

Washington State Auditor's Office
Financial Statements Audit Report

**Public Utility District No. 1 of Whatcom
County**

Audit Period
January 1, 2011 through December 31, 2012

Report No. 1010775

Issue Date
November 25, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

November 25, 2013

Board of Commissioners
Public Utility District No. 1 of Whatcom County
Ferndale, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Whatcom County's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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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*

Public Utility District No. 1 of Whatcom County January 1, 2011 through December 31, 2012

Board of Commissioners
Public Utility District No. 1 of Whatcom County
Ferndale, 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 Public Utility District No. 1 of Whatcom County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits 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.



TROY KELLEY
STATE AUDITOR

October 29, 2013

Independent Auditor's Report on Financial Statements

Public Utility District No. 1 of Whatcom County January 1, 2011 through December 31, 2012

Board of Commissioners
Public Utility District No. 1 of Whatcom County
Ferndale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Whatcom County, Washington, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 5.

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 audits. We conducted our audits 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 Public Utility District No. 1 of Whatcom County, as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

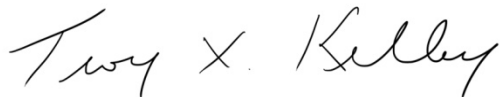
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 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 October 29, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

October 29, 2013

Financial Section

Public Utility District No. 1 of Whatcom County January 1, 2011 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2012
Management's Discussion and Analysis – 2011

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2012
Statement of Net Position – 2011
Statement of Revenues, Expenses and Changes in Fund Net Position – 2012
Statement of Revenues, Expenses and Changes in Fund Net Position – 2011
Statement of Cash Flows – 2012
Statement of Cash Flows – 2011
Notes to Financial Statements – 2012
Notes to Financial Statements – 2011

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2012

OVERVIEW OF FINANCIAL STATEMENTS

The District's Annual Financial Report consists of the following three parts:

1. Management's Discussion and Analysis (MD & A) (this section)
2. Financial statements, including footnotes
3. Required supplemental schedules

The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The statement of net position provides a record of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents the results of the District's business activities for an annual period of time. The information contained in this statement can be used to determine whether the District is successfully recovering its costs through user fees and other charges, and to evaluate profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing, and investing activities for a year's period of time.

The notes to the financial statements provide information regarding the District's significant accounting policies and significant account balances and activities.

All District funds are operated as individual enterprise funds and collectively represent the financial operation of the District. A condensed comparative Statement of Net Position is shown below:

	2012	2011
ASSETS		
Current Assets	\$ 18,004,611	\$ 23,651,757
Non-Current Assets	4,123,188	4,165,754
Capital Assets (Net)	28,080,973	20,113,743
TOTAL ASSETS	\$ 50,208,772	\$ 47,931,254
LIABILITIES		
Current Liabilities	\$ 5,135,055	\$ 2,512,596
Non-Current Liabilities	30,714,842	32,266,378
TOTAL LIABILITIES	\$ 35,849,897	\$ 34,778,974
NET POSITION		
Net Investment in Capital Assets	\$ 9,136,761	\$ 6,436,479
Restricted for Debt Service	3,514,380	3,729,117
Restricted for Miscellaneous Reserves	60,000	69,041
Unrestricted	1,647,734	2,917,644
TOTAL NET POSITION	\$ 14,358,875	\$ 13,152,280
TOTAL LIABILITIES AND NET POSITION	\$ 50,208,772	\$ 47,931,254

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2012

A condensed comparative Statement of Revenue, Expenses and Changes in Net Position for the District is shown below:

	2012	2011
REVENUES		
Operating Revenue	\$ 14,591,535	\$ 14,127,876
Nonoperating Revenue	346,557	454,308
TOTAL REVENUE	\$ 14,938,092	\$ 14,582,184
EXPENSES		
Operating Expenses	11,703,863	12,129,564
Nonoperating Expenses	1,827,634	1,713,948
TOTAL EXPENSES	\$ 13,531,497	\$ 13,843,512
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	\$ 1,406,595	\$ 738,673
Capital Contributions	(200,000)	21,037
Special / Extraordinary Items	-	-
CHANGE IN NET POSITION	\$ 1,206,595	\$ 759,709
BEGINNING NET POSITION	\$ 13,152,280	\$ 12,392,571
ENDING NET POSITION	\$ 14,358,875	\$ 13,152,280

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2011-2012

For the twelve months ending December 31, 2012 the total net position of the District increased by approximately \$1,207,000 or 9%. Total assets increased by \$2,278,000 and total liabilities increased by \$1,071,000 producing a net increase in net position.

The major components contributing to the increase in assets were an increase in Cash & Cash Equivalents of \$18,000 due to the timing of cash transactions, a decrease in Short-Term Investments of \$6,451,000 from the use of the proceeds of the 2010 LTGO bond issue, a increase in net receivables of \$744,000 due primarily to a late payment made just after the end of the year, an increase of \$43,000 in Prepayments due to an early payment of health premiums, an increase of \$181,000 in Deferred Charges due to the issue of the 2012 bonds, a decrease in assessment investments of \$215,000, a decrease of \$9,000 in Investments – Other due to the expiration of the liability set up for the BPA CRC reserve, and an increase in total capital assets net of depreciation of \$7,967,000.

The major components of the increase in total liabilities included an increase in Accounts Payables of \$1,147,000 due to timing of payments and an increase in the amount of invoices for the ongoing CWIP projects, an increase of \$22,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts, an increase in Utility Taxes of \$5,000, an increase of \$47,000 in Contractor Retainage, a decrease of \$9,000 in Energy Green Credit Liability and a net decrease in the bonds principal and interest payable of \$141,000 due to a combination of debt service payments, and issuing the 2012 LTGO bonds to refund the 2004 LTGO bonds.

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2012

RESULTS OF OPERATIONS

Analysis of changes in Revenue, Expenses, and change in Net Position for 2011-2012

Total Net Position (excluding Extraordinary Items and Capital Contributions for 2012 adjustments) increased from \$739,000 in 2011 to \$1,407,000 in 2012 (a \$668,000 increase). Operating Revenue increased by \$463,000 due to rate increases and enhanced by a decrease in operating expenses of \$426,000. Non-operating Revenue reflected a decrease in net Interest Income of \$97,000, and a decrease of \$10,000 in other non-operating revenue. Non-operating Expenses reflected an overall increase of \$114,000, resulting primarily from the increase in Amortization due to the refunding of the 2004 LTGO bonds.

CAPITAL ASSETS

Analysis of Changes in Capital Assets from 2011-2012

During 2012, total capital assets increased by \$7,967,000 and were comprised of an overall increase in assets, including construction-work-in-progress for \$7,316,000 (\$7,000 of construction-work-in-progress was expensed during 2012), the Raw Water Utility (Cherry Point) for (\$65,000) due to some SCADA equipment replacements, the Grandview Water Utility for \$0, the Electric Utility for \$674,000, \$806,000 for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$764,000. SEE NOTE 3.

LONG-TERM DEBT

Analysis of Changes in Long-Term Debt from 2011-2012

During 2012, the District's indebtedness for the 2004 LTGO bond issue was reduced by \$5,945,000 due to issuing the 2012 bonds which refunded the 2004 LTGO bonds, the District's indebtedness for the 2007 Water Revenue Bond was reduced by \$105,000, no principal payments were made on the 2010 LTGO bonds and the 2012 LTGO bond issue was reduced by \$60,000. SEE NOTE 7.

REQUEST FOR INFORMATION

The basic financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report should be directed to the Director of Finance of the Public Utility District No. 1 of Whatcom County, 1705 Trigg Rd, Ferndale, WA 98248.

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2011

OVERVIEW OF FINANCIAL STATEMENTS

The District's Annual Financial Report consists of the following three parts:

1. Management's Discussion and Analysis (MD & A) (this section)
2. Financial statements, including footnotes
3. Required supplemental schedules

The financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and notes to the financial statements.

The statement of net position provides a record of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The statement of revenues, expenses and changes in net position presents the results of the District's business activities for an annual period of time. The information contained in this statement can be used to determine whether the District is successfully recovering its costs through user fees and other charges, and to evaluate profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing, and investing activities for a year's period of time.

The notes to the financial statements provide information regarding the District's significant accounting policies and significant account balances and activities.

All District funds are operated as individual enterprise funds and collectively represent the financial operation of the District. A condensed comparative Statement of Net Position is shown below:

	2011	2010
ASSETS		
Current Assets	\$ 23,651,757	\$ 25,259,108
Non-Current Assets	4,165,754	4,026,699
Capital Assets (Net)	20,113,743	17,702,884
TOTAL ASSETS	\$ 47,931,254	\$ 46,988,692
LIABILITIES		
Current Liabilities	\$ 2,641,266	\$ 1,822,945
Non-Current Liabilities	32,137,708	32,773,176
TOTAL LIABILITIES	\$ 34,778,974	\$ 34,596,121
NET POSITION		
Net Investment in Capital Assets	\$ 6,436,479	\$ 7,277,672
Restricted for Debt Service	3,729,117	3,542,889
Restricted for Miscellaneous Reserves	69,041	43,731
Unrestricted	2,917,644	1,528,279
TOTAL NET POSITION	\$ 13,152,280	\$ 12,392,571
TOTAL LIABILITIES AND NET POSITION	\$ 47,931,254	\$ 46,988,692

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2011

A condensed comparative Statement of Revenue, Expenses and Changes in Net Position for the District is shown below:

	2011	2010
REVENUES		
Operating Revenue	\$ 14,127,876	\$ 13,554,103
Nonoperating Revenue	454,308	589,937
TOTAL REVENUE	\$ 14,582,184	\$ 14,144,040
EXPENSES		
Operating Expenses	12,129,564	11,891,494
Nonoperating Expenses	1,713,948	712,565
TOTAL EXPENSES	\$ 13,843,512	\$ 12,604,058
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	\$ 738,673	\$ 1,539,982
Capital Contributions	21,037	-
Special / Extraordinary Items	-	-
CHANGE IN NET POSITION	\$ 759,709	\$ 1,539,982
BEGINNING NET POSITION	\$ 12,392,571	\$ 10,852,589
ENDING NET POSITION	\$ 13,152,280	\$ 12,392,571

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2010-2011

For the twelve months ending December 31, 2011 the total net position of the District increased by approximately \$760,000 or 6%. Total assets increased by \$943,000 and total liabilities increased by \$183,000 producing a net increase in net position.

The major components contributing to the increase in assets were an increase in Cash & Cash Equivalents of \$12,000 due to the timing of cash transactions, a decrease in Short-Term Investments of \$1,537,000 from the use of the proceeds of the 2010 LTGO bond issue, a decrease in net receivables of \$86,000 due to the timing of payments, A decrease of \$29,000 in Deferred Charges due to the amortization of bond discounts, an increase in assessment investments of \$144,000, an increase of \$25,000 in Investments – Other due to the creation of a Project Reserve Fund and the decrease of the liability set up for the BPA CRC reserve, and an increase in total capital assets net of depreciation of \$2,411,000.

The major components of the increase in total liabilities included an increase in Accounts Payables of \$591,000 due to timing of payments, an increase in Utility Taxes of \$74,000 due to the lack of an offsetting credit in Privilege Tax Due, an increase of \$31,000 in Contractor Retainage, a decrease of \$57,000 in Energy Green Credit Liability and a net decrease in the bonds principal and interest payable of \$459,000 due to debt service payments.

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2011

RESULTS OF OPERATIONS

Analysis of changes in Revenue, Expenses, and change in Net Position for 2010-2011

Total Net Position (excluding Extraordinary Items and Capital Contributions for 2011 adjustments) decreased from \$1,540,000 in 2010 to \$739,000 in 2011 (a \$801,000 decrease). Operating Revenue increased by \$574,000 due to rate increases and was offset by an increase in operating expenses of \$238,000. Non-operating Revenue reflected an increase in net Interest Income of \$131,000, a decrease in Service Revenues of \$273,000 due to the termination of the Alcoa agreement and a decrease of \$6,000 in other non-operating revenue. Non-operating Expenses reflected an overall increase of \$1,001,000, resulting from the increase in interest expense due to the 2010 Bonds.

CAPITAL ASSETS

Analysis of Changes in Capital Assets from 2010-2011

During 2011, total capital assets increased by \$2,411,000 and were comprised of an overall increase in assets, including construction-work-in-progress for \$2,292,000 (\$210,000 of construction-work-in-progress were expensed during 2011), the Raw Water Utility (Cherry Point) for \$772,000, the Grandview Water Utility for \$0, the Electric Utility for \$14,000, \$72,000 for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$739,000. SEE NOTE 3.

LONG-TERM DEBT

Analysis of Changes in Long-Term Debt from 2010-2011

During 2011, the District's indebtedness for the 2004 LTGO bond issue was reduced by \$450,000, the District's indebtedness for the 2007 Water Revenue Bond was reduced by \$100,000, and no principal payments were made on the 2010 LTGO bonds. SEE NOTE 7.

