

ANNUAL REPORT

Public Utility District No. 1 of Whatcom County

MCAG No. 1806

Submitted pursuant to RCW 43.09.230

To the

WASHINGTON STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED December 31, 2016

GOVERNMENT INFORMATION:

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PREPARER INFORMATION and CERTIFICATION:

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I certify the 9th day of May, 2017, that annual report information is complete, accurate and in conformity with the Budgeting, Accounting and Reporting Systems Manual, to the best of my knowledge and belief, having reviewed this information and taken all appropriate steps in order to provide such certification. I acknowledge and understand our responsibility for the design and implementation of controls to prevent and detect fraud. Finally, I acknowledge and understand our responsibility for immediately submitting corrected annual report information if any errors or an omission in such information is subsequently identified.

Audit Contact or Preparer Signature:



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Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2016

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:

	2016	2015
ASSETS		
Current Assets	\$ 9,119,345	\$ 7,361,377
Non-Current Assets	4,086,683	4,317,200
Capital Assets (Net)	44,144,361	45,012,323
TOTAL ASSETS	\$ 57,350,388	\$ 56,690,900
LIABILITIES		
Current Liabilities	\$ 4,061,114	\$ 3,915,331
Non-Current Liabilities	27,710,926	30,475,517
TOTAL LIABILITIES	\$ 31,772,041	\$ 34,390,848
NET POSITION		
Net Investment in Capital Assets	\$ 15,421,955	\$ 13,800,327
Restricted for Debt Service	3,662,102	3,976,726
Restricted for Miscellaneous Reserves	60,000	60,000
Unrestricted	6,434,290	4,462,999
TOTAL NET POSITION	\$ 25,578,347	\$ 22,300,052

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2016

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

	2016	2015
REVENUES		
Operating Revenue	\$ 19,900,069	\$ 18,883,754
Nonoperating Revenue	635,450	312,762
TOTAL REVENUE	\$ 20,535,519	\$ 19,196,516
EXPENSES		
Operating Expenses	15,812,483	15,432,363
Nonoperating Expenses	1,444,741	1,488,993
TOTAL EXPENSES	\$ 17,257,224	\$ 16,921,356
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS		
	\$ 3,278,295	\$ 2,275,160
Capital Contributions	-	314,609
Special / Extraordinary Items	-	-
CHANGE IN NET POSITION	\$ 3,278,295	\$ 2,589,770
BEGINNING NET POSITION		
	\$ 22,300,052	\$ 19,710,282
ENDING NET POSITION		
	\$ 25,578,347	\$ 22,300,052

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2015-2016

For the twelve months ending December 31, 2016 the total net position of the District increased by approximately \$3,278,000 or 15%. Total assets increased by \$659,000 and total liabilities decreased by \$2,619,000 producing a net increase in net position.

The major components contributing to the increase in assets were a decrease in Cash & Cash Equivalents of \$10,000 due to the timing of cash transactions, an increase in Short-Term Investments of \$1,633,000 from the slow-down in capital projects and extraordinary maintenance projects, an increase in net receivables of \$185,000 due primarily to timing of customer payments, a decrease of \$50,000 in Prepayments due to timing of insurance invoices, an increase of \$84,000 in Deferred Charges due to issue of the 2016 bonds, a decrease in assessment investments of \$207,000 and a decrease in bond reserves of \$107,000 both due to the issue of the 2016 bonds and use of reserved cash, and a decrease in total capital assets net of depreciation of \$868,000.

The major components of the decrease in total liabilities included a decrease in Accounts Payables of \$17,000 due to timing of payments, an increase of \$37,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts, a new liability called Accrued Insurance Claims Reserve for \$63,000 (SEE NOTE 12), an increase in Utility Taxes of \$14,000, an decrease of \$3,000 in Contractor Retainage, and a net decrease in the bonds principal and interest payable of \$2,713,000 due to debt service payments and refinance of the 2007 Water Revenue Bonds.

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2016

RESULTS OF OPERATIONS

Analysis of changes in Revenue, Expenses, and change in Net Position for 2015-2016

Total Net Position (excluding Extraordinary Items and Capital Contributions) increased from \$2,275,000 in 2015 to \$3,278,000 in 2016 (a \$1,003,000 increase). Operating Revenue increased by \$1,016,000 due to rate increases by both the District and BPA. Operating expenses increased by \$380,000, mainly due to the increased cost of power. Non-operating Revenue increased by \$323,000, due to an increase in assessment income. Non-operating Expenses reflected an overall decrease of \$44,000, resulting primarily from a decrease in interest expense.

