

ANNUAL REPORT

Public Utility District No. 1 of Whatcom County

MCAG No. 1806

Submitted pursuant to RCW 43.09.230

To the

STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED December 31, 2012

Certified correct this 23th day of April, 2013, to the best of my knowledge and belief:

GOVERNMENT INFORMATION:

Official Mailing Address: 1705 Trigg Road, Ferndale, WA 98248

Official Web Site Address: www.pudwhatcom.org

PREPARER INFORMATION and CERTIFICATION:

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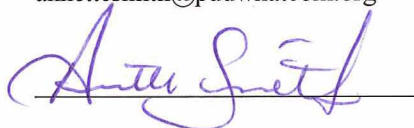


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Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2012

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	\$ 3,143,708	\$ 1,922,748
Non-Current Liabilities	32,706,189	32,856,225
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 and SCHEDULE 09.

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	<u>\$ 18,004,611</u>

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	<u>\$ 32,204,161</u>

TOTAL ASSETS

	<u>\$ 50,208,772</u>
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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	
Deposits & Other Payables	3,313
TOTAL CURRENT LIABILITIES	<u>\$ 3,143,708</u>

NON-CURRENT LIABILITIES

Payables from Restricted Assets	
2004 LTGO Series A&B Bonds Principal	\$ 490,000
2004 LTGO Series A&B Bonds Interest	6,201
2007 Water Revenue Bonds Principal	2,460,000
2007 Water Revenue Bonds Interest	23,237
2010 LTGO Series A&B Bonds Principal	23,700,400
2010 LTGO Series A&B Bonds Interest	92,715
2012 LTGO Bond Principal	5,914,443
2012 LTGO Bond Interest	19,193
TOTAL NON-CURRENT LIABILITIES	<u>\$ 32,706,189</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 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	<u>\$ 14,591,535</u>

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	<u>\$ 11,703,863</u>

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	<u>\$ 346,557</u>

NONOPERATING EXPENSE

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

**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 CASH FLOWS
For The Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 13,862,790
Payments to suppliers	(16,936,001)
Payments to employees (Labor only)	(1,784,549)

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

\$ (4,857,760)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	\$ 5,879,443
Principal paid on Capital Debt	(635,000)
Interest paid on Capital Debt	(1,500,814)

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

\$ 3,743,629

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Transactions	\$ 1,131,757
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NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES

\$ 1,131,757

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

\$ 17,626

BALANCE BEGINNING OF YEAR

\$ 27,787

BALANCE END OF YEAR

\$ 45,413

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
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Adjustments to reconcile operating income to net cash

Cash Provided (Used) by operating activities:

Depreciation	763,575
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)
Decrease (Increase) in Net Capital Assets	(8,730,805)
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

	\$ (4,857,760)
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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, *Restricted* Bond Reserves, Assessments used to fund debt service and BPA green energy credits are excluded from cash equivalents. Operation, Capital, and Emergency Reserve balances are also excluded from cash equivalents and are reflected in the Investments – Short Term Balance. SEE NOTE 2B.

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

Assets and liabilities shown as current in the accompanying statement of net position (or balance sheet) exclude current maturities on bonds and accrued interest thereon because debt service funds are provided for their payment.

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.

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

k. Construction Financing

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

l. 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>

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

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, 2012 were as follows:

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

	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

Schedule 09, which accompanies this report, contains a list of the outstanding debt at December 31, 2012. 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	\$ 6,410,000	\$ 1,002,318	\$ 7,412,318	\$ 2,460,000	\$ 1,240,931	\$ 3,700,931	\$ 23,640,000	\$ 11,876,638	\$ 35,516,638

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		(3,356)	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	\$ 32,712,709	\$ 5,974,173	\$ (6,122,039)	\$ 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.

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

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 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	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 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT 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	-	-	-	-	-	-	-
Deposits & Other Payables	3,313	-	-	-	-	-	3,313
TOTAL CURRENT LIABILITIES	\$ 914,668	\$ 90,536	\$ 1,931,682	\$ 6,250	\$ 290,572	\$ (90,000)	\$ 3,143,708
NON-CURRENT LIABILITIES							
Payables from Restricted Assets	-	-	-	-	-	-	-
2004 LTGO Bond Series A&B Principal	\$ 227,807	\$ -	\$ 262,193	\$ -	\$ -	-	490,000
2004 LTGO Bond Series A&B Interest	1,775	-	4,426	-	-	-	6,201
2007 Water Revenue Bond Principal	-	2,460,000	-	-	-	-	2,460,000
2007 Water Revenue Bond Interest	-	23,237	-	-	-	-	23,237
2010 LTGO Bond Series A&B Principal	21,485,621	-	2,214,779	-	-	-	23,700,400
2010 LTGO Bond Series A&B Interest	83,947	-	8,768	-	-	-	92,715
2012 LTGO Bond Principal	3,361,094	-	2,553,349	-	-	-	5,914,443
2012 LTGO Bond Interest	14,465	-	4,728	-	-	-	19,193
TOTAL NONCURRENT LIABILITIES	\$ 25,174,709	\$ 2,483,237	\$ 5,048,242	\$ -	\$ -	\$ -	\$ 32,706,189
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	(6,237,840)	(28,153)	(9,262,130)	(25,144)	(1,382,734)	(16,936,001)
Payments to employees (Labor only)					(1,784,549)	(1,784,549)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (699,846)	\$ 127,020	\$ (1,094,918)	\$ (25,144)	\$ (3,164,872)	\$ (4,857,760)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) Other Utilities	60,501	3,117	(2,522)	(75,000)	13,904	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ 60,501	\$ 3,117	\$ (2,522)	\$ (75,000)	\$ 13,904	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Capital Debt	3,351,414		2,528,029			5,879,443
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)
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 1,935,651	\$ (244,856)	\$ 2,052,834	\$ -	\$ -	\$ 3,743,629
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment Transactions	(1,277,514)	120,400	(967,029)	99,550	3,156,350	1,131,757
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ (1,277,514)	\$ 120,400	\$ (967,029)	\$ 99,550	\$ 3,156,350	\$ 1,131,757
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 18,793	\$ 5,680	\$ (11,635)	\$ (594)	\$ 5,382	\$ 17,626
BALANCE BEGINNING OF YEAR	6,817	2,469	14,975	856	2,671	27,787
BALANCE END OF PERIOD	\$ 25,610	\$ 8,149	\$ 3,340	\$ 261	\$ 8,053	\$ 45,413

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flow

As of December 31, 2012

	403 CHERRY POINT	411 GRANDVIEW POTABLE	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL 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	379,886	74,979	219,930	-	88,780	763,575
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)
K Decrease (Increase) in Net Capital Assets (excluding Depreciation)	(5,568,416)	-	(2,760,528)	-	(401,862)	(8,730,805)
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	\$ (699,846)	\$ 127,020	\$ (1,094,918)	\$ (25,144)	\$ (3,164,872)	\$ (4,857,760)

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
SUPPLEMENTAL SCHEDULES
For The Year Ended December 31, 2012

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Public Utility District No. 1 of Whatcom County
SCHEDULE 01 – Revenues and Expenses
For The Year Ended December 31, 2012

Schedule	Account Code	Account Title	Actual Amount
R	41400	Other Utility Operating Revenues	5581
R	41800	Nonoperating Rental Revenues	10485
R	41900	Interest and Dividend Revenues	136912
R	42100	Miscellaneous Nonoperating Revenues	199160
R	44200	Commercial and Industrial Sales	8870317
R	45300	Water and Water Power Sales	5715637
E	40310	Depreciation Expense	800405
E	40700	Amortization of Property Losses, Unrecovered Plant & Regulatory Study Costs	43300
E	40800	Taxes: State Privilege Tax, State Utility Tax, B&O Tax, Other Excise Taxes	816857
E	42120	Loss on Disposition of Property	18418
E	42650	Other Deductions	0
E	42700	Interest on Long-Term Debt	1644563
E	42800	Amortization of Debt Discount and Expenses	164652
E	55500	Purchased Power	6829514
E	55700	Other Expenses	138415
E	56000	Operation Supervision and Engineering	660859
E	56600	Miscellaneous Transmission Expenses	14819
E	56800	Maintenance Supervision and Engineering	25586
E	57300	Maintenance of Miscellaneous Transmission Plant	5971
E	58000	Operation Supervision and Engineering	101171
E	58810	Miscellaneous Distribution Expense	2990
E	59000	Maintenance Supervision and Engineering	37177
E	59800	Maintenance of Miscellaneous Distribution Plant	177811
E	91300	Advertising Expense	2899
E	91600	Miscellaneous Sales Expenses	200000
E	92000	Administrative and General Salaries	851053
E	92100	Office Supplies and Expenses	48061
E	92300	Outside Services Employed	178863
E	92400	Property Insurance	102701
E	92600	Employee Pension and Benefits	432779
E	93020	Miscellaneous General Expenses	173871
E	93100	Rents	11618
E	93500	Maintenance of General Plant	247144

Public Utility District No. 1 of Whatcom County
SCHEDULE 09 - Liabilities
For The Year Ended December 31, 2012

			(1)	(2)	(3)		(4)
I.D. NO.	DESCRIPTION	MATURITY/P AYMENT DUE DATE	BEGINNING BALANCE 01/01/2012	ADDITIONS	REDUCTIONS	BARS CODE FOR REDEMPTION OF DEBT ONLY	ENDING BALANCE DEBT 12/31/2012 (1)+(2)-(3)
251.11	2004 LTGO bonds, Series A - refinance with 2012 bonds	12/01/2013	\$ 2,130,000		\$ 2,000,000	251.11	\$ 130,000
251.11	2004 LTGO bonds, Series B - refinance with 2012 bonds	12/01/2013	\$ 4,305,000		\$ 3,945,000	251.11	\$ 360,000
252.11	2007 Water Revenue Bonds	11/01/2027	\$ 2,565,000		\$ 105,000		\$ 2,460,000
251.11	2010 General Obligation bonds, Series A	12/01/2030	\$ 2,660,000				\$ 2,660,000
251.11	2010 General Obligation bonds, Series B	12/01/2030	\$ 20,980,000				\$ 20,980,000
251.11	2010 General Obligation bond premium	12/01/2030	\$ 63,755		\$ 3,356		\$ 60,399
251.11	2012 LTGO BONDS - Refi 2004 LTGO bonds	12/01/2024		\$ 5,980,000	\$ 60,000		\$ 5,920,000
251.11	2012 LTGO bond discount	12/01/2024		\$ (5,827)	\$ (270)		\$ (5,557)
	TOTAL		\$ 32,703,755	\$ 5,974,173	\$ 6,113,085		\$ 32,564,842

SCHEDULE OF STATE AND LOCAL FINANCIAL ASSISTANCE
For The Year Ended December 31, 2012

1	2	3
Grantor/Program Title	Identification Number	Current Year Expenditures
No Grants received in 2012		

<u>TOTAL STATE ASSISTANCE</u>	<u>\$</u>	<u>-</u>
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