REQUEST FOR INFORMATION

The basic financial statements, notes and management discussion and analysis are designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report should be directed to the Director of Finance of the Public Utility District No. 1 of Whatcom County, 1705 Trigg Rd, Ferndale, WA 98248.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 2012

ASSETS**CURRENT ASSETS**

Cash & Cash Equivalents	\$ 45,413
Short Term Investments	15,897,032
Receivables (Net):	
Customers	1,954,496
LUD #1 West Smith Road Receivable	5,346
Other	26,626
Total Accounts Receivables (Net)	1,986,468
Prepayments	75,698
TOTAL CURRENT ASSETS	\$ 18,004,611

NON-CURRENT ASSETS

Deferred Charges	\$ 548,808
Restricted Assets	
Investments - Bond Reserves	3,296,806
Investments - Assessments	217,573
Investments - Other	60,000
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	11,659,795
Capital Assets Being Depreciated:	
Buildings & Structures	8,490,260
Machinery & Equipment	19,480,296
Intangible	866,000
Less Accumulated Depreciation	(12,523,379)
Total Capital Assets (Net)	28,080,973
TOTAL NONCURRENT ASSETS	\$ 32,204,161

TOTAL ASSETS

\$ 50,208,772

The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 2012

LIABILITIES**CURRENT LIABILITIES**

Accounts Payable	\$ 2,603,106
Accrued Employee Payable	210,199
Accrued Utility Taxes	242,655
Contractor Retainage	84,435
Payables from Restricted Assets	
2004 LTGO Series A&B Current Principal	490,000
2004 Interest	6,201
2007 Water Revenue Current Principal	110,000
2007 Interest	23,237
2010 LTGO Series A&B Current Principal	1,135,000
2010 Interest	92,715
2012 LTGO Current Principal	115,000
2012 Interest	19,193
Deposits & Other Payables	3,313
TOTAL CURRENT LIABILITIES	<u>\$ 5,135,055</u>

NON-CURRENT LIABILITIES

Energy Green Credit	\$ -
Payables from Restricted Assets	
2004 LTGO Series A&B Bonds Principal	-
2007 Water Revenue Bonds Principal	2,350,000
2010 LTGO Series A&B Bonds Principal	22,565,400
2012 LTGO Bond Principal	5,799,443
TOTAL NON-CURRENT LIABILITIES	<u>\$ 30,714,842</u>

TOTAL LIABILITIES**\$ 35,849,897****NET POSITION**

Net Investment in Capital Assets	\$ 9,136,761
Restricted for Debt Service	3,514,380
Restricted for Miscellaneous Reserves	60,000
Unrestricted	1,647,734
TOTAL NET POSITION	<u>\$ 14,358,875</u>

TOTAL LIABILITIES & NET POSITION**\$ 50,208,772**

The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 2011

ASSETS**CURRENT ASSETS**

Cash & Cash Equivalents	\$ 27,787
Short Term Investments	22,348,382
Receivables (Net):	
Customers	1,209,748
LUD #1 West Smith Road Receivable	5,346
Other	27,782
Total Accounts Receivables (Net)	1,242,876
Prepayments	32,712
TOTAL CURRENT ASSETS	\$ 23,651,757

NON-CURRENT ASSETS

Deferred Charges	\$ 367,596
Restricted Assets	
Investments - Bond Reserves	3,296,806
Investments - Assessments	432,310
Investments - Other	69,041
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	4,343,767
Capital Assets Being Depreciated:	
Buildings & Structures	8,490,260
Machinery & Equipment	18,065,520
Intangible	866,000
Less Accumulated Depreciation	(11,759,804)
Total Capital Assets (Net)	20,113,743
TOTAL NONCURRENT ASSETS	\$ 24,279,497

TOTAL ASSETS

\$ 47,931,254

The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 2011

LIABILITIES**CURRENT LIABILITIES**

Accounts Payable	\$ 1,456,365
Accrued Employee Payable	188,249
Accrued Utility Taxes	237,785
Contractor Retainage	37,036
Payables from Restricted Assets	
2004 LTGO Series A&B Current Principal	470,000
2004 Interest	27,133
2007 Water Revenue Current Principal	105,000
2007 Water Revenue Bonds Interest	23,669
2010 LTGO Series A&B Current Principal	-
2010 Interest	92,714
Deposits & Other Payables	3,313
TOTAL CURRENT LIABILITIES	<u>\$ 2,641,266</u>

NON-CURRENT LIABILITIES

Energy Green Credit	\$ 8,953
Payables from Restricted Assets	
2004 LTGO Series A&B Bonds Principal	5,965,000
2007 Water Revenue Bonds Principal	2,460,000
2010 LTGO Series A&B Bonds Principal	23,703,755
TOTAL NON-CURRENT LIABILITIES	<u>\$ 32,137,708</u>

TOTAL LIABILITIES**\$ 34,778,974****NET POSITION**

Net Investment in Capital Assets	\$ 6,436,479
Restricted for Debt Service	3,729,117
Restricted for Miscellaneous Reserves	69,041
Unrestricted	2,917,644
TOTAL NET POSITION	<u>\$ 13,152,280</u>

TOTAL LIABILITIES & NET POSITION**\$ 47,931,254**

The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2012

OPERATING REVENUE

Utility Sales and Service Revenues	\$ 14,585,954
Other Operating Revenue	5,581
TOTAL OPERATING REVENUE	\$ 14,591,535

OPERATING EXPENSES

Operations:	
Purchased Power	\$ 6,829,514
Water Purification	138,415
Taxes / Process / Delivery Costs	432,850
General Operations	805,267
Maintenance	468,088
Administration:	
General Administration	1,762,913
Planning and Development Expense	39,103
Depreciation Expense	843,705
Utility Tax Expense	384,007
TOTAL OPERATING EXPENSES	\$ 11,703,863

OPERATING INCOME (LOSS)

\$ 2,887,672

NONOPERATING REVENUE

Lease Income	\$ 10,485
Assessment Income	199,160
Interest Income	156,926
Interest Fees	(20,014)
TOTAL NONOPERATING REVENUE	\$ 346,557

NONOPERATING EXPENSE

Interest Expense	\$ 1,644,563
Amortization	164,652
Loss (Gain) on Property Disposal	18,418
TOTAL NONOPERATING EXPENSE	\$ 1,827,634

**INCOME BEFORE CONTRIBUTIONS,
AND EXTRAORDINARY ITEMS**

\$ 1,406,595

Capital Contributions (Connection Charges)	\$ (200,000)
Special / Extraordinary Items	-

CHANGE IN NET POSITION

\$ 1,206,595

TOTAL NET POSITION - JANUARY 1st

\$ 13,152,280

TOTAL NET POSITION - DECEMBER 31st

\$ 14,358,875

The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2011

OPERATING REVENUE

Utility Sales and Service Revenues	\$ 14,046,385
Other Operating Revenue	81,491
TOTAL OPERATING REVENUE	<u>\$ 14,127,876</u>

OPERATING EXPENSES

Operations:	
Purchased Power	\$ 6,748,640
Water Purification	138,207
Taxes / Process / Delivery Costs	428,031
General Operations	834,966
Maintenance	1,043,176
Administration:	
General Administration	1,686,107
Planning and Development Expense	101,424
Depreciation Expense	798,334
Utility Tax Expense	350,679
TOTAL OPERATING EXPENSES	<u>\$ 12,129,564</u>

OPERATING INCOME (LOSS)

\$ 1,998,313

NONOPERATING REVENUE

Lease Income	\$ 12,805
Assessment Income	211,110
Interest Income	254,238
Interest Fees	(23,845)
Service Revenues	-
TOTAL NONOPERATING REVENUE	<u>\$ 454,308</u>

NONOPERATING EXPENSE

Interest Expense	\$ 1,599,492
Amortization	28,430
Loss (Gain) on Property Disposal	86,026
TOTAL NONOPERATING EXPENSE	<u>\$ 1,713,948</u>

**INCOME BEFORE CONTRIBUTIONS,
AND EXTRAORDINARY ITEMS**

\$ 738,673

Capital Contributions (Connection Charges)	\$ 21,037
Special / Extraordinary Items	-

CHANGE IN NET POSITION

\$ 759,709

TOTAL NET POSITION - JANUARY 1st

\$ 12,392,571

TOTAL NET POSITION - DECEMBER 31st

\$ 13,152,280

The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 13,862,790
Payments to suppliers	(8,125,067)
Payments to employees (Labor only)	(1,784,549)

**NET CASH PROVIDED (USED) BY OPERATING
ACTIVITIES**

\$ 3,953,174

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	\$ (8,810,935)
Principal paid on Capital Debt	(635,000)
Interest paid on Capital Debt	(1,500,814)
Payment from Assessments to pay 07 debt payments	199,160

**NET CASH PROVIDED (USED) BY CAPITAL
AND RELATED FINANCING ACTIVITIES**

\$ (10,747,589)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$ 136,913
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ 136,913</u>

**NET INCREASE (DECREASE) IN CASH AND
CASH EQUIVALENTS**

\$ (6,657,502)

BALANCE BEGINNING OF YEAR

\$ 26,174,327

BALANCE END OF YEAR

\$ 19,516,825

The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2012

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ 2,887,672
Adjustments to reconcile operating income to net cash	
Cash Provided (Used) by operating activities:	
Depreciation	843,705
Miscellaneous	(203,340)
Change in Assets and Liabilities:	
Decrease (Increase) in Net Accounts Receivable	(743,592)
Decrease (Increase) in Prepayments	(42,986)
Decrease (Increase) in Deferred Charges	(291)
Interfund Transfers	(0)
Increase (Decrease) in Account Payable	1,146,741
Increase (Decrease) in Accrued Employee Payable	21,950
Increase (Decrease) in Accrued Utility Taxes	4,869
Increase (Decrease) in Contractor Retainage	47,399
Increase (Decrease) in Energy Green Credit	(8,953)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,953,175

The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 14,855,378
Payments to suppliers	(9,642,190)
Payments to employees (Labor only)	(1,740,563)

**NET CASH PROVIDED (USED) BY OPERATING
ACTIVITIES**

\$ 3,472,625

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	\$ (3,209,193)
Principal paid on Capital Debt	(550,000)
Interest paid on Capital Debt	(1,512,148)
Assessments Received	211,110

**NET CASH PROVIDED (USED) BY CAPITAL
AND RELATED FINANCING ACTIVITIES**

\$ (5,060,231)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$ 230,393
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ 230,393</u>

**NET INCREASE (DECREASE) IN CASH AND
CASH EQUIVALENTS**

\$ (1,357,212)

BALANCE BEGINNING OF YEAR

\$ 27,531,539

BALANCE END OF YEAR

\$ 26,174,327

The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2011

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ 1,998,313
Adjustments to reconcile operating income to net cash	
Cash Provided (Used) by operating activities:	
Depreciation Expense	798,334
Miscellaneous	(101,650)
Change in Assets and Liabilities:	
Decrease (Increase) in Net Accounts Receivable	86,009
Decrease (Increase) in Prepayments	(3,677)
Decrease (Increase) in Deferred Charges	28,752
Interfund Transfers	(0)
Increase (Decrease) in Account Payable	590,984
Increase (Decrease) in Accrued Employee Payable	11,017
Increase (Decrease) in Accrued Utility Taxes	74,395
Increase (Decrease) in Contractor Retainage	30,984
Increase (Decrease) in Deposits & Other Payables	(4,760)
Increase (Decrease) in Energy Green Credit	(57,112)
Increase (Decrease) in Contributed Capital	21,037
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,472,625

The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Public Utility District No. 1 *of Whatcom County* ("District") conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. **Reporting Entity**

Public Utility District No. 1 *of Whatcom County* is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, the management has considered all potential component units in defining the reporting entity. The District has no component units.

b. **Basis of Accounting and Presentation**

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the full-accrual basis of accounting 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 District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the District are charges to customers for water delivery and electric service. The District also recognizes as operating revenue the penalties that occasionally correspond with utility billing, grant income, income from outside consulting and some miscellaneous recycle income. Operating expenses for the District include the cost of sales and services, administrative expenses, planning and business development expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

c. **Cash and Cash Equivalents**

For the 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. The cash referenced on the Statement of Cash Flows will include Cash & Cash Equivalents, Short-term Investments, and also the Restricted Investments under Non-current assets.

d. **Utility Plant and Depreciation / Capital Assets:** SEE NOTE 3.

e. **Restricted Funds**

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt-service and other special reserve requirements. Restricted funds currently include the following:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

RESTRICTED RESERVE BALANCES	2012
Bond Reserves	
2004 LTGO Series A&B Bond Reserve	\$ 798,006
2007 Water Revenue Bond Reserve (Grandview LUD)	249,088
2010 LTGO Series A&B Bond Reserve	<u>2,249,713</u>
Total Bond Reserves	\$ 3,296,806
Other Restricted Funds	
LUD #2 Cash Investments	217,573
Project Reserve Fund	60,000
TOTAL RESTRICTED RESERVE BALANCES	\$ 3,574,380

f. Receivables

One customer has proved to be a collection risk. An allowance for bad debt in the amount of \$31,387 is allocated to offset this potential loss.

g. Inventories

Inventories are valued at original cost (when they exist), which approximates the market value.

h. Investments: SEE NOTE 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and floaters (in lieu of holidays). 2009 is the first year the District reflected accrued compensated absence pay in the financial statements as an expense and liability. All leave is paid at the employee's current rate of pay when used. The General Manager's compensated absences are separately negotiated as part of his employment contract.

Vacation pay may be carried over at year-end at a balance not greater than 80 hours plus the annual accrual. Unused vacation is payable upon resignation, retirement, termination without cause, or death.

Sick Leave may be accumulated up to a total of 1080 hours for non-union employees and 1136 hours for union employees, and is not convertible. Upon termination of employment, unused sick leave is compensated at 25% of accrued benefit for non-union, 30% for union.

Floating Holidays may be used at any time once accrued for leave. Full-time employees earn 12 floaters per year. Unused floaters must be cashed-out at the end of the year and cannot be carried forward to the next fiscal year.

j. Unamortized Debt Expenses

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

k. Construction Financing

Funds for Capital Asset Construction are budgeted and collected in the Short-term Investments. SEE NOTE 2.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

1. Purchase Commitments

The District currently has a power supply contract with the Bonneville Power Administration ("BPA") that covers its entire electric load requirements. The contract with BPA runs through September 30, 2028.

In August 2008, the District approved a new Network Transmission Agreement ("NT Agreement") with BPA which provides for an extension of the term of the NT Agreement through August 31, 2038 and assures sufficient transmission capacity to accommodate both the District's existing power supply requirements moved over BPA's transmission system and future electric load growth.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits, and certificates of deposit, are entirely covered by Federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Whatcom County Investment Pool (WCIP) pursuant to RCW 39.58.

b. Investments

The agent for the District's investments is the Whatcom County Treasurer's Office and all investments are held in the Whatcom County Investment Pool [WCIP].

As of December 31, 2012, the District had the following investments:

	2012	
	<u>Maturities</u>	<u>Fair Value</u>
INVESTMENTS		
Short-Term Investments		
Whatcom County Investment Pool	\$ 15,897,032	\$ 15,897,032
Non-Current		
Whatcom County Investment Pool	3,574,380	3,574,380
TOTAL INVESTMENTS	<u>\$ 19,471,412</u>	<u>\$ 19,471,412</u>

NOTE 3 - UTILITY PLANT AND DEPRECIATION - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$400 for computer equipment, and \$5,000 for other assets, and an estimated useful life in excess of one year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. The District has not acquired any assets under a capital lease.

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 estimated cost relative to known historical costs of related components during the same period of construction. Donations by developers and customers are recorded at the known value of the contractor price, donor cost, or appraised value.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

Utility plant activities for the year ending December 31, 2012 were as follows:

	2012 Beginning Balance	2012 Activity		2012 Ending Balance
		Increase	Decrease	
UTILITY PLANT NOT BEING DEPRECIATED				
LAND				
Raw Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
CONSTRUCTION-IN-PROGRESS				
Raw Water Utility	2,366,816	5,640,593	(7,472)	7,999,937
Grandview Potable Water Utility	-	110	(110)	-
Electric Utility	1,572,935	2,764,465	(677,542)	3,659,858
General Utility & Office (Internal Services Utility)	404,016	411,854	(815,870)	-
TOTAL CONSTRUCTION-IN-PROGRESS	4,343,767	8,817,022	(1,500,994)	11,659,795
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	\$ 4,451,767	\$ 8,817,022	\$ (1,500,994)	\$ 11,767,795
UTILITY PLANT BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
Raw Water Utility	\$ 6,966,162	\$ -	\$ -	\$ 6,966,162
Grandview Water Utility	98,977	-	-	98,977
Electric Utility	166,880	-	-	166,880
General Utility & Office (Internal Services Utility)	1,258,241	-	-	1,258,241
TOTAL BUILDINGS & STRUCTURES	8,490,260	-	-	8,490,260
MACHINERY & EQUIPMENT				
Raw Water Utility	7,459,668	12,552	(77,257)	7,394,963
Grandview Water Utility	3,082,840	-	-	3,082,840
Electric Utility	7,105,349	676,771	(3,166)	7,778,953
General Utility & Office (Internal Services Utility)	417,663	831,597	(25,720)	1,223,541
TOTAL MACHINERY & EQUIPMENT	18,065,520	1,520,920	(106,143)	19,480,296
INTANGIBLE				
Raw Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL UTILITY PLANT BEING DEPRECIATED	\$ 27,421,780	\$ 1,520,920	\$ (106,143)	\$ 28,836,557
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	\$ (4,198,022)	\$ (134,261)	\$ -	\$ (4,332,283)
Machinery & Equipment	(7,345,282)	(666,143)	80,130	(7,931,296)
Intangible	(216,500)	(43,300)	-	(259,800)
TOTAL ACCUMULATED DEPRECIATION	(11,759,804)	(843,705)	80,130	(12,523,379)
UTILITY PLANT BEING DEPRECIATED (NET)	\$ 15,661,976	\$ 677,215	\$ (26,013)	\$ 16,313,178
TOTAL UTILITY PLANT, NET	\$ 20,113,743	\$ 9,494,238	\$ (1,527,008)	\$ 28,080,973

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>ASSET</u>	<u>YEARS</u>
Buildings & Structures	5-60
Vehicles	3-10
Machinery & Equipment	3-60
Computer Hardware & Software	2-5
Intangible	20

Initial depreciation on utility plant is recorded in the year subsequent to purchase or completion.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed. The District expensed \$7,000 in CWIP projects in 2012.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose annual project authorizations total \$11,895,145. Of the committed balance of \$24,598,790, the district will be required to raise approximately \$6 million in future financing.

Construction in progress represents capital projects for the upgrade or expansion of the District's infrastructure. General improvements for the benefit of all users of a specific utility are financed with reserves, previously collected through rates and/or bonds, or paid for with future rates. Improvements/capital expansion requested by an individual customer(s) for their specific benefit is the direct financial responsibility of that customer(s).

Construction work in progress is composed of the following:

		2012			
	District Capital Project #	Annual Project Authorization	Expended Through 12/31/12	Committed	Required Future Financing
CONSTRUCTION IN PROGRESS					
Purchase PSE Enterprise Substation	E11	1,384,206	666,774	1,384,206	None
Refinery Substation Redesign	E14	2,922,542	2,993,084	2,922,542	None
Treatment Plant Capacity Design & Upgrade	RW1	7,045,074	7,551,362	19,192,808	\$ 6,000,000
Hi Head Pump Rebuild	RW11	71,610	110,963	71,610	None
Distribution System Storage	RW20	-	122,924	-	None
Main line valves on Distribution System	RW22	-	45,381	555,911	None
Conoco Phillips Meter Relocation	RW25	471,713	169,307	471,713	None
TOTAL CONSTRUCTION IN PROGRESS		\$ 11,895,145	\$ 11,659,795	\$ 24,598,790	\$ 6,000,000

NOTE 5 – SHORT-TERM DEBT

The District had no short-term debt obligations in 2012.

NOTE 6 - LEASE COMMITMENTS

a. Operating Lease(s)

The Public Utility District No.1 of Whatcom County is committed to a single lease for a portable office. This lease is considered an operating lease for accounting purposes. Lease expenses for the year ended December 31,

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

2012 amounted to \$11,010. Future minimum rental commitments for this lease are as follows:

Fiscal Year Ending December 31:

2013	\$	10,174
2014		5,936

Total	\$	<u>16,110</u>
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b. Capital Lease(s)

The Public Utility District No.1 of *Whatcom County* has no capital leases and has not acquired any assets through capital leases.

NOTE 7 - LONG-TERM DEBT AND LIABILITIES

a. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2012, including interest, are as follows:

Fiscal Year Ending December 31:	<u>2004/2012 LTGO BONDS</u>			<u>2007 WATER REVENUE BONDS</u>			<u>2010 LTGO BONDS</u>		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2013	605,000	152,854	757,854	110,000	134,869	244,869	1,135,000	1,112,575	2,247,575
2014	630,000	129,254	759,254	115,000	129,506	244,506	1,175,000	1,074,338	2,249,338
2015	635,000	122,765	757,765	125,000	123,756	248,756	1,215,000	1,034,713	2,249,713
2016	640,000	114,510	754,510	130,000	117,506	247,506	1,255,000	989,450	2,244,450
2017	655,000	104,910	759,910	135,000	111,006	246,006	1,305,000	942,713	2,247,713
2018-2022	2,440,000	332,448	2,772,448	800,000	436,838	1,236,838	6,040,000	3,847,250	9,887,250
2023-2027	805,000	45,578	850,578	1,045,000	187,450	1,232,450	6,640,000	2,354,800	8,994,800
2028-2030						-	4,875,000	520,800	5,395,800
TOTAL	<u>\$ 6,410,000</u>	<u>\$ 1,002,318</u>	<u>\$ 7,412,318</u>	<u>\$ 2,460,000</u>	<u>\$ 1,240,931</u>	<u>\$ 3,700,931</u>	<u>\$ 23,640,000</u>	<u>\$ 11,876,638</u>	<u>\$ 35,516,638</u>

There are \$3,574,380 in restricted assets of the District. These represent reserve requirements as contained in the various indentures, assessment income to be used for the 2007 bond debt service, and a project reserve fund required for the work to be done at Phillips 66 for the development, maintenance, and monitoring of a mitigation site. This project fund is to remain four years, until 2016.

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.

The Public Utility District No. 1 of Whatcom County has pledged future Grandview assessment revenue to repay \$2,845,000 in revenue bonds issued in November, 2007 and payable through 2027. Proceeds from the bonds provided financing for the Grandview line extension. The bonds are payable from Grandview LUD #2 Assessment revenues and revenues of the system. Annual principal and interest payments on the bonds are expected to match the assessment revenue. The total principal and interest remaining to be paid on the bonds is \$3,700,931. Principal and interest paid for the current year and total Grandview assessment revenue were \$244,856 and \$199,160 respectively.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

b. Changes in Long-Term Liabilities

During the year ended December 31, 2012, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/12	Additions	Reductions	Ending Balance 12/31/12	Due Within One Year
LONG TERM LIABILITIES					
Energy Green Credit	\$ 8,953	\$ -	\$ (8,953)	\$ -	\$ -
Bonds Payable:					
2004 LTGO Series A&B Bonds	6,435,000		(5,945,000)	490,000	490,000
2007 Water Revenue Bond (Grandview LUD)	2,565,000		(105,000)	2,460,000	110,000
2010 LTGO Series A&B Bonds	23,703,755		(3,355)	23,700,400	1,135,000
2012 LTGO Bonds	-	5,974,173	(59,730)	5,914,443	115,000
Total Bonds Payable:	\$ 32,703,755	\$ 5,974,173	\$ (6,113,085)	\$ 32,564,843	\$ 1,850,000
TOTAL LONG TERM LIABILITIES	\$ 32,712,708	\$ 5,974,173	\$ (6,122,038)	\$ 32,564,843	\$ 1,850,000

In 2012 bonds were issued to refinance the 2004 LTGO Series A&B bonds. The 2004 bonds have a remaining balance until December 2013. The amounts above do not include any accrued interest as of year-end.

NOTE 8 – RESTRICTED COMPONENT OF NET POSITION

The District's statement of net position reports \$3,514,380 of restricted component of net position for debt service, of which everything is restricted by enabling legislation. The net position also includes \$60,000 of restricted component of net position for miscellaneous reserves for a project mitigation reserve.

NOTE 9 - PENSION PLAN

The District's employees do not participate in any of the plans of the Washington State Department of Retirement Systems.

In lieu of the state retirement program, the District offers its non-union employees an optional deferred compensation plan in accordance with Internal Revenue Service Code Section 457. This plan was adopted in 1989. An Administrative Service Agreement was established with Hartford Life Insurance Company to provide individual investment choices for participants with detailed accounting to both the participants and the District. The District approves a contribution percentage of gross earnings annually to be paid in addition to gross earnings to eligible employees. The 2012 rate of District contribution to the employee is 7.20% of gross earnings. Employees may or may not elect to contribute any portion up to the allowable limit to the Hartford plan. The Plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District has neither fiduciary responsibility nor liability for the Plan and accordingly no records are reflected on the Districts accounts. All eligible union employees are covered under the negotiated contract with Western Conference Teamsters Welfare Trust.

NOTE 10 – SEGMENT ACTIVITY

The District operated four proprietary segments and an Internal Services Fund in 2012. The following changes occurred in the District's segments during 2012:

a. **RAW WATER UTILITY**

The District completed several capital improvements, including the upgrade of the electrical and intake screens air blow-off system at the Water Plant 2 Intake facility; and high head pump and motor rebuilds. Also, the

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

For The Year Ended December 31, 2012

District initiated two new capital projects. One is a major upgrade of the Water Plant 2 facilities and the other is a re-location of raw water supply meters for two large industrial customers.

b. GRANDVIEW WATER UTILITY

The Grandview Potable Water Utility has continued to show an increase in annual water usage year-to-year. Potable water consumption has increased by 15% or 978,739 gallons from 2011 to 2012. Beginning in 2011, the rate structure no longer has a fixed fire component. Fund 411, Grandview Potable, and fund 412, Grandview Fire, were combined into fund 411.

c. ELECTRIC UTILITY

The District renewed the electric services agreement with its one retail customer, Phillips 66 (previously Conoco Phillips), in April of 2010. The previous contract dated back to 1953. The new contract expires in 2028, which is also the termination date of the District's power purchase agreement with the Bonneville Power Administration (BPA).

The Electric Utility continues to make electric system improvements designed to assure reliability of electric service to the water treatment plants and to its retail electric customer. In 2012, the District finalized the purchase of the Enterprise substation which serves the District's Water Plant 2 from Puget Sound Energy (PSE). The District initiated two electric system upgrades in 2012 that will continue into 2013. One is a re-configuration and voltage conversion for the secondary low voltage side of Enterprise substation. The voltage will be changed to 4,160 volts to provide electric service to the new large horsepower pumps that will be installed as part of the Water Plant 2 project. The project also incorporates dual electrical feeds to the water plant, which will increase operation reliability.

The second project is a re-design and upgrade of the District's Refinery project. This project has been undertaken to enhance power supply reliability for service to the District's large electric load customer, Phillips 66.

d. ALCOA SERVICES FUND

The Alcoa Services Fund continues to be a resource of funds for projects outside of the regular operating scope of the District. May 2010 concluded the agreement with Alcoa. No future revenues besides interest income are anticipated. In 2012 the District expended \$31,250 for the Northwest Innovation Resource Center for a research project in conservation. As of December 31st, 2012, the remaining fund balance is \$352,156.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Revenues, Expenses and Changes in Fund Net Position
For The Year Ended December 31, 2012

	403 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVCS	500 INTERNAL SERVICES FUND	DISTRICT TOTAL
OPERATING REVENUE						
Utility Sales and Service Revenues	\$ 5,563,475	\$ 152,162	\$ 8,870,317	\$ -	\$ -	\$ 14,585,954
Other Operating Revenue	4,742	839	-	-	-	5,581
TOTAL OPERATING REVENUE	\$ 5,568,217	\$ 153,000	\$ 8,870,317	\$ -	\$ -	\$ 14,591,535
OPERATING EXPENSES						
Operations:						
Purchased Power	\$ 378,739	\$ 4,887	\$ 6,445,889	\$ -	\$ -	\$ 6,829,514
Water Purification	137,823	592	-	-	-	138,415
Taxes / Process / Delivery Costs	-	-	432,850	-	-	432,850
General Operations	627,229	41,572	136,466	-	-	805,267
Maintenance	226,726	19,572	221,791	-	-	468,088
Administration						
General Administration	1,109,538	45,079	577,044	31,252	-	1,762,913
Planning and Development Expenses	39,103	-	-	-	-	39,103
Depreciation Expense	514,877	74,979	253,848	-	-	843,705
Utility Tax Expense	278,289	6,916	98,802	-	-	384,007
TOTAL OPERATING EXPENSES	\$ 3,312,323	\$ 193,597	\$ 8,166,691	\$ 31,252	\$ -	\$ 11,703,863
OPERATING INCOME (LOSS)	\$ 2,255,894	\$ (40,597)	\$ 703,626	\$ (31,252)	\$ -	\$ 2,887,672
NONOPERATING REVENUE						
Lease Income	\$ 10,425	\$ -	\$ 60	\$ -	\$ -	\$ 10,485
Assessment Income	-	199,160	-	-	-	199,160
Interest Income	115,209	4,021	34,957	2,738	-	156,926
Interest Fees	(15,921)	(486)	(3,308)	(300)	-	(20,014)
TOTAL NONOPERATING REVENUE	\$ 109,713	\$ 202,695	\$ 31,710	\$ 2,439	\$ -	\$ 346,557
NONOPERATING EXPENSE						
Interest Expense	\$ 1,240,578	\$ 139,424	\$ 264,561	\$ -	\$ -	\$ 1,644,563
Amortization	87,709	7,853	69,090	-	-	164,652
Interfund Expense (Revenue)	210,213	-	(105,213)	(105,000)	-	-
Loss (Gain) on Property Disposal	17,080	-	1,338	-	-	18,418
TOTAL NONOPERATING EXPENSE	\$ 1,555,581	\$ 147,277	\$ 229,776	\$ (105,000)	\$ -	\$ 1,827,634
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	810,026	\$ 14,822	\$ 505,560	\$ 76,187	\$ -	\$ 1,406,595
Capital Contributions	\$ (200,000)	\$ -	\$ -	\$ -	\$ -	\$ (200,000)
Extraordinary Items	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 610,026	\$ 14,822	\$ 505,560	\$ 76,187	\$ -	\$ 1,206,595
NET POSITION - JANUARY 1st	\$ 4,608,169	\$ 408,965	\$ 7,443,871	\$ 647,209	\$ 44,067	\$ 13,152,280
NET POSITION - DECEMBER 31st	\$ 5,218,194	\$ 423,786	\$ 7,949,432	\$ 723,396	\$ 44,067	\$ 14,358,875

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Net Position

As of December 31, 2012

	403 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
ASSETS							
CURRENT ASSETS							
Cash & Cash Equivalents	\$ 25,610	\$ 8,149	\$ 3,340	\$ 261	\$ 8,053	\$ -	\$ 45,413
Short Term Investments	12,241,403	86,938	3,171,207	351,895	45,590		15,897,032
Receivables (Net):							
Customers	471,861	11,332	1,471,304	-	-		1,954,496
Other	26,444	-	-	-	182		26,626
LUD #1 West Smith Road Receivable	5,346	-	-	-	-		5,346
Interfund Receivables	-	-	90,000	-	-	(90,000)	-
Interfund Transfers - Capital	1,347,956	-	340,674	377,490	(2,066,120)		-
Interfund Transfers - Employee	(146,652)	(7,825)	(50,639)	-	205,115		-
Total Accounts Receivables (Net)	1,704,955	3,507	1,851,339	377,490	(1,860,822)	(90,000)	1,986,468
Other Current Assets							
Prepayments	-	-	-	-	75,698		75,698
Other							
TOTAL CURRENT ASSETS	\$ 13,971,967	\$ 98,594	\$ 5,025,886	\$ 729,646	\$ (1,731,481)	\$ (90,000)	\$ 18,004,611
NON-CURRENT ASSETS							
Construction Contracts & Other Receivables	-	-	-	-	-		-
Deferred Charges	342,757	39,270	166,781	-	-		548,808
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,434,952	249,088	612,767	-	-		3,296,806
Investments - Assessments	-	217,573	-	-	-		217,573
Investments - Other	-	-	60,000	-	-		60,000
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	7,999,937	-	3,659,858	-	-		11,659,795
Capital Assets Being Depreciated:							
Buildings & Structures	6,966,162	98,977	166,880	-	1,258,241		8,490,260
Machinery & Equipment	7,394,963	3,082,840	7,778,953	-	1,223,541		19,480,296
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	(8,777,166)	(788,782)	(2,541,770)	-	(415,662)		(12,523,379)
Total Capital Assets (Net)	14,557,897	2,393,035	9,063,922	-	2,066,120		28,080,973
TOTAL NONCURRENT ASSETS	\$ 17,335,605	\$ 2,898,966	\$ 9,903,470	\$ -	\$ 2,066,120	\$ -	\$ 32,204,161
TOTAL ASSETS	\$ 31,307,572	\$ 2,997,560	\$ 14,929,356	\$ 729,646	\$ 334,639	\$ (90,000)	\$ 50,208,772

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Net Position

As of December 31, 2012

	403	411	481	490	500		
	RAW WATER	GRANDVIEW	ELECTRIC	ALCOA SVC	INTERNAL	ELIMINATION	DISTRICT
	UTILITY	UTILITY	UTILITY		SERVICES FUND		TOTAL
LIABILITIES							
CURRENT LIABILITIES							
Accounts Payable	\$ 887,807	\$ 76	\$ 1,628,600	\$ 6,250	\$ 80,373	\$ -	\$ 2,603,106
Accrued Employee Payable	-	-	-	-	210,199	-	210,199
Accrued Utility Taxes	23,548	460	218,646	-	-	-	242,655
Contractor Retainage	-	-	84,435	-	-	-	84,435
Interfund Payables	-	90,000	-	-	-	(90,000)	-
Payables from Restricted Assets							
2004 LTGO Bond Principal Series A&B - Current Portion	227,807	-	262,193	-	-	-	490,000
2004 Interest Payable	1,775	-	4,426	-	-	-	6,201
2007 Water Bond Current Portion		110,000					110,000
2007 Interest Payable		23,237					23,237
2010 LTGO Bond Principal Series A&B - Current Portion	1,050,789		84,211				1,135,000
2010 Interest Payable	83,947	-	8,768	-	-	-	92,715
2012 LTGO Bond Principal - Current Portion	89,485		25,515				115,000
2012 Interest Payable	14,465		4,728				19,193
Deposits & Other Payables	3,313	-	-	-	-	-	3,313
TOTAL CURRENT LIABILITIES	\$ 2,382,937	\$ 223,774	\$ 2,321,522	\$ 6,250	\$ 290,572	\$ (90,000)	\$ 5,135,055
NON-CURRENT LIABILITIES							
Energy Green Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payables from Restricted Assets							
2004 LTGO Bond Series A&B Principal	-	-	-	-	-	-	-
2007 Water Revenue Bond Principal	-	2,350,000	-	-	-	-	2,350,000
2010 LTGO Bond Series A&B Principal	20,434,831	-	2,130,568	-	-	-	22,565,400
2012 LTGO Bond Principal	3,271,609	-	2,527,834	-	-	-	5,799,443
TOTAL NONCURRENT LIABILITIES	\$ 23,706,440	\$ 2,350,000	\$ 4,658,402	\$ -	\$ -	\$ -	\$ 30,714,842
TOTAL LIABILITIES	\$ 26,089,378	\$ 2,573,774	\$ 6,979,924	\$ 6,250	\$ 290,572	\$ (90,000)	\$ 35,849,897
NET POSITION							
Net Investment in Capital Assets	\$ 1,088,347	\$ (66,965)	\$ 6,049,259	\$ -	\$ 2,066,120		\$ 9,136,761
Restricted for Debt Service	2,434,952	466,661	612,767	-	-		3,514,380
Restricted for Miscellaneous Reserves	-	-	60,000	-	-		60,000
Unrestricted	1,694,895	24,090	1,227,405	723,396	(2,022,053)		1,647,734
TOTAL NET POSITION	\$ 5,218,194	\$ 423,786	\$ 7,949,432	\$ 723,396	\$ 44,067	\$ -	\$ 14,358,875
TOTAL LIABILITIES & NET POSITION	\$ 31,307,572	\$ 2,997,560	\$ 14,929,356	\$ 729,646	\$ 334,639	\$ (90,000)	\$ 50,208,772

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flow

As of December 31, 2012

	403	411	481	490	500	
	RAW WATER	GRANDVIEW POTABLE	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 5,537,994	\$ 155,173	\$ 8,167,212	\$ -	\$ 2,410	\$ 13,862,790
Payments to suppliers	(609,248)	(28,153)	(6,499,774)	(25,144)	(962,747)	(8,125,067)
Payments to employees (Labor only)					(1,784,549)	(1,784,549)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 4,928,747	\$ 127,020	\$ 1,667,438	\$ (25,144)	\$ (2,744,886)	\$ 3,953,174
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) Other Utilities	(2,194,546)	(95,202)	(791,136)	(75,000)	3,155,884	0
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (2,194,546)	\$ (95,202)	\$ (791,136)	\$ (75,000)	\$ 3,155,884	\$ 0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(5,628,592)		(2,762,356)		(419,986)	(8,810,935)
Principal paid on Capital Debt	(255,471)	(105,000)	(274,529)			(635,000)
Interest paid on Capital Debt	(1,160,291)	(139,856)	(200,667)			(1,500,814)
Payment from Assessments to pay 07 debt payments		199,160				199,160
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (7,044,354)	\$ (45,696)	\$ (3,237,552)	\$ -	\$ (419,986)	\$ (10,747,589)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	99,677	3,536	31,817	2,439	(555)	136,913
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 99,677	\$ 3,536	\$ 31,817	\$ 2,439	\$ (555)	\$ 136,913
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (4,210,477)	\$ (10,343)	\$ (2,329,433)	\$ (97,706)	\$ (9,544)	\$ (6,657,502)
BALANCE BEGINNING OF YEAR	18,912,441	572,090	6,176,747	449,862	63,187	26,174,327
BALANCE END OF PERIOD	\$ 14,701,964	\$ 561,748	\$ 3,847,314	\$ 352,156	\$ 53,643	\$ 19,516,825

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flow

As of December 31, 2012

	403	411	481	490	500	
	CHERRY	GRANDVIEW	ELECTRIC	BPA-ALCOA	INTERNAL	
	POINT	POTABLE		ESCROW	SERVICE	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH						
Operating Income (Loss)	\$ 2,255,894	\$ (40,597)	\$ 703,626	\$ (31,252)	\$ 0	\$ 2,887,672
Adjustments to reconcile operating income to net cash provided (used) by operating activity						
A Depreciation	440,062	74,979	221,758	-	106,905	843,705
Z Miscellaneous - Non-Operating	(202,270)	-	(1,366)	-	296	(203,340)
B Decrease (Increase) in Net Accounts Receivable	(39,271)	5,932	(710,826)	-	574	(743,592)
D Decrease (Increase) in Prepayments	-	-	-	-	(42,986)	(42,986)
J Decrease (Increase) in Other Deferred Charges	-	-	-	-	(291)	(291)
Y Interfund Transfers	1,960,343	86,975	817,822	-	(2,865,140)	(0)
L Increase (Decrease) in Account Payable	541,430	(172)	565,570	6,107	33,806	1,146,741
R Increase (Decrease) in Accrued Employee Payable	-	-	-	-	21,950	21,950
M Increase (Decrease) in Accrued Utility Taxes	3,068	(98)	1,899	-	0	4,869
N Increase (Decrease) in Contractor Retainage	(30,510)	-	77,909	-	-	47,399
T Increase (Decrease) in Energy Green Credit	-	-	(8,953)	-	-	(8,953)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,928,747	\$ 127,020	\$ 1,667,438	\$ (25,144)	\$ (2,744,886)	\$ 3,953,174

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

NOTE 11 - DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principals for regulated businesses, the District has deferred charges of \$548,808 in 2012 which will be amortized using the straight-line method over the life of the bonds (each 20 years). These deferred charges resulted from costs relating to the sale and redemption of the bonds. These charges and revenues would have been included in net income for 2012 in non-regulated business, but for rate-making purposes they are treated as applicable to future periods. Deferred transactions resulted from the following:

a. **Deferred Charges**

Unamortized Debt Discount and Expense

The District's deferred charges as of December 31, 2012 are \$548,808:

DEFERRED CHARGES		2012
Unamortized Debt Expenses on 2007 Water Revenue Bond	\$	39,270
Unamortized Debt Expenses on 2010 LTGO Bonds		168,143
Unamortized Debt Expenses on 2012 LTGO Bonds		85,957
Prepaid Interest on 2012 LTGO Bonds		255,438
Total Deferred Charges	\$	548,808

b. **Deferred Credits**

The District didn't have any deferred credits in 2012.

NOTE 12 - PROPERTY TAXES

The Whatcom County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1st on property listed as of the prior May 31st. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years. Whatcom County annually publishes the 'Statement of Assessed Valuations, Tax Rates, and Taxes Levied Within the Various Taxing Districts of Whatcom County'. The District's assessed value is equal to the Total Value of Taxable Property of Whatcom County. The District's assessed valuation of taxable property for 2012 was \$23,531,575,782. This information can be found at <http://www.co.whatcom.wa.us/assessor/taxguides/taxbook.jsp>.

The tax is due in two equal installments on April 30th and October 31st. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$0.45 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

The District had no tax levies for 2012 or 2011.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

NOTE 13 – ACCOUNTING CHANGES

During our last audit (covering year 2009 and 2010), it was recommended that an Elimination column was used on the Statement of Net Position, multi-column format (pages 21 and 22). The requirement is to eliminate all duplicating transactions. In the District's case, it eliminated the Interfund Receivable with the Interfund Payable. This addition does not affect accounting procedures, just the presentation.

NOTE 14 – JOINT VENTURES

PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. dba NOANET

The District, along with 13 other Washington State Public Utility Districts and Energy Northwest, was a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from Bonneville Power Administration, throughout the Pacific Northwest for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

As a member of NoaNet, the District guaranteed certain portions of NoaNet debt based on its proportionate share. The management of NoaNet anticipates meeting debt obligations through profitable operations; however, there is no assurance NoaNet's plan will be achieved. During the start-up phase, NoaNet assessed its members to cover operating deficits. In 2012, NoaNet was able to cover its debt obligations from operations. The District was not assessed in 2012.

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds are due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. Each member of NoaNet entered into a Repayment Agreement to guarantee the debt of NoaNet.

Under the Repayment Agreement, each Member acknowledges and agrees that it is a guarantor of the payment of principal and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's Percentage Interest. The District's guarantee is based on its 0.81% interest, or \$365,600.66, of a total liability of \$45,135,884.28 for principal and interest over the life of the bond.

There is a provision in the Bond Resolution for a 25% step-up. In other words, if a member doesn't pay its share of the bond obligation, then the rest of the members have to step up to a maximum of 25% of its obligation. The amount of *remaining contingent liability* to the District at December 31, 2012 is \$24,896.83.

On September 1, 2003, in accordance with Section 19, Article II of NoaNet's Bylaws, the Public Utility District No.1 of Whatcom County presented a written notice to NoaNet withdrawing from the organization. The District maintains a financial liability only for the \$27 million dollar bonds and the \$5 million dollar line-of-credit. The District has no liability for any contractual debt incurred or to be incurred by NoaNet after September 1, 2003.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 2327 Grand Avenue, East Wenatchee, WA 98802-8219.

NOTE 15 - RISK MANAGEMENT

In January 2002 the Public Utility District No.1 of Whatcom County became a member of the Public Utility Risk Management Services, [PURMS], a joint self-insurance fund. Its membership is comprised of 20 Public Utility

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

Districts and NOANET, a Washington nonprofit mutual corporation providing broadband communications services [See NOTE-14 JOINT VENTURES].

The Public Utility Risk Management Services, Joint Self-Insurance Fund was organized as of December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.2000 and inter-local agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The District is a member of the Liability and Property Pools. The risks shared by the members are defined in the member's Self-Insurance Agreement. Both pools (liability and property) operate independently of one another. The Fund maintains assets from which liability claims against the member Districts and property losses of member Districts are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. The Fund also purchases excess insurance for losses above the \$1,000,000 for liability and above \$250,000 for property

The members, through the Fund, provide liability self-insurance for the first \$1 million of individual loss claims. Assessments for the liability pool are based upon a formula whose elements include; basic fees, historic claims experience and workers hours. The assessments include amounts for excess insurance premiums, claims experience, and operating costs. In November 2008, it was decided to raise the Designated Liability Pool Balance from \$2 million to \$3 million through semi-annual assessments starting in January 2009 and continuing through July 2012. Interim assessments are levied whenever the level of the liability program falls below \$500,000 of the normal operating balance. Through PURMS, an AEGIS liability policy covers an additional \$35 million over the initial \$1 million. At the end of 2009, the District decided to also add another \$25 million in coverage through an EIM policy over the previous \$36 million in coverage.

Effective April 1, 1977 the Fund established a self-insurance program for member's property. The property program provides property self-insurance for the first \$250,000 of individual loss claims. Assessments for the property pool are based upon a formula whose elements include: basis fees, property values and risk based rates. The assessments include amounts for excess insurance premiums, claims experience, and operating costs. For the property program, member Districts are obligated to replenish to a level of \$750,000 through annual assessments. Interim assessments are levied whenever the level of the property program is reduced to an amount less than \$500,000. PURMS maintains an Excess Property Insurance for its members in the Property Pool of \$200 million.

A comprehensive 2012 Annual Report can be obtained by contacting:

Public Utility Risk Management Services
Administered by Pacific Underwriters
PO Box 68787, Seattle, WA 98168
Phone; 800-562-5226 FAX: 206-248-0130

The District has a separate policy with Marsh USA Inc, through Associated Electric & Gas Insurance Services LTD (AEGIS) for *Western Interconnect Electric System* (WIES) members for electric blackouts and/or brownouts for our electric customer.

As agreed, Marsh (USA) has placed coverage with AEGIS pursuant to the surplus lines laws of Oregon. As an eligible surplus lines insurer, AEGIS is subject to limited state financial solvency regulation. Also, the insurers do not participate in any state insurance guaranty fund which otherwise provide limited claims reimbursement for policyholders of insolvent insurers. Therefore, the placement of coverage with AEGIS could result in financial exposure to the District if the insurer(s) becomes insolvent.

Because the insurance policy covers more than one state, premium tax is also due in the other states, which is computed based on the portion of premium allocable to the risks located in each state. Where the state law allows, Marsh has prepared the necessary forms for WIES to file directly with the state. These forms show the allocated

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2012

premium and tax amount due for each state. Their decision to file these forms will require the appropriate signature and tax payment check in the amount indicated on each form. Marsh suggests that the District consult with our legal or tax advisors with respect to the decision to file in these jurisdictions. In Washington, Idaho, Montana, Nevada, North Dakota and Wyoming the states require that Marsh collect and remit the allocated premium taxes.

It should be noted that Marsh has allocated the premium based on their understanding of the applicable insurance laws and regulations in each of the states where the District and/or covered risks are located. It is still possible that one or more US jurisdictions may assert a claim for a portion of the tax that was allocated to another US jurisdiction.

Risk pool insurance premiums and pool assessments for the District were as follows for 2012 and 2011:

INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
<u>PURMS 2011</u>						
<u>LIABILITY</u>						
01/05/2011	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	983,246.23		
01/05/2011	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	145,053.90	1.49%	16,799.55
01/06/2011	GENERAL ASSESSMENT	LIABILITY	RETENTION FUNDING	165,000.00	1.46%	2,402.97
01/10/2011	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	414,736.00	1.64%	6,814.08
07/01/2011	AEGIS	LIABILITY	PROF LIAB [E&O]	178,717.66	1.46%	2,602.76
07/08/2011	GENERAL ASSESSMENT	LIABILITY	RETENTION FUNDING	175,000.00	1.46%	2,548.61
09/01/2011	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	547,535.00	1.64%	8,997.12
				2,609,288.79	1.54%	40,165.09
<u>PROPERTY</u>						
01/10/2011	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	291,970.00	3.37%	9,830.88
04/05/2011	NATIONAL UNION and ZURICH	PROPERTY	EXCESS PROPERTY POLICY	918,444.00	3.15%	28,941.31
10/12/2011	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	250,874.00	3.58%	8,986.71
				1,461,288.00	3.27%	47,758.90
<u>PURMS 2012</u>						
<u>LIABILITY</u>						
01/04/2012	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	956,210.40		
01/04/2012	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	159,325.01	1.56%	17,416.49
01/04/2012	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	401,266.00	1.65%	6,615.79
07/02/2012	AEGIS	LIABILITY	PROF LIAB [E&O]	150,774.13	1.52%	2,288.44
08/01/2012	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.52%	151.78
09/26/2012	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	662,914.00	1.70%	11,292.70
11/14/2012	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.52%	151.78
				2,350,489.54	1.61%	37,916.98
<u>PROPERTY</u>						
01/04/2012	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	232,767.00	3.56%	8,296.99
04/06/2012	NATIONAL UNION and ZURICH	PROPERTY	EXCESS PROPERTY POLICY	1,070,904.00	3.07%	32,880.63
06/27/2012	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	387,104.00	3.52%	13,616.88
11/14/2012	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	273,064.00	3.52%	9,615.16
				1,963,839.00	3.28%	64,409.66
<u>MARSH 2011</u>						
07/12/2011	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			397.72
<u>MARSH 2012</u>						
06/01/2012	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			374.51

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

For The Year Ended December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Public Utility District No. 1 of *Whatcom County* ("District") conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. **Reporting Entity**

Public Utility District No. 1 of *Whatcom County* is a municipal corporation governed by an elected three-member board. As required by generally accepted accounting principles, the management has considered all potential component units in defining the reporting entity. The District has no component units.

b. **Basis of Accounting and Presentation**

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW.

The District uses the full-accrual basis of accounting 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 District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principal ongoing operations. The principal operating revenues of the District are charges to customers for water delivery and electric service. The District also recognizes as operating revenue the penalties that occasionally correspond with utility billing, grant income, income from outside consulting and some miscellaneous recycle income. Operating expenses for the District include the cost of sales and services, administrative expenses, planning and business development expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

c. **Cash and Cash Equivalents**

For the 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. The cash referenced on the Statement of Cash Flows will include Cash & Cash Equivalents, Short-term Investments, and also the Restricted Investments under Non-current assets.

d. **Utility Plant and Depreciation / Capital Assets:** SEE NOTE 3.

e. **Restricted Funds**

In accordance with bond resolutions (and certain related agreements) separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including construction, debt-service and other special reserve requirements. Restricted funds currently include the following:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

RESTRICTED RESERVE BALANCES	2011
Bond Reserves	
2004 LTGO Series A&B Bond Reserve	\$ 798,006
2007 Water Revenue Bond Reserve (Grandview LUD)	249,088
2010 LTGO Series A&B Bond Reserve	<u>2,249,713</u>
Total Bond Reserves	\$ 3,296,806
Other Restricted Funds	
LUD #2 Cash Investments	432,310
BPA CRC Cash Balance	9,041
Project Reserve Fund	60,000
TOTAL RESTRICTED RESERVE BALANCES	\$ 3,798,157

f. Receivables

Two customers have proved to be a collection risk. An allowance for bad debt in the amount of \$26,421 is allocated to offset this potential loss.

g. Inventories

Inventories are valued at original cost (when they exist), which approximates the market value.

h. Investments: SEE NOTE 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and floaters (in lieu of holidays). 2009 is the first year the District reflected accrued compensated absence pay in the financial statements as an expense and liability. All leave is paid at the employee's current rate of pay when used. The General Manager's compensated absences are separately negotiated as part of his employment contract.

Vacation pay may be carried over at year-end at a balance not greater than 80 hours plus the annual accrual. Unused vacation is payable upon resignation, retirement, termination without cause, or death.

Sick Leave may be accumulated up to a total of 1080 hours for non-union employees and 1136 hours for union employees, and is not convertible. Upon termination of employment, unused sick leave is compensated at 25% of accrued benefit for non-union, 30% for union.

Floating Holidays may be used at any time once accrued for leave. Full-time employees earn 12 floaters per year. Unused floaters must be cashed-out at the end of the year and cannot be carried forward to the next fiscal year.

j. Unamortized Debt Expenses

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

k. Construction Financing

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

Funds for Capital Asset Construction are budgeted and collected in the Short-term Investments. SEE NOTE 2.

1. Purchase Commitments

The District currently has a power supply contract with the Bonneville Power Administration ("BPA") that covers its entire electric load requirements. The contract with BPA runs through September 30, 2028.

In August 2008, the District approved a new Network Transmission Agreement ("NT Agreement") with BPA which provides for an extension of the term of the NT Agreement through August 31, 2038 and assures sufficient transmission capacity to accommodate both the District's existing power supply requirements moved over BPA's transmission system and future electric load growth.

NOTE 2 – DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits, and certificates of deposit, are entirely covered by Federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Whatcom County Investment Pool (WCIP) pursuant to RCW 39.58.

b. Investments

The agent for the District's investments is the Whatcom County Treasurer's Office and all investments are held in the Whatcom County Investment Pool [WCIP].

As of December 31, 2011, the District had the following investments:

	2011	
	<u>Maturities</u>	<u>Fair Value</u>
INVESTMENTS		
Short-Term Investments		
Whatcom County Investment Pool	\$ 22,348,382	\$ 22,348,382
Non-Current		
Whatcom County Investment Pool	3,798,157	3,798,157
TOTAL INVESTMENTS	<u>\$ 26,146,540</u>	<u>\$ 26,146,540</u>

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

NOTE 3 - UTILITY PLANT AND DEPRECIATION - CAPITAL ASSETS

Capital assets are defined by the District as assets with initial individual cost of more than \$400 for computer equipment, and \$5,000 for other assets, and an estimated useful life in excess of one year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred. The District has not acquired any assets under a capital lease.

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 estimated cost relative to known historical costs of related components during the same period of construction. Donations by developers and customers are recorded at the known value of the contractor price, donor cost, or appraised value.

Utility plant activities for the year ending December 31, 2011 were as follows:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

	2011 Beginning Balance	2011 Activity Increase	Decrease	2011 Ending Balance
UTILITY PLANT NOT BEING DEPRECIATED				
LAND				
Raw Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
CONSTRUCTION-IN-PROGRESS				
Raw Water Utility	1,523,084	1,810,498	(966,766)	2,366,816
Grandview Potable Water Utility	6,085		(6,085)	-
Electric Utility	253,147	1,383,498	(63,710)	1,572,935
General Utility & Office (Internal Services Utility)	269,841	311,672	(177,497)	404,016
TOTAL CONSTRUCTION-IN-PROGRESS	2,052,158	3,505,668	(1,214,058)	4,343,767
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	\$ 2,160,158	\$ 3,505,668	\$ (1,214,058)	\$ 4,451,767
UTILITY PLANT BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
Raw Water Utility	\$ 6,966,162	\$ -	\$ -	\$ 6,966,162
Grandview Water Utility	98,977	-	-	98,977
Electric Utility	166,880	-	-	166,880
General Utility & Office (Internal Services Utility)	1,245,296	12,944		1,258,241
TOTAL BUILDINGS & STRUCTURES	8,477,316	12,944	-	8,490,260
MACHINERY & EQUIPMENT				
Raw Water Utility	6,687,902	905,881	(134,114)	7,459,668
Grandview Water Utility	3,082,840			3,082,840
Electric Utility	7,091,048	14,300		7,105,349
General Utility & Office (Internal Services Utility)	358,890	70,483	(11,710)	417,663
TOTAL MACHINERY & EQUIPMENT	17,220,679	990,664	(145,824)	18,065,520
INTANGIBLE				
Raw Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL UTILITY PLANT BEING DEPRECIATED	\$ 26,563,995	\$ 1,003,609	\$ (145,824)	\$ 27,421,780
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	\$ (4,064,538)		\$ (133,484)	\$ (4,198,022)
Machinery & Equipment	(6,783,530)	59,798	(621,550)	(7,345,282)
Intangible	(173,200)		(43,300)	(216,500)
TOTAL ACCUMULATED DEPRECIATION	(11,021,269)	59,798	(798,334)	(11,759,804)
UTILITY PLANT BEING DEPRECIATED (NET)	\$ 15,542,727	\$ 1,063,407	\$ (944,158)	\$ 15,661,976
TOTAL UTILITY PLANT, NET	\$ 17,702,884	\$ 4,569,075	\$ (2,158,216)	\$ 20,113,743

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

<u>ASSET</u>	<u>YEARS</u>
Buildings & Structures	5-60
Vehicles	3-10
Machinery & Equipment	3-60
Computer Hardware & Software	2-5
Intangible	20

Initial depreciation on utility plant is recorded in the year subsequent to purchase or completion.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant; charges that relate to abandoned projects are expensed. The District expensed \$210,000 in CWIP projects in 2011.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$3,920,994. Of the committed balance of \$29,528,430, the district will be required to raise approximately \$2.5 million in future financing.

Construction in progress represents capital projects for the upgrade or expansion of the District's infrastructure. General improvements for the benefit of all users of a specific utility are financed with reserves, previously collected through rates and/or bonds, or paid for with future rates. Improvements/capital expansion requested by an individual customer(s) for their specific benefit is the direct financial responsibility of that customer(s).

Construction work in progress is composed of the following:

2011					
	District Capital Project #	Annual Project Authorization	Expended Through 12/31/11	Committed	Required Future Financing
CONSTRUCTION IN PROGRESS					
Purchase PSE Fermdale Substation	E10	\$ 259,523	\$ 434,391	\$ 640,391	None
Purchase PSE Enterprise Substation	E11	1,001,433	67,691	1,451,897	None
Refinery Substation Redesign	E14	1,085,088	1,070,854	3,993,396	\$ 2,500,000
SCADA System Analysis & Upgrade	IS12	528,052	404,016	1,328,081	None
Treatment Plant Capacity Design & Upgrade	RW1	888,489	2,232,076	21,424,884	None
Distribution System Storage	RW20	158,409	88,490	88,490	None
Main line valves on Distribution System	RW22	-	45,381	601,292	None
Conoco Phillips Meter Relocation	RW25	-	869		None
TOTAL CONSTRUCTION IN PROGRESS		\$ 3,920,994	\$ 4,343,767	\$ 29,528,430	\$ 2,500,000

NOTE 5 – SHORT-TERM DEBT

The District had no short-term debt obligations in 2011.

NOTE 6 - LEASE COMMITMENTS

a. **Operating Lease(s)**

The Public Utility District No.1 of Whatcom County is committed to a single lease for a portable office. This lease is considered an operating lease for accounting purposes. Lease expenses for the year ended December 31, 2011 amounted to \$20,481 which includes additional fees for the removal of the previous trailer and the installation of the new trailer. Future minimum rental commitments for this lease are as follows:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

Fiscal Year Ending December 31:

2012	\$	10,156
2013		10,156
2014		846
Total	\$	<u>21,158</u>

b. Capital Lease(s)

The Public Utility District No.1 of *Whatcom County* has no capital leases and has not acquired any assets through capital leases.

NOTE 7 - LONG-TERM DEBT AND LIABILITIES

a. Long-Term Debt

The annual requirements to amortize all debts outstanding as of December 31, 2011, including interest, are as follows:

Fiscal Year Ending December 31:	<u>2004 LTGO BONDS</u>			<u>2007 WATER REVENUE BONDS</u>			<u>2010 LTGO BONDS</u>		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2012	470,000	325,601	795,601	105,000	139,856	244,856	-	1,112,575	1,112,575
2013	490,000	304,748	794,748	110,000	134,869	244,869	1,135,000	1,112,575	2,247,575
2014	515,000	282,103	797,103	115,000	129,506	244,506	1,175,000	1,074,338	2,249,338
2015	540,000	258,007	798,007	125,000	123,756	248,756	1,215,000	1,034,713	2,249,713
2016	565,000	231,077	796,077	130,000	117,506	247,506	1,255,000	989,450	2,244,450
2017-2021	2,600,000	710,984	3,310,984	760,000	478,131	1,238,131	6,200,000	4,134,163	10,334,163
2022-2026	1,255,000	137,668	1,392,668	985,000	243,650	1,228,650	6,320,000	2,677,750	8,997,750
2027-2030				235,000	13,513	248,513	6,340,000	853,650	7,193,650
TOTAL	<u>\$ 6,435,000</u>	<u>\$ 2,250,188</u>	<u>\$ 8,685,188</u>	<u>\$ 2,565,000</u>	<u>\$ 1,380,788</u>	<u>\$ 3,945,788</u>	<u>\$ 23,640,000</u>	<u>\$ 12,989,213</u>	<u>\$ 36,629,213</u>

There is \$3,798,157 in restricted assets of the District. These represent reserve requirements as contained in the various indentures, assessment income to be used for the 2007 bond debt service, a reserve for an upcoming BPA liability, and a project reserve fund required for the work to be done at Conoco Phillips for the development, maintenance, and monitoring of a mitigation site. This project fund is to remain five years, until 2016.

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.

The Public Utility District No. 1 of Whatcom County has pledged future Grandview assessment revenue to repay \$2,845,000 in revenue bonds issued in November, 2007 and payable through 2027. Proceeds from the bonds provided financing for the Grandview line extension. The bonds are payable from Grandview LUD #2 Assessment revenues and revenues of the system. Annual principal and interest payments on the bonds are expected to match the assessment revenue. The total principal and interest remaining to be paid on the bonds is \$3,945,788. Principal and interest paid for the current year and total Grandview assessment revenue were \$244,606 and \$211,110 respectively.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

b. Changes in Long-Term Liabilities

During the year ended December 31, 2011, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/11	Additions	Reductions	Ending Balance 12/31/11	Due Within One Year
LONG TERM LIABILITIES					
Energy Green Credit	\$ 66,065	\$ -	\$ (57,112)	\$ 8,953	
Bonds Payable:					
2004 LTGO Series A&B Bonds	6,885,000		(450,000)	6,435,000	470,000
2007 Water Revenue Bond (Grandview LUD)	2,665,000		(100,000)	2,565,000	105,000
2010 LTGO Series A&B Bonds	23,707,111		(3,356)	23,703,755	-
Total Bonds Payable:	\$ 33,257,111	\$ -	\$ (553,356)	\$ 32,703,755	\$ 575,000
TOTAL LONG TERM LIABILITIES	\$ 33,323,176	\$ -	\$ (610,468)	\$ 32,712,708	\$ 575,000

NOTE 8 – RESTRICTED COMPONENT OF NET POSITION

The District's statement of net position reports \$3,729,117 of restricted component of net position for debt service, of which everything is restricted by enabling legislation. The net position also includes \$69,041 of restricted component of net position for miscellaneous reserves for a project mitigation reserve and a reserve to cover the liability for BPA CRC credits. SEE NOTE 11b.

NOTE 9 - PENSION PLAN

The District's employees do not participate in any of the plans of the Washington State Department of Retirement Systems.

In lieu of the state retirement program, the District offers its non-union employees an optional deferred compensation plan in accordance with Internal Revenue Service Code Section 457. This plan was adopted in 1989. An Administrative Service Agreement was established with Hartford Life Insurance Company to provide individual investment choices for participants with detailed accounting to both the participants and the District. The District approves a contribution percentage of gross earnings annually to be paid in addition to gross earnings to eligible employees. The 2011 rate of District contribution to the employee is 7.20% of gross earnings. Employees may or may not elect to contribute any portion up to the allowable limit to the Hartford plan. The Plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District has neither fiduciary responsibility nor liability for the Plan and accordingly no records are reflected on the Districts accounts. All eligible union employees are covered under the negotiated contract with Western Conference Teamsters Welfare Trust.

NOTE 10 – SEGMENT ACTIVITY

The District operated four proprietary segments and an Internal Services Fund in 2011. The following changes occurred in the District's segments during 2011:

a. **RAW WATER UTILITY**

The District completed several capital improvements, including upgrade of the settling basin flocculators at Water Plant 1; upgrade of the electrical and air blow-off systems at the Water Plant 2 Intake facility; high head pump and motor rebuilds; and replacement of a truck for use by the water operators.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2011

b. **GRANDVIEW WATER UTILITY**

The Grandview Potable Water Utility has shown a turn-around in the usage. Potable water consumption has increased by 39% or 1,500,000 gallons from 2010 to 2011. Beginning in 2011, the rate structure no longer has a fixed fire component. Fund 411, Grandview Potable, and fund 412, Grandview Fire, were combined into fund 411.

c. **ELECTRIC UTILITY**

The District renewed the electric services agreement with its one retail customer, ConocoPhillips in April of 2010. The previous contract dated back to 1953. The new contract expires in 2028, which is also the termination date of the District's power purchase agreement with the Bonneville Power Administration (BPA).

The Electric Utility continues to make electric system improvements designed to assure reliability of electric service to the water treatment plants and to its retail electric customer. The District finalized the purchase of the Ferndale substation which serves the Plant 1 District water system from Puget Sound Energy (PSE) in June of 2011. The District is negotiating the purchase of the Enterprise PSE substation serving Plant 2 water system facility and anticipates completing the purchase/sale agreement in 2012. The District will complete the final design and begin construction of an upgrade to the secondary voltage side of the Enterprise substation, once it is purchased from PSE. This project supports the Water Plant 2 upgrade. The District will also complete final design and begin construction of an upgrade to its 115 kV substation serving its refinery customer also in 2012.

d. **ALCOA SERVICES FUND**

The Alcoa Services Fund continues to be a resource of funds for projects outside of the regular operating scope of the District. May 2010 concluded the agreement with Alcoa. No future revenues besides interest income are anticipated. In 2011 the District expended \$25,000 for the Northwest Innovation Resource Center for a research project in conservation. As of December 31st, 2011, the remaining fund balance is \$449,900.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Revenues, Expenses and Changes in Fund Net Position
For The Year Ended December 31, 2011

	403 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA ESCROW SVCS	500 INTERNAL SERVICES FUND	DISTRICT TOTAL
OPERATING REVENUE						
Utility Sales and Service Revenues	\$ 5,154,116	\$ 139,106	\$ 8,753,162	\$ -	\$ -	\$ 14,046,385
Other Operating Revenue	81,424	67	-	-	-	81,491
TOTAL OPERATING REVENUE	\$ 5,235,541	\$ 139,173	\$ 8,753,162	\$ -	\$ -	\$ 14,127,876
OPERATING EXPENSES						
Operations:						
Purchased Power	\$ 366,935	\$ 3,982	\$ 6,377,722	\$ -	\$ -	\$ 6,748,640
Water Purification	137,480	727	-	-	-	138,207
Taxes / Process / Delivery Costs	-	-	428,031	-	-	428,031
General Operations	647,811	49,523	137,632	-	-	834,966
Maintenance	747,095	41,266	254,815	-	-	1,043,176
Administration						
General Administration	1,114,920	84,266	460,263	26,659	-	1,686,107
Planning and Development Expenses	101,424	-	-	-	-	101,424
Depreciation Expense	460,546	88,675	249,113	-	-	798,334
Utility Tax Expense	243,839	6,437	100,403	-	-	350,679
TOTAL OPERATING EXPENSES	\$ 3,820,050	\$ 274,875	\$ 8,007,979	\$ 26,659	\$ -	\$ 12,129,564
OPERATING INCOME (LOSS)	\$ 1,415,491	\$ (135,702)	\$ 745,183	\$ (26,659)	\$ -	\$ 1,998,313
NONOPERATING REVENUE						
Lease Income	\$ 12,630	\$ -	\$ 175	\$ -	\$ -	\$ 12,805
Assessment Income	-	211,110	-	-	-	211,110
Interest Income	180,626	6,419	62,406	4,789	-	254,238
Interest Fees	(16,929)	(601)	(5,869)	(446)	-	(23,845)
TOTAL NONOPERATING REVENUE	\$ 176,326	\$ 216,928	\$ 56,712	\$ 4,342	\$ -	\$ 454,308
NONOPERATING EXPENSE						
Interest Expense	\$ 1,199,545	\$ 144,175	\$ 255,773	\$ -	\$ -	\$ 1,599,492
Amortization	14,334	8,122	5,974	-	-	28,430
Interfund Expense	96,738	-	(96,738)	-	-	-
Loss (Gain) on Property Disposal	86,026	-	-	-	-	86,026
TOTAL NONOPERATING EXPENSE	\$ 1,396,643	\$ 152,296	\$ 165,009	\$ -	\$ -	\$ 1,713,948
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	195,174	(71,070)	636,886	(22,317)	-	738,673
Capital Contributions	\$ 21,037	\$ -	\$ -	\$ -	\$ -	\$ 21,037
Extraordinary Items	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 216,211	\$ (71,070)	\$ 636,886	\$ (22,317)	\$ -	\$ 759,709
NET POSITION - JANUARY 1st	\$ 4,391,958	\$ 480,035	\$ 6,806,985	\$ 669,526	\$ 44,067	\$ 12,392,571
NET POSITION - DECEMBER 31st	\$ 4,608,169	\$ 408,965	\$ 7,443,871	\$ 647,209	\$ 44,067	\$ 13,152,280

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Net Position

As of December 31, 2011

	403	411	481	490	500		
	RAW WATER	GRANDVIEW	ELECTRIC	ALCOA	INTERNAL	ELIMINATION	DISTRICT
	UTILITY	UTILITY	UTILITY	ESCROW SVC	SERVICES FUND		TOTAL
ASSETS							
CURRENT ASSETS							
CASH & CASH EQUIVALENTS	\$ 6,817	\$ 2,469	\$ 14,975	\$ 856	\$ 2,671	\$ -	\$ 27,787
SHORT TERM INVESTMENTS	16,470,672	(111,776)	5,479,964	449,006	60,516		22,348,382
RECEIVABLES (Net):							
Customers	432,609	17,264	759,876	-	-		1,209,748
Other	26,425	-	602	-	756		27,782
LUD #1 West Smith Road Receivable	5,346	-	-	-	-		5,346
Interfund Receivables	180,000	-	90,000	-	-	(270,000)	-
Interfund Transfers - Capital	1,129,452	-	246,097	377,490	(1,753,038)		-
Interfund Transfers - Employee	(129,303)	(16,051)	(37,164)	-	182,519		-
Total Accounts Receivables (Net)	1,644,528	1,213	1,059,409	377,490	(1,569,764)	(270,000)	1,242,876
OTHER CURRENT ASSETS							
Prepayments	-	-	-	-	32,712		32,712
Other							
TOTAL CURRENT ASSETS	\$ 18,122,017	\$ (108,095)	\$ 6,554,348	\$ 827,352	\$ (1,473,865)	\$ (270,000)	\$ 23,651,757
NON-CURRENT ASSETS							
Construction Contracts & Other Receivables	-	-	-	-	-		-
Deferred Charges	237,958	47,123	82,806	-	(291)		367,596
NONCURRENT RESTRICTED ASSETS							
Investments - Bond Reserves	2,434,952	249,088	612,767	-	-		3,296,806
Investments - Assessments	-	432,310	-	-	-		432,310
Investments - Other	-	-	69,041	-	-		69,041
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	2,366,816	-	1,572,935	-	404,016		4,343,767
Capital Assets Being Depreciated:							
Buildings & Structures	6,966,162	98,977	166,880	-	1,258,241		8,490,260
Machinery & Equipment	7,459,668	3,082,840	7,105,349	-	417,663		18,065,520
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	(8,397,280)	(713,803)	(2,321,840)	-	(326,882)		(11,759,804)
Total Capital Assets (Net)	9,369,367	2,468,014	6,523,324	-	1,753,038		20,113,743
TOTAL NONCURRENT ASSETS	\$ 12,042,277	\$ 3,196,535	\$ 7,287,938	\$ -	\$ 1,752,747	\$ -	\$ 24,279,497
TOTAL ASSETS	\$ 30,164,294	\$ 3,088,440	\$ 13,842,286	\$ 827,352	\$ 278,882	\$ (270,000)	\$ 47,931,254

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Net Position

As of December 31, 2011

	403 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA ESCROW SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
LIABILITIES							
CURRENT LIABILITIES							
Accounts Payable	\$ 346,377	\$ 248	\$ 1,063,030	\$ 143	\$ 46,567	\$ -	\$ 1,456,365
Accrued Employee Payable	-	-	-	-	188,249	-	188,249
Accrued Utility Taxes	20,480	558	216,748	-	-	-	237,785
Contractor Retainage	30,510	-	6,527	-	-	-	37,036
Interfund Payables	-	90,000	-	180,000	-	(270,000)	-
Payables from Restricted Assets							
2004 LTGO Bond Principal Series A&B - Current Portion	214,038	-	255,962	-	-	-	470,000
2004 Interest Payable	15,423	-	11,711	-	-	-	27,133
2007 Water Revenue Bonds		105,000					105,000
2007 Interest Payable		23,669					23,669
2010 LTGO Bond Principal Series A&B - Current Portion	-	-	-	-	-	-	-
2010 Interest Payable	83,947	-	8,768	-	-	-	92,714
Deposits & Other Payables	3,313	-	-	-	-	-	3,313
TOTAL CURRENT LIABILITIES	\$ 714,086	\$ 219,475	\$ 1,562,745	\$ 180,143	\$ 234,816	\$ (270,000)	\$ 2,641,266
NON-CURRENT LIABILITIES							
Energy Green Credit	\$ -	\$ -	\$ 8,953	\$ -	\$ -	\$ -	\$ 8,953
Payables from Restricted Assets							
2004 LTGO Bond Series A&B Principal	3,353,416	-	2,611,584	-	-	-	5,965,000
2007 Water Revenue Bond Principal	-	2,460,000	-	-	-	-	2,460,000
2010 LTGO Bond Series A&B Principal	21,488,623	-	2,215,132	-	-	-	23,703,755
TOTAL NONCURRENT LIABILITIES	\$ 24,842,039	\$ 2,460,000	\$ 4,835,669	\$ -	\$ -	\$ -	\$ 32,137,708
TOTAL LIABILITIES	\$ 25,556,125	\$ 2,679,475	\$ 6,398,414	\$ 180,143	\$ 234,816	\$ (270,000)	\$ 34,778,974
NET POSITION							
Net Investment in Capital Assets	\$ 986,709	\$ (96,986)	\$ 3,793,717	\$ -	\$ 1,753,038		\$ 6,436,479
Restricted for Debt Service	2,434,952	681,398	612,767	-	-		3,729,117
Restricted for Miscellaneous Reserves	-	-	69,041	-	-		69,041
Unrestricted	1,186,508	(175,447)	2,968,346	647,209	(1,708,971)		2,917,644
TOTAL NET POSITION	\$ 4,608,169	\$ 408,965	\$ 7,443,872	\$ 647,209	\$ 44,067	\$ -	\$ 13,152,280
TOTAL LIABILITIES & NET POSITION	\$ 30,164,294	\$ 3,088,440	\$ 13,842,286	\$ 827,352	\$ 278,883	\$ (270,000)	\$ 47,931,254

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flow

As of December 31, 2011

	403	411	412	481	490	500	
	RAW WATER	GRANDVIEW POTABLE	GRANDVIEW FIRE	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers	\$ 5,306,562	\$ 135,635	\$ 1,014	\$ 9,373,316	\$ -	\$ 38,851	\$ 14,855,378
Payments to suppliers	(1,332,522)	(51,190)	-	(7,168,545)	(19,585)	(1,070,348)	(9,642,190)
Payments to employees (Labor only)						(1,740,563)	(1,740,563)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,974,040	\$ 84,445	\$ 1,014	\$ 2,204,771	\$ (19,585)	\$ (2,772,060)	\$ 3,472,625
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers from (to) Other Utilities	(2,200,838)	243,498	(374,402)	(653,957)	(6,932)	2,992,631	0
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (2,200,838)	\$ 243,498	\$ (374,402)	\$ (653,957)	\$ (6,932)	\$ 2,992,631	\$ 0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchase of Capital Assets	(1,663,587)	6,085	-	(1,334,088)		(217,602)	(3,209,193)
Principal paid on Capital Debt	(205,328)	(100,000)		(244,672)			(550,000)
Interest paid on Capital Debt	(1,119,265)	(144,606)		(248,276)			(1,512,148)
Assessments Received		211,110					211,110
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,988,181)	\$ (27,412)	\$ -	\$ (1,827,036)	\$ -	\$ (217,602)	\$ (5,060,231)
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment Transactions	-	-	-	-	-	-	-
Interest Received	162,379	5,818		56,050	4,342	1,804	230,393
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 162,379	\$ 5,818	\$ -	\$ 56,050	\$ 4,342	\$ 1,804	\$ 230,393
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (1,052,600)	\$ 306,349	\$ (373,388)	\$ (220,172)	\$ (22,174)	\$ 4,773	\$ (1,357,212)
BALANCE BEGINNING OF YEAR	19,965,040	265,741	373,388	6,396,919	472,036	58,414	27,531,539
BALANCE END OF PERIOD	\$ 18,912,441	\$ 572,090	\$ -	\$ 6,176,747	\$ 449,862	\$ 63,187	\$ 26,174,327

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flow

As of December 31, 2011

	403 CHERRY POINT	411 GRANDVIEW POTABLE	412 GRANDVIEW FIRE	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL SERVICE	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH							
Operating Income (Loss)	\$ 1,415,491	\$ (135,702)	\$ -	\$ 745,183	\$ (26,659)	\$ 0	\$ 1,998,313
Adjustments to reconcile operating income to net cash provided (used) by operating activity							
Depreciation Expense	384,017	88,675	-	220,819	-	104,824	798,334
Miscellaneous - Non-Operating	(88,205)	(8,122)	-	(5,974)	-	650	(101,650)
Decrease (Increase) in Net Accounts Receivable	(45,527)	(2,759)	879	127,639	-	5,776	86,009
Decrease (Increase) in Prepayments	-	-	-	-	-	(3,677)	(3,677)
Decrease (Increase) in Other Deferred Charges	14,357	8,122	-	5,983	-	291	28,752
Interfund Transfers	2,006,922	133,958	135	743,363	6,932	(2,891,310)	(0)
Increase (Decrease) in Account Payable	243,518	170	-	346,784	143	369	590,984
Increase (Decrease) in Accrued Employee Payable	-	-	-	-	-	11,017	11,017
Increase (Decrease) in Accrued Utility Taxes	2,733	102	-	71,560	-	(0)	74,395
Increase (Decrease) in Contractor Retainage	24,458	-	-	6,527	-	-	30,984
Increase (Decrease) in Deposits & Other Payables	(4,760)	-	-	-	-	-	(4,760)
Increase (Decrease) in Energy Green Credit	-	-	-	(57,112)	-	-	(57,112)
Increase (Decrease) in Contributed Capital	21,037	-	-	-	-	-	21,037
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,974,040	\$ 84,445	\$ 1,014	\$ 2,204,771	\$ (19,585)	\$ (2,772,060)	\$ 3,472,625

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENTS

For The Year Ended December 31, 2011

NOTE 11 - DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principals for regulated businesses, the District has deferred charges of \$367,596 in 2011 which will be amortized using the straight-line method over the life of the bonds (each 20 years). These deferred charges resulted from costs relating to the sale and redemption of the bonds. The District has deferred credits of \$8,953 in 2011 which will not be amortized but resolved at the end of the next BPA rate period (see note b below). These charges and revenues would have been included in net income for 2011 in non-regulated business, but for rate-making purposes they are treated as applicable to future periods. Deferred transactions resulted from the following:

a. Deferred Charges

Unamortized Debt Discount and Expense

The District's deferred charges as of December 31, 2011 are \$367,596:

DEFERRED CHARGES		2011
Unamortized Debt Expenses on 2004 LTGO Bonds		143,145
Unamortized Debt Expenses on 2007 Water Revenue Bond		47,257
Unamortized Debt Expenses on 2010 LTGO Bonds		177,485
Other		(291)
Total Deferred Charges		<u>\$ 367,596</u>

b. Deferred Credits

Bonneville Power Administration -Conservation and Renewable Discounts [C&RD]

Bonneville continues to work with its wholesale customers to promote energy conservation and renewable resource development. The approach that Bonneville and its customers previously agreed to involved the provision by Bonneville of a power discount that allowed utilities and their customers, if the discount was passed through, to pay less for power purchases if the discount savings were spent on qualifying conservation and renewable energy projects. The Conservation & Renewable Energy Discount (C&RD) program was discontinued September 30, 2011.

To continue the incentive approach to motivate its utility customers to engage in conservation activities, Bonneville has replaced the C&RD program with a conservation budget approach. Rather than provide utility customers with a power rate discount, Bonneville now provides each utility with an annual conservation budget under which Bonneville will reimburse a utility for expenditures on qualifying conservation activities or projects. Bonneville no longer provides incentives for renewable energy development. Under this new approach, the District has more funds available for conservation than previously.

During the 2006-2009 rate period, the District installed a Variable Frequency Drive ("VFD") in our Plant 2 structure as a BPA approved energy efficient project. The allowable cost of the project exceeded the Energy Green Credit, which had been accrued. \$45,814 in costs was carried into the 2010-2011 rate period.

The current rate period runs from October 2009 through September 2011. The CRC ended September 30, 2011. The accruals and disbursements for the 2009-2011 rate period are as follows:

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2011

CONSERVATION RATE CREDIT	FOR YEAR STARTING OCTOBER 1,		
	2009-2010	2010-2011	TOTAL
CRC Credit Accrued	\$ 107,244	\$ 119,285	\$ 226,529
Allowed Premium Paid for Green Power		(121,762)	(121,762)
Administrative Expense			
Allowed CRC Plant 2 Project Amount	(45,814)	(50,000)	(95,814)
ENDING LIABILITY TO BPA	\$ 61,430	\$ (52,477)	\$ 8,953

The District's CRC liability as of December 31, 2011 is \$8,953.

NOTE 12 - PROPERTY TAXES

The Whatcom County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually on January 1st on property listed as of the prior May 31st. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years. Whatcom County annually publishes the 'Statement of Assessed Valuations, Tax Rates, and Taxes Levied Within the Various Taxing Districts of Whatcom County'. The District's assessed value is equal to the Total Value of Taxable Property of Whatcom County. This information can be found at <http://www.co.whatcom.wa.us/assessor/taxguides/taxbook.jsp>.

The tax is due in two equal installments on April 30th and October 31st. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$0.45 per \$1,000 of assessed valuation for general District purposes. Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate. The District may also levy taxes at a lower rate.

Special levies approved by the voters are not subject to the above limitations.

The District had no tax levies for 2011 or 2010.

NOTE 13 – ACCOUNTING CHANGES

There were no accounting changes in 2011.

NOTE 14 – JOINT VENTURES

PARTICIPATION IN NORTHWEST OPEN ACCESS NETWORK, INC. dba NOANET

The District, along with 13 other Washington State Public Utility Districts and Energy Northwest, was a member of NoaNet, a Washington nonprofit mutual corporation. NoaNet was incorporated in February 2000 to provide a broadband communications backbone, over Public Benefit Fibers leased from Bonneville Power Administration, throughout the Pacific Northwest for assisting its members in the efficient management of load, conservation and acquisition of electric energy as well as other purposes. The network began commercial operation in January 2001.

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2011

As a member of NoaNet, the District guaranteed certain portions of NoaNet debt based on its proportionate share. The management of NoaNet anticipates meeting debt obligations through profitable operations; however, there is no assurance NoaNet's plan will be achieved. During the start-up phase, NoaNet assessed its members to cover operating deficits. In 2011, the District expensed \$4,050 in assessments to NoaNet.

In July 2001, NoaNet issued \$27 million in Telecommunications Network Revenue Bonds (taxable) to finance the repayment of the founding members and the costs of initial construction, operations and maintenance. The Bonds are due beginning in December 2003 through December 2016 with interest due semi-annually at rates ranging from 5.05% to 7.09%. Each member of NoaNet entered into a Repayment Agreement to guarantee the debt of NoaNet.

Under the Repayment Agreement, each Member acknowledges and agrees that it is a guarantor of the payment of principal and interest on the Bonds and is liable by assessment or otherwise to repay NoaNet for amounts due and owing with respect to such principal and interest up to each Member's Percentage Interest. The District's guarantee is based on its 0.81% interest, or \$365,600.66, of a total liability of \$45,135,884.28 for principal and interest over the life of the bond.

There is a provision in the Bond Resolution for a 25% step-up. In other words, if a member doesn't pay its share of the bond obligation, then the rest of the members have to step up to a maximum of 25% of its obligation. The amount of *remaining contingent liability* to the District at December 31, 2011 is \$31,126.87.

On September 1, 2003, in accordance with Section 19, Article II of NoaNet's Bylaws, the Public Utility District No.1 of *Whatcom County* presented a written notice to NoaNet withdrawing from the organization. The District maintains a financial liability only for the \$27 million dollar bonds and the \$5 million dollar line-of-credit. The District has no liability for any contractual debt incurred or to be incurred by NoaNet after September 1, 2003.

Financial statements for NoaNet may be obtained by writing to: Northwest Open Access Network, 2327 Grand Avenue, East Wenatchee, WA 98802-8219.

NOTE 15 - RISK MANAGEMENT

In January 2002 the Public Utility District No.1 of Whatcom County became a member of the Public Utility Risk Management Services, [PURMS], a joint self-insurance fund. Its membership is comprised of 20 Public Utility Districts and NOANET, a Washington nonprofit mutual corporation providing broadband communications services [See NOTE-14 JOINT VENTURES].

The Public Utility Risk Management Services, Joint Self-Insurance Fund was organized as of December 30, 1976, pursuant to the provisions of the Revised Code of Washington, Chapter 54.16.2000 and inter-local agreements. The program's general objectives are to formulate, develop, and administer, on behalf of the member public utilities, a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The District is a member of the Liability and Property Pools. The risks shared by the members are defined in the member's Self-Insurance Agreement. Both pools (liability and property) operate independently of one another. The Fund maintains assets from which liability claims against the member Districts and property losses of member Districts are paid and, through assessments of the members to replenish these assets, the members share joint liability among themselves for losses incurred. The Fund also purchases excess insurance for losses above the \$1,000,000 for liability and above \$250,000 for property.

The members, through the Fund, provide liability self-insurance for the first \$1 million of individual loss claims. Assessments for the liability pool are based upon a formula whose elements include; basic fees, historic claims experience and workers hours. The assessments include amounts for excess insurance premiums, claims experience, and operating costs. In November 2008, it was decided to raise the Designated Liability Pool Balance from \$2 million to \$3 million.

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENTS

For The Year Ended December 31, 2011

through semi-annual assessments starting in January 2009 and continuing through July 2012. Interim assessments are levied whenever the level of the liability program falls below \$500,000 of the normal operating balance. Through PURMS, an AEGIS liability policy covers an additional \$35 million over the initial \$1 million. At the end of 2009, the District decided to also add another \$25 million in coverage through an EIM policy over the previous \$36 million in coverage.

Effective April 1, 1977 the Fund established a self-insurance program for member's property. The property program provides property self-insurance for the first \$250,000 of individual loss claims. Assessments for the property pool are based upon a formula whose elements include: basis fees, property values and risk based rates. The assessments include amounts for excess insurance premiums, claims experience, and operating costs. For the property program, member Districts are obligated to replenish to a level of \$750,000 through annual assessments. Interim assessments are levied whenever the level of the property program is reduced to an amount less than \$500,000. PURMS maintains an Excess Property Insurance for its members in the Property Pool of \$150 million.

A comprehensive 2010 Annual Report can be obtained by contacting:

Public Utility Risk Management Services
Administered by Pacific Underwriters
PO Box 68787, Seattle, WA 98168
Phone; 800-562-5226 FAX: 206-248-0130

The District has a separate policy with Marsh USA Inc, through Associated Electric & Gas Insurance Services LTD (AEGIS) for *Western Interconnect Electric System* (WIES) members for electric blackouts and/or brownouts for our electric customer.

As agreed, Marsh (USA) has placed coverage with AEGIS pursuant to the surplus lines laws of Oregon. As an eligible surplus lines insurer, AEGIS is subject to limited state financial solvency regulation. Also, the insurers do not participate in any state insurance guaranty fund which otherwise provide limited claims reimbursement for policyholders of insolvent insurers. Therefore, the placement of coverage with AEGIS could result in financial exposure to the District if the insurer(s) becomes insolvent.

Because the insurance policy covers more than one state, premium tax is also due in the other states, which is computed based on the portion of premium allocable to the risks located in each state. Where the state law allows, Marsh has prepared the necessary forms for WIES to file directly with the state. These forms show the allocated premium and tax amount due for each state. Their decision to file these forms will require the appropriate signature and tax payment check in the amount indicated on each form. Marsh suggests that the District consult with our legal or tax advisors with respect to the decision to file in these jurisdictions. In Washington, Idaho, Montana, Nevada, North Dakota and Wyoming the states require that Marsh collect and remit the allocated premium taxes.

It should be noted that Marsh has allocated the premium based on their understanding of the applicable insurance laws and regulations in each of the states where the District and/or covered risks are located. It is still possible that one or more US jurisdictions may assert a claim for a portion of the tax that was allocated to another US jurisdiction.

Risk pool insurance premiums and pool assessments for the District were as follows for 2011 and 2010:

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2011

INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
<u>PURMS 2010</u>						
<u>LIABILITY</u>						
01/05/2010	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,038,865.12		
01/05/2010	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	121,641.71	1.62%	18,784.94
01/11/2010	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	467,220.00	1.56%	7,305.61
01/11/2010	GENERAL ASSESSMENT	LIABILITY	RETENTION FUNDING	165,000.00	1.56%	2,580.00
06/23/2010	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	517,854.00	1.56%	8,097.34
07/09/2010	GENERAL ASSESSMENT	LIABILITY	RETENTION FUNDING	165,000.00	1.56%	2,580.00
07/16/2010	AEGIS	LIABILITY	PROF LIAB [E&O]	187,871.20	1.56%	2,937.62
				2,663,452.03	1.59%	42,285.51
<u>PROPERTY</u>						
04/02/2010	NATIONAL UNION	PROPERTY	FIRE EXCESS POLICY	767,329.00	3.38%	25,906.18
01/12/2010	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	142,973.00	3.62%	5,174.09
06/23/2010	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	255,977.00	3.59%	9,187.68
				1,166,279.00	3.45%	40,267.95
<u>PURMS 2011</u>						
<u>LIABILITY</u>						
01/05/2011	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	983,246.23		
01/05/2011	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	145,053.90	1.49%	16,799.55
01/06/2011	GENERAL ASSESSMENT	LIABILITY	RETENTION FUNDING	165,000.00	1.46%	2,402.97
01/10/2011	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	414,736.00	1.64%	6,814.08
07/01/2011	AEGIS	LIABILITY	PROF LIAB [E&O]	178,717.66	1.46%	2,602.76
07/08/2011	GENERAL ASSESSMENT	LIABILITY	RETENTION FUNDING	175,000.00	1.46%	2,548.61
09/01/2011	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	547,535.00	1.64%	8,997.12
				2,609,288.79	1.54%	40,165.09
<u>PROPERTY</u>						
01/10/2011	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	291,970.00	3.37%	9,830.88
04/05/2011	NATIONAL UNION and ZURICH	PROPERTY	EXCESS PROPERTY POLICY	918,444.00	3.15%	28,941.31
10/12/2011	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	250,874.00	3.58%	8,986.71
				1,461,288.00	3.27%	47,758.90
<u>MARSH 2010</u>						
06/01/2010	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			414.35
<u>MARSH 2011</u>						
07/12/2011	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			397.72



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director Local Audit
Deputy Director Local Audit
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