

**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, 2015

Certified correct this 26<sup>th</sup> day of April, 2016, 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](http://www.pudwhatcom.org)

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Signature:

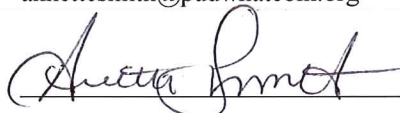


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**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2015

**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>2015</b>	<b>2014</b>
<b>ASSETS</b>		
Current Assets	\$ 7,361,377	\$ 6,135,326
Non-Current Assets	4,317,200	4,363,949
Capital Assets (Net)	45,012,323	45,936,114
<b>TOTAL ASSETS</b>	<b>\$ 56,690,900</b>	<b>\$ 56,435,389</b>
<b>LIABILITIES</b>		
Current Liabilities	\$ 3,915,331	\$ 3,947,371
Non-Current Liabilities	30,475,517	32,777,735
<b>TOTAL LIABILITIES</b>	<b>\$ 34,390,848</b>	<b>\$ 36,725,106</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 13,800,327	\$ 12,686,899
Restricted for Debt Service	3,976,726	3,995,294
Restricted for Miscellaneous Reserves	60,000	60,000
Unrestricted	4,462,999	2,968,090
<b>TOTAL NET POSITION</b>	<b>\$ 22,300,052</b>	<b>\$ 19,710,283</b>

**Public Utility District No. 1 of Whatcom County**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For The Year Ended December 31, 2015

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

	<b>2015</b>	<b>2014</b>
<b>REVENUES</b>		
Operating Revenue	\$ 18,883,754	\$ 18,211,246
Nonoperating Revenue	312,762	355,897
<b>TOTAL REVENUE</b>	<b>\$ 19,196,516</b>	<b>\$ 18,567,143</b>
<b>EXPENSES</b>		
Operating Expenses	15,432,363	13,736,152
Nonoperating Expenses	1,488,993	1,769,485
<b>TOTAL EXPENSES</b>	<b>\$ 16,921,356</b>	<b>\$ 15,505,637</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS</b>		
	<b>\$ 2,275,160</b>	<b>\$ 3,061,506</b>
Capital Contributions	314,609	-
Special / Extraordinary Items	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 2,589,770</b>	<b>\$ 3,061,506</b>
<b>BEGINNING NET POSITION</b>	<b>\$ 19,710,282</b>	<b>\$ 16,648,777</b>
<b>ENDING NET POSITION</b>	<b>\$ 22,300,052</b>	<b>\$ 19,710,282</b>

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2014-2015

For the twelve months ending December 31, 2015 the total net position of the District increased by approximately \$2,590,000 or 13%. Total assets increased by \$256,000 and total liabilities decreased by \$2,334,000 producing a net increase in net position.

The major components contributing to the increase in assets were a decrease in Cash & Cash Equivalents of \$357,000 due to the timing of cash transactions, an increase in Short-Term Investments of \$1,687,000 from the slow-down in capital projects, a decrease in net receivables of \$104,000 due primarily to timing of payments, a decrease of \$28,000 in Deferred Charges due to amortization, a decrease in assessment investments of \$19,000, and a decrease in total capital assets net of depreciation of \$924,000.

The major components of the decrease in total liabilities included a decrease in Accounts Payables of \$173,000 due to timing of payments, an increase of \$60,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts, an increase in Utility Taxes of \$8,000, an increase of \$23,000 in Contractor Retainage, and a net decrease in the bonds principal and interest payable of \$2,253,000 due to debt service payments.

**Public Utility District No. 1 of Whatcom County**  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For The Year Ended December 31, 2015

**RESULTS OF OPERATIONS**

**Analysis of changes in Revenue, Expenses, and change in Net Position for 2014-2015**

Total Net Position (excluding Extraordinary Items and Capital Contributions for 2015 adjustments) decreased from \$3,062,000 in 2014 to \$2,275,000 in 2015 (a \$786,000 decrease). Operating Revenue increased by \$673,000 due to rate increases. Operating expenses increased by \$1,696,000, mainly due to the increased depreciation and non-capitalized labor costs. Non-operating Revenue decreased by \$43,000, due to a decrease in assessment income. Non-operating Expenses reflected an overall decrease of \$280,000, resulting primarily from a \$57,000 decrease in interest expense, and a \$223,000 decrease in expense of loss on property from the large capital projects completed in 2014.

**CAPITAL ASSETS**

**Analysis of Changes in Capital Assets from 2014-2015**

During 2015, total capital assets decreased by \$924,000 and were comprised of an overall decrease in non-depreciated assets, including construction-work-in-progress for \$172,000 (\$291,000 of construction-work-in-progress was expensed during 2015 mainly consisting of items in the SCADA project which did not qualify for capitalization and the District Water Storage project which has been put on indefinite hold), the Industrial Water Utility (Cherry Point) increased by \$451,000, the Grandview Water Utility remained constant, the Electric Utility increased \$237,000, a \$78,000 increase for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$1,517,000. SEE NOTE 3.

**LONG-TERM DEBT**

**Analysis of Changes in Long-Term Debt from 2014-2015**

During 2015, the District's indebtedness for the 2007 Water Revenue Bond was reduced by \$125,000, the District's indebtedness for the 2010 LTGO bonds was reduced by \$1,215,000, the 2012 LTGO bond issue was reduced by \$635,000, and the District's indebtedness for the 2013 LTGO bonds was reduced by \$245,000. SEE NOTE 6 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, 2015

**ASSETS****CURRENT ASSETS**

Cash & Cash Equivalents	\$ 26,836
Short Term Investments	5,717,388
Receivables (Net):	
Customers	1,525,521
LUD #1 West Smith Road Receivable	-
Other	2,664
Total Accounts Receivables (Net)	<u>1,528,185</u>
Prepayments	88,968
<b>TOTAL CURRENT ASSETS</b>	<b><u>\$ 7,361,377</u></b>

**NON-CURRENT ASSETS**

Bond Issue Costs	\$ 280,474
Restricted Assets	
Investments - Bond Reserves	3,711,510
Investments - Assessments	265,216
Investments - Other	60,000
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	24,634
Capital Assets Being Depreciated:	
Buildings & Structures	22,874,222
Machinery & Equipment	36,052,653
Intangible	866,000
Less Accumulated Depreciation	<u>(14,913,185)</u>
Total Capital Assets (Net)	<u>45,012,323</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b><u>\$ 49,329,523</u></b>

**TOTAL ASSETS**

	<b><u>\$ 56,690,900</u></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, 2015

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	\$ 867,328
Accrued Employee Payable	330,981
Accrued Utility Taxes	290,431
Contractor Retainage	22,832
Payables from Restricted Assets	
2007 Water Revenue Bonds Principal - Current	130,000
2007 Water Revenue Bonds Interest	19,584
2010 LTGO Series A&B Bonds Principal - Current	1,255,000
2010 LTGO Series A&B Interest	82,454
2012 LTGO Series A&B Bonds Principal - Current	640,000
2012 LTGO Series A&B Interest	9,543
2013 LTGO Bond Principal - Current	250,000
2013 LTGO Bond Interest	16,717
Deposits & Other Payables	462
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>\$ 3,915,331</u></b>

**NON-CURRENT LIABILITIES**

Payables from Restricted Assets	
2007 Water Revenue Bonds Principal	1,980,000
2010 LTGO Series A&B Bonds Principal	18,910,333
2012 LTGO Bond Principal	3,895,832
2013 LTGO Bond Principal	5,689,352
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b><u>\$ 30,475,517</u></b>

**TOTAL LIABILITIES**

**\$ 34,390,848**

**NET POSITION**

Net Investment in Capital Assets	\$ 13,800,327
Restricted for Debt Service	3,976,726
Restricted for Miscellaneous Reserves	60,000
Unrestricted	4,462,999
<b>TOTAL NET POSITION</b>	<b><u>\$ 22,300,052</u></b>

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, 2015

<b>OPERATING REVENUE</b>	
Utility Sales and Service Revenues	\$ 18,688,717
Other Operating Revenue	195,037
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 18,883,754</b>
<b>OPERATING EXPENSES</b>	
Operations:	
Purchased Power	\$ 8,108,512
Water Purification	220,795
Taxes / Process / Delivery Costs	512,285
General Operations	941,637
Maintenance	986,441
Administration:	
General Administration	2,372,842
Planning and Development Expense	189,744
Depreciation Expense	1,563,916
Utility Tax Expense	536,190
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 15,432,363</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 3,451,391</b>
<b>NONOPERATING REVENUE</b>	
Lease Income	\$ 22,526
Assessment Income	226,370
Interest Income	71,061
Interest Fees	(7,194)
<b>TOTAL NONOPERATING REVENUE</b>	<b>\$ 312,762</b>
<b>NONOPERATING EXPENSE</b>	
Interest Expense	\$ 1,453,605
Amortization	28,182
Loss (Gain) on Property Disposal	7,206
<b>TOTAL NONOPERATING EXPENSE</b>	<b>\$ 1,488,993</b>
<b>INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS</b>	<b>\$ 2,275,160</b>
Capital Contributions (Connection Charges)	\$ 314,609
Special / Extraordinary Items	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 2,589,770</b>
<b>TOTAL NET POSITION - JANUARY 1st</b>	<b>\$ 19,710,283</b>
<b>TOTAL NET POSITION - DECEMBER 31st</b>	<b>\$ 22,300,052</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, 2015

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 19,064,072
Payments to suppliers	(12,187,327)
Payments to employees (Labor only)	(1,831,271)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ 5,045,475</u></b>

**CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES**

Payments Received for Non-operating work	22,526
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b><u>\$ 22,526</u></b>

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

Purchase of Capital Assets	\$ (654,797)
Principal paid on Capital Debt	(2,220,000)
Interest paid on Capital Debt	(1,486,734)
Capital Contributions	314,609
Payment from Assessments to pay 07 debt payments	226,370
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>\$ (3,820,552)</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	\$ 63,867
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b><u>\$ 63,867</u></b>

<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b><u>\$ 1,311,316</u></b>
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<b>BALANCE BEGINNING OF YEAR</b>	<b>\$ 8,469,634</b>
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<b>BALANCE END OF YEAR</b>	<b><u>\$ 9,780,950</u></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 CASH FLOWS**  
 For The Year Ended December 31, 2015

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

Operating Income (Loss)	\$ 3,451,391
<b>Adjustments to reconcile operating income to net cash</b>	
<b>Cash Provided (Used) by operating activities:</b>	
Depreciation	1,563,916
Miscellaneous	7,465
<b>Change in Assets and Liabilities:</b>	
Decrease (Increase) in Net Accounts Receivable	104,193
Decrease (Increase) in Prepayments	(360)
Increase (Decrease) in Account Payable	(173,149)
Increase (Decrease) in Accrued Employee Payable	60,440
Increase (Decrease) in Accrued Utility Taxes	8,285
Increase (Decrease) in Contractor Retainage	22,832
Increase (Decrease) in Deposits & Other Payables	462
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 5,045,475</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, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Public Utility District No. 1 of *Whatcom County* ("District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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* was incorporated in 1937 and operates under the laws of the state of Washington applicable to a municipal corporation governed by an elected three-member board.

As required by generally accepted accounting principles, the financial statements represent the entire District. The District has no component units.

B. Basis of Presentation

The District reports the following major enterprise funds: Industrial Raw Water Utility which serves the heavy industries located in the Cherry Point region along with irrigation customers located adjacent to the water transmission lines, the Grandview Utility which serves the light industrial customers in the Grandview service area, and the Electric Utility which serves our one electric customer, Phillips 66.

The Internal service fund accounts for the administrative, general expenses not identified with one specific fund. These expenditures are allocated to the enterprise funds based on the amount of operating labor hours. Certain expenses are not allocated to the Grandview Utility. Only the expenses Grandview would incur if it operated as a stand-alone utility are allocated.

C. Measurement Focus, Basis of Accounting

The statements are reported using the full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

The District distinguishes between operating revenues and expenses from non-operating ones. Operating revenues and expenses generally 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.

D. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the District's policy to invest all temporary cash surpluses. At December 31, 2015, the treasurer was holding \$5,717,388 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as Short Term Investments in various funds. The interest on these investments is prorated to the various funds based on existing balances.

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

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

NOTES TO FINANCIAL STATEMENT

For The Year Ended December 31, 2015

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.

2. Investments See Note 2, *Deposits and Investments*.

3. Receivables

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared.

One customer in the Grandview Utility has proven to be a credit risk. A reserve amount of \$777 has been setup.

4. Amounts Due to and From Other Funds and Governments, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as *interfund loans receivable/payable*. All other outstanding balances between funds are reported as *due to/from other funds*.

5. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service. Specific debt service reserve requirements are described in Note 6, *Long Term Debt*. 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:

<b>RESTRICTED RESERVE BALANCES</b>	<b>2015</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	265,216
Project Reserve Fund	60,000
<b>TOTAL RESTRICTED RESERVE BALANCES</b>	<b>\$ 4,036,726</b>

6. Capital Assets See Note 3, *Capital Assets*.

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable fund. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

**Public Utility District No. 1 of Whatcom County**  
 NOTES TO FINANCIAL STATEMENT  
 For The Year Ended December 31, 2015

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized when projects are finished. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense related to current construction incurred by the District during the current fiscal year is \$0.

Property, plant, and equipment of the district, is 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

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and floaters (in lieu of holidays). 2009 was the first year the District reflected accrued compensated absence pay in the financial statements as an expense and liability. All leave is accrued when incurred. 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.

8. Long-Term Debt See Note 6, *Long-Term Debt*

**Public Utility District No. 1 of Whatcom County**  
 NOTES TO FINANCIAL STATEMENT  
 For The Year Ended December 31, 2015

**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, 2015, the District had the following investments:

	<b>2015</b>	
	<u>Maturities</u>	<u>Fair Value</u>
<b>INVESTMENTS</b>		
<b>Short-Term Investments</b>		
Whatcom County Investment Pool	\$ 5,717,388	\$ 5,717,388
<b>Non-Current</b>		
Whatcom County Investment Pool	4,036,726	4,036,726
<b>TOTAL INVESTMENTS</b>	<u>\$ 9,754,114</u>	<u>\$ 9,754,114</u>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
For The Year Ended December 31, 2015

**NOTE 3 - CAPITAL ASSETS**

Capital assets activities for the year ending December 31, 2015 were as follows:

	2015 Beginning Balance	2015 Activity Increase	Decrease	2015 Ending Balance
<b>CAPITAL ASSETS NOT BEING DEPRECIATED</b>				
LAND				
Raw Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
CONSTRUCTION-IN-PROGRESS				
Raw Water Utility	129,355	425,431	(554,786)	-
Grandview Potable Water Utility	-	12,181	(12,181)	-
Electric Utility	67,417	247,668	(315,085)	-
General Utility & Office (Internal Services Utility)	-	211,017	(186,383)	24,634
TOTAL CONSTRUCTION-IN-PROGRESS	196,772	896,296	(1,068,435)	24,634
<b>TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED</b>	<b>\$ 304,772</b>	<b>\$ 896,296</b>	<b>\$ (1,068,435)</b>	<b>\$ 132,634</b>
<b>CAPITAL ASSETS BEING DEPRECIATED</b>				
BUILDINGS & STRUCTURES				
Raw Water Utility	\$ 16,932,936	\$ 274,304	\$ -	\$ 17,207,240
Grandview Water Utility	98,977	-	-	98,977
Electric Utility	4,252,630	18,914	-	4,271,544
General Utility & Office (Internal Services Utility)	1,258,241	38,221	-	1,296,461
TOTAL BUILDINGS & STRUCTURES	22,542,784	331,438	-	22,874,222
MACHINERY & EQUIPMENT				
Raw Water Utility	19,734,347	202,277	(25,812)	19,910,811
Grandview Water Utility	3,148,745	-	-	3,148,745
Electric Utility	11,494,177	253,722	(35,659)	11,712,240
General Utility & Office (Internal Services Utility)	1,241,529	39,327	-	1,280,857
TOTAL MACHINERY & EQUIPMENT	35,618,799	495,326	(61,472)	36,052,653
INTANGIBLE				
Raw Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED</b>	<b>\$ 59,027,582</b>	<b>\$ 826,764</b>	<b>\$ (61,472)</b>	<b>\$ 59,792,875</b>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	\$ (4,577,346)	\$ (428,381)	\$ -	\$ (5,005,727)
Machinery & Equipment	(8,472,495)	(1,092,235)	46,972	(9,517,758)
Intangible	(346,400)	(43,300)	-	(389,700)
TOTAL ACCUMULATED DEPRECIATION	(13,396,241)	(1,563,916)	46,972	(14,913,185)
<b>TOTAL CAPITAL ASSETS BEING DEPRECIATED (NET)</b>	<b>\$ 45,631,341</b>	<b>\$ (737,152)</b>	<b>\$ (14,500)</b>	<b>\$ 44,879,690</b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>\$ 45,936,114</b>	<b>\$ 159,144</b>	<b>\$ (1,082,934)</b>	<b>\$ 45,012,323</b>

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 \$291,000 in CWIP projects in 2015.

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
For The Year Ended December 31, 2015

**NOTE 4 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

A. Construction Commitments

The District has an active construction project as of December 31, 2015. The project includes:

		<b>2015</b>			
	District Capital Project #	Annual Project Authorization	Expended Through 12/31/15	Committed	Required Future Financing
<b>CONSTRUCTION IN PROGRESS</b>					
Trigg Road Site Improvements	IS3	148,627	24,634	155,127	
<b>TOTAL CONSTRUCTION IN PROGRESS</b>		<b>\$ 148,627</b>	<b>\$ 24,634</b>	<b>\$ 155,127</b>	<b>\$ -</b>

At Year-end the District commitments with contractors are as follows:

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
EPS-WO1-Refinery Substation Switchgear	\$ 2,157	\$ 5,343
EPS-WO3-Refinery Substn Switchgear Modifications	45,553	26,895
EPS-WO5-Motor Drive Field Assessment	-	15,100
EPS-WO6-Refinery Substn SCADA Upgrade	966	23,107
PIT-WO1-SCADA support services	-	15,000
PSE-WO8-Grandview Water System	18,354	6,646
PSE-WO3-2015-Trigg Rd Improvements	27,120	16,620
RH2-WO1-Industrial Water Supply	11,276	12,796
RH2-WO2-P1 Intake Analysis	7,058	7,380
RH2-WO4-D Station	-	32,816
	<b>\$ 112,484</b>	<b>\$ 161,703</b>

B. Other 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 5 – SHORT-TERM DEBT**

The District had no short-term debt obligations in 2015.



**Public Utility District No. 1 of Whatcom County**  
 NOTES TO FINANCIAL STATEMENT  
 For The Year Ended December 31, 2015

**NOTE 6 - 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	\$ 365,000
<b>2010 LTGO Series B</b> -Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 850,000
<b>2012 LTGO</b> - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 635,000
<b>2013 LTGO</b> - Funding to complete the Water Plant 2 rebuild	2014-2032	2.66%	\$ 6,025,000	\$ 245,000

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
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	1,035,000	762,050	360,000	63,388	275,000	174,600
2021-2025	6,020,000	2,978,750	1,550,000	141,603	1,530,000	725,150
2026-2030	7,730,000	1,262,950			1,850,000	398,000
2031-2032					850,000	51,400
<b>TOTAL</b>	<b>\$20,115,000</b>	<b>\$ 8,655,013</b>	<b>\$ 4,540,000</b>	<b>\$ 597,445</b>	<b>\$ 5,540,000</b>	<b>\$ 2,118,550</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	\$ 125,000

Revenue bond debt service requirements to maturity are as follows:

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
For The Year Ended December 31, 2015

Year Ending December 31:	<b>2007 WATER REVENUE</b>	
	PRINCIPAL	INTEREST
2016	\$ 130,000	\$ 117,506
2017	135,000	111,006
2018	145,000	104,088
2019	150,000	96,113
2020	160,000	87,863
2021-2025	935,000	296,550
2026-2027	455,000	39,675
<b>TOTAL</b>	<b>\$ 2,110,000</b>	<b>\$ 852,800</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, 2015, restricted assets in proprietary funds contain \$3,976,726 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 \$2,962,800. Principal and interest paid for the current year and total Grandview assessment revenue were \$248,756 and \$226,370 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 7 – RESTRICTED COMPONENT OF NET POSITION**

The District's statement of net position reports \$3,976,726 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, 2015

**NOTE 8 - 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 2015 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 District's accounts. All eligible union employees are covered under the negotiated contract with Western Conference Teamsters Welfare Trust.

**NOTE 9 – SEGMENT ACTIVITY**

The District operated four proprietary segments and an Internal Services Fund in 2015. The following changes occurred in the District's segments during 2015:

a. **INDUSTRIAL WATER UTILITY**

The District installed a major in-line isolation valve in its Douglas Road 24" industrial water supply main. In addition, several non-routine maintenance projects were completed at the District's Water Treatment Plant No.1 facility.

b. **GRANDVIEW WATER UTILITY**

The Grandview Potable Water Utility had a slight growth in water consumption between 2014 and 2015. Revenue growth was due to increases in water consumption and the unit rates charged.

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 2015, the District initiated engineering studies to identify improvements to the operation of the Refinery substation that would reduce the level of ARC Flash hazard potential. These improvements will be completed first quarter 2016.

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. As of December 31<sup>st</sup>, 2015, the remaining fund balance is \$341,616.

**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, 2015

	403	411	481	490	500	
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVCS	INTERNAL SERVICES FUND	DISTRICT TOTAL
<b>OPERATING REVENUE</b>						
Utility Sales and Service Revenues	\$ 8,082,736	\$ 187,006	\$ 10,418,974	\$ -	\$ -	\$ 18,688,717
Other Operating Revenue	195,024	13	-	-	-	195,037
<b>TOTAL OPERATING REVENUE</b>	<b>\$ 8,277,760</b>	<b>\$ 187,019</b>	<b>\$ 10,418,974</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,883,754</b>
<b>OPERATING EXPENSES</b>						
Operations:						
Purchased Power	\$ 500,244	\$ 6,057	\$ 7,602,212	\$ -	\$ -	\$ 8,108,512
Water Purification	220,023	773	-	-	-	220,795
Taxes / Process / Delivery Costs	-	-	512,285	-	-	512,285
General Operations	803,104	43,462	95,070	-	-	941,637
Maintenance	806,117	58,160	122,164	-	-	986,441
Administration						
General Administration	1,548,202	51,604	773,036	-	-	2,372,842
Planning and Development Expenses	189,744	-	-	-	-	189,744
Depreciation Expense	1,021,665	75,720	466,532	-	-	1,563,916
Utility Tax Expense	410,471	9,143	116,576	-	-	536,190
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 5,499,569</b>	<b>\$ 244,919</b>	<b>\$ 9,687,875</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,432,363</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 2,778,190</b>	<b>\$ (57,899)</b>	<b>\$ 731,100</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,451,391</b>
<b>NONOPERATING REVENUE</b>						
Lease Income	\$ 22,526	\$ -	\$ -	\$ -	\$ -	\$ 22,526
Assessment Income	-	226,370	-	-	-	226,370
Interest Income	50,191	4,530	14,001	2,340	-	71,061
Interest Fees	(5,209)	(290)	(1,453)	(242)	-	(7,194)
<b>TOTAL NONOPERATING REVENUE</b>	<b>\$ 67,507</b>	<b>\$ 230,610</b>	<b>\$ 12,548</b>	<b>\$ 2,098</b>	<b>\$ -</b>	<b>\$ 312,762</b>
<b>NONOPERATING EXPENSE</b>						
Interest Expense	\$ 1,186,341	\$ 122,715	\$ 144,549	\$ -	\$ -	\$ 1,453,605
Amortization	16,255	7,987	3,939	-	-	28,182
Interfund Expense	189,555	-	(189,555)	-	-	-
Loss (Gain) on Property Disposal	(4,217)	-	11,423	-	-	7,206
<b>TOTAL NONOPERATING EXPENSE</b>	<b>\$ 1,387,935</b>	<b>\$ 130,702</b>	<b>\$ (29,644)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,488,993</b>
<b>INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS</b>	<b>1,457,763</b>	<b>\$ 42,009</b>	<b>\$ 773,291</b>	<b>\$ 2,098</b>	<b>\$ -</b>	<b>\$ 2,275,160</b>
Capital Contributions	\$ 314,609	\$ -	\$ -	\$ -	\$ -	\$ 314,609
Extraordinary Items	-	-	-	-	-	-
<b>CHANGE IN NET POSITION</b>	<b>\$ 1,772,372</b>	<b>\$ 42,009</b>	<b>\$ 773,291</b>	<b>\$ 2,098</b>	<b>\$ -</b>	<b>\$ 2,589,770</b>
<b>NET POSITION - JANUARY 1st</b>	<b>\$ 7,936,430</b>	<b>\$ 596,808</b>	<b>\$ 10,415,970</b>	<b>\$ 717,008</b>	<b>\$ 44,067</b>	<b>\$ 19,710,283</b>
<b>NET POSITION - DECEMBER 31st</b>	<b>\$ 9,708,802</b>	<b>\$ 638,817</b>	<b>\$ 11,189,261</b>	<b>\$ 719,106</b>	<b>\$ 44,067</b>	<b>\$ 22,300,052</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Net Position**  
As of December 31, 2015

	<b>403 INDUSTRIAL WATER UTILITY</b>	<b>411 GRANDVIEW UTILITY</b>	<b>481 ELECTRIC UTILITY</b>	<b>490 ALCOA SVC</b>	<b>500 INTERNAL SERVICES FUND</b>	<b>ELIMINATION</b>	<b>DISTRICT TOTAL</b>
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash & Cash Equivalents	\$ (79,945)	\$ 1,434	\$ (37,919)	\$ 1,323	\$ 141,944	\$ -	\$ 26,836
Short Term Investments	3,782,802	78,126	1,586,939	340,293	(70,772)		5,717,388
Receivables (Net):							
Customers	659,522	15,525	850,473	-	-		1,525,521
Other	187	-	2,478	-	-		2,664
LUD #1 West Smith Road Receivable	-	-	-	-	-		-
Interfund Receivables	-	-	90,000	-	-	(90,000)	-
Interfund Transfers - Capital	1,108,295	-	233,380	377,490	(1,719,165)		-
Interfund Transfers - Employee	(239,595)	-	(82,589)	-	322,184		-
Total Accounts Receivables (Net)	<u>1,528,409</u>	<u>15,525</u>	<u>1,093,741</u>	<u>377,490</u>	<u>(1,396,980)</u>	<u>(90,000)</u>	<u>1,528,185</u>
Other Current Assets							
Prepayments	-	-	-	-	88,968		88,968
Other							
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 5,231,266</b>	<b>\$ 95,085</b>	<b>\$ 2,642,761</b>	<b>\$ 719,106</b>	<b>\$ (1,236,841)</b>	<b>\$ (90,000)</b>	<b>\$ 7,361,377</b>
<b>NON-CURRENT ASSETS</b>							
Construction Contracts & Other Receivables	-	-	-	-	-		-
Bond Issue Costs	224,545	15,308	40,621	-	-		280,474
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,849,655	249,088	612,767	-	-		3,711,510
Investments - Assessments	-	265,216	-	-	-		265,216
Investments - Other	-	-	60,000	-	-		60,000
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	-	-	-	-	24,634		24,634
Capital Assets Being Depreciated:							
Buildings & Structures	17,207,240	98,977	4,271,544	-	1,296,461		22,874,222
Machinery & Equipment	19,910,811	3,148,745	11,712,240	-	1,280,857		36,052,653
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	<u>(9,652,894)</u>	<u>(1,012,418)</u>	<u>(3,365,085)</u>	<u>-</u>	<u>(882,787)</u>		<u>(14,913,185)</u>
Total Capital Assets (Net)	<u>28,439,157</u>	<u>2,235,304</u>	<u>12,618,698</u>	<u>-</u>	<u>1,719,165</u>		<u>45,012,323</u>
<b>TOTAL NONCURRENT ASSETS</b>	<b>\$ 31,513,356</b>	<b>\$ 2,764,916</b>	<b>\$ 13,332,086</b>	<b>\$ -</b>	<b>\$ 1,719,165</b>	<b>\$ -</b>	<b>\$ 49,329,523</b>
<b>TOTAL ASSETS</b>	<b>\$ 36,744,622</b>	<b>\$ 2,860,001</b>	<b>\$ 15,974,847</b>	<b>\$ 719,106</b>	<b>\$ 482,324</b>	<b>\$ (90,000)</b>	<b>\$ 56,690,900</b>

**Public Utility District No. 1 of Whatcom County**  
**NOTES TO FINANCIAL STATEMENT**  
**Statement of Net Position**  
As of December 31, 2015

	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	\$ 93,838	\$ 876	\$ 665,362	\$ -	\$ 107,252	\$ -	\$ 867,328
Accrued Employee Payable	-	-	-	-	330,981	-	330,981
Accrued Utility Taxes	33,774	724	255,908	-	25	-	290,431
Contractor Retainage	17,432	-	5,400	-	-	-	22,832
Interfund Payables	-	90,000	-	-	-	(90,000)	-
Payables from Restricted Assets							
2007 Water Revenue Bond - Current	-	130,000	-	-	-	-	130,000
2007 Water Revenue Bond - Interest	-	19,584	-	-	-	-	19,584
2010 LTGO Bond Series A&B - Current	1,162,368	-	92,632	-	-	-	1,255,000
2010 LTGO Bond Series A&B - Interest	74,375	-	8,079	-	-	-	82,454
2012 LTGO Bond Series A&B - Current	304,965	-	335,035	-	-	-	640,000
2012 LTGO Bond Series A&B - Interest	6,192	-	3,351	-	-	-	9,543
2013 LTGO Bond - Current	250,000	-	-	-	-	-	250,000
2013 LTGO Bond - Interest	16,717	-	-	-	-	-	16,717
Deposits & Other Payables	462	-	-	-	-	-	462
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 1,960,123</b>	<b>\$ 241,184</b>	<b>\$ 1,365,766</b>	<b>\$ -</b>	<b>\$ 438,257</b>	<b>\$ (90,000)</b>	<b>\$ 3,915,331</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	-	1,980,000	-	-	-	-	1,980,000
2010 LTGO Bond Series A&B Principal	17,049,772	-	1,860,561	-	-	-	18,910,333
2012 LTGO Bond Principal	2,336,573	-	1,559,259	-	-	-	3,895,832
2013 LTGO Bond Principal	5,689,352	-	-	-	-	-	5,689,352
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>\$ 25,075,697</b>	<b>\$ 1,980,000</b>	<b>\$ 3,419,820</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,475,517</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 27,035,820</b>	<b>\$ 2,221,184</b>	<b>\$ 4,785,586</b>	<b>\$ -</b>	<b>\$ 438,257</b>	<b>\$ (90,000)</b>	<b>\$ 34,390,848</b>
<b>NET POSITION</b>							
Net Investment in Capital Assets	\$ 2,630,227	\$ 125,304	\$ 9,325,632	\$ -	\$ 1,719,165	-	\$ 13,800,327
Restricted for Debt Service	2,849,655	514,304	612,767	-	-	-	3,976,726
Restricted for Miscellaneous Reserves	-	-	60,000	-	-	-	60,000
Unrestricted	4,228,920	(791)	1,190,862	719,106	(1,675,098)	-	4,462,999
<b>TOTAL NET POSITION</b>	<b>\$ 9,708,802</b>	<b>\$ 638,817</b>	<b>\$ 11,189,261</b>	<b>\$ 719,106</b>	<b>\$ 44,067</b>	<b>\$ -</b>	<b>\$ 22,300,052</b>

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

NOTES TO FINANCIAL STATEMENT

**Statement of Cash Flow**

As of December 31, 2015

	<b>403</b>	<b>411</b>	<b>481</b>	<b>490</b>	<b>500</b>	
	<b>INDUSTRIAL</b>	<b>GRANDVIEW</b>	<b>ELECTRIC</b>	<b>BPA-ALCOA</b>	<b>INTERNAL</b>	<b>TOTAL</b>
	<b>WATER</b>			<b>ESCROW</b>	<b>SERVICE</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from Customers	\$ 8,416,567	\$ 173,826	\$ 10,470,914	\$ -	\$ 2,765	\$ 19,064,072
Payments to suppliers	(2,300,297)	(89,767)	(8,494,967)	-	(1,302,296)	(12,187,327)
Payments to employees (Labor only)					(1,831,271)	(1,831,271)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 6,116,270</b>	<b>\$ 84,060</b>	<b>\$ 1,975,947</b>	<b>\$ -</b>	<b>\$ (3,130,802)</b>	<b>\$ 5,045,475</b>
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Transfers from (to) Other Utilities	(2,519,104)	(75,305)	(567,918)	-	3,162,328	-
Payments Received (Paid) for Non-operating work	22,526					22,526
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ (2,496,579)</b>	<b>\$ (75,305)</b>	<b>\$ (567,918)</b>	<b>\$ -</b>	<b>\$ 3,162,328</b>	<b>\$ 22,526</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase of Capital Assets	(347,225)	-	(205,389)		(102,182)	(654,797)
Principal paid on Capital Debt	(1,682,490)	(125,000)	(412,510)			(2,220,000)
Interest paid on Capital Debt	(1,217,566)	(123,756)	(145,412)			(1,486,734)
Capital Contributions	314,609					314,609
Payment from Assessments to pay 07 debt payments		226,370				226,370
<b>NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (2,932,672)</b>	<b>\$ (22,387)</b>	<b>\$ (763,312)</b>	<b>\$ -</b>	<b>\$ (102,182)</b>	<b>\$ (3,820,552)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest Received	45,241	4,240	12,664	2,098	(376)	63,867
<b>NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES</b>	<b>\$ 45,241</b>	<b>\$ 4,240</b>	<b>\$ 12,664</b>	<b>\$ 2,098</b>	<b>\$ (376)</b>	<b>\$ 63,867</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 732,261</b>	<b>\$ (9,392)</b>	<b>\$ 657,381</b>	<b>\$ 2,098</b>	<b>\$ (71,031)</b>	<b>\$ 1,311,316</b>
<b>BALANCE BEGINNING OF YEAR</b>	5,820,251	603,256	1,564,406	339,518	142,203	8,469,634
<b>BALANCE END OF PERIOD</b>	<b>\$ 6,552,512</b>	<b>\$ 593,863</b>	<b>\$ 2,221,787</b>	<b>\$ 341,616</b>	<b>\$ 71,172</b>	<b>\$ 9,780,950</b>

**Public Utility District No. 1 of Whatcom County**  
NOTES TO FINANCIAL STATEMENT  
**Statement of Cash Flow**  
As of December 31, 2015

	403 INDUSTRIAL WATER	411 GRANDVIEW	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL SERVICE	TOTAL
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>						
Operating Income (Loss)	\$ 2,778,190	\$ (57,899)	\$ 731,100	\$ -	\$ 0	\$ 3,451,391
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activity</b>						
Depreciation	927,020	75,720	424,002	-	137,175	1,563,916
Miscellaneous - Non-Operating	7,465	-	-	-	-	7,465
Decrease (Increase) in Net Accounts Receivable	100,262	(4,898)	9,179	-	(350)	104,193
Decrease (Increase) in Prepayments	-	-	-	-	(360)	(360)
Interfund Transfers	2,401,532	75,305	778,315	-	(3,255,153)	(0)
Increase (Decrease) in Account Payable	(118,610)	(4,297)	22,337	-	(72,579)	(173,149)
Increase (Decrease) in Accrued Employee Payable	-	-	-	-	60,440	60,440
Increase (Decrease) in Accrued Utility Taxes	2,517	128	5,614	-	25	8,285
Increase (Decrease) in Contractor Retainage	17,432	-	5,400	-	-	22,832
Increase (Decrease) in Deposits & Other Payables	462	-	-	-	-	462
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 6,116,270</b>	<b>\$ 84,060</b>	<b>\$ 1,975,947</b>	<b>\$ -</b>	<b>\$ (3,130,802)</b>	<b>\$ 5,045,475</b>



**Public Utility District No. 1 of Whatcom County**  
**SUPPLEMENTAL SCHEDULES**  
For The Year Ended December 31, 2015

**NOTE 10 - PROPERTY TAXES**

The Whatcom County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities.

<b>Property Tax Calendar</b>	
January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

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 2015 was \$24,304,119,963. This information can be found at <http://www.co.whatcom.wa.us/178/Annual-Tax-Book>.

The District may levy up to \$0.45 per \$1,000 of assessed valuation for general District services.

The District had no tax levies for 2015 or 2014.

Washington State Constitution and Washington State Law, RCW 84.55.010, limit the rate.

**NOTE 11 – 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 2015, NoaNet was able to cover its debt obligations from operations. The District was not assessed in 2015.

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

**Public Utility District No. 1 of Whatcom County**  
SUPPLEMENTAL SCHEDULES  
For The Year Ended December 31, 2015

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, 2015 is \$6,223.80.

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 12 - 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].

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

**Public Utility District No. 1 of Whatcom County**  
**SUPPLEMENTAL SCHEDULES**  
For The Year Ended December 31, 2015

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 2015 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 2015 and 2014:

**PURMS 2014**

<b><u>LIABILITY</u></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><u>PROPERTY</u></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>

**PURMS 2015**

<b><u>LIABILITY</u></b>						
01/07/2015	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,159,781.47		
01/07/2015	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	167,386.82	1.44%	19,062.73
07/08/2015	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	532,765.00	1.59%	8,493.48
07/02/2015	AEGIS	LIABILITY	PROF LIAB [E&O]	191,718.28	1.39%	2,668.39
11/20/2015	LIBERTY MUTUAL	LIABILITY	FRONTING POLICY	10,000.00	1.39%	139.19
11/11/2015	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	529,173.00	1.59%	8,437.04
12/31/2015	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	143,513.00	1.59%	2,284.54
				<b>2,734,337.57</b>	<b>1.50%</b>	<b>41,085.37</b>

<b><u>PROPERTY</u></b>						
04/03/2015	NATIONAL UNION & HOMESITE	PROPERTY	EXCESS PROPERTY POLICY	1,112,931.31	3.01%	33,503.97
07/08/2015	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	274,971.00	3.42%	9,399.83
12/31/2015	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	277,596.00	3.07%	8,532.35
				<b>1,665,498.31</b>	<b>3.09%</b>	<b>51,436.15</b>

**Public Utility District No. 1 of Whatcom County**  
SUPPLEMENTAL SCHEDULES  
For The Year Ended December 31, 2015

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**Public Utility District No. 1 of Whatcom County**  
**SCHEDULE 01 – Revenues and Expenses**  
**For The Year Ended December 31, 2015**

MCAG	Fund Number	Fund Name	Account Code	Account Title	Amount
1806	001	General	3086000	Net Investment in Capital Assets - Beginning	12,686,899
1806	001	General	3081900	Restricted Net Position - Beginning	4,055,294
1806	001	General	3088900	Unrestricted Net Position - Beginning	2,968,090
1806	001	General	5081900	Restricted Net Position-Ending	4,036,726
1806	001	General	5086000	Net Investment in Capital Assets-Ending	13,800,327
1806	001	General	5088900	Unrestricted Net Position-Ending	4,462,999
1806	403	Industrial Raw Water	3340690	State Grant from Other State Agencies	191,082
1806	403	Industrial Raw Water	3434000	Water Sales and Services	8,068,311
1806	403	Industrial Raw Water	3590000	Non-Court Fines and Penalties	14,425
1806	403	Industrial Raw Water	3611000	Investment Earnings	44,982
1806	403	Industrial Raw Water	3625000	Land and Facilities Leases (Long-Term)	22,526
1806	403	Industrial Raw Water	3699100	Miscellaneous Other	3,942
1806	403	Industrial Raw Water	3790000	Capital Contributions	314,609
1806	403	Industrial Raw Water	5013400	Depreciation, Depletion, Amortization - Water Utilities	1,021,665
1806	403	Industrial Raw Water	5340000	Water Utilities	4,663,243
1806	403	Industrial Raw Water	5923800	Interest and Other Debt Service Cost - Combined Water/Sewer/Solid Was	1,202,597
1806	411	Grandview	3434000	Water Sales and Services	187,006
1806	411	Grandview	3590000	Non-Court Fines and Penalties	13
1806	411	Grandview	3611000	Investment Earnings	4,240
1806	411	Grandview	3681000	Special Assessments-Capital	226,370
1806	411	Grandview	5013400	Depreciation, Depletion, Amortization - Water Utilities	75,720
1806	411	Grandview	5340000	Water Utilities	169,199
1806	411	Grandview	5923800	Interest and Other Debt Service Cost - Combined Water/Sewer/Solid Was	130,702
1806	481	Electric Utility	3433000	Electricity/Gas Sales and Services	10,418,974
1806	481	Electric Utility	3611000	Investment Earnings	12,548
1806	481	Electric Utility	5013300	Depreciation, Depletion, Amortization - Electric/Gas Utilities	466,532
1806	481	Electric Utility	5330000	Electric/Gas Utilities	9,043,211
1806	481	Electric Utility	5923300	Interest and Other Debt Service Cost - Electric/Gas Utilities	148,488
1806	490	Alcoa Services	3611000	Investment Earnings	2,098

**Public Utility District No. 1 of Whatcom County**  
 SCHEDULE 09 - Liabilities  
 For The Year Ended December 31, 2015

DEBT TYPE	LD. NO.	DESCRIPTION	DUE DATE	BEGINNING BALANCE 01/01/2015	ADDITIONS	REDUCTIONS	ENDING BALANCE DEBT 12/31/2015
<b>General Obligations</b>							
	251.11	2010 General Obligation bonds, Series A	12/01/2030	\$ 1,975,000		\$ 365,000	\$ 1,610,000
	251.11	2010 General Obligation bonds, Series B	12/01/2030	19,355,000		850,000	18,505,000
	251.11	2010 General Obligation bond premium	12/01/2030	53,688		3,356	50,333
	251.11	2012 LTGO BONDS - Refi 2004 LTGO bonds	12/01/2024	5,175,000		635,000	4,540,000
	251.11	2012 LTGO bond discount	12/01/2024	(4,631)		(463)	(4,168)
	251.11	2013 LTGO bonds	12/01/2032	5,785,000		245,000	5,540,000
	251.11	2013 LTGO bond premium	12/01/2032	423,678		24,326	399,352
<b>Total General Obligations</b>				<b>\$ 32,762,735</b>	<b>\$ -</b>	<b>\$ 2,122,219</b>	<b>\$ 30,640,517</b>
<b>Revenue Obligations</b>							
	252.11	2007 Water Revenue Bonds	11/01/2027	\$ 2,235,000		\$ 125,000	\$ 2,110,000
<b>Total Revenue Obligations</b>				<b>\$ 2,235,000</b>	<b>\$ -</b>	<b>\$ 125,000</b>	<b>\$ 2,110,000</b>
<b>Total Liabilities</b>				<b>\$ 34,997,735</b>	<b>\$ -</b>	<b>\$ 2,247,219</b>	<b>\$ 32,750,517</b>

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

SCHEDULE OF STATE FINANCIAL ASSISTANCE

For The Year Ended December 31, 2015

<b>Grantor/Program Title</b>	<b>Program Title</b>	<b>Identification Number</b>	<b>Amount</b>
Department of Health			
	Water Nitrates	N20201	\$ 62,766
	Water Nitrates	N20202	65,917
	S Lake Samish Water Nitrates	N20513	11,948
	Roederland	N20947	29,992
	Central City	N20948	29,979
	Everson Auction Barn	N21009	16,000
<b>Sub-Total:</b>			<b>\$ 216,602</b>
<b>Grand Total:</b>			<b>\$ 216,602</b>