CAPITAL ASSETS

Analysis of Changes in Capital Assets from 2015-2016

During 2016, total capital assets decreased by \$868,000 and were comprised of an overall increase in non-depreciated assets, including construction-work-in-progress for \$120,000 (\$48,000 of construction-work-in-progress was expensed during 2016 mainly consisting of items in the Plant 1 Remodel and Energy Conservation projects which did not qualify for capitalization), the Industrial Water Utility decreased by \$11,000, the Grandview Water Utility also decreased by \$5,000, the Electric Utility increased by \$146,000, a \$330,000 increase for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$1,449,000. SEE NOTE 3.

LONG-TERM DEBT

Analysis of Changes in Long-Term Debt from 2015-2016

During 2016, the District advanced refunded the 2007 Water Revenue Bond, reducing the indebtedness in total by \$1,975,000. The District's indebtedness for the 2010 LTGO bonds was reduced by \$1,255,000, the 2012 LTGO bond issue was reduced by \$640,000, the District's indebtedness for the 2013 LTGO bonds was reduced by \$250,000, and the District increased the indebtedness for the 2016 LTGO bonds by \$1,457,628. 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, 2016

ASSETS**CURRENT ASSETS**

Cash & Cash Equivalents	\$ 16,884
Short Term Investments	7,350,418
Receivables (Net):	
Customers	1,631,699
Other	81,337
Total Accounts Receivables (Net)	<u>1,713,036</u>
Prepayments	39,007
TOTAL CURRENT ASSETS	<u>\$ 9,119,345</u>

NON-CURRENT ASSETS

Bond Issue Costs	\$ 364,581
Restricted Assets	
Investments - Bond Reserves	3,604,341
Investments - Assessments	57,761
Investments - Other	60,000
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	144,645
Capital Assets Being Depreciated:	
Buildings & Structures	23,328,924
Machinery & Equipment	36,058,639
Intangible	866,000
Less Accumulated Depreciation	<u>(16,361,847)</u>
Total Capital Assets (Net)	<u>44,144,361</u>
TOTAL NONCURRENT ASSETS	<u>\$ 48,231,044</u>

TOTAL ASSETS

\$ 57,350,388

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, 2016

LIABILITIES**CURRENT LIABILITIES**

Accounts Payable	\$ 850,490
Accrued Employee Payable	368,059
Accrued Insurance Claims Reserve	63,249
Accrued Utility Taxes	304,304
Contractor Retainage	19,749
Bonds, Notes, and Loans Payable	
2007 Water Revenue Bonds Principal - Current	135,000
2007 Water Revenue Bonds Interest	1,153
2010 LTGO Series A&B Bonds Principal - Current	1,305,000
2010 LTGO Series A&B Interest	78,559
2012 LTGO Series A&B Bonds Principal - Current	655,000
2012 LTGO Series A&B Interest	8,743
2013 LTGO Bond Principal - Current	255,000
2013 LTGO Bond Interest	16,300
2016 LTGO Bond Principal - Current	-
2016 LTGO Bond Interest	508
TOTAL CURRENT LIABILITIES	<u>\$ 4,061,114</u>

NON-CURRENT LIABILITIES

Bonds, Notes, and Loans Payable	
2007 Water Revenue Bonds Principal	-
2010 LTGO Series A&B Bonds Principal	17,601,977
2012 LTGO Bond Principal	3,241,295
2013 LTGO Bond Principal	5,410,026
2016 LTGO Bond Principal	1,457,628
TOTAL NON-CURRENT LIABILITIES	<u>\$ 27,710,926</u>

TOTAL LIABILITIES**\$ 31,772,041****NET POSITION**

Net Investment in Capital Assets	\$ 15,421,955
Restricted for Debt Service	3,662,102
Restricted for Miscellaneous Reserves	60,000
Unrestricted	6,434,290
TOTAL NET POSITION	<u>\$ 25,578,347</u>

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, 2016

OPERATING REVENUE	
Utility Sales and Service Revenues	\$ 19,840,008
Other Operating Revenue	60,061
TOTAL OPERATING REVENUE	<u>\$ 19,900,069</u>
OPERATING EXPENSES	
Operations:	
Purchased Power	\$ 8,650,832
Water Purification	162,314
Taxes / Process / Delivery Costs	539,893
General Operations	916,832
Maintenance	980,731
Administration:	
General Administration	2,303,086
Planning and Development Expense	105,055
Depreciation Expense	1,587,249
Utility Tax Expense	566,491
TOTAL OPERATING EXPENSES	<u>\$ 15,812,483</u>
OPERATING INCOME (LOSS)	<u>\$ 4,087,586</u>
NONOPERATING REVENUE	
Lease Income	\$ 22,776
Assessment Income	435,501
Interest Income	106,335
Interest Fees	(9,161)
Connection Fee	80,000
TOTAL NONOPERATING REVENUE	<u>\$ 635,450</u>
NONOPERATING EXPENSE	
Interest Expense	\$ 1,378,854
Amortization	28,790
Loss (Gain) on Property Disposal	37,097
TOTAL NONOPERATING EXPENSE	<u>\$ 1,444,741</u>
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	<u>\$ 3,278,295</u>
Capital Contributions (Connection Charges)	\$ -
Special / Extraordinary Items	-
CHANGE IN NET POSITION	<u>\$ 3,278,295</u>
TOTAL NET POSITION - JANUARY 1st	<u>\$ 22,300,052</u>
TOTAL NET POSITION - DECEMBER 31st	<u>\$ 25,578,348</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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 19,793,498
Payments to suppliers	(12,240,692)
Payments to employees (Labor only)	(1,919,043)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 5,633,763</u>
 CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Payments Received for Non-operating work	22,776
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>\$ 22,776</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	\$ (756,383)
Principal paid on Capital Debt	(2,275,000)
Interest paid on Capital Debt	(1,382,208)
Capital Contributions	80,000
Assessments Received for 2007 & 2016 debt payments	435,501
Issue costs of debt	6
Proceeds / (Funding) of Reserve Requirements	(547,174)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (4,445,259)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	\$ 97,173
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ 97,173</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
	<u>\$ 1,308,453</u>
 BALANCE BEGINNING OF YEAR	 <u>\$ 9,780,950</u>
BALANCE END OF YEAR	<u>\$ 11,089,403</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, 2016

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

Operating Income (Loss)	\$ 4,087,586
Adjustments to reconcile operating income to net cash	
Cash Provided (Used) by operating activities:	
Depreciation	1,587,249
Change in Assets and Liabilities:	
Decrease (Increase) in Net Accounts Receivable	(184,851)
Decrease (Increase) in Prepayments	49,961
Increase (Decrease) in Account Payable	(16,837)
Increase (Decrease) in Accrued Employee Payable	37,079
Increase (Decrease) in Accrued Insurance Claims Reserve	63,249
Increase (Decrease) in Accrued Utility Taxes	13,872
Increase (Decrease) in Contractor Retainage	(3,083)
Increase (Decrease) in Deposits & Other Payables	(462)

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,633,763
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The notes to financial statements are an integral part of this statement

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

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 significant accounting policies are described below (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, RCW Chapter 54, 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 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 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, 2016, the treasurer was holding \$7,350,418 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

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

For The Year Ended December 31, 2016

(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.

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.

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 mitigation 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:

RESTRICTED RESERVE BALANCES	2016
Bond Reserves	
2007 Water Revenue Bond Reserve (Grandview LUD)	\$ 141,919
2010 LTGO Series A&B Bond Reserve	2,249,713
2012 LTGO Bond Reserve	759,910
2013 LTGO Bond Reserve	452,800
Total Bond Reserves	<u>\$ 3,604,341</u>
Other Restricted Funds	
LUD #2 Cash Investments	57,761
Project Reserve Fund	60,000
	<u>\$ 117,761</u>
TOTAL RESTRICTED RESERVE BALANCES	\$ 3,722,102

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, 2016

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:

<u>ASSET</u>	<u>YEARS</u>
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 employee's 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 of accumulated vacation.

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. Other Accrued Liabilities

These accounts consist of accrued wages, accrued employee benefits, accrued Insurance Claims Reserve, Accrued Utility Taxes and Contractor Retainage.

9. 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, 2016

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, 2016, the District had the following investments:

	2016	
	<u>Maturities</u>	<u>Fair Value</u>
INVESTMENTS		
Short-Term Investments		
Whatcom County Investment Pool	\$ 7,350,418	\$ 7,350,418
Non-Current		
Whatcom County Investment Pool	3,722,102	3,722,102
TOTAL INVESTMENTS	<u>\$ 11,072,520</u>	<u>\$ 11,072,520</u>

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ending December 31, 2016 was as follows:

	2016 Beginning Balance	2016 Activity		2016 Ending Balance
		Increase	Decrease	
CAPITAL ASSETS NOT BEING DEPRECIATED				
LAND				
Industrial Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
CONSTRUCTION-IN-PROGRESS				
Industrial Water Utility	-	112,915	(44,968)	67,947
Grandview Potable Water Utility	-	135	(135)	-
Electric Utility	-	247,004	(247,004)	-
General Utility & Office (Internal Services Utility)	24,634	407,072	(355,008)	76,698
TOTAL CONSTRUCTION-IN-PROGRSS	24,634	767,126	(647,115)	144,645
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 132,634	\$ 767,126	\$ (647,115)	\$ 252,645
CAPITAL ASSETS BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
Industrial Water Utility	\$ 17,207,240	\$ 20,105	\$ -	\$ 17,227,345
Grandview Water Utility	98,977	-	-	98,977
Electric Utility	4,271,544	185,941	-	4,457,485
General Utility & Office (Internal Services Utility)	1,296,461	248,656	-	1,545,117
TOTAL BUILDINGS & STRUCTURES	22,874,222	454,702	-	23,328,924
MACHINERY & EQUIPMENT				
Industrial Water Utility	19,910,811	24,018	(54,936)	19,879,893
Grandview Water Utility	3,148,745	-	(4,541)	3,144,204
Electric Utility	11,712,240	59,088	(99,469)	11,671,859
General Utility & Office (Internal Services Utility)	1,280,857	98,564	(16,738)	1,362,683
TOTAL MACHINERY & EQUIPMENT	36,052,653	181,670	(175,684)	36,058,639
INTANGIBLE				
Industrial Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 59,792,875	\$ 636,373	\$ (175,684)	\$ 60,253,563
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	\$ (5,005,727)	\$ (438,178)	\$ -	\$ (5,443,905)
Machinery & Equipment	(9,517,758)	(1,105,771)	138,587	(10,484,943)
Intangible	(389,700)	(43,300)	-	(433,000)
TOTAL ACCUMULATED DEPRECIATION	(14,913,185)	(1,587,249)	138,587	(16,361,847)
TOTAL CAPITAL ASSETS BEING DEPRECIATED (NET)	\$ 44,879,690	\$ (950,876)	\$ (37,097)	\$ 43,891,716
TOTAL CAPITAL ASSETS, NET	\$ 45,012,323	\$ (183,750)	\$ (684,213)	\$ 44,144,361

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 \$48,000 in CWIP projects in 2016.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

NOTE 4 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The District has active construction projects as of December 31, 2016. The projects include:

	District Capital Project #	Annual Project Authorization	2016		Required Future Financing
			Expended Through 12/31/16	Committed	
CONSTRUCTION IN PROGRESS					
Fiber Install	IS15	450,000	76,698	1,572,467	
Industrial Water - Grandview connect	RW32	-	67,947	2,000,000	\$ 1,600,000
TOTAL CONSTRUCTION IN PROGRESS		\$ 450,000	\$ 144,645	\$ 3,572,467	\$ 1,600,000

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

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
CII-WO1-Vulnerability Analysis	\$ -	\$ 20,600
EES-WO1-Regulator Analysis & NERC Support	1,105	8,895
EPS-WO3-Refinery Substation Switchgear	71,146	1,302
EPS-WO5-Motor Drive Field Assessment	5,950	9,150
EPS-WO6-Refinery Substation SCADA upgrade	22,680	1,393
EPS-WO7-Backbone Communication System	40,117	35,883
EPS-WO9-BPA Line Impedence Calculations	5,416	4,585
PIT-WO1-SCADA Support	4,200	10,800
PSE-WO8-Grandview Water System	23,347	1,653
PSE-WO1-Refinery Substation Wetland Monitor	2,633	1,368
PSE-WO2-Ferndale Plant Volumetric Survey	3,130	370
PSE-WO3-Trigg Rd Improvements	48,141	5,599
PSE-WