

ANNUAL REPORT

Public Utility District No. 1 of Whatcom County

MCAG No. 1806

Submitted pursuant to RCW 43.09.230

To the

STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED December 31, 2014

Certified correct this 28th day of April, 2015, to the best of my knowledge and belief:

GOVERNMENT INFORMATION:

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

Official Web Site Address: www.pudwhatcom.org

PREPARER INFORMATION and CERTIFICATION:

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Signature:

A handwritten signature in blue ink, appearing to read "Annette Smith", is written over a horizontal line.

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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). 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:

	2014	2013
ASSETS		
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
TOTAL ASSETS	\$ 56,435,389	\$ 55,962,261
LIABILITIES		
Current Liabilities	\$ 3,947,371	\$ 4,288,530
Non-Current Liabilities	32,777,735	35,024,954
TOTAL LIABILITIES	\$ 36,725,106	\$ 39,313,484
NET POSITION		
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
TOTAL NET POSITION	\$ 19,710,283	\$ 16,648,777
TOTAL LIABILITIES AND NET POSITION	\$ 56,435,389	\$ 55,962,261

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:

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

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 \$228,000 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 \$1,175,000, the 2012 LTGO bond issue was reduced by \$630,000, and the District's indebtedness for the 2013 LTGO bonds was reduced by \$240,000. SEE NOTE 7 and SCHEDULE 09.

REQUEST FOR INFORMATION

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

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 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)	<u>1,632,378</u>
Prepayments	88,608
TOTAL CURRENT ASSETS	<u>\$ 6,135,326</u>

NON-CURRENT ASSETS

Deferred Charges	\$ 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	<u>(13,396,241)</u>
Total Capital Assets (Net)	<u>45,936,114</u>
TOTAL NONCURRENT ASSETS	<u>\$ 50,300,063</u>

TOTAL ASSETS

	<u>\$ 56,435,389</u>
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The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
 As of December 31, 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
TOTAL CURRENT LIABILITIES	<u>\$ 3,947,371</u>

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
TOTAL NON-CURRENT LIABILITIES	<u>\$ 32,777,735</u>

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
TOTAL NET POSITION	<u>\$ 19,710,283</u>

TOTAL LIABILITIES & NET POSITION

\$ 56,435,389

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

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

OPERATING REVENUE	
Utility Sales and Service Revenues	\$ 18,089,125
Other Operating Revenue	122,120
TOTAL OPERATING REVENUE	<u>\$ 18,211,246</u>
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
Administration:	
General Administration	1,983,583
Planning and Development Expense	187,349
Depreciation Expense	911,437
Utility Tax Expense	503,806
TOTAL OPERATING EXPENSES	<u>\$ 13,736,152</u>
OPERATING INCOME (LOSS)	<u>\$ 4,475,093</u>
NONOPERATING REVENUE	
Lease Income	\$ 24,744
Assessment Income	279,771
Interest Income	59,384
Interest Fees	(8,002)
TOTAL NONOPERATING REVENUE	<u>\$ 355,897</u>
NONOPERATING EXPENSE	
Interest Expense	\$ 1,510,978
Amortization	28,182
Loss (Gain) on Property Disposal	230,325
TOTAL NONOPERATING EXPENSE	<u>\$ 1,769,485</u>
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	<u>\$ 3,061,506</u>
Capital Contributions (Connection Charges)	\$ -
Special / Extraordinary Items	-
CHANGE IN NET POSITION	<u>\$ 3,061,506</u>
TOTAL NET POSITION - JANUARY 1st	\$ 16,648,777
TOTAL NET POSITION - DECEMBER 31st	<u>\$ 19,710,283</u>

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
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
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ 48,990

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (3,042,262)
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BALANCE BEGINNING OF YEAR	\$ 11,511,896
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BALANCE END OF YEAR	\$ 8,469,634
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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 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
Adjustments to reconcile operating income to net cash	
Cash Provided (Used) by operating activities:	
Depreciation	911,437
Miscellaneous	2,392
Change in Assets and Liabilities:	
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)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 4,733,407

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. 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

RESTRICTED RESERVE BALANCES	2014
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
TOTAL RESTRICTED RESERVE BALANCES	\$ 4,055,294

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. 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.

j. Unamortized Debt Expenses

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

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

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:

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

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

	2014 Beginning Balance	2014 Activity		2014 Ending Balance
		Increase	Decrease	
UTILITY PLANT NOT BEING DEPRECIATED				
LAND				
Raw Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
CONSTRUCTION-IN-PROGRESS				
Raw Water Utility	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-PROGRSS	26,577,899	4,557,576	(30,938,703)	196,772
TOTAL UTILITY PLANT NOT BEING DEPRECIATED	\$ 26,685,899	\$ 4,557,576	\$ (30,938,703)	\$ 304,772
UTILITY PLANT BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
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
MACHINERY & EQUIPMENT				
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
INTANGIBLE				
Raw Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL UTILITY PLANT BEING DEPRECIATED	\$ 29,384,172	\$ 30,911,992	\$ (1,268,582)	\$ 59,027,582
LESS ACCUMULATED DEPRECIATION FOR:				
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)
UTILITY PLANT BEING DEPRECIATED (NET)	\$ 15,966,200	\$ 29,991,987	\$ (326,846)	\$ 45,631,341
TOTAL UTILITY PLANT, NET	\$ 42,652,099	\$ 34,549,563	\$ (31,265,548)	\$ 45,936,114

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
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:

	District Capital Project #	Annual Project Authorization	2014		Required Future Financing
			Expended Through 12/31/14	Committed	
CONSTRUCTION IN PROGRESS					
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
TOTAL CONSTRUCTION IN PROGRESS		\$ 162,750	\$ 196,772	\$ 35,031,162	\$ 28,800,000

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
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
2010 LTGO Series A - Refunded 1999 Water Revenue Bonds	2011-2019	4.88%	\$ 2,660,000	\$ 350,000
2010 LTGO Series B -Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 825,000
2012 LTGO - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 630,000
2013 LTGO - 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:

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
TOTAL	\$21,330,000	\$ 9,689,725	\$ 5,175,000	\$ 720,210	\$ 5,785,000	\$ 2,324,050

The revenue bond currently outstanding is as follows:

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

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

Revenue bond debt service requirements to maturity are as follows:

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
TOTAL	\$ 2,235,000	\$ 976,556

In proprietary funds, unamortized debt issue costs for insurance are recorded as deferred inflow and 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
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.

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

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.

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 31st, 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
OPERATING REVENUE						
Utility Sales and Service Revenues	\$ 7,666,948	\$ 168,314	\$ 10,253,864	\$ -	\$ -	\$ 18,089,125
Other Operating Revenue	122,120	-	-	-	-	122,120
TOTAL OPERATING REVENUE	\$ 7,789,068	\$ 168,314	\$ 10,253,864	\$ -	\$ -	\$ 18,211,246
OPERATING EXPENSES						
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
TOTAL OPERATING EXPENSES	\$ 4,084,484	\$ 301,853	\$ 9,348,196	\$ 1,620	\$ -	\$ 13,736,152
OPERATING INCOME (LOSS)	\$ 3,704,584	\$ (133,539)	\$ 905,668	\$ (1,620)	\$ -	\$ 4,475,093
NONOPERATING REVENUE						
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)
TOTAL NONOPERATING REVENUE	\$ 61,149	\$ 283,119	\$ 10,024	\$ 1,605	\$ -	\$ 355,897
NONOPERATING EXPENSE						
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
TOTAL NONOPERATING EXPENSE	\$ 1,988,208	\$ 70,880	\$ (289,603)	\$ -	\$ -	\$ 1,769,485
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	1,777,526	\$ 78,700	\$ 1,205,295	\$ (15)	\$ -	\$ 3,061,506
Capital Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Extraordinary Items	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 1,777,526	\$ 78,700	\$ 1,205,295	\$ (15)	\$ -	\$ 3,061,506
NET POSITION - JANUARY 1st	\$ 6,158,904	\$ 518,109	\$ 9,210,674	\$ 717,023	\$ 44,067	\$ 16,648,777
NET POSITION - DECEMBER 31st	\$ 7,936,430	\$ 596,809	\$ 10,415,969	\$ 717,008	\$ 44,067	\$ 19,710,283

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
ASSETS							
CURRENT ASSETS							
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)	<u>1,700,914</u>	<u>10,627</u>	<u>1,123,878</u>	<u>377,490</u>	<u>(1,490,531)</u>	<u>(90,000)</u>	<u>1,632,378</u>
Other Current Assets							
Prepayments	-	-	-	-	88,608		88,608
Other							
TOTAL CURRENT ASSETS	\$ 4,671,509	\$ 81,012	\$ 2,015,517	\$ 717,008	\$ (1,259,720)	\$ (90,000)	\$ 6,135,326
NON-CURRENT ASSETS							
Deferred Charges	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	<u>(8,748,439)</u>	<u>(936,698)</u>	<u>(2,965,491)</u>	<u>-</u>	<u>(745,613)</u>		<u>(13,396,241)</u>
Total Capital Assets (Net)	<u>29,022,199</u>	<u>2,311,024</u>	<u>12,848,733</u>	<u>-</u>	<u>1,754,158</u>		<u>45,936,114</u>
TOTAL NONCURRENT ASSETS	\$ 32,112,654	\$ 2,867,191	\$ 13,566,060	\$ -	\$ 1,754,158	\$ -	\$ 50,300,063
TOTAL ASSETS	\$ 36,784,163	\$ 2,948,202	\$ 15,581,578	\$ 717,008	\$ 494,438	\$ (90,000)	\$ 56,435,389

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
LIABILITIES							
CURRENT LIABILITIES							
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
TOTAL CURRENT LIABILITIES	\$ 2,027,659	\$ 241,394	\$ 1,317,947	\$ -	\$ 450,371	\$ (90,000)	\$ 3,947,371
NON-CURRENT LIABILITIES							
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
TOTAL NONCURRENT LIABILITIES	\$ 26,820,074	\$ 2,110,000	\$ 3,847,661	\$ -	\$ -	\$ -	\$ 32,777,735
TOTAL LIABILITIES	\$ 28,847,733	\$ 2,351,394	\$ 5,165,608	\$ -	\$ 450,371	\$ (90,000)	\$ 36,725,106
NET POSITION							
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
TOTAL NET POSITION	\$ 7,936,430	\$ 596,808	\$ 10,415,970	\$ 717,008	\$ 44,067	\$ -	\$ 19,710,283
TOTAL LIABILITIES & NET POSITION	\$ 36,784,163	\$ 2,948,202	\$ 15,581,578	\$ 717,008	\$ 494,438	\$ (90,000)	\$ 56,435,389

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

	403 INDUSTRIAL WATER	411 GRANDVIEW	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL SERVICE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES						
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)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 5,563,017	\$ 53,763	\$ 2,951,329	\$ 17,075	\$ (3,851,777)	\$ 4,733,407
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
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
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (1,885,359)	\$ (116,129)	\$ (1,050,896)	\$ -	\$ 3,077,128	\$ 24,744
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
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
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (6,605,721)	\$ 35,015	\$ (2,152,825)	\$ -	\$ 874,128	\$ (7,849,403)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	34,199	3,348	10,107	1,605	(268)	48,990
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 34,199	\$ 3,348	\$ 10,107	\$ 1,605	\$ (268)	\$ 48,990
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (2,893,865)	\$ (24,004)	\$ (242,285)	\$ 18,680	\$ 99,211	\$ (3,042,262)
BALANCE BEGINNING OF YEAR	8,714,115	627,259	1,806,691	320,838	42,992	11,511,896
BALANCE END OF PERIOD	\$ 5,820,251	\$ 603,256	\$ 1,564,406	\$ 339,518	\$ 142,203	\$ 8,469,634

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	GRANDVIEW	ELECTRIC	BPA-ALCOA	INTERNAL	
	WATER			ESCROW	SERVICE	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH						
Operating Income (Loss)	\$ 3,704,584	\$ (133,539)	\$ 905,668	\$ (1,620)	\$ -	\$ 4,475,093
Adjustments to reconcile operating income to net cash provided (used) by operating activity						
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)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,563,017	\$ 53,763	\$ 2,951,329	\$ 17,075	\$ (3,851,777)	\$ 4,733,407

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

NOTE 11 - DEFERRED DEBITS (CREDITS)

In accordance with generally accepted accounting principles for regulated businesses, the District has deferred 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 deferred charges resulted from costs relating to the sale and redemption of the bonds. These charges and revenues would have been included in net income for 2014 in non-regulated business, but for rate-making purposes they are treated as applicable to future periods. Deferred transactions resulted from the following:

a. Deferred Charges

Unamortized Debt Discount and Expense

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

DEFERRED CHARGES	2014
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
Total Deferred Charges	\$ 308,656

b. Deferred Credits

The District didn't have any deferred 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 1st on property listed as of the prior May 31st. Assessed values are established by the County Assessor at 100 percent of fair market value. A revaluation of all property is required every four years. Whatcom County annually publishes the 'Statement of Assessed Valuations, Tax Rates, and Taxes Levied Within the Various Taxing Districts of Whatcom County'. The District's assessed value is equal to the Total Value of Taxable Property of Whatcom County. The District's assessed valuation of taxable property for 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 30th and October 31st. Collections are distributed monthly to the District by the County Treasurer.

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

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

The District had no tax levies for 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

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
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2014

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:

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

INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
PURMS 2013						
<u>LIABILITY</u>						
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
				2,980,306.17	1.62%	48,380.92
<u>PROPERTY</u>						
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
				1,567,264.65	3.09%	48,491.95
PURMS 2014						
<u>LIABILITY</u>						
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
				3,767,178.45	1.62%	61,017.30
<u>PROPERTY</u>						
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
				1,646,529.37	3.14%	51,749.68
MARSH 2013						
06/06/2013	WESTERN INTERCONNECTED ELECTRIC SYSTEMS	LIABILITY	BLACK/BROWN-OUT ANNUAL PREMIUM			419.84

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

NOTE 16 – INTERFUND BALANCES AND TRANSFERS

a. Interfund Balances

Interfund balances at December 31, 2014 were as follows:

		Due From					
Due To		403 Industrial Water	411 Grandview	481 Electric	490 Alcoa Svc	500 Internal Svc	Total
	403 Industrial Water					\$ 1,131,434	\$ 1,131,434
	411 Grandview						\$ -
	481 Electric		90,000			245,234	\$ 335,234
	490 Alcoa Svc					377,490	\$ 377,490
	500 Internal Svc	190,491		73,486			\$ 263,977
	Total	\$ 190,491	\$ 90,000	\$ 73,486	\$ -	\$ 1,754,158	\$ 2,108,135

The Interfund balances consist of three major components: \$90,000 loan to Grandview to help with cash flow, \$1,754,158 for the transfer of cost for the Internal Service Fixed asset costs, and \$263,977 for the transfer of liability for the accrued employee benefits from the Internal Service fund to the individual funds. None of these transfers are expected to be repaid within a year.

b. Interfund Transfers

Interfund transfers at December 31, 2014 were as follows:

		Due From					
Due To		403 Industrial Water	411 Grandview	481 Electric	490 Alcoa Svc	500 Internal Svc	Total
	403 Industrial Water						\$ -
	411 Grandview						\$ -
	481 Electric						\$ -
	490 Alcoa Svc						\$ -
	500 Internal Svc	1,910,103	116,129	1,050,896			\$ 3,077,128
	Total	\$ 1,910,103	\$ 116,129	\$ 1,050,896	\$ -	\$ -	\$ 3,077,128

The Interfund transfers for 2014 consisted mainly of the transfer of costs between the Internal Services fund to the different Enterprise funds. This would consist of general expenses and payroll. It also includes the transfer of bond payments between the 403 Industrial Water fund to the 481 Electric fund that correspond with the purchase of the Enterprise and Ferndale substations which serve the water plants.

Public Utility District No. 1 of Whatcom County
SUPPLEMENTAL SCHEDULES
For The Year Ended December 31, 2014

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Public Utility District No. 1 of Whatcom County
SCHEDULE 01 – Revenues and Expenses
For The Year Ended December 31, 2014

Schedule	Account Code	Account Title	Actual Amount
R	41400	Other Utility Operating Revenues	122120
R	41800	Nonoperating Rental Revenues	24744
R	41900	Interest and Dividend Revenues	51382
R	42100	Miscellaneous Nonoperating Revenues	279771
R	44200	Commercial and Industrial Sales	10253864
R	45300	Water and Water Power Sales	7835262
E	40310	Depreciation Expense	868137
E	40700	Amortization of Property Losses, Unrecovered Plant & Regulatory Study Costs	43300
E	40800	Taxes: State Privilege Tax, State Utility Tax, B&O Tax, Other Excise Taxes	1004760
E	42120	Loss on Disposition of Property	230325
E	42700	Interest on Long-Term Debt	1510978
E	42800	Amortization of Debt Discount and Expenses	28182
E	55500	Purchased Power	8101264
E	55700	Other Expenses	209274
E	56000	Operation Supervision and Engineering	714555
E	56600	Miscellaneous Transmission Expenses	7571
E	56800	Maintenance Supervision and Engineering	17802
E	57300	Maintenance of Miscellaneous Transmission Plant	3043
E	58000	Operation Supervision and Engineering	10639
E	58810	Miscellaneous Distribution Expense	24723
E	59000	Maintenance Supervision and Engineering	27410
E	59800	Maintenance of Miscellaneous Distribution Plant	129949
E	91300	Advertising Expense	3312
E	92000	Administrative and General Salaries	849900
E	92100	Office Supplies and Expenses	114827
E	92300	Outside Services Employed	390949
E	92400	Property Insurance	121383
E	92600	Employee Pension and Benefits	430588
E	93020	Miscellaneous General Expenses	245337
E	93100	Rents	14640
E	93500	Maintenance of General Plant	402789

Public Utility District No. 1 of Whatcom County
 SCHEDULE 09 - Liabilities
 For The Year Ended December 31, 2014

I.D. NO.	DESCRIPTION	MATURITY/ PAYMENT DUE DATE	(1)	(2)	(3)	BARS CODE FOR REDEMPTION OF DEBT ONLY	(4)
			BEGINNING BALANCE 01/01/2014	ADDITIONS	REDUCTIONS		ENDING BALANCE DEBT 12/31/2014 (1)+(2)-(3)
252.11	2007 Water Revenue Bonds	11/01/2027	\$ 2,350,000		\$ 115,000		\$ 2,235,000
251.11	2010 General Obligation bonds, Series A	12/01/2030	\$ 2,325,000		\$ 350,000		\$ 1,975,000
251.11	2010 General Obligation bonds, Series B	12/01/2030	\$ 20,180,000		\$ 825,000		\$ 19,355,000
251.11	2010 General Obligation bond premium	12/01/2030	\$ 57,044		\$ 3,356		\$ 53,688
251.11	2012 LTGO BONDS - Refi 2004 LTGO bonds	12/01/2024	\$ 5,805,000		\$ 630,000		\$ 5,175,000
251.11	2012 LTGO bond discount	12/01/2024	\$ (5,094)		\$ (463)		\$ (4,631)
251.11	2013 LTGO bonds	12/01/2032	\$ 6,025,000		\$ 240,000		\$ 5,785,000
251.11	2013 LTGO bond premium	12/01/2032	\$ 448,004		\$ 24,326		\$ 423,678
	TOTAL		\$ 37,184,954	\$ -	\$ 2,187,219	\$ -	\$ 34,997,735

Public Utility District No. 1 of Whatcom County

Public Utility District No. 1 of Whatcom County

SCHEDULE OF STATE FINANCIAL ASSISTANCE

For The Year Ended December 31, 2014

Grantor/Program Title	Program Title	Identification Number	Amount
Department of Health			
	Water Nitrates	N20201	\$21,861
	Water Nitrates	N20202	21,861
	S Lake Samish Water Nitrates	N20513	16,357
Sub-Total:			\$60,079
Grand Total:			\$60,079