



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, 2017 through December 31, 2017

Published February 11, 2019

Report No. 1023234





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

February 11, 2019

Board of Commissioners
Thurston PUD
Lacey, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Thurston County Public Utility District No. 1 January 1, 2017 through December 31, 2017

2017-001 The District's internal controls over financial statement preparation were inadequate to ensure accurate and complete financial reporting.

Background

District management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are fairly presented and to provide reasonable assurance regarding the reliability of financial reporting. The District prepares its financial statements in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Our audit identified a deficiency in controls over financial reporting for the District that hindered its ability to produce reliable financial statements.

Government Auditing Standards requires the auditor to communicate a material weakness, defined in the Applicable Laws and Regulations sections below, as a finding.

Description of Condition

The District did not have an effective review process in place to detect and correct errors to ensure financial statement balances were accurate. This control deficiency, which represents a material weakness, lead to the over-reporting of the net investment in capital assets and restricted for capital projects balances.

Cause of Condition

The District expanded the number of water systems it owned during the audit period and nearly doubled its volume of financial activity. During this expansion, the time and resources of those involved with financial reporting were limited. Thus, the District did not dedicate the resources required to perform an effective secondary review and thoroughly research the correct accounting for certain transactions.

Effect of Condition

The District's financial statements over-reported net investment in capital assets by \$9,060,912, over-reported restricted for capital projects by \$884,024 and under-reported unrestricted net position by the combined amount. This error was material to the financial statements.

The District corrected the errors in the final financial statements and received an unmodified opinion.

Recommendations

We recommend the District establish and follow effective internal controls to ensure:

- Employees responsible for preparing the financial statements have sufficient training and knowledge of GAAP reporting and preparation requirements to accurately report financial statement activity
- A person who understands the GAAP reporting and preparation requirements performs a thorough and effective review of the financial statements and supporting schedules to ensure they are accurate and complete

District's Response

The District understands the importance of effective internal controls and has already implemented steps to ensure proper training of responsible employees as well as a plan for a more effective review process for the financial statements in the future.

Auditor's Remarks

We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.

Applicable Laws and Regulations

Government Auditing Standards, December 2011 Revision, paragraph 4.23 establishes reporting requirements related to significant deficiencies or material weaknesses in internal control, instances of fraud or abuse, and noncompliance with provisions of law, regulations, contracts, or grant agreements.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing

Standards, section 256, Communicating Internal Control Related Matters Identified in an Audit, paragraph 7.

The *Budgeting, Accounting and Reporting Systems* (BARS) manual, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives

RCW 43.09.200 – Local government accounting – Uniform system of accounting requires the State auditor to prescribe the system of accounting and reporting for all local governments

RCW 43.09.230 – Local government accounting; Annual reports; Comparative statistics

**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
January 1, 2017 through December 31, 2017**

Board of Commissioners
Thurston PUD
Lacey, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Thurston PUD, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 4, 2019.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2017-001 to be material weaknesses.

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*.

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.

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

February 4, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Thurston PUD **January 1, 2017 through December 31, 2017**

Board of Commissioners
Thurston PUD
Lacey, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Thurston PUD, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 13.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thurston PUD, as of December 31, 2017, 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 and required supplementary information listed on page 13 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 February 4, 2019 on our consideration of the District's internal control over financial reporting

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

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

February 4, 2019

FINANCIAL SECTION

Thurston PUD January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Statement of Fiduciary Net Position – Agency Funds – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2017

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2017

Public Utility District No. 1 of Thurston County

Management's Discussion and Analysis

December 31, 2017 and 2016

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, 2017 with additional comparative data for 2016. 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, 2017, and are comprised of:

• **Statement of Net Position:** The Statement of Net Position reflects the assets, deferred inflows, deferred outflows, liabilities and net position of the District as of the end of the fiscal year which, for the purposes of this report, is December 31, 2017. The net position section is separated into three categories:

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

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

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

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

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

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2017, and 2016				
STATEMENT OF NET POSITION	Combined Total As of December 31		Increase (Decrease)	% Change
	2017	2016	2017 - 2016	2017 - 2016
Current Assets	\$ 2,375,250	\$ 2,095,509	\$ 279,741	13.35%
Other Non-Current Assets	<u>33,387,925</u>	<u>9,627,431</u>	<u>23,760,494</u>	246.80%
Total Assets	<u>\$ 35,763,175</u>	<u>\$ 11,722,940</u>	<u>\$ 24,040,235</u>	205.07%
DEFERRED OUTFLOWS of RESOURCES	\$ 127,616	\$ 177,205	\$ (49,589)	-27.98%
Current Liabilities	\$ 11,671,108	\$ 868,134	\$ 10,802,975	1244.39%
Noncurrent Liabilities	<u>4,651,464</u>	<u>6,025,958</u>	<u>(1,374,494)</u>	-22.81%
Total Liabilities	<u>\$ 16,322,572</u>	<u>\$ 6,894,092</u>	<u>\$ 9,428,481</u>	136.76%
DEFERRED INFLOWS of RESOURCES	124,575	15,989	108,586	679.13%
Net Investment in Capital Assets	\$ 18,591,960	\$ 3,518,538	\$ 15,073,422	428.40%
Restricted Net Position	\$ 1,081,844	\$ 806,545	\$ 275,299	34.13%
Unrestricted Net Position	<u>\$ (230,160)</u>	<u>\$ 664,981</u>	<u>\$ (895,141)</u>	-134.61%
Total Net Position	<u>\$ 19,443,644</u>	<u>\$ 4,990,064</u>	<u>\$ 14,453,580</u>	289.65%

Public Utility District No. 1 of Thurston County, Washington				
Condensed Financial Information for December 31, 2017, and 2016				
STATEMENT OF CHANGES IN NET POSITION	Combined Total As of December 31		Increase (Decrease)	% Change
	2017	2016	2017 - 2016	2017 - 2016
Operating Revenues	\$ 3,595,701	\$ 2,915,579	\$ 680,122	23.33%
Non-Operating Revenues	<u>488,294</u>	<u>486,479</u>	<u>1,815</u>	0.37%
Total Revenues	<u>\$ 4,083,995</u>	<u>\$ 3,402,058</u>	<u>\$ 681,937</u>	20.04%
Operating Expenses	\$ 3,473,946	\$ 2,797,763	\$ 676,183	24.17%
Non-Operating Expenses	<u>245,981</u>	<u>134,469</u>	<u>111,512</u>	82.93%
Total Expenses	<u>\$ 3,719,926</u>	<u>\$ 2,932,232</u>	<u>\$ 787,694</u>	26.86%
Capital Contributions	<u>14,089,512</u>	<u>737,174</u>	<u>13,352,338</u>	1811.29%
Change in Net Position	<u>\$ 14,453,581</u>	<u>\$ 1,207,000</u>	<u>\$ 13,246,581</u>	1097.48%
Net Position Balance, BOY	\$ 4,990,064	\$ 3,783,064	\$ 1,207,000	31.91%
Current Year Change in Net Position	14,453,580	1,207,000	13,246,580	1097.48%
Balance, EOY	<u>\$ 19,443,644</u>	<u>\$ 4,990,064</u>	<u>\$ 14,453,580</u>	289.65%

Financial Analysis

Operating Revenues

In 2017, operating revenue for the District increased \$680,122 or 23.33% from that of 2016. This increase in revenue is primarily attributable to the increase of customers when the District acquired 140 water systems and approximately 4,000 customers in October 2017. The District also implemented a 4% increase on water rates over the rates charged in 2016 and continues to increase its capital surcharge established in 2015.

Operating Expenses

Overall operating expenses increased in 2017 \$676,183 or 24.17%. The largest contributor to this increase in expense was Depreciation Expense increasing \$291,745 or 59.34%, resulting from the addition of new water systems with an equivalent service value of over \$19 million. Other expenses with large increases is Salaries & Benefits Employees which increased \$60,418 or 4.49% over 2016 due to bringing on 8 additional employees at the end of the year to provide service to our expanded service area. Repairs & Maintenance increased \$42,188 or 35.08% over 2016, due primarily to maintenance on the additional systems purchased in 2017.

Non-Operating Revenues & Expenses

Non-operating revenue recognized in 2017 increased \$1,815 or 0.37% over 2016. The District received \$180,962 in grant revenues, which was a decrease of -5.85% over that received in 2016. The rest of the non-operating revenue recognized in 2017 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 \$281,046 in property tax assessments in 2017, compared to \$277,161 in 2016, representing a 1.40% increase from 2016 to 2017. 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 2016 election was \$58,082. The District requested and received an extension to pay this expense over two years, and therefore incurred election costs in 2016 of \$29,041 and deferred the remainder of the 2016 costs, \$29,041 to 2017.

Interest income and interest expense are included as non-operating revenue and expense. Interest income increased from \$17,109 in 2016 to \$26,287 in 2017 due to an increase in investment earnings. Interest expense increased to \$216,940 in 2017 from \$105,428 in 2016 due to the additional borrowing required to purchase water systems in 2017.

Capital Contributions

The district experienced large capital contributions in 2017 over prior years. In 2017 with the acquisition of water systems, the capital contribution was calculated to be \$14,089,512 which was an increase of \$13,352,338 over 2016.

Net position

The District's total net position increased in 2017 by \$14,453,580 or 289.65%. The increase in net position is a result of the capital contributions recognized in 2017 when the value of newly acquired water systems exceeded the acquisition price.

Capital Assets

The District's net capital additions (after depreciation) including capital work in progress, were \$23,599,839 in 2017 and \$799,042 in 2016. These additions consisted of the acquisition of approximately 145 small water systems, 9 vehicles and other equipment needed by employees to service the new customers and the purchase and remodel of a new office building. Many smaller projects were completed during the year as the District implemented its asset management plan. See Note 4 of the accompanying notes to the financial statements for further detail related to capital asset activity.

Long-term Debt Activity

At year-end 2017 the District's long-term debt changed to \$4.6 million from \$5.6 million reported in 2016. \$1 million of Bond Anticipation Notes was reclassified to short-term debt as the District worked throughout the end of the year to present a new Bond issue in 2018. Newly issued debt was used to acquire water systems, acquire new office space and fund capital projects completed in 2017. Funds for payment of long-term debt are provided for from the cash flow from water revenues. See Notes 8 and 9 of the accompanying notes to the financial statements for further detail related to long-term debt activity.

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 2017, the District's debt service coverage ratio is 4.05, compared to 2.99 in 2016.

Contacting the District's Financial Management

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

Julie Parker
Assistant General Manager

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF NET POSITION

December 31, 2017

ASSETS	2017
Current Assets	
Cash and Investments	1,868,737
Customer Accounts Receivable (net)	477,383
Property Tax Receivable	5,656
Other Receivables	20,052
Prepaid Expenses	3,422
Total Current Assets	<u>\$ 2,375,250</u>
Non-Current Assets	
Restricted - Bond Reserve	647,802
Capital Assets Not Being Depreciated:	
Land and Land Rights	2,506,569
Construction in Progress	2,064,608
Capital Assets Being Depreciated:	
Water Plant	31,215,753
Office Furniture & Equipment	204,076
Vehicles & Equipment	643,899
Other Utility Plant	704,785
Less: Accumulated Depreciation	<u>(4,599,567)</u>
Total Capital Assets (Net)	32,740,123
Total Non-Current Assets	<u>\$ 33,387,925</u>
Total Assets	<u>\$ 35,763,175</u>
DEFERRED OUTFLOWS of RESOURCES	
Deferred Outflows Related to Pensions	<u>\$ 127,616</u>

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF NET POSITION

December 31, 2017

LIABILITIES**Current Liabilities:**

Accounts payable	1,184,139
Current Accrued Compensated Absences	126,053
Accrued Payroll Liabilities	72,081
Refundable Deposits	77,691
Bond Anticipation Note	9,735,500
Current Portion of Bonds, Notes and Loans Payable	475,644
Total Current Liabilities	<u>\$ 11,671,108</u>

Noncurrent Liabilities:

Bonds Payable	1,470,000
PWTF Note - Preconstruction 05	315,789
DWSRF Loan - Tanglewilde Source	538,908
DWSRF Loan - Tanglewilde Reservoir	1,035,735
DWSRF Loan - Sward/Platt Consolidation	46,759
DWSRF Loan - Consolidate Lew's 81st	250,833
DWSRF Loan - Hawk Acres Main	50,737
DWSRF Loan - Hawk Acres Source	48,162
DWSRF Loan - Horsfall Improvements	85,340
DWSRF Loan - Ridgewood Improvements	46,517
DWSRF Loan - Webster Hill Improvements	23,991
DWSRF Loan - Skookumchuck 4Log	61,013
Long Term Compensated Absences	20,708
Net Pension Liability	656,972
Total Noncurrent Liabilities	<u>\$ 4,651,464</u>
Total Liabilities	<u>\$ 16,322,572</u>

DEFERRED INFLOWS of RESOURCES

Deferred Inflows Related to Pensions	124,575
Total Deferred Inflows of Resources	<u>\$ 124,575</u>

NET POSITION

Net Investment in Capital Assets	18,591,960
Restricted for Capital Projects	434,042
Restricted for Debt Service	647,802
Restricted Net Position	<u>\$ 1,081,844</u>
Unrestricted Net Position	<u>(230,160)</u>
Total Net Position	<u>\$ 19,443,644</u>

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

For the Year Ended December 31, 2017

	2017
Operating Revenues	
Metered & Unmetered Water Revenue	3,007,197
Sales to Irrigation	67,063
Miscellaneous Service Revenue	55,523
Other Water Revenue	465,918
Total Operating Revenue	\$ 3,595,701
Operating Expenses	
Salaries & Benefits Employees	\$ 1,407,056
Salaries Commissioners	78,752
Purchased Water	19,235
Purchased Power	142,048
Chemicals	37,990
System Repairs & Maintenance	162,441
Contract Engineering	6,893
Contract Accounting	3,900
Contract Legal	74,598
Contract Testing	51,269
Contract State Auditor	6,470
Contract Other	38,158
Rent and Janitorial	70,654
Transportation	66,501
Insurance	39,032
Advertising	6,573
Office Expense	92,069
Office Building	11,450
Meeting Costs Commissioners	5,954
Meeting Costs Staff	3,575
Dues & Subscriptions	18,476
Telephone	12,742
Staff Training	9,680
Postage	41,289
Printing	18,463
Miscellaneous	70,097
Taxes	195,207
Depreciation/Amortization	783,374
Total Operating Expenses	\$ 3,473,946
Net Operating Income	\$ 121,755
Non-Operating Revenues (Expenses)	
Interest Income	\$ 26,286
Property Tax Revenue	281,046
Interest on Long Term Debt	(216,940)
Election costs	(29,041)
Grant Revenues	180,962
Total Non-Operating Revenues (Expenses)	\$ 242,313
Capital Contributions	\$ 14,089,512
Change in Net Position	\$ 14,453,580
Net Position	
Total Net Position, January 1	\$ 4,990,064
Total Net Position, December 31	\$ 19,443,644

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

	2017
Cash Flows from Operating Activities	
Cash received from customers	\$ 3,368,406
Cash payments to supplies and employees	\$ (1,473,063)
Taxes paid	\$ (195,207)
Net Cash Provided by Operating Activities	<u>\$ 1,700,136</u>
Cash Flows from Non-Capital Financing Activities	
Property Tax Income	\$ 281,972
Election Expenses	\$ (29,041)
Net Cash Provided by Non-Capital Financing Activities	\$ 252,931
Cash Flows from Capital Financing Activities	
Payments to 2011 Revenue Bond	\$ (230,000)
Payments to Public Works Trust Fund Loan	\$ (52,632)
Payments to DWSRF Loans	\$ (188,012)
Net Proceeds from Issuance of Water Revenue Bond Anticipation Note	\$ 8,872,500
Proceeds from DWSRF Loans	\$ 183,590
Proceeds from Grants & Capital Contributions	\$ 204,962
Acquisition and construction of capital assets	\$ (10,339,964)
Interest paid on long term debt	\$ (216,940)
Net cash from Capital Financing Activities	\$ (1,766,496)
Cash Flows from Investing Activities	
Interest received on cash on deposit	\$ 26,286
Net Cash Provided by Investing Activities	\$ 26,286
Net Increase (Decrease) in Cash	\$ 212,856
Beginning of Year	<u>\$ 2,303,683</u>
End of Year	<u><u>\$ 2,516,539</u></u>

Public Utility District No. 1 of Thurston County, Washington

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

	2017
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 121,755
Adjustments to reconcile operating Income to net cash provided (used) by operating activities:	
Depreciation Expense	\$ 783,374
Customer Accounts Receivable	\$ (232,105)
Other Accounts Receivable	\$ (1,299)
Prepaid Expenses	\$ 27,201
Accounts Payable	\$ 975,573
Refundable Deposit Payable	\$ 6,109
Payroll Liabilities	\$ 23,894
Accrued Compensated Absences	\$ 68,006
Net Pension Deferred Inflow/Outflows	\$ (72,373)
Total Adjustments	<u>\$ 1,578,380</u>
Net Cash Provided by Operating Activities	<u>\$ 1,700,135</u>
NonCash Investing, Capital and Financing Activities	
Capital Assets Acquired by Contribution	<u>\$ 14,065,512</u>
Total Noncash Activities	<u>\$ 14,065,512</u>

Public Utility District No. 1 of Thurston County, Washington
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
December 31, 2017

	<u>Total</u>
Assets:	
Cash with County	\$ 276,688
Liabilities:	
Custodial Accounts	\$ 276,688

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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 306 water systems serving approximately 8350 active connections in 7 counties (Thurston, Lewis, Pierce, Grays Harbor, Kitsap, King and Mason Counties). Thurston PUD also manages 7 systems under contract as a Satellite Management Agency (SMA). The District employs 22 full time employees.

Basis of Accounting

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

Proprietary Fund Financial Statements

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

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 five agency funds represent amounts held on behalf of various homeowner's associations.

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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

New Accounting Standards

With this report, the District has implemented GASB Statement No. 82, Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.

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 statements, and in the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition

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

Cash and Cash Equivalents

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

Utility Plant and Depreciation

See Note 4 – Capital Assets

Pensions

For purposes of measuring the net pension liability, 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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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.

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 \$1,081,844 including \$647,802 in the Bond Reserve, and \$434,062 restricted for Capital Projects.

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 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.

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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 2017 was \$0.009187803248 per \$1,000 on an assessed valuation of \$30.034 billion for a total regular levy of \$275,952. In 2016 the regular levy was \$268,287. Washington State Constitution and Washington State law, RCW 84.55.010, limit the rate.

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash on hand at December 31, 2017 was \$750. They carrying amount of the District's deposits including certificates was \$2,516,532 and the bank balance was \$2,440,970.

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, 2017, and throughout the year, were classified as category 2, 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
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Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party.

Investments

The District is a participant in the Thurston County Investment Pool, an external investment pool. The District reports its investment in the Pool at the fair value amount, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW36.29 which authorizes the County Treasurer to invest the funds of the participants. The County's investment policy is established by the County Finance Management Committee consisting of the County Treasurer, the County Auditor, and the County Manager, who perform oversight of the pool's performance. The county external investment pool does not have a credit rating and had a weighted average maturity of 1.9 years as of December 31, 2017.

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

Investments Measured at Fair Value

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

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

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

Level 3 – Unobservable inputs for an asset or liability.

At December 31, 2017 the District has the following investments measured at fair value:

Investments by Fair Value Level	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Deposits held with Thurston County Treasurer	\$2,440,970	\$0	\$0
Total Investments by Fair Value	\$2,440,970	\$0	\$0

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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, 2017 through December 31, 2017

Utility plant activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Utility plant not being depreciated:				
Land and Land Rights	153,532	2,353,036	-	2,506,569
Construction in Progress	130,731	12,262,600	(10,328,722)	2,064,608
Total utility plant not being depreciated	\$ 284,263	\$ 14,615,636	\$ (10,328,722)	\$ 4,571,177
Utility plant being depreciated				
Structures & Improvements	713,420	957,329	-	1,670,749
Wells and Springs	1,105,323	560,972	-	1,666,295
Supply Mains	390,180	-	-	390,180
Power Generation Equipment	249,289	107,073	(406)	355,956
Pumping Equipment	1,638,942	380,885	-	2,019,827
Water Treatment Equipment	1,110,114	130,792	(448)	1,240,457
Distribution Reservoir & Standpipe	2,068,029	775,816	-	2,843,845
Transmission & Distribution Mains	3,590,490	16,799,044	(406)	20,389,128
Services	277,374	39,781	(1,514)	315,641
Meters & Meter Installations	274,538	21,541	(3,527)	292,553
Hydrants	11,227	-	-	11,227
Other Plant & Miscellaneous Equipment	19,895	-	-	19,895
Office Furniture & Equipment	223,643	1,088	(20,655)	204,076
Transportation Equipment	224,701	274,280	(754)	498,226
Tools, Shop, & Garage Equipment	12,495	74,570	-	87,065
Communication Equipment	38,056	1,958	(1,119)	38,895
Miscellaneous Equipment	19,713	-	-	19,713
Other Tangible Plant	704,785	-	-	704,785
Total utility plant being depreciated	\$ 12,672,214	\$ 20,125,130	\$ (28,831)	\$ 32,768,513
Accumulated Depreciation	3,838,457	783,374		4,621,831
Total Utility Plant, Net	\$ 9,118,020	\$ 33,957,392	\$ (10,357,553)	\$ 32,717,859

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, 2017. The projects include:

- the consolidation of the Platt and Sward water systems into a group A water system
- replacement of wells on three water systems
- installation of water treatment equipment
- development of a prototype for emergency generators on small water systems
- purchase and remodel of new office space for District

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
 NOTES TO FINANCIAL STATEMENTS
 January 1, 2017 through December 31, 2017

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

Project	Spent to Date	Remaining Commitment
Fuller Well #379 Replacement	\$ 47,928	\$ 2,523
Skookumchuck 4-Log & Service Meters Install	\$ 137,161	\$ 6,796
1230 Ruddell Rd Renovations	\$ 616,266	\$ 119,984

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 2017

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$656,972
Pension assets	\$0
Deferred outflows of resources	\$127,616
Deferred inflows of resources	(\$124,575)
Pension expense/expenditures	\$ 51,504

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 UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates:	Employer	Employee*
January – June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	6.00%
Administrative Fee	0.18%	
Total	11.18%	6.00%
July – December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	6.00%
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if 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 2017 were as follows:

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NOTES TO FINANCIAL STATEMENTS
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PERS Plan 2/3		
Actual Contribution Rates:	Employer 2/3	Employee 2*
January – June 2017		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.70%	7.38%

The District's actual PERS plan contributions were \$51,400 to PERS Plan 1 and \$72,478 to PERS Plan 2/3 for the year ended December 31, 2017.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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* and the *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% 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

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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.

- How terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

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). 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 employers, whose rates include a component for the PERS 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. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various time horizons.

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, 2017, 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.

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NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 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	\$412,143	\$338,324	\$274,381
PERS 2/3	\$858,472	\$318,648	(\$123,657)

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the District reported a total pension liability of \$656,972 for its proportionate share of the net pension liabilities as follows:

	Liability
PERS 1	\$338,324
PERS 2/3	\$318,648

PUBLIC UTILITY DISTRICT NO. 1 OF THURSTON COUNTY
NOTES TO FINANCIAL STATEMENTS
January 1, 2017 through December 31, 2017

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.007507%	0.007130%	0.000377%
PERS 2/3	0.009620%	0.009171%	0.000449%

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.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$ 756
PERS 2/3	\$50,748

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, 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	(\$12,625)
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	\$29,215	\$0
TOTAL	\$29,215	(\$12,625)

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January 1, 2017 through December 31, 2017

PERS 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$32,287	(\$10,480)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$84,944)
Changes of assumptions	\$3,385	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$19,226	(\$16,526)
Contributions subsequent to the measurement date	\$43,502	\$0
TOTAL	\$98,399	(\$111,950)

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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS 1
2018	(\$8,534)
2019	\$2,694
2020	(\$626)
2021	(\$6,160)
2022	\$0
Thereafter	\$0
Total	(\$12,625)

Year ended December 31:	PERS 2/3
2018	(\$26,291)
2019	\$14,221
2020	(\$8,764)
2021	(\$36,788)
2022	\$248
Thereafter	\$322
Total	(\$57,053)

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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 161 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 \$21 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 \$25 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

NOTE 8– LONG-TERM DEBT

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

The District 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 50 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,142,081. Principal and interest paid for the current year and total water revenue, net of operating expenses were \$300,006 and \$905,129 respectively.

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The Long-Term Debt currently outstanding are as follows:

Purpose	Maturity Range	Stated Interest Rate	Original Amount	Amount of 2017 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	\$ 230,000
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	\$ 2,597
Drinking Water State Revolving Fund Loan DM12-952-113	2036	1.0%	\$ 370,725	\$ 9,268
Drinking Water State Revolving Fund Loan DM15-952-035	2038	1.0%	\$ 194,350	\$ -
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
Drinking Water State Revolving Fund Loan 16-952-034	2036	1.0%	\$ 84,007	\$ -

In 2013, the District obtained loan financing for two capital projects through the Drinking Water State Revolving Fund loan program. The cost of these capital projects is expected to total \$536,125. One was completed in 2016 and the other is expected to be completed in 2018. 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 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

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the treatment system is expected be \$194,350 and will be complete in early 2018. 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%.

In 2017 the District was awarded a Drinking Water State Revolving Fund loan to complete the financing of a project begun in 2013. The additional funding obtained was \$84,007. Principal and interest on this obligation has been deferred until 2020, the loan has a term of 16 years and interest rate of 1.0%.

The annual requirements to amortize all debts outstanding as of December 31, 2017, including interest, are as follows:

Year Ending December 31	Principal	Interest	Total
2018	\$ 475,644	\$ 77,594	\$ 553,238
2019	\$ 488,694	\$ 70,518	\$ 559,212
2020	\$ 493,636	\$ 63,846	\$ 557,482
2021	\$ 318,636	\$ 53,141	\$ 371,777
2022	\$ 323,636	\$ 48,913	\$ 372,549
2023-2027	\$ 1,430,722	\$ 175,539	\$ 1,606,261
2028-2032	\$ 822,258	\$ 54,971	\$ 877,229
2033-2037	\$ 93,151	\$ 2,291	\$ 95,442
2038-2042	\$ 3,051	\$ 31	\$ 3,082
Total	\$ 4,449,428	\$ 546,844	\$ 4,996,272

There is \$647,802 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.

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NOTE 9 – CHANGES IN LONG-TERM LIABILITIES

During the year ended December 31, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/2017	Additions	Reductions	Ending Balance 12/31/2017	Due Within One Year
Revenue Bonds	\$ 1,935,000	\$ -	\$ 230,000	\$ 1,705,000	\$ 235,000
Total Bonds Payable	\$ 1,935,000	\$ -	\$ 230,000	\$ 1,705,000	\$ 235,000
Public Works Trust Fund Loans	\$ 421,052	\$ -	\$ 52,632	\$ 368,420	\$ 52,632
Drinking Water State Revolving Fund Loans	\$ 2,380,428	\$ 183,590	\$ 188,012	\$ 2,376,006	\$ 188,012
Pension Liability	\$ 887,520		\$ 230,548	\$ 656,972	\$ -
Compensated absences	\$ 78,754	\$ 68,007	\$ -	\$ 146,761	\$ 126,053
Total Long-Term Liabilities	\$ 5,702,755	\$ 251,597	\$ 701,192	\$ 5,253,160	\$ 601,697

NOTE 10 – SHORT-TERM DEBT

Short-term activities for the year ended December 31, 2017 was as follows:

Debt	Beginning Balance 01/01/2017	Issued	Redeemed	Ending Balance 12/31/2017
Water Revenue Bond Anticipation Note 2014	\$ 863,000	\$ 137,000	\$ -	\$ 1,000,000
Water Revenue Bond Anticipation Note 2017	\$ -	\$ 1,213,750	\$ -	\$ 1,213,750
Water Revenue Bond Anticipation Note 2017B	\$ -	\$ 7,521,750	\$ -	\$ 7,521,750
Total Short-Term Debt	\$ 863,000	\$ 8,872,500	\$ -	\$ 9,735,500

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. On December 31, 2016 the District issued a total of \$863,000 against this note. The initial draw of \$403,000 will have a fixed rate of 2.5731% for the initial four years, subsequent draws bear interest at the variable rate of 65.01% of the prime rate. Semi-annual interest payments are 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 May 2017, 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 \$1,500,000 to

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provide needed funding to purchase a new office building and make needed improvements. A total of \$1,213,750 was drawn on this note in 2017 with construction completing in 2018.

In September 2017, 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 \$7,700,000 to finance the purchase of 140 water systems from H&R Waterworks. A total of \$7,521,750 was drawn on this note in 2017.

All of the short term notes were repaid in January 2018 with the issuance of the two 2018 Water Revenue Bonds.

NOTE 11 – 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. The terms of the lease allow the District to vacate the premises with 90 days' notice if needed, and also provides the District with the option to extend the lease for an additional three year terms at a re-negotiated rental rate. In September 2017 the District provided notice of its intent to vacate the office space as of the end of 2017 to move into new purchased office space.

In 2014 the District entered into a 5 year operating lease for a color copier/network printer at the main office, replacing a printer purchased in 2005. The total cost for this lease in 2015-2019 is \$3,673.20 annually.

In 2017 the District entered into a new five-year lease for the satellite office space located at 8421 Old Highway 99 SE, Tumwater WA 98501. In 2017, the cost for the lease was \$5,600 monthly and is adjusted October 1 of each year by the greater of 1.5% or the percentage increase of the Consumer Price Index for all Urban Consumers (CPI-U) published by the *Bureau of Labor Statistics of the United States Department of Labor*. The terms of the lease allow the District the option to extend the lease for two options of five years each, and grants the District the exclusive option to purchase the space at the end of the first five-year lease term at a mutually agreed upon price not to exceed a then-current appraisal of the property.

Also in 2017 the District took over the 5-year operating lease for a color copier/network printer at the satellite office. The total cost for this lease is \$3,200 annually.

NOTE 12 – COMMITMENTS

Purchase Water Agreement

The District has entered into a purchase water agreement with the city of Lacey to supply water to a small water system served by the District after the well serving that water system was found

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to contain arsenic above the maximum contaminant level. The water system affected serves 15 residences and represents a very small segment of customers served by the District.

NOTE 13 – 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 completed in early 2018. The District has submitted draws on this contract totaling \$122,026, recording \$61,013 in grant income in 2017.

In 2016 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 Cedar Ridge Estates water system in Thurston County. The work was completed in January 2017 and the District received \$17,406 against this grant.

In 2012 and 2016, the District was awarded two loans with 50% loan forgiveness from the DWSRF to complete the consolidation of a Thurston County group A water system with 2 adjacent group B water systems. In 2017 the District completed the project receiving \$102,543 in grant income from this project.

NOTE 14 – ACQUISITION OF WATER SYSTEMS

On April 1, 2017, Thurston PUD acquired the Cedar Ridge Estates water system from the Cedar Ridge Estate Water Association. 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 64 customers. The equivalent service value of the assets acquired in this transaction is approximately \$499,674. The net position impact of this acquisition increased \$456,585 as of the acquisition date.

On April 1, 2017, Thurston PUD acquired the Maxvale water system from a private developer. 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 15 customers. The equivalent service value of the assets acquired in this transaction is approximately \$312,037. The net position impact of this acquisition increased \$285,427 as of the acquisition date.

On October 1, 2017, Thurston PUD acquired 140 separate water systems from H & R Waterworks, Incorporated. The acquisition includes all related property consisting of and associated with the water system, including all wells, pump houses, storage tanks, water rights,

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water mains, pipes, valves, pumps, reservoirs, boosters, water treatment facilities, service meters and other facilities to serve approximately 4,060 customers. The acquisition value of the assets acquired in this transaction is approximately \$18,829,831. The net position impact of this acquisition increased \$11,486,524 as of the acquisition date.

On December 31, 2017, Thurston PUD acquired the Keanland Park water system and the Scatter Creek Ranch water system, from the Violet Prairie Water 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 157 customers. The acquisition value of the assets acquired in this transaction is approximately \$2,116,755. The net position impact of this acquisition increased \$1,689,123 as of the acquisition date.

On December 31, 2017, Thurston PUD acquired the Mountain Lakeview Addition water system, from Skyline Pump & Machine Co. Inc. 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 28 customers. The acquisition value of the assets acquired in this transaction is approximately \$150,850. The net position impact of this acquisition increased \$147,853 as of the acquisition date.

NOTE 15 – SUBSEQUENT EVENTS

On January 3, 2018 the District issued bonds to pay the 2014 Bond Anticipation Note, the 2017 Bond Anticipation Note, all but \$1.2 million of the 2017B Bond Anticipation Note and provided \$3.3 million in funding for purchasing of equipment, acquisition of other water plant and implementation of the Asset Management Plan.

In, May 2018 the District entered into an agreement with Mason PUD No. 1 to transfer 32 water systems in Mason County. The sale 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 655 customers. The anticipated closing date is June 30, 2018. The proceeds of the Purchase & Sale Agreement will be approximately \$1.18 million and will be used as payment against the 2017B Bond Anticipation Note. Upon the effective date, the District will not own any water systems in Mason County.

Schedule of Proportionate Share of the Net Pension Liability

Public Employees' Retirement System

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

Last 10 Fiscal Years*

Public Employees' Retirement System Plan 1		<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability (asset)	%	0.007130%	0.007507%	0.006960%
Employer's proportionate share of the net pension liability	\$	338,324	\$ 403,161	\$ 364,073
Covered payroll*	\$	897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability as a percentage of covered payroll	%	37.69%	46.71%	45.77%
Plan fiduciary net position as a percentage of the total pension liability	%	61.24%	57.03%	59.10%
Public Employees' Retirement System Plans 2 & 3		<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability		0.009171%	0.009620%	0.008989%
Employer's proportionate share of the net pension liability	\$	318,648	\$ 484,359	\$ 321,182
Employer's covered employee payroll		897,627	\$ 863,175	\$ 795,446
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll		35.50%	56.11%	40.38%
Plan fiduciary net position as a percentage of the total pension liability		90.97%	85.82%	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
Public Employees' Retirement System
For the year ended **December 31**
Last 10 Fiscal Years*

Public Employees' Retirement System Plan 1	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 51,400	\$ 41,877	\$ 35,597
Contributions in relation to the statutorily or contractually required contributions*	\$ (51,400)	\$ (41,877)	\$ (35,597)
Contribution deficiency (excess)	\$ 0	\$ -	\$ -
Covered payroll*	\$ 1,045,904	\$ 877,912	\$ 809,212
Contributions as a percentage of covered payroll	% 4.91%	4.77%	4.40%

Public Employees' Retirement System Plans 2 & 3	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily or contractually required contributions	\$ 72,478	\$ 54,694	\$ 62,787
Contributions in relation to the statutorily or contractually required contributions	\$ (72,478)	\$ (54,694)	\$ (62,787)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered employer payroll	\$ 1,045,904	\$ 877,912	\$ 809,212
Contributions as a percentage of covered employee payroll	6.93%	6.23%	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	
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