forgiveness from the Drinking Water State Revolving Fund (DWSRF) to install 4 Log Disinfection Treatment system on the Skookumchuck water system. The total project is expected to cost \$196,264 and will be

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completed in 2016. In 2015 the District has initiated the required environmental and cultural review studies, no draws on this contract were taken in 2015.

In November 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. Construction of the project began in the summer of 2015 and was not completely closed out at the end of 2015. The District drew \$103,932 in 2015 against this grant. The project will be closed out in 2016.

In 2014 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 Cougar Mountain water system in Thurston County. In 2015 the District drew \$22,261 against this grant.

In 2014 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 Skookumchuck Maintenance water system in Thurston County. In 2015 the District drew \$23,767 against this grant.

In 2012, the District was awarded a loan with 50% loan forgiveness from the DWSRF to consolidate a Thurston County group A water system with 2 adjacent group B water systems. In 2015 the District completed the permitting and design of the project and construction was completed in January 2016. No draws on this contract were taken in 2015.

NOTE 13 – TRANSFER OF OPERATIONS

On September 1, 2015, Thurston PUD acquired the Skookumchuck Water System, from Skookumchuck Maintenance Company. The acquisition includes all related property consisting of and associated with the water system, including all wells, pump houses, storage tanks, water rights, water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities to serve 60 customers. The District assumes the ownership responsibility and pursue State of Washington Department of Health water system improvements at an estimated improvement cost and value of approximately \$200,000 to install meters on all service connections served by the water system. To make such improvements The District has applied for and received a Drinking Water State Revolving Fund loan in an amount up to \$196,294 with fifty percent (50%) loan Forgiveness, administered through the Department of Health. The District is solely responsible for the repayment of the loan. The acquisition value of the assets acquired in this transaction is approximately \$186,300. The net position impact of this acquisition increased \$180,653 as of the acquisition date.

Schedule of Proportionate Share of the Net Pension Liability

As of June 30, 2015 (*measurement date*)

Last 10 Fiscal Years*

Public Employees' Retirement System Plan 1	<u>2015</u>
<u>Employer's proportion of the net pension liability</u>	0.006960%
<u>Employer's proportionate share of the net pension liability</u>	\$ 364,073
<u>Employer's covered employee payroll</u>	\$ -
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	n/a
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	59.10%
 Public Employees' Retirement System Plans 2 & 3	 <u>2015</u>
<u>Employer's proportion of the net pension liability</u>	0.008989%
<u>Employer's proportionate share of the net pension liability</u>	\$ 321,182
<u>Employer's covered employee payroll</u>	\$ 795,446
<u>Employer's proportionate share of the net pension liability as a percentage of covered employee payroll</u>	40.38%
<u>Plan fiduciary net position as a percentage of the total pension liability</u>	89.20%

Notes to Schedule:

*This schedule will be built prospectively until it contains 10 years of data

*There were no changes in benefit terms or assumptions

Schedule of Employer Contributions

As of December 31, 2015

Last 10 Fiscal Years*

Public Employees' Retirement System Plan 1	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 35,597
Contributions in relation to the statutorily or contractually required contributions	\$ (35,597)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ -
Contributions as a percentage of covered employee payroll	0.00%

Public Employees' Retirement System Plans 2 & 3	<u>2015</u>
<u>Statutorily or contractually required contributions</u>	\$ 62,787
Contributions in relation to the statutorily or contractually required contributions	\$ (62,787)
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>
<u>Covered employer payroll</u>	\$ 809,212
Contributions as a percentage of covered employee payroll	7.76%

Notes to Schedule:

*This schedule will be built prospectively until it contains 10 years of data

*There were no changes in benefit terms or assumptions

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov