



# Washington State Auditor's Office

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## Financial Statements Audit Report Public Utility District No. 1 of Whatcom County

For the period January 1, 2013 through December 31, 2014

Published November 9, 2015

Report No. 1015531





## Washington State Auditor's Office

November 9, 2015

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,

JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

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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, 2013 through December 31, 2014**

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, 2014 and 2013, 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 28, 2015.

**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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

October 28, 2015

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **Public Utility District No. 1 of Whatcom County January 1, 2013 through December 31, 2014**

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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

#### **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, 2014 and 2013, 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 10 through 15 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 28, 2015 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.



JAN M. JUTTE, CPA, CGFM  
ACTING STATE AUDITOR  
OLYMPIA, WA

October 28, 2015



## **FINANCIAL SECTION**

### **Public Utility District No. 1 of Whatcom County January 1, 2013 through December 31, 2014**

#### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2014

Management's Discussion and Analysis – 2013

#### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2014

Statement of Net Position – 2013

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

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2014

Statement of Cash Flows – 2013

Notes to Financial Statements – 2014

Notes to Financial Statements – 2013

**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2014

**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). An elimination column is included to remove from assets and liabilities amounts owing within the District. 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:

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current Assets	\$ 6,135,326	\$ 8,956,259
Non-Current Assets	4,363,949	4,353,903
Capital Assets (Net)	45,936,114	42,652,099
<b>TOTAL ASSETS</b>	<b>\$ 56,435,389</b>	<b>\$ 55,962,261</b>
<b>LIABILITIES</b>		
Current Liabilities	\$ 3,947,371	\$ 4,288,530
Non-Current Liabilities	32,777,735	35,024,954
<b>TOTAL LIABILITIES</b>	<b>\$ 36,725,106</b>	<b>\$ 39,313,484</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 12,686,899	\$ 10,059,300
Restricted for Debt Service	3,995,294	3,957,066
Restricted for Miscellaneous Reserves	60,000	60,000
Unrestricted	2,968,090	2,572,411
<b>TOTAL NET POSITION</b>	<b>\$ 19,710,283</b>	<b>\$ 16,648,777</b>

**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2014

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

	<b>2014</b>	<b>2013</b>
<b>REVENUES</b>		
Operating Revenue	\$ 18,211,246	\$ 16,850,842
Nonoperating Revenue	355,897	354,796
<b>TOTAL REVENUE</b>	<b>\$ 18,567,143</b>	<b>\$ 17,205,638</b>
<b>EXPENSES</b>		
Operating Expenses	13,736,152	13,187,150
Nonoperating Expenses	1,769,485	1,795,239
<b>TOTAL EXPENSES</b>	<b>\$ 15,505,637</b>	<b>\$ 14,982,389</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS</b>	<b>\$ 3,061,506</b>	<b>\$ 2,223,249</b>
Capital Contributions	-	66,653
Special / Extraordinary Items	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 3,061,506</b>	<b>\$ 2,289,902</b>
<b>BEGINNING NET POSITION</b>	<b>\$ 16,648,777</b>	<b>\$ 14,358,875</b>
<b>ENDING NET POSITION</b>	<b>\$ 19,710,283</b>	<b>\$ 16,648,777</b>

**FINANCIAL POSITION**

**Analysis of Changes in Total Net Position from 2013-2014**

For the twelve months ending December 31, 2014 the total net position of the District increased by approximately \$3,062,000 or 18%. Total assets increased by \$473,000 and total liabilities decreased by \$2,588,000 producing a net increase in net position.

The major components contributing to the increase in assets were an increase in Cash & Cash Equivalents of \$346,000 due to the timing of cash transactions, a decrease in Short-Term Investments of \$3,427,000 from the use of the remaining proceeds of the 2013 LTGO bond issue, an increase in net receivables of \$207,000 due primarily to timing of payments, an increase of \$53,000 in Prepayments due to early payment of health premiums, a decrease of \$28,000 in Deferred Charges due to amortization, an increase in assessment investments of \$38,000, and an increase in total capital assets net of depreciation of \$3,284,000.

The major components of the decrease in total liabilities included a decrease in Accounts Payables of \$265,000 due to timing of payments, an increase of \$42,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts, an increase in Utility Taxes of \$11,000, a decrease of \$183,000 in Contractor Retainage, and a net decrease in the bonds principal and interest payable of \$2,192,000 due to debt service payments.

**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2014

**RESULTS OF OPERATIONS**

**Analysis of changes in Revenue, Expenses, and change in Net Position for 2013-2014**

Total Net Position (excluding Extraordinary Items and Capital Contributions for 2014 adjustments) increased from \$2,223,000 in 2013 to \$3,062,000 in 2014 (an \$838,000 increase). Operating Revenue increased by \$1,360,000 due to rate increases. Operating expenses increased by \$549,000, mainly due to the increased cost and use of purchased power. Non-operating Revenue reflected a slight increase of \$1,000. Non-operating Expenses reflected an overall decrease of \$26,000, resulting primarily from a \$229,000 decrease in interest expense from the refinance of the 2004 bonds, but offset by a \$201,000 expense of loss on property from the large capital projects completed.

**CAPITAL ASSETS**

**Analysis of Changes in Capital Assets from 2013-2014**

During 2014, total capital assets increased by \$3,284,000 and were comprised of an overall decrease in non-depreciated assets, including construction-work-in-progress for \$26,381,000 (\$78,000 of construction-work-in-progress was expensed during 2014 mainly consisting of items in the SCADA and Hardware/Software projects which did not qualify for capitalization), the Industrial Water Utility (Cherry Point) for \$21,722,000, the Grandview Water Utility for \$66,000, the Electric Utility for \$7,850,000, \$5,000 for general utility and office assets accounted for in the Internal Services Fund and a decrease in accumulated depreciation of \$22,000 due to the disposal of fully depreciated assets. SEE NOTE 3.

**LONG-TERM DEBT**

**Analysis of Changes in Long-Term Debt from 2013-2014**

During 2014, the District's indebtedness for the 2007 Water Revenue Bond was reduced by \$115,000, the District's indebtedness for the 2010 LTGO bonds was reduced by \$1,178,000, the 2012 LTGO bond issue was reduced by \$630,000, and the District's indebtedness for the 2013 LTGO bonds was reduced by \$264,000. 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**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2013

**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). An elimination column is included to remove from assets and liabilities amounts owing within the District. 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:

	<b>2013</b>	<b>2012</b>
<b>ASSETS</b>		
Current Assets	\$ 8,956,259	\$ 18,004,611
Non-Current Assets	4,353,903	4,123,188
Capital Assets (Net)	42,652,099	28,080,973
<b>TOTAL ASSETS</b>	<b>\$ 55,962,261</b>	<b>\$ 50,208,772</b>
<b>LIABILITIES</b>		
Current Liabilities	\$ 4,288,530	\$ 5,135,055
Non-Current Liabilities	35,024,954	30,714,842
<b>TOTAL LIABILITIES</b>	<b>\$ 39,313,484</b>	<b>\$ 35,849,897</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 10,059,300	\$ 9,136,761
Restricted for Debt Service	3,957,066	3,514,380
Restricted for Miscellaneous Reserves	60,000	60,000
Unrestricted	2,572,411	1,647,734
<b>TOTAL NET POSITION</b>	<b>\$ 16,648,777</b>	<b>\$ 14,358,875</b>

**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2013

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

	<b>2013</b>	<b>2012</b>
<b>REVENUES</b>		
Operating Revenue	\$ 16,850,842	\$ 14,591,535
Nonoperating Revenue	354,796	346,557
<b>TOTAL REVENUE</b>	<b>\$ 17,205,638</b>	<b>\$ 14,938,092</b>
<b>EXPENSES</b>		
Operating Expenses	13,187,150	11,703,863
Nonoperating Expenses	1,795,239	1,827,634
<b>TOTAL EXPENSES</b>	<b>\$ 14,982,389</b>	<b>\$ 13,531,497</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS</b>	<b>\$ 2,223,249</b>	<b>\$ 1,406,595</b>
Capital Contributions	66,653	(200,000)
Special / Extraordinary Items	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 2,289,902</b>	<b>\$ 1,206,595</b>
<b>BEGINNING NET POSITION</b>	<b>\$ 14,358,875</b>	<b>\$ 13,152,280</b>
<b>ENDING NET POSITION</b>	<b>\$ 16,648,777</b>	<b>\$ 14,358,875</b>

**FINANCIAL POSITION**

**Analysis of Changes in Total Net Position from 2012-2013**

For the twelve months ending December 31, 2013 the total net position of the District increased by approximately \$2,290,000 or 16%. Total assets increased by \$5,753,000 and total liabilities increased by \$3,463,000 producing a net increase in net position.

The major components contributing to the increase in assets were a decrease in Cash & Cash Equivalents of \$8,000 due to the timing of cash transactions, a decrease in Short-Term Investments of \$8,440,000 from the use of the remaining proceeds of the 2010 LTGO bond issue and the new 2013 LTGO bond issue, a decrease in net receivables of \$561,000 due primarily to a late payment made just after the end of last year, a decrease of \$40,000 in Prepayments due to less of an early payment of health premiums, a decrease of \$212,000 in Deferred Charges due to amortization, an increase of \$415,000 in Bond Reserve Investments due to the issue of the 2013 LTGO bonds, an increase in assessment investments of \$28,000, and an increase in total capital assets net of depreciation of \$14,571,000.

The major components of the increase in total liabilities included a decrease in Accounts Payables of \$1,297,000 due to timing of payments and an increase in the amount of invoices for the ongoing CWIP projects, an increase of \$19,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts, an increase in Utility Taxes of \$29,000, an increase of \$98,000 in Contractor Retainage, a decrease of \$3,000 in Deposits and Other Payables and a net increase in the bonds principal and interest payable of \$4,618,000 due to a combination of debt service payments, and issuing the 2013 LTGO bonds to finish the financing of the CWIP program.

**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2013

**RESULTS OF OPERATIONS**

**Analysis of changes in Revenue, Expenses, and change in Net Position for 2012-2013**

Total Net Position (excluding Extraordinary Items and Capital Contributions for 2013 adjustments) increased from \$1,407,000 in 2012 to \$2,223,000 in 2013 (an \$816,000 increase). Operating Revenue increased by \$2,259,000 due to rate increases and increased demand. Operating expenses increased by \$1,483,000, mainly due to the increased cost and use of purchased power. Non-operating Revenue reflected a slight increase of \$8,000. Non-operating Expenses reflected an overall decrease of \$32,000, resulting primarily from the 2012 increase in Amortization due to the refunding of the 2004 LTGO bonds.

**CAPITAL ASSETS**

**Analysis of Changes in Capital Assets from 2012-2013**

During 2013, total capital assets increased by \$14,571,000 and were comprised of an overall increase in assets, including construction-work-in-progress for \$14,918,000 (\$721,000 of construction-work-in-progress was expensed during 2013 including \$461,000 for the MSA Water Supply Plan and \$148,000 for the pond cleaning), the Raw Water Utility (Cherry Point) for \$584,000, the Grandview Water Utility for \$0, the Electric Utility for (\$49,000) for some disposed assets, \$13,000 for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$895,000. SEE NOTE 3.

**LONG-TERM DEBT**

**Analysis of Changes in Long-Term Debt from 2012-2013**

During 2013, the District's indebtedness for the 2004 LTGO bond issue was completed due to the final non-refundable principal payment of \$490,000 and issuing the 2012 bonds which refunded the 2004 LTGO bonds, the District's indebtedness for the 2007 Water Revenue Bond was reduced by \$110,000, the District's indebtedness for the 2010 LTGO bonds was reduced by \$1,138,000, the 2012 LTGO bond issue was reduced by \$115,000, and no principal payments were made on the 2013 LTGO bond issue. 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, 2014

**ASSETS****CURRENT ASSETS**

Cash & Cash Equivalents	\$ 384,204
Short Term Investments	4,030,137
Receivables (Net):	
Customers	1,551,032
Other	81,345
Total Accounts Receivables (Net)	1,632,378
Prepayments	88,608
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 6,135,326</b>

**NON-CURRENT ASSETS**

Bond Issue Costs	\$ 308,656
Restricted Assets	
Investments - Bond Reserves	3,711,510
Investments - Assessments	283,784
Investments - Other	60,000
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	196,772
Capital Assets Being Depreciated:	
Buildings & Structures	22,542,784
Machinery & Equipment	35,618,799
Intangible	866,000
Less Accumulated Depreciation	(13,396,241)
Total Capital Assets (Net)	45,936,114
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 50,300,063</b>

**TOTAL ASSETS**

	<b>\$ 56,435,389</b>
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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, 2014

**LIABILITIES****CURRENT LIABILITIES**

Accounts Payable	\$ 1,040,476
Accrued Employee Payable	270,540
Accrued Utility Taxes	282,147
Payables from Restricted Assets	
2007 Water Revenue Bonds Principal - Current	125,000
2007 Water Revenue Bonds Interest	20,626
2010 LTGO Series A&B Bonds Principal - Current	1,215,000
2010 LTGO Series A&B Interest	86,226
2012 LTGO Series A&B Bonds Principal - Current	635,000
2012 LTGO Series A&B Interest	10,230
2013 LTGO Bond Principal - Current	245,000
2013 LTGO Bond Interest	17,125
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>\$ 3,947,371</u></b>

**NON-CURRENT LIABILITIES**

Payables from Restricted Assets	
2007 Water Revenue Bonds Principal	2,110,000
2010 LTGO Series A&B Bonds Principal	20,168,689
2012 LTGO Bond Principal	4,535,369
2013 LTGO Bond Principal	5,963,678
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b><u>\$ 32,777,735</u></b>

**TOTAL LIABILITIES****\$ 36,725,106****NET POSITION**

Net Investment in Capital Assets	\$ 12,686,899
Restricted for Debt Service	3,995,294
Restricted for Miscellaneous Reserves	60,000
Unrestricted	2,968,090
<b>TOTAL NET POSITION</b>	<b><u>\$ 19,710,283</u></b>

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, 2013

**ASSETS****CURRENT ASSETS**

Cash & Cash Equivalents	\$ 37,765
Short Term Investments	7,457,066
Receivables (Net):	
Customers	1,368,248
LUD #1 West Smith Road Receivable	5,346
Other	51,961
Total Accounts Receivables (Net)	1,425,555
Prepayments	35,874
<b>TOTAL CURRENT ASSETS</b>	<b><u>\$ 8,956,259</u></b>

**NON-CURRENT ASSETS**

Bond Issue Costs	\$ 336,837
Restricted Assets	
Investments - Bond Reserves	3,711,510
Investments - Assessments	245,556
Investments - Other	60,000
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	26,577,899
Capital Assets Being Depreciated:	
Buildings & Structures	8,502,597
Machinery & Equipment	20,015,575
Intangible	866,000
Less Accumulated Depreciation	(13,417,972)
Total Capital Assets (Net)	42,652,099
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>\$ 47,006,002</u></b>

**TOTAL ASSETS**

**\$ 55,962,261**

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, 2013

**LIABILITIES****CURRENT LIABILITIES**

Accounts Payable	\$ 1,305,868
Accrued Employee Payable	229,038
Accrued Utility Taxes	271,495
Contractor Retainage	182,698
Payables from Restricted Assets	
2007 Water Revenue Bonds Principal - Current	115,000
2007 Water Revenue Bonds Interest	21,584
2010 LTGO Series A&B Bonds Principal - Current	1,175,000
2010 LTGO Series A&B Interest	89,528
2012 LTGO Series A&B Bonds Principal - Current	630,000
2012 LTGO Series A&B Interest	10,771
2013 LTGO Bond Principal - Current	240,000
2013 LTGO Bond Interest	17,525
Deposits & Other Payables	23
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>\$ 4,288,530</u></b>

**NON-CURRENT LIABILITIES**

Payables from Restricted Assets	
2007 Water Revenue Bonds Principal	2,235,000
2010 LTGO Series A&B Bonds Principal	21,387,044
2012 LTGO Bond Principal	5,169,906
2013 LTGO Bond Principal	6,233,004
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b><u>\$ 35,024,954</u></b>

**TOTAL LIABILITIES****\$ 39,313,484****NET POSITION**

Net Investment in Capital Assets	\$ 10,059,300
Restricted for Debt Service	3,957,066
Restricted for Miscellaneous Reserves	60,000
Unrestricted	2,572,411
<b>TOTAL NET POSITION</b>	<b><u>\$ 16,648,777</u></b>

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

**MCAG No. 1806**

**Public Utility District No. 1 of Whatcom County**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For The Year Ended December 31, 2014**

**OPERATING REVENUE**

Utility Sales and Service Revenues	\$ 18,089,125
Other Operating Revenue	122,120
<b>TOTAL OPERATING REVENUE</b>	<b><u>\$ 18,211,246</u></b>

**OPERATING EXPENSES**

## Operations:

Purchased Power	\$ 8,101,264
Water Purification	209,274
Taxes / Process / Delivery Costs	500,954
General Operations	836,347

Maintenance	502,138
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## Administration:

General Administration	1,983,583
Planning and Development Expense	187,349
Depreciation Expense	911,437
Utility Tax Expense	503,806

<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 13,736,152</u></b>
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**OPERATING INCOME (LOSS)**

<b><u>\$ 4,475,093</u></b>
----------------------------

**NONOPERATING REVENUE**

Lease Income	\$ 24,744
Assessment Income	279,771
Interest Income	59,384
Interest Fees	(8,002)

<b>TOTAL NONOPERATING REVENUE</b>	<b><u>\$ 355,897</u></b>
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**NONOPERATING EXPENSE**

Interest Expense	\$ 1,510,978
Amortization	28,182
Loss (Gain) on Property Disposal	230,325

<b>TOTAL NONOPERATING EXPENSE</b>	<b><u>\$ 1,769,485</u></b>
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**INCOME BEFORE CONTRIBUTIONS,  
AND EXTRAORDINARY ITEMS**

<b><u>\$ 3,061,506</u></b>
----------------------------

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

**CHANGE IN NET POSITION**

<b><u>\$ 3,061,506</u></b>
----------------------------

**TOTAL NET POSITION - JANUARY 1st**

<b>\$ 16,648,777</b>
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**TOTAL NET POSITION - DECEMBER 31st**

<b><u>\$ 19,710,283</u></b>
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The notes to financial statements are an integral part of this statement

**MCAG No. 1806**

**Public Utility District No. 1 of Whatcom County**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**For The Year Ended December 31, 2013**

**OPERATING REVENUE**

Utility Sales and Service Revenues	\$ 16,714,412
Other Operating Revenue	136,431
<b>TOTAL OPERATING REVENUE</b>	<b><u>\$ 16,850,842</u></b>

**OPERATING EXPENSES**

## Operations:

Purchased Power	\$ 7,634,502
Water Purification	155,523
Taxes / Process / Delivery Costs	479,968
General Operations	766,121

Maintenance	523,383
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## Administration:

General Administration	2,060,305
Planning and Development Expense	195,678
Depreciation Expense	914,585
Utility Tax Expense	457,085

<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$ 13,187,150</u></b>
---------------------------------	-----------------------------

**OPERATING INCOME (LOSS)**

**\$ 3,663,693**

**NONOPERATING REVENUE**

Lease Income	\$ 16,477
Assessment Income	270,551
Interest Income	83,419
Interest Fees	(15,651)

<b>TOTAL NONOPERATING REVENUE</b>	<b><u>\$ 354,796</u></b>
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**NONOPERATING EXPENSE**

Interest Expense	\$ 1,739,527
Amortization	26,644
Loss (Gain) on Property Disposal	29,068

<b>TOTAL NONOPERATING EXPENSE</b>	<b><u>\$ 1,795,239</u></b>
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**INCOME BEFORE CONTRIBUTIONS,  
AND EXTRAORDINARY ITEMS**

**\$ 2,223,249**

Capital Contributions (Connection Charges)	\$ 66,653
Special / Extraordinary Items	-

**CHANGE IN NET POSITION**

**\$ 2,289,902**

**TOTAL NET POSITION - JANUARY 1st**

**\$ 14,358,875**

**TOTAL NET POSITION - DECEMBER 31st**

**\$ 16,648,777**

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, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 18,002,844
Payments to suppliers	(11,470,228)
Payments to employees (Labor only)	(1,799,209)

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

**\$ 4,733,407**

**CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES**

Payments Received for Non-operating work	24,744
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**NET CASH PROVIDED (USED) BY NONCAPITAL  
FINANCING ACTIVITIES**

**\$ 24,744**

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchase of Capital Assets	\$ (4,425,777)
Principal paid on Capital Debt	(2,160,000)
Interest paid on Capital Debt	(1,543,398)
Payment from Assessments to pay 07 debt payments	279,771

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

**\$ (7,849,403)**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	\$ 48,990
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u><b>\$ 48,990</b></u>

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

**\$ (3,042,262)**

**BALANCE BEGINNING OF YEAR**

**\$ 11,511,896**

**BALANCE END OF YEAR**

**\$ 8,469,634**

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, 2014

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

Operating Income (Loss)	\$ 4,475,093
<b>Adjustments to reconcile operating income to net cash</b>	
<b>Cash Provided (Used) by operating activities:</b>	
Depreciation	911,437
Miscellaneous	2,392
<b>Change in Assets and Liabilities:</b>	
Decrease (Increase) in Net Accounts Receivable	(206,822)
Decrease (Increase) in Prepayments	(52,734)
Increase (Decrease) in Account Payable	(265,391)
Increase (Decrease) in Accrued Employee Payable	41,502
Increase (Decrease) in Accrued Utility Taxes	10,652
Increase (Decrease) in Contractor Retainage	(182,698)
Increase (Decrease) in Deposits & Other Payables	(23)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 4,733,407</b>

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, 2013

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 17,572,376
Payments to suppliers	(11,760,321)
Payments to employees (Labor only)	(1,743,097)

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

**\$ 4,068,959**

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Proceeds from Capital Debt	\$ 6,455,683
Purchase of Capital Assets	\$ (15,514,779)
Principal paid on Capital Debt	(1,850,000)
Interest paid on Capital Debt	(1,503,111)
Payment from Assessments to pay 07 debt payments	270,551

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

**\$ (12,141,656)**

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	\$ 67,768
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**NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES**

**\$ 67,768**

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

**\$ (8,004,929)**

**BALANCE BEGINNING OF YEAR**

**\$ 19,516,825**

**BALANCE END OF YEAR**

**\$ 11,511,896**

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, 2013

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

Operating Income (Loss)	\$ 3,663,693
<b>Adjustments to reconcile operating income to net cash</b>	
<b>Cash Provided (Used) by operating activities:</b>	
Depreciation	914,585
Miscellaneous	83,130
<b>Change in Assets and Liabilities:</b>	
Decrease (Increase) in Net Accounts Receivable	560,913
Decrease (Increase) in Prepayments	39,825
Decrease (Increase) in Deferred Charges	(38,600)
Increase (Decrease) in Account Payable	(1,297,239)
Increase (Decrease) in Accrued Employee Payable	18,839
Increase (Decrease) in Accrued Utility Taxes	28,841
Increase (Decrease) in Contractor Retainage	98,263
Increase (Decrease) in Deposits & Other Payables	(3,290)
 <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	 <b><u>\$ 4,068,959</u></b>

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, 2014

**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. The \$60,000 reflected under Investments – Other and also under Miscellaneous Reserves on the Net Position refers to a permitting requirement that a reserve be set aside for possible wetland mitigation expenses on a project constructed at Phillips 66. The fund was originally established in 2011 by Resolution 634. Restricted funds currently include the following:

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
For The Year Ended December 31, 2014

<b>RESTRICTED RESERVE BALANCES</b>		<b>2014</b>
Bond Reserves		
2007 Water Revenue Bond Reserve (Grandview LUD)	\$	249,088
2010 LTGO Series A&B Bond Reserve		2,249,713
2012 LTGO Bond Reserve		759,910
2013 LTGO Bond Rserve		452,800
Total Bond Reserves	\$	3,711,510
Other Restricted Funds		
LUD #2 Cash Investments		283,784
Project Reserve Fund		60,000
<b>TOTAL RESTRICTED RESERVE BALANCES</b>	<b>\$</b>	<b>4,055,294</b>

f. Receivables

No current customer seems to be a potential credit risk. No allowance for bad debt is currently held.

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. Since the timing of when the Vacation, Holiday or Sick leave will be taken is unknown, but is possible to be taken within a year, the liability is reflected under Current Liabilities as Accrued Employee Payable. 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. Union employees may cash out up to 40 hours per year

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, 50% for union. Union employees may cash out in December any hours accrued over 1040 hours.

Floating Holidays may be used at any time once accrued for leave. Non-union employees earn 12 floaters per year. Union employees earn 100 hours of floaters each year. Unused floaters must be cashed-out at the end of the year and cannot be carried forward to the next fiscal year.

**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, 2014

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.

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, 2014, the District had the following investments:

**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, 2014

	<b>2014</b>	
	<u>Maturities</u>	<u>Fair Value</u>
<b>INVESTMENTS</b>		
<b>Short-Term Investments</b>		
Whatcom County Investment Pool	\$ 4,030,137	\$ 4,030,137
<b>Non-Current</b>		
Whatcom County Investment Pool	4,055,294	4,055,294
<b>TOTAL INVESTMENTS</b>	<u>\$ 8,085,431</u>	<u>\$ 8,085,431</u>

**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, 2014**

**NOTE 3 - UTILITY PLANT AND DEPRECIATION - CAPITAL ASSETS**

Capital assets are defined by the District as assets with initial individual cost of more than \$5,000, 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, 2014 were as follows:

**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, 2014

	2014	2014 Activity		2014
	Beginning Balance	Increase	Decrease	Ending Balance
<b>UTILITY PLANT NOT BEING DEPRECIATED</b>				
LAND				
Raw Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
<b>CONSTRUCTION-IN-PROGRESS</b>				
Raw Water Utility	19,133,631	4,019,590	(23,023,865)	129,355
Grandview Potable Water Utility	-	-	-	-
Electric Utility	6,559,937	464,337	(6,956,856)	67,417
General Utility & Office (Internal Services Utility)	884,332	73,649	(957,981)	-
TOTAL CONSTRUCTION-IN-PROGRESS	26,577,899	4,557,576	(30,938,703)	196,772
<b>TOTAL UTILITY PLANT NOT BEING DEPRECIATED</b>	<b>\$ 26,685,899</b>	<b>\$ 4,557,576</b>	<b>\$ (30,938,703)</b>	<b>\$ 304,772</b>
<b>UTILITY PLANT BEING DEPRECIATED</b>				
<b>BUILDINGS &amp; STRUCTURES</b>				
Raw Water Utility	\$ 6,978,500	\$ 9,954,436	\$ -	\$ 16,932,936
Grandview Water Utility	98,977	-	-	98,977
Electric Utility	166,880	4,206,132	(120,382)	4,252,630
General Utility & Office (Internal Services Utility)	1,258,241	-	-	1,258,241
TOTAL BUILDINGS & STRUCTURES	8,502,597	14,160,569	(120,382)	22,542,784
<b>MACHINERY &amp; EQUIPMENT</b>				
Raw Water Utility	7,966,695	12,746,362	(978,711)	19,734,347
Grandview Water Utility	3,082,840	65,905	-	3,148,745
Electric Utility	7,729,893	3,928,617	(164,333)	11,494,177
General Utility & Office (Internal Services Utility)	1,236,147	10,538	(5,155)	1,241,529
TOTAL MACHINERY & EQUIPMENT	20,015,575	16,751,423	(1,148,199)	35,618,799
<b>INTANGIBLE</b>				
Raw Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
<b>TOTAL UTILITY PLANT BEING DEPRECIATED</b>	<b>\$ 29,384,172</b>	<b>\$ 30,911,992</b>	<b>\$ (1,268,582)</b>	<b>\$ 59,027,582</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings & Structures	\$ (4,466,544)	\$ (134,878)	\$ 24,077	\$ (4,577,346)
Machinery & Equipment	(8,648,328)	(741,827)	917,659	(8,472,495)
Intangible	(303,100)	(43,300)	-	(346,400)
TOTAL ACCUMULATED DEPRECIATION	(13,417,972)	(920,005)	941,736	(13,396,241)
<b>UTILITY PLANT BEING DEPRECIATED (NET)</b>	<b>\$ 15,966,200</b>	<b>\$ 29,991,987</b>	<b>\$ (326,846)</b>	<b>\$ 45,631,341</b>

**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, 2014

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

ASSET	YEARS
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 \$78,000 in CWIP projects in 2014.

**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects whose annual project authorizations total \$162,750. Of the committed balance of \$35,031,162, the District will be required to raise \$28,800,000 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:

		2014			Required
	District Capital Project #	Annual Project Authorization	Expended Through 12/31/14	Committed	Future Financing
<b>CONSTRUCTION IN PROGRESS</b>					
Transmission Line Replacement	E6	162,750	67,417	16,880,000	\$ 13,300,000
Distribution System Storage	RW20	-	129,355	18,151,162	\$ 15,500,000
<b>TOTAL CONSTRUCTION IN PROGRESS</b>		<b>\$ 162,750</b>	<b>\$ 196,772</b>	<b>\$ 35,031,162</b>	<b>\$ 28,800,000</b>



**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, 2014

**NOTE 5 – SHORT-TERM DEBT**

The District had no short-term debt obligations in 2014.

**NOTE 6 - LEASE COMMITMENTS**

a. **Operating Lease(s)**

The Public Utility District No.1 of *Whatcom County* was committed to a single lease for a portable office. This lease is considered an operating lease for accounting purposes. The portable office was removed in August of 2014 and thereby ended the lease. Lease expenses for the year ended December 31, 2014 amounted to \$11,593.

**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, 2014

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

a. Long-Term Debt

The District issues general obligation and revenue bonds to finance the acquisition or construction of expanded facilities and replacement of aging infrastructure. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
<b>2010 LTGO Series A</b> - Refunded 1999 Water Revenue Bonds	2011-2019	4.88%	\$ 2,660,000	\$ 350,000
<b>2010 LTGO Series B</b> -Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 825,000
<b>2012 LTGO</b> - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 630,000
<b>2013 LTGO</b> - Funding to complete the Water Plant 2 rebuild	2014-2032	2.66%	\$ 6,025,000	\$ 240,000

The annual debt service requirements to maturity for general obligation bonds are as follows:

**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, 2014

Year Ending December 31:	2010 LTGO BONDS		2012 LTGO BONDS		2013 LTGO BONDS	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2015	1,215,000	1,034,713	635,000	122,765	245,000	205,500
2016	1,255,000	989,450	640,000	114,510	250,000	200,600
2017	1,305,000	942,713	655,000	104,910	255,000	195,600
2018	1,355,000	889,525	660,000	93,448	260,000	190,500
2019	1,415,000	829,575	675,000	79,588	270,000	182,700
2020-2024	5,730,000	3,265,250	1,910,000	204,990	1,475,000	778,550
2025-2029	7,345,000	1,648,725			1,780,000	469,200
2030-2032	1,710,000	89,775			1,250,000	101,400
<b>TOTAL</b>	<b>\$21,330,000</b>	<b>\$ 9,689,725</b>	<b>\$ 5,175,000</b>	<b>\$ 720,210</b>	<b>\$ 5,785,000</b>	<b>\$ 2,324,050</b>

The revenue bond currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
<b>2007 Water Revenue</b> - Expand infrastructure	2008-2027	5.67%	\$ 2,845,000	\$ 115,000

Revenue bond debt service requirements to maturity are as follows:

**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, 2014

Year Ending December 31:	2007 WATER REVENUE BONDS	
	PRINCIPAL	INTEREST
2015	125,000	123,756
2016	130,000	117,506
2017	135,000	111,006
2018	145,000	104,088
2019	150,000	96,113
2020-2024	885,000	346,175
2025-2029	665,000	77,913
<b>TOTAL</b>	<b>\$ 2,235,000</b>	<b>\$ 976,556</b>

In proprietary funds, bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of the debt issue costs and discount.

At December 31, 2014, restricted assets in proprietary funds contain \$3,995,294 in reserves as required by bond indentures.

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 and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$3,211,556. Principal and interest paid for the current year and total Grandview assessment revenue were \$244,506 and \$279,771 respectively.

b. Refunded Debt

The District issued \$2,660,000 and \$5,980,000 of general obligation refunding bonds to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$2,730,000 and \$5,475,000 respectively. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$115,482 and resulted in an economic gain of \$648,519.

**NOTE 8 – RESTRICTED COMPONENT OF NET POSITION**

The District's statement of net position reports \$3,995,294 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.

**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, 2014

**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 Mass Mutual Retirement Services (previously Hartford) 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 2014 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 Mass Mutual 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 2014. The following changes occurred in the District's segments during 2014:

a. **INDUSTRIAL WATER UTILITY (previous Raw Water Utility)**

The District completed work on its major upgrade to its Water Plant 2 facilities with final completion by the general contractor occurring mid-year 2014.

b. **GRANDVIEW WATER UTILITY**

The Grandview Potable Water Utility had a slight growth in water consumption between 2013 and 2014. Revenue growth was due primarily to rate increases.

In March, during a test of the fire system, the 245hp diesel engine running the pump seized up, was tested and then replaced.

c. **ELECTRIC UTILITY**

The Electric Utility continues to make electric system improvements designed to assure reliability of electric service to the District's water treatment plants and to its retail electric customer. In 2014, the District completed its upgrade of its Refinery Substation, which included sectionalizing the 115 kV buss and added a new control house.

**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, 2014

Another capital project completed was the purchase and re-configuration of the secondary voltage side of the Enterprise substation, which serves the District's Water Plant 2. The secondary voltage was changed from 2,400 to 4,160 volts to serve new large electric pump motors and associated gear installed as part of the Water Plant 2 project. Also, the secondary side buss will be segmented to allow two parallel feeds for the water plant facilitating redundant service and improving electric service reliability.

During a scheduled inspection of the District's electric structures, several poles were discovered to have severe damage due to insect infestation. Replacement of the most severe poles was done through an Emergency repair. Starting in 2015, a multi-year capital project of reengineering and replacement of the transmission line will begin.

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 2014 the District expended \$2,625 for legal counsel concerning telecom. As of December 31<sup>st</sup>, 2014, the remaining fund balance is \$339,518.

**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, 2014

	403 INDUSTRIAL WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVCS	500 INTERNAL SERVICES FUND	DISTRICT TOTAL
<b>OPERATING REVENUE</b>						
Utility Sales and Service Revenues	\$ 7,666,948	\$ 168,314	\$ 10,253,864	\$ -	\$ -	\$ 18,089,125
Other Operating Revenue	122,120	-	-	-	-	122,120
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 7,789,068</b>	<b>\$ 168,314</b>	<b>\$ 10,253,864</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,211,246</b>
<b>OPERATING EXPENSES</b>						
Operations:						
Purchased Power	\$ 512,479	\$ 5,529	\$ 7,583,256	\$ -	\$ -	\$ 8,101,264
Water Purification	203,401	5,873	-	-	-	209,274
Taxes / Process / Delivery Costs	-	-	500,954	-	-	500,954
General Operations	686,363	67,095	82,890	-	-	836,347
Maintenance	329,622	73,171	99,344	-	-	502,138
Administration						
General Administration	1,273,134	69,589	639,240	1,620	-	1,983,583
Planning and Development Expenses	187,349	-	-	-	-	187,349
Depreciation Expense	508,541	73,084	329,812	-	-	911,437
Utility Tax Expense	383,595	7,511	112,699	-	-	503,806
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,084,484</b>	<b>\$ 301,853</b>	<b>\$ 9,348,196</b>	<b>\$ 1,620</b>	<b>\$ -</b>	<b>\$ 13,736,152</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 3,704,584</b>	<b>\$ (133,539)</b>	<b>\$ 905,668</b>	<b>\$ (1,620)</b>	<b>\$ -</b>	<b>\$ 4,475,093</b>
<b>NONOPERATING REVENUE</b>						
Lease Income	\$ 24,744	\$ -	\$ -	\$ -	\$ -	\$ 24,744
Assessment Income	-	279,771	-	-	-	279,771
Interest Income	42,021	3,878	11,622	1,862	-	59,384
Interest Fees	(5,616)	(531)	(1,599)	(257)	-	(8,002)
<b>TOTAL NONOPERATING REVENUE</b>	<b>\$ 61,149</b>	<b>\$ 283,119</b>	<b>\$ 10,024</b>	<b>\$ 1,605</b>	<b>\$ -</b>	<b>\$ 355,897</b>
<b>NONOPERATING EXPENSE</b>						
Interest Expense	\$ 1,231,113	\$ 128,548	\$ 151,317	\$ -	\$ -	\$ 1,510,978
Amortization	16,255	7,987	3,939	-	-	28,182
Interfund Expense	568,768	-	(568,768)	-	-	-
Loss (Gain) on Property Disposal	172,070	(65,655)	123,910	-	-	230,325
<b>TOTAL NONOPERATING EXPENSE</b>	<b>\$ 1,988,208</b>	<b>\$ 70,880</b>	<b>\$ (289,603)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,769,485</b>
<b>INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS</b>	<b>\$ 1,777,526</b>	<b>\$ 78,700</b>	<b>\$ 1,205,295</b>	<b>\$ (15)</b>	<b>\$ -</b>	<b>\$ 3,061,506</b>
Capital Contributions	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 1,777,526</b>	<b>\$ 78,700</b>	<b>\$ 1,205,295</b>	<b>\$ (15)</b>	<b>\$ -</b>	<b>\$ 3,061,506</b>
<b>NET POSITION - JANUARY 1st</b>	<b>\$ 6,158,904</b>	<b>\$ 518,109</b>	<b>\$ 9,210,674</b>	<b>\$ 717,023</b>	<b>\$ 44,067</b>	<b>\$ 16,648,777</b>
<b>NET POSITION - DECEMBER 31st</b>	<b>\$ 7,936,430</b>	<b>\$ 596,809</b>	<b>\$ 10,415,969</b>	<b>\$ 717,008</b>	<b>\$ 44,067</b>	<b>\$ 19,710,283</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Net Position**  
As of December 31, 2014

	403	411	481	490	500	ELIMINATION	DISTRICT TOTAL
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVC	INTERNAL SERVICES FUND		
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash & Cash Equivalents	\$ 102,465	\$ 4,767	\$ 48,164	\$ 1,323	\$ 227,485	\$ -	\$ 384,204
Short Term Investments	2,868,131	65,618	843,475	338,195	(85,282)	-	4,030,137
Receivables (Net):							
Customers	723,878	10,627	816,528	-	-	-	1,551,032
Other	36,093	-	45,602	-	(350)	-	81,345
Interfund Receivables	-	-	90,000	-	-	(90,000)	-
Interfund Transfers - Capital	1,131,434	-	245,234	377,490	(1,754,158)	-	-
Interfund Transfers - Employee	(190,491)	-	(73,486)	-	263,977	-	(0)
Total Accounts Receivables (Net)	1,700,914	10,627	1,123,878	377,490	(1,490,531)	(90,000)	1,632,378
Other Current Assets	-	-	-	-	88,608	-	88,608
Prepayments	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 4,671,509</b>	<b>\$ 81,012</b>	<b>\$ 2,015,517</b>	<b>\$ 717,008</b>	<b>\$ (1,259,720)</b>	<b>\$ (90,000)</b>	<b>\$ 6,135,326</b>
<b>NON-CURRENT ASSETS</b>							
Bond Issue Costs	240,800	23,296	44,560	-	-	-	308,656
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,849,655	249,088	612,767	-	-	-	3,711,510
Investments - Assessments	-	283,784	-	-	-	-	283,784
Investments - Other	-	-	60,000	-	-	-	60,000
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-	-	108,000
Construction in Progress	129,355	-	67,417	-	-	-	196,772
Capital Assets Being Depreciated:							
Buildings & Structures	16,932,936	98,977	4,252,630	-	1,258,241	-	22,542,784
Machinery & Equipment	19,734,347	3,148,745	11,494,177	-	1,241,529	-	35,618,799
Intangible	866,000	-	-	-	-	-	866,000
Less Accumulated Depreciation	(8,748,439)	(936,698)	(2,965,491)	-	(745,613)	-	(13,396,241)
Total Capital Assets (Net)	29,022,199	2,311,024	12,848,733	-	1,754,158	-	45,936,114
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 32,112,654</b>	<b>\$ 2,867,191</b>	<b>\$ 13,566,060</b>	<b>\$ -</b>	<b>\$ 1,754,158</b>	<b>\$ -</b>	<b>\$ 50,300,063</b>
<b>TOTAL ASSETS</b>	<b>\$ 36,784,163</b>	<b>\$ 2,948,202</b>	<b>\$ 15,581,578</b>	<b>\$ 717,008</b>	<b>\$ 494,438</b>	<b>\$ (90,000)</b>	<b>\$ 56,435,389</b>



**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Net Position**  
As of December 31, 2014

	403 INDUSTRIAL WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Accounts Payable	\$ 212,449	\$ 5,172	\$ 643,025	\$ -	\$ 179,831	\$ -	\$ 1,040,476
Accrued Employee Payable	-	-	-	-	270,540	-	270,540
Accrued Utility Taxes	31,257	596	250,294	-	-	-	282,147
Interfund Payables	-	90,000	-	-	-	(90,000)	-
Payables from Restricted Assets							
2007 Water Revenue Bond - Current	-	125,000	-	-	-	-	125,000
2007 Water Revenue Bond - Interest	-	20,626	-	-	-	-	20,626
2010 LTGO Bond Series A&B - Current	1,125,526	-	89,474	-	-	-	1,215,000
2010 LTGO Bond Series A&B - Interest	77,886	-	8,340	-	-	-	86,226
2012 LTGO Bond Series A&B - Current	311,963	-	323,037	-	-	-	635,000
2012 LTGO Bond Series A&B - Interest	6,453	-	3,778	-	-	-	10,230
2013 LTGO Bond - Current	245,000	-	-	-	-	-	245,000
2013 LTGO Bond - Interest	17,125	-	-	-	-	-	17,125
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 2,027,659</b>	<b>\$ 241,394</b>	<b>\$ 1,317,947</b>	<b>\$ -</b>	<b>\$ 450,371</b>	<b>\$ (90,000)</b>	<b>\$ 3,947,371</b>
<b>NON-CURRENT LIABILITIES</b>							
Payables from Restricted Assets							
2007 Water Revenue Bond Principal	-	2,110,000	-	-	-	-	2,110,000
2010 LTGO Bond Series A&B Principal	18,215,143	-	1,953,546	-	-	-	20,168,689
2012 LTGO Bond Principal	2,641,253	-	1,894,115	-	-	-	4,535,369
2013 LTGO Bond Principal	5,963,678	-	-	-	-	-	5,963,678
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 26,820,074</b>	<b>\$ 2,110,000</b>	<b>\$ 3,847,661</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 32,777,735</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 28,847,733</b>	<b>\$ 2,351,394</b>	<b>\$ 5,165,608</b>	<b>\$ -</b>	<b>\$ 450,371</b>	<b>\$ (90,000)</b>	<b>\$ 36,725,106</b>
<b>NET POSITION</b>							
Net Investment in Capital Assets	\$ 1,650,699	\$ 76,024	\$ 9,206,019	\$ -	\$ 1,754,158	-	\$ 12,686,899
Restricted for Debt Service	2,849,655	532,871	612,767	-	-	-	3,995,294
Restricted for Miscellaneous Reserves	-	-	60,000	-	-	-	60,000
Unrestricted	3,436,076	(12,087)	537,184	717,008	(1,710,091)	-	2,968,090
<b>TOTAL NET POSITION</b>	<b>\$ 7,936,430</b>	<b>\$ 596,808</b>	<b>\$ 10,415,970</b>	<b>\$ 717,008</b>	<b>\$ 44,067</b>	<b>\$ -</b>	<b>\$ 19,710,283</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Cash Flow**  
As of December 31, 2014

	403	411	481	490	500	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES	INDUSTRIAL WATER	GRANDVIEW	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	
Receipts from Customers	\$ 7,575,135	\$ 225,389	\$ 10,178,764	\$ 20,000	\$ 3,557	\$ 18,002,844
Payments to suppliers	(2,012,118)	(171,626)	(7,227,434)	(2,925)	(2,056,125)	(11,470,228)
Payments to employees (Labor only)					(1,799,209)	(1,799,209)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 5,563,017</b>	<b>\$ 53,763</b>	<b>\$ 2,951,329</b>	<b>\$ 17,075</b>	<b>\$ (3,851,777)</b>	<b>\$ 4,733,407</b>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers from (to) Other Utilities	(1,910,103)	(116,129)	(1,050,896)	-	3,077,128	(0)
Payments Received (Paid) for Non-operating work	24,744					24,744
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ (1,885,359)</b>	<b>\$ (116,129)</b>	<b>\$ (1,050,896)</b>	<b>\$ -</b>	<b>\$ 3,077,128</b>	<b>\$ 24,744</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase of Capital Assets	(3,696,754)	(250)	(1,602,900)		874,128	(4,425,777)
Principal paid on Capital Debt	(1,647,119)	(115,000)	(397,881)			(2,160,000)
Interest paid on Capital Debt	(1,261,847)	(129,506)	(152,044)			(1,543,398)
Payment from Assessments to pay 07 debt payments	279,771					279,771
<b>NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (6,605,721)</b>	<b>\$ 35,015</b>	<b>\$ (2,152,825)</b>	<b>\$ -</b>	<b>\$ 874,128</b>	<b>\$ (7,849,403)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest Received	34,199	3,348	10,107	1,605	(268)	48,990
<b>NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES</b>	<b>\$ 34,199</b>	<b>\$ 3,348</b>	<b>\$ 10,107</b>	<b>\$ 1,605</b>	<b>\$ (268)</b>	<b>\$ 48,990</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (2,893,865)</b>	<b>\$ (24,004)</b>	<b>\$ (242,285)</b>	<b>\$ 18,680</b>	<b>\$ 99,211</b>	<b>\$ (3,042,262)</b>
<b>BALANCE BEGINNING OF YEAR</b>	8,714,115	627,259	1,806,691	320,838	42,992	11,511,896
<b>BALANCE END OF PERIOD</b>	<b>\$ 5,820,251</b>	<b>\$ 603,256</b>	<b>\$ 1,564,406</b>	<b>\$ 339,518</b>	<b>\$ 142,203</b>	<b>\$ 8,469,634</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Cash Flow**  
As of December 31, 2014

	403	411	481	490	500	TOTAL
	INDUSTRIAL WATER	GRANDVIEW	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>						
Operating Income (Loss)	\$ 3,704,584	\$ (133,539)	\$ 905,668	\$ (1,620)	\$ -	\$ 4,475,093
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activity</b>						
Depreciation	396,790	73,084	279,595	-	161,968	911,437
Miscellaneous - Non-Operating	2,392	-	-	-	-	2,392
Decrease (Increase) in Net Accounts Receivable	(167,643)	647	(60,177)	20,000	350	(206,822)
Decrease (Increase) in Prepayments	-	-	-	-	(52,734)	(52,734)
Interfund Transfers	2,094,939	111,029	1,947,682	-	(4,153,650)	0
Increase (Decrease) in Account Payable	(461,833)	2,458	44,201	(1,005)	150,788	(265,391)
Increase (Decrease) in Accrued Employee Payable	-	-	-	-	41,502	41,502
Increase (Decrease) in Accrued Utility Taxes	(3)	84	10,871	(300)	-	10,652
Increase (Decrease) in Contractor Retainage	(6,186)	-	(176,512)	-	-	(182,698)
Increase (Decrease) in Deposits & Other Payables	(23)	-	-	-	-	(23)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 5,563,017</b>	<b>\$ 53,763</b>	<b>\$ 2,951,329</b>	<b>\$ 17,075</b>	<b>\$ (3,851,777)</b>	<b>\$ 4,733,407</b>

**Public Utility District No. 1 of Whatcom County**  
NOTES TO FINANCIAL STATEMENT  
For The Year Ended December 31, 2014

**NOTE 11 – BOND ISSUE COSTS**

In accordance with generally accepted accounting principles for regulated businesses, the District has charges of \$308,656 in 2014 which will be amortized using the straight-line method over the life of the bonds (each 20 years except the 2012 LTGO which will be completed in 2024). These 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 2014 in non-regulated business, but for rate-making purposes they are treated as applicable to future periods. Transactions resulted from the following:

a. **Bond Issue Costs**

**Unamortized Debt Discount and Expense**

The District's charges as of December 31, 2014 are \$308,656:

<b>BOND ISSUE COSTS</b>		<b>2014</b>
Unamortized Debt Expenses on 2007 Water Revenue Bond	\$	23,296
Unamortized Debt Expenses on 2010 LTGO Bonds		149,461
Unamortized Debt Expenses on 2012 LTGO Bonds		71,631
Unamortized Debt Expenses on 2013 LTGO Bonds		64,268
<b>Total Deferred Charges</b>		<b>\$ 308,656</b>

b. **Postponed Credits**

The District didn't have any postponed credits in 2014.

**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 1<sup>st</sup> on property listed as of the prior May 31<sup>st</sup>. 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 2014 was \$23,679,456,188. This information can be found at <http://www.co.whatcom.wa.us/178/Annual-Tax-Book>.

The tax is due in two equal installments on April 30<sup>th</sup> and October 31<sup>st</sup>. 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 2014 or 2013.

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**For The Year Ended December 31, 2014**

**NOTE 13 – ACCOUNTING CHANGES**

During our last audit (covering year 2011 and 2012), it was recommended that the Cash represented in the Cash Flow Statement include all cash, investments, and restricted funds. The previous audit had recommended that it only include cash and investments. 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 2014, NoaNet was able to cover its debt obligations from operations. The District was not assessed in 2014.

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, 2014 is \$12,447.63.

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**

The District has had no settlements with outside parties within the last three years.

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].

**Public Utility District No. 1 of Whatcom County**  
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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 54.16.200 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, 1997 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 2014 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

Effective June 1, 2014, the District, as a member of *Western Interconnect Electric System* (WIES), terminated the policy with Marsh USA Inc. through Associated Electric & Gas Insurance Services LTD (AEGIS) for *Western Interconnect Electric System* (WIES) for electric blackouts and/or brownouts for our electric customer. It was discovered that the policy through WIES overlapped with the policy from PURMS. The hold harmless agreement remains in effect, but the insurance portion has been removed from the agreement.

Risk pool insurance premiums and pool assessments for the District were as follows for 2014 and 2013:

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INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
<b>PURMS 2013</b>						
<b>LIABILITY</b>						
01/07/2013	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	986,504.49		
01/07/2013	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	162,511.55	1.54%	17,678.65
01/07/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	445,003.00	1.71%	7,590.71
06/20/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	514,159.00	1.69%	8,681.55
07/02/2013	AEGIS	LIABILITY	PROF LIAB [E&O]	154,080.13	1.50%	2,305.61
11/11/2013	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.50%	149.63
12/19/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	669,534.00	1.69%	11,322.77
12/31/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	38,514.00	1.69%	652.00
				<b>2,980,306.17</b>	<b>1.62%</b>	<b>48,380.92</b>
<b>PROPERTY</b>						
01/07/2013	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	39,590.00	3.52%	1,392.86
04/09/2013	NATIONAL UNION and ZURICH	PROPERTY	EXCESS PROPERTY POLICY	1,104,597.65	2.96%	32,649.49
06/20/2013	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	262,155.00	3.41%	8,935.69
12/31/2013	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	160,922.00	3.43%	5,513.91
				<b>1,567,264.65</b>	<b>3.09%</b>	<b>48,491.95</b>
<b>PURMS 2014</b>						
<b>LIABILITY</b>						
01/13/2014	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,097,025.70		
01/13/2014	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	167,386.82	1.53%	19,288.58
05/02/2014	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	696,667.00	1.68%	11,706.08
06/30/2014	AEGIS	LIABILITY	PROF LIAB [E&O]	183,338.93	1.49%	2,722.90
12/03/2014	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.49%	148.51
09/12/2014	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	999,137.00	1.68%	16,809.77
12/03/2014	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	531,454.00	1.68%	8,939.50
12/31/2014	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	82,169.00	1.71%	1,401.96
				<b>3,767,178.45</b>	<b>1.62%</b>	<b>61,017.30</b>
<b>PROPERTY</b>						
04/08/2014	NATIONAL UNION & HOMESITE	PROPERTY	EXCESS PROPERTY POLICY	1,169,151.37	3.00%	35,057.26
05/12/2014	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	191,142.00	3.41%	6,511.34
06/09/2014	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	261,571.00	3.57%	9,339.98
12/31/2014	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	24,665.00	3.41%	841.10
				<b>1,646,529.37</b>	<b>3.14%</b>	<b>51,749.68</b>
<b>MARSH 2013</b>						
06/06/2013	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			419.84

**Public Utility District No. 1 of Whatcom County**  
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**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. The \$60,000 reflected under Investments – Other and also under Miscellaneous Reserves on the Net Position refers to a permitting requirement that a reserve be set aside for possible wetland mitigation expenses on a project constructed at Phillips 66. The fund was originally established in 2011 by Resolution 634. Restricted funds currently include the following:



**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
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<b>RESTRICTED RESERVE BALANCES</b>	<b>2013</b>
Bond Reserves	
2007 Water Revenue Bond Reserve (Grandview LUD)	\$ 249,088
2010 LTGO Series A&B Bond Reserve	2,249,713
2012 LTGO Bond Reserve	759,910
2013 LTGO Bond Rserve	452,800
Total Bond Reserves	<u>\$ 3,711,510</u>
Other Restricted Funds	
LUD #2 Cash Investments	245,556
Project Reserve Fund	60,000
<b>TOTAL RESTRICTED RESERVE BALANCES</b>	<b>\$ 4,017,066</b>

f. Receivables

No current customer seems to be a potential credit risk. No allowance for bad debt is currently held.

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. Since the timing of when the Vacation, Holiday or Sick leave will be taken is unknown, but is possible to be taken within a year, the liability is reflected under Current Liabilities as Accrued Employee Payable. 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. Union employees may cash out up to 40 hours per year

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. Union employees may cash out in December any hours accrued over 1040 hours.

Floating Holidays may be used at any time once accrued for leave. Non-union employees earn 12 floaters per year. Union employees earn 100 hours of floaters each 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**  
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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, 2013, the District had the following investments:

	<b>2013</b>	
	<u>Maturities</u>	<u>Fair Value</u>
<b>INVESTMENTS</b>		
<b>Short-Term Investments</b>		
Whatcom County Investment Pool	\$ 7,457,066	\$ 7,457,066
<b>Non-Current</b>		
Whatcom County Investment Pool	4,017,066	4,017,066
<b>TOTAL INVESTMENTS</b>	<u>\$ 11,474,132</u>	<u>\$ 11,474,132</u>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
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**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, 2013 were as follows:

**Public Utility District No. 1 of Whatcom County**  
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	2013 Beginning Balance	2013 Activity Increase	Decrease	2013 Ending Balance
<b>UTILITY PLANT NOT BEING DEPRECIATED</b>				
LAND				
Raw Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
CONSTRUCTION-IN-PROGRESS				
Raw Water Utility	7,999,937	13,755,977	(2,622,284)	19,133,631
Grandview Potable Water Utility	-	-	-	-
Electric Utility	3,659,858	2,901,168	(1,089)	6,559,937
General Utility & Office (Internal Services Utility)	-	896,938	(12,606)	884,332
TOTAL CONSTRUCTION-IN-PROGRSS	11,659,795	17,554,083	(2,635,979)	26,577,899
<b>TOTAL UTILITY PLANT NOT BEING DEPRECIATED</b>	<b>\$ 11,767,795</b>	<b>\$ 17,554,083</b>	<b>\$ (2,635,979)</b>	<b>\$ 26,685,899</b>
<b>UTILITY PLANT BEING DEPRECIATED</b>				
BUILDINGS & STRUCTURES				
Raw Water Utility	\$ 6,966,162	\$ 12,337	\$ -	\$ 6,978,500
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	12,337	-	8,502,597
MACHINERY & EQUIPMENT				
Raw Water Utility	7,394,963	571,732		7,966,695
Grandview Water Utility	3,082,840	-	-	3,082,840
Electric Utility	7,778,953		(49,060)	7,729,893
General Utility & Office (Internal Services Utility)	1,223,541	12,606		1,236,147
TOTAL MACHINERY & EQUIPMENT	19,480,296	584,338	(49,060)	20,015,575
INTANGIBLE				
Raw Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
<b>TOTAL UTILITY PLANT BEING DEPRECIATED</b>	<b>\$ 28,836,557</b>	<b>\$ 596,676</b>	<b>\$ (49,060)</b>	<b>\$ 29,384,172</b>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	\$ (4,332,283)	\$ (134,261)	\$ -	\$ (4,466,544)
Machinery & Equipment	(7,931,296)	(737,024)	19,992	(8,648,328)
Intangible	(259,800)	(43,300)		(303,100)
TOTAL ACCUMULATED DEPRECIATION	(12,523,379)	(914,585)	19,992	(13,417,972)
<b>UTILITY PLANT BEING DEPRECIATED (NET)</b>	<b>\$ 16,313,178</b>	<b>\$ (317,910)</b>	<b>\$ (29,068)</b>	<b>\$ 15,966,200</b>
<b>TOTAL UTILITY PLANT, NET</b>	<b>\$ 28,080,973</b>	<b>\$ 17,236,173</b>	<b>\$ (2,665,047)</b>	<b>\$ 42,652,099</b>

**Public Utility District No. 1 of Whatcom County**  
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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 \$721,000 in CWIP projects in 2013.

**NOTE 4 - CONSTRUCTION IN PROGRESS**

Construction in progress represents expenses to date on projects whose annual project authorizations total \$18,657,007. Of the committed balance of \$33,125,026, the district will not be required to raise 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:

		2013			
	District Capital Project #	Annual Project Authorization	Expended Through 12/31/13	Committed	Required Future Financing
CONSTRUCTION IN PROGRESS					
Purchase PSE Enterprise Substation	E11	1,592,690	1,871,883	2,171,883	None
Refinery Substation Redesign	E14	1,761,634	4,688,053	4,818,053	None
SCADA Analysis	IS12	253,803	12,934	521,934	None
Operations Center	IS13	1,728,382	871,397	1,758,000	None
Treatment Plant Capacity Design & Upgrade	RW1	13,265,498	19,004,276	23,725,800	None
Distribution System Storage	RW20	55,000	129,355	129,355	None
TOTAL CONSTRUCTION IN PROGRESS		\$ 18,657,007	\$ 26,577,899	\$ 33,125,026	\$ -

**NOTE 5 – SHORT-TERM DEBT**

The District had no short-term debt obligations in 2013.

**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, 2013 amounted to \$10,174. Future minimum rental commitments for this lease are as follows:

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Fiscal Year Ending December 31:

2014	5,936
Total	<u>\$ 5,936</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 District issues general obligation and revenue bonds to finance the acquisition or construction of expanded facilities and replacement of aging infrastructure. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues.

General obligation bonds currently outstanding are as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
<b>2010 LTGO Series A</b> - Refunded 1999 Water Revenue Bonds	2011-2019	4.88%	\$ 2,660,000	\$ 335,000
<b>2010 LTGO Series B</b> -Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 800,000
<b>2012 LTGO</b> - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 115,000
<b>2013 LTGO</b> - Funding to complete the Water Plant 2	2014-2032	2.66%	\$ 6,025,000	\$ -

The annual debt service requirements to maturity for general obligation bonds are as follows:

**Public Utility District No. 1 of Whatcom County**  
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For The Year Ended December 31, 2013

Year Ending December 31:	2010 LTGO BONDS		2012 LTGO BONDS		2013 LTGO BONDS	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2014	1,175,000	1,074,338	630,000	129,254	240,000	210,300
2015	1,215,000	1,034,713	635,000	122,765	245,000	205,500
2016	1,255,000	989,450	640,000	114,510	250,000	200,600
2017	1,305,000	942,713	655,000	104,910	255,000	195,600
2018	1,355,000	889,525	660,000	93,448	260,000	190,500
2019-2023	5,885,000	3,556,275	2,175,000	268,998	1,430,000	827,450
2024-2028	6,980,000	2,012,188	410,000	15,580	1,710,000	537,600
2029-2032	3,335,000	264,863			1,635,000	166,800
<b>TOTAL</b>	<b>\$ 22,505,000</b>	<b>\$ 10,764,063</b>	<b>\$ 5,805,000</b>	<b>\$ 849,464</b>	<b>\$ 6,025,000</b>	<b>\$ 2,534,350</b>

The revenue bond currently outstanding is as follows:

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
<b>2007 Water Revenue</b> - Expand infrastructure	2008-2027	5.67%	\$ 2,845,000	\$ 110,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31:	2007 WATER REVENUE BONDS	
	PRINCIPAL	INTEREST
2014	115,000	129,506
2015	125,000	123,756
2016	130,000	117,506
2017	135,000	111,006
2018	145,000	104,088
2019-2023	840,000	392,838
2024-2028	860,000	127,363
<b>TOTAL</b>	<b>\$ 2,350,000</b>	<b>\$ 1,106,063</b>

In proprietary funds, bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of the debt issue costs and discount.

At December 31, 2014, restricted assets in proprietary funds contain \$3,995,294 in reserves as required by bond indentures.

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. The total principal and interest remaining to be paid on the

**Public Utility District No. 1 of Whatcom County**  
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bonds is \$3,456,063. Principal and interest paid for the current year and total Grandview assessment revenue were \$244,869 and \$270,551 respectively.

b. Changes in Long-Term Liabilities

During the year ended December 31, 2013, the following changes occurred in long-term liabilities:

	Beginning Balance 01/01/13	Additions	Reductions	Ending Balance 12/31/13	Due Within One Year
<b>LONG TERM LIABILITIES</b>					
Bonds Payable:					
2004 LTGO Series A&B Bonds	\$ 490,000		\$ (490,000)	\$ -	\$ -
2007 Water Revenue Bond (Grandview LUD)	\$ 2,460,000		(110,000)	2,350,000	115,000
2010 LTGO Series A&B Bonds	\$ 23,700,400		(1,138,356)	22,562,044	1,175,000
2012 LTGO Bonds	\$ 5,914,443		(114,537)	5,799,906	630,000
2013 LTGO Bonds	\$ -	6,473,004		6,473,004	240,000
Total Bonds Payable:	\$ 32,564,843	\$ 6,473,004	\$ (1,852,893)	\$ 37,184,954	\$ 2,160,000
<b>TOTAL LONG TERM LIABILITIES</b>	<b>\$ 32,564,843</b>	<b>\$ 6,473,004</b>	<b>\$ (1,852,893)</b>	<b>\$ 37,184,954</b>	<b>\$ 2,160,000</b>

In 2013 bonds were issued to complete the financing on the CWIP program. The amounts above do not include any accrued interest as of year-end but they do include bond premiums and discounts.

**NOTE 8 – RESTRICTED COMPONENT OF NET POSITION**

The District's statement of net position reports \$3,957,066 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 Mass Mutual Retirement Services (previously Hartford) 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 2013 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 Mass Mutual 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, 2013

**NOTE 10 – SEGMENT ACTIVITY**

The District operated four proprietary segments and an Internal Services Fund in 2013. The following changes occurred in the District's segments during 2013:

a. **RAW WATER UTILITY**

The District continued work on its major upgrade to its Water Plant 2 facilities with final completion by the general contractor anticipated to be mid-year 2014. The second major capital project started in 2012, the re-location of raw water supply meters into a new vault serving two large industrial customers was completed. A third capital project initiated and completed during the year was the installation of an isolation valve in one of the District's main 24" water transmission lines.

b. **GRANDVIEW WATER UTILITY**

The Grandview Potable Water Utility had flat growth in water consumption between 2012 and 2013. Growth was due primarily to rate increases.

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 2013, the District completed its upgrade of its Refinery Substation, which included sectionalizing the 115 kV buss and added a new control house.

Another capital project initiated was the purchase and re-configuration of the secondary voltage side of the Enterprise substation, which serves the District's Water Plant 2. The secondary voltage will be changed from 2,400 to 4,160 volts to serve new large electric motors and associated gear installed as part of the Water Plant 2 project. Also, the secondary side buss will be segmented to allow two parallel feeds for the water plant facilitating redundant service and improving electric service reliability.

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 2013 the District expended \$6,000 for the Lynden Digester Study through Western Washington University and \$20,111 of which \$20,000 will be reimbursed from the Port of Bellingham for the Mt Baker Foothills Broadband Project. As of December 31<sup>st</sup>, 2013, the remaining fund balance is \$320,838.

**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, 2013

	403	411	481	490	500	
	RAW WATER	GRANDVIEW	ELECTRIC	ALCOA SVCS	INTERNAL	DISTRICT TOTAL
	UTILITY	UTILITY	UTILITY		SERVICES FUND	
<b>OPERATING REVENUE</b>						
Utility Sales and Service Revenues	\$ 6,819,788	\$ 158,159	\$ 9,736,466	\$ -	\$ -	\$ 16,714,412
Other Operating Revenue	66,423	8	-	70,000	-	136,431
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 6,886,210</b>	<b>\$ 158,166</b>	<b>\$ 9,736,466</b>	<b>\$ 70,000</b>	<b>\$ -</b>	<b>\$ 16,850,842</b>
<b>OPERATING EXPENSES</b>						
Operations:						
Purchased Power	\$ 439,859	\$ 5,254	\$ 7,189,389	\$ -	\$ -	\$ 7,634,502
Water Purification	154,572	951	-	-	-	155,523
Taxes / Process / Delivery Costs	-	-	479,968	-	-	479,968
General Operations	638,005	43,043	85,073	-	-	766,121
Maintenance	421,261	15,899	86,223	-	-	523,383
Administration						
General Administration	1,507,504	48,882	496,801	7,118	-	2,060,305
Planning and Development Expenses	125,680	-	-	69,999	-	195,678
Depreciation Expense	502,287	74,832	337,466	-	-	914,585
Utility Tax Expense	344,066	7,029	105,438	552	-	457,085
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 4,133,235</b>	<b>\$ 195,890</b>	<b>\$ 8,780,357</b>	<b>\$ 77,668</b>	<b>\$ -</b>	<b>\$ 13,187,150</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 2,752,975</b>	<b>\$ (37,723)</b>	<b>\$ 956,109</b>	<b>\$ (7,668)</b>	<b>\$ -</b>	<b>\$ 3,663,693</b>
<b>NONOPERATING REVENUE</b>						
Lease Income	\$ 16,477	\$ -	\$ -	\$ -	\$ -	\$ 16,477
Assessment Income	-	270,551	-	-	-	270,551
Interest Income	66,249	3,222	12,349	1,599	-	83,419
Interest Fees	(12,454)	(524)	(2,369)	(303)	-	(15,651)
<b>TOTAL NONOPERATING REVENUE</b>	<b>\$ 70,272</b>	<b>\$ 273,248</b>	<b>\$ 9,980</b>	<b>\$ 1,295</b>	<b>\$ -</b>	<b>\$ 354,796</b>
<b>NONOPERATING EXPENSE</b>						
Interest Expense	\$ 1,356,904	\$ 133,216	\$ 249,408	\$ -	\$ -	\$ 1,739,527
Amortization	14,718	7,987	3,939	-	-	26,644
Interfund Expense	577,568	-	(577,568)	-	-	-
Loss (Gain) on Property Disposal	-	-	29,068	-	-	29,068
<b>TOTAL NONOPERATING EXPENSE</b>	<b>\$ 1,949,190</b>	<b>\$ 141,203</b>	<b>\$ (295,154)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,795,239</b>
<b>INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS</b>	<b>\$ 874,057</b>	<b>\$ 94,322</b>	<b>\$ 1,261,243</b>	<b>\$ (6,373)</b>	<b>\$ -</b>	<b>\$ 2,223,249</b>
Capital Contributions	\$ 66,653	-	-	-	-	66,653
Extraordinary Items	-	-	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 940,710</b>	<b>\$ 94,322</b>	<b>\$ 1,261,243</b>	<b>\$ (6,373)</b>	<b>\$ -</b>	<b>\$ 2,289,902</b>
<b>NET POSITION - JANUARY 1st</b>	<b>\$ 5,218,194</b>	<b>\$ 423,786</b>	<b>\$ 7,949,432</b>	<b>\$ 723,396</b>	<b>\$ 44,067</b>	<b>\$ 14,358,875</b>
<b>NET POSITION - DECEMBER 31st</b>	<b>\$ 6,158,904</b>	<b>\$ 518,109</b>	<b>\$ 9,210,674</b>	<b>\$ 717,023</b>	<b>\$ 44,067</b>	<b>\$ 16,648,777</b>

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

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Net Position**  
As of December 31, 2013

	403 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash & Cash Equivalents	\$ 11,543	\$ 2,465	\$ 3,280	\$ 248	\$ 20,229	\$ -	\$ 37,765
Short Term Investments	5,852,917	130,151	1,130,644	320,590	22,763		7,457,066
Receivables (Net):							
Customers	555,021	11,274	801,953	-	-		1,368,248
Other	31,961	-	-	20,000	-		51,961
LUD #1 West Smith Road Receivable	5,346	-	-	-	-		5,346
Interfund Receivables	-	-	90,000	-	-	(90,000)	-
Interfund Transfers - Capital	1,854,874	-	557,889	377,490	(2,790,253)		-
Interfund Transfers - Employee	(160,143)	(5,100)	(58,039)	-	223,282		-
Total Accounts Receivables (Net)	2,287,059	6,175	1,391,803	397,490	(2,566,971)	(90,000)	1,425,555
Other Current Assets	-	-	-	-	35,874		35,874
Prepayments	-	-	-	-	-		-
Other	-	-	-	-	-		-
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 8,151,519</b>	<b>\$ 138,791</b>	<b>\$ 2,525,727</b>	<b>\$ 718,328</b>	<b>\$ (2,488,105)</b>	<b>\$ (90,000)</b>	<b>\$ 8,956,259</b>
<b>NON-CURRENT ASSETS</b>							
Construction Contracts & Other Receivables	-	-	-	-	-		-
Bond Issue Costs	257,056	31,283	48,499	-	-		336,837
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,849,655	249,088	612,767	-	-		3,711,510
Investments - Assessments	-	245,556	-	-	-		245,556
Investments - Other	-	-	60,000	-	-		60,000
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	19,133,631	-	6,559,937	-	884,332		26,577,899
Capital Assets Being Depreciated:							
Buildings & Structures	6,978,500	98,977	166,880	-	1,258,241		8,502,597
Machinery & Equipment	7,966,695	3,082,840	7,729,893	-	1,236,147		20,015,575
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	(9,158,520)	(863,614)	(2,807,372)	-	(588,466)		(13,417,972)
Total Capital Assets (Net)	25,894,305	2,318,202	11,649,338	-	2,790,253		42,652,099
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 29,001,016</b>	<b>\$ 2,844,128</b>	<b>\$ 12,370,604</b>	<b>\$ -</b>	<b>\$ 2,790,253</b>	<b>\$ -</b>	<b>\$ 47,006,002</b>
<b>TOTAL ASSETS</b>	<b>\$ 37,152,535</b>	<b>\$ 2,982,919</b>	<b>\$ 14,896,331</b>	<b>\$ 718,328</b>	<b>\$ 302,148</b>	<b>\$ (90,000)</b>	<b>\$ 55,962,261</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Net Position**  
As of December 31, 2013

	403 RAW WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
<b>LIABILITIES</b>							
<b>CURRENT LIABILITIES</b>							
Accounts Payable	\$ 674,281	\$ 2,715	\$ 598,824	\$ 1,005	\$ 29,043	\$ -	\$ 1,305,868
Accrued Employee Payable	-	-	-	-	229,038	-	229,038
Accrued Utility Taxes	31,260	512	239,423	300	-	-	271,495
Contractor Retainage	6,186	-	176,512	-	-	-	182,698
Interfund Payables	-	90,000	-	-	-	(90,000)	-
Payables from Restricted Assets							
2007 Water Revenue Bond - Current	-	115,000	-	-	-	-	115,000
2007 Water Revenue Bond - Interest	-	21,584	-	-	-	-	21,584
2010 LTGO Bond Series A&B - Current	1,088,158	-	86,842	-	-	-	1,175,000
2010 LTGO Bond Series A&B - Interest	80,971	-	8,557	-	-	-	89,528
2012 LTGO Bond Series A&B - Current	318,961	-	311,039	-	-	-	630,000
2012 LTGO Bond Series A&B - Interest	6,658	-	4,113	-	-	-	10,771
2013 LTGO Bond - Current	240,000	-	-	-	-	-	240,000
2013 LTGO Bond - Interest	17,525	-	-	-	-	-	17,525
Deposits & Other Payables	23	-	-	-	-	-	23
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 2,464,024</b>	<b>\$ 229,811</b>	<b>\$ 1,425,309</b>	<b>\$ 1,305</b>	<b>\$ 258,081</b>	<b>\$ (90,000)</b>	<b>\$ 4,288,530</b>
<b>NON-CURRENT LIABILITIES</b>							
Energy Green Credit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Payables from Restricted Assets							
2004 LTGO Bond Series A&B Principal	-	-	-	-	-	-	-
2007 Water Revenue Bond Principal	-	2,235,000	-	-	-	-	2,235,000
2010 LTGO Bond Series A&B Principal	19,343,671	-	2,043,373	-	-	-	21,387,044
2012 LTGO Bond Principal	2,952,932	-	2,216,974	-	-	-	5,169,906
2013 LTGO Bond Principal	6,233,004	-	-	-	-	-	6,233,004
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 28,529,607</b>	<b>\$ 2,235,000</b>	<b>\$ 4,260,347</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 35,024,954</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 30,993,631</b>	<b>\$ 2,464,811</b>	<b>\$ 5,685,656</b>	<b>\$ 1,305</b>	<b>\$ 258,081</b>	<b>\$ (90,000)</b>	<b>\$ 39,313,484</b>
<b>NET POSITION</b>							
Net Investment in Capital Assets	\$ (371,800)	\$ (31,798)	\$ 7,672,644	\$ -	\$ 2,790,253	\$ -	\$ 10,059,300
Restricted for Debt Service	2,849,655	494,643	612,767	-	-	-	3,957,066
Restricted for Miscellaneous Reserves	-	-	60,000	-	-	-	60,000
Unrestricted	3,681,049	55,263	865,263	717,023	(2,746,187)	-	2,572,411
<b>TOTAL NET POSITION</b>	<b>\$ 6,158,904</b>	<b>\$ 518,108</b>	<b>\$ 9,210,675</b>	<b>\$ 717,023</b>	<b>\$ 44,067</b>	<b>\$ -</b>	<b>\$ 16,648,777</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Cash Flow**  
As of December 31, 2013

	403	411	481	490	500	
CASH FLOWS FROM OPERATING ACTIVITIES	RAW WATER	GRANDVIEW POTABLE	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	TOTAL
Receipts from Customers	\$ 6,918,286	\$ 155,155	\$ 10,431,590	\$ 64,000	\$ 3,345	\$ 17,572,376
Payments to suppliers	(2,780,795)	(29,327)	(8,672,132)	(96,613)	(181,453)	(11,760,321)
Payments to employees (Labor only)					(1,743,097)	(1,743,097)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 4,137,491</b>	<b>\$ 125,828</b>	<b>\$ 1,759,458</b>	<b>\$ (32,613)</b>	<b>\$ (1,921,205)</b>	<b>\$ 4,068,959</b>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers from (to) Other Utilities	(2,331,659)	(88,696)	(387,291)	-	2,807,647	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ (2,331,659)</b>	<b>\$ (88,696)</b>	<b>\$ (387,291)</b>	<b>\$ -</b>	<b>\$ 2,807,647</b>	<b>\$ -</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Proceeds from Capital Debt	6,455,683					6,455,683
Purchase of Capital Assets	(11,717,763)		(2,900,078)		(896,938)	(15,514,779)
Principal paid on Capital Debt	(1,357,753)	(110,000)	(382,247)			(1,850,000)
Interest paid on Capital Debt	(1,227,751)	(134,869)	(140,490)			(1,503,111)
Payment from Assessments to pay 07 debt payments		270,551				270,551
<b>NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (7,847,584)</b>	<b>\$ 25,682</b>	<b>\$ (3,422,816)</b>	<b>\$ -</b>	<b>\$ (896,938)</b>	<b>\$ (12,141,656)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest Received	53,904	2,698	10,027	1,295	(155)	67,768
<b>NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES</b>	<b>\$ 53,904</b>	<b>\$ 2,698</b>	<b>\$ 10,027</b>	<b>\$ 1,295</b>	<b>\$ (155)</b>	<b>\$ 67,768</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (5,987,849)</b>	<b>\$ 65,511</b>	<b>\$ (2,040,623)</b>	<b>\$ (31,318)</b>	<b>\$ (10,651)</b>	<b>\$ (8,004,929)</b>
<b>BALANCE BEGINNING OF YEAR</b>	14,701,964	561,748	3,847,314	352,156	53,643	19,516,825
<b>BALANCE END OF PERIOD</b>	<b>\$ 8,714,115</b>	<b>\$ 627,259</b>	<b>\$ 1,806,691</b>	<b>\$ 320,838</b>	<b>\$ 42,992</b>	<b>\$ 11,511,896</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Cash Flow**  
As of December 31, 2013

	403	411	481	490	500	
	CHERRY POINT	GRANDVIEW POTABLE	ELECTRIC	BP&ALCOA ESCROW	INTERNAL SERVICE	TOTAL
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>						
Operating Income (Loss)	\$ 2,752,975	\$ (37,723)	\$ 956,109	\$ (7,668)	\$ -	\$ 3,663,693
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activity</b>						
Depreciation	381,355	74,832	285,594	-	172,804	914,585
Miscellaneous - Non-Operating	82,130	-	-	-	1,000	83,130
Decrease (Increase) in Net Accounts Receivable	(88,677)	57	669,351	(20,000)	182	560,913
Decrease (Increase) in Prepayments	-	-	-	-	39,825	39,825
Decrease (Increase) in Other Deferred Charges	(38,600)	-	-	-	-	(38,600)
Interfund Transfers	1,251,226	85,971	765,327	-	(2,102,525)	-
Increase (Decrease) in Account Payable	(213,526)	2,639	(1,029,776)	(5,245)	(51,330)	(1,297,239)
Increase (Decrease) in Accrued Employee Payable	-	-	-	-	18,839	18,839
Increase (Decrease) in Accrued Utility Taxes	7,712	52	20,777	300	-	28,841
Increase (Decrease) in Contractor Retainage	6,186	-	92,076	-	-	98,263
Increase (Decrease) in Deposits & Other Payables	(3,290)	-	-	-	-	(3,290)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 4,137,491</b>	<b>\$ 125,828</b>	<b>\$ 1,759,458</b>	<b>\$ (32,613)</b>	<b>\$ (1,921,205)</b>	<b>\$ 4,068,959</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**For The Year Ended December 31, 2013**

**NOTE 11 – BOND ISSUE COSTS**

In accordance with generally accepted accounting principles for regulated businesses, the District has charges of \$336,837 in 2013 which will be amortized using the straight-line method over the life of the bonds (each 20 years except the 2012 LTGO which completed in 2024). These 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 2013 in non-regulated business, but for rate-making purposes they are treated as applicable to future periods. Transactions resulted from the following:

a. **Bond Issue Costs**

**Unamortized Debt Discount and Expense**

The District's charges as of December 31, 2013 are \$336,837:

<b>BOND ISSUE COSTS</b>		<b>2013</b>
Unamortized Debt Expenses on 2007 Water Revenue Bond	\$	31,283
Unamortized Debt Expenses on 2010 LTGO Bonds		158,802
Unamortized Debt Expenses on 2012 LTGO Bonds		78,794
Unamortized Debt Expenses on 2013 LTGO Bonds		67,958
<b>Total Deferred Charges</b>	<b>\$</b>	<b>336,837</b>

b. **Postponed Credits**

The District didn't have any postponed credits in 2013.

**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 1<sup>st</sup> on property listed as of the prior May 31<sup>st</sup>. 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 2013 was \$23,484,411,003. 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 30<sup>th</sup> and October 31<sup>st</sup>. 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 2013 or 2012.

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**For The Year Ended December 31, 2013**

**NOTE 13 – ACCOUNTING CHANGES**

During our last audit (covering year 2011 and 2012), it was recommended that the Cash represented in the Cash Flow Statement include all cash, investments, and restricted funds. The previous audit had recommended that it only include cash and investments. 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 2013, NoaNet was able to cover its debt obligations from operations. The District was not assessed in 2013.

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, 2013 is \$18,676.73.

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**

The District has had no settlements with outside parties within the last three years.



**Public Utility District No. 1 of Whatcom County**  
NOTES TO FINANCIAL STATEMENT  
For The Year Ended December 31, 2013

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 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 2013 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.

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**For The Year Ended December 31, 2013**

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.

WIES is currently in the process of eliminating this policy. It was discovered that the policy through WIES overlapped with the policy from PURMS. The hold harmless agreement will still be in effect, but the insurance portion will be removed from the agreement.

Risk pool insurance premiums and pool assessments for the District were as follows for 2013 and 2012:

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
For The Year Ended December 31, 2013

INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
<b>PURMS 2012</b>						
<b><u>LIABILITY</u></b>						
1/4/2012	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	956,210.40		
1/4/2012	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	159,325.01	1.56%	17,416.49
1/4/2012	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	401,266.00	1.65%	6,615.79
7/2/2012	AEGIS	LIABILITY	PROF LIAB [E&O]	150,774.13	1.52%	2,288.44
8/1/2012	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.52%	151.78
9/26/2012	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
				<b>2,350,489.54</b>	<b>1.61%</b>	<b>37,916.98</b>
<b><u>PROPERTY</u></b>						
1/4/2012	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	232,767.00	3.56%	8,296.99
4/6/2012	NATIONAL UNION and ZURICH	PROPERTY	EXCESS PROPERTY POLICY	1,070,904.00	3.07%	32,880.63
6/27/2012	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
				<b>1,963,839.00</b>	<b>3.28%</b>	<b>64,409.66</b>
<b>PURMS 2013</b>						
<b><u>LIABILITY</u></b>						
1/7/2013	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	986,504.49		
1/7/2013	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	162,511.55	1.54%	17,678.65
1/7/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	445,003.00	1.71%	7,590.71
6/20/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	514,159.00	1.69%	8,681.55
7/2/2013	AEGIS	LIABILITY	PROF LIAB [E&O]	154,080.13	1.50%	2,305.61
11/11/2013	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.50%	149.63
12/19/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	669,534.00	1.69%	11,322.77
12/31/2013	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	38,514.00	1.69%	652.00
				<b>2,980,306.17</b>	<b>1.62%</b>	<b>48,380.92</b>
<b><u>PROPERTY</u></b>						
1/7/2013	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	39,590.00	3.52%	1,392.86
4/9/2013	NATIONAL UNION and ZURICH	PROPERTY	EXCESS PROPERTY POLICY	1,104,597.65	2.96%	32,649.49
6/20/2013	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	262,155.00	3.41%	8,935.69
12/31/2013	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	160,922.00	3.43%	5,513.91
				<b>1,567,264.65</b>	<b>3.09%</b>	<b>48,491.95</b>
<b>MARSH 2012</b>						
6/1/2012	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			374.51
<b>MARSH 2013</b>						
6/6/2013	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			419.84

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
<b>Deputy Director for Communications</b>	Thomas Shapley <a href="mailto:Thomas.Shapley@sao.wa.gov">Thomas.Shapley@sao.wa.gov</a> (360) 902-0367
<b>Public Records requests</b>	(360) 725-5617
<b>Main telephone</b>	(360) 902-0370
<b>Toll-free Citizen Hotline</b>	(866) 902-3900
<b>Website</b>	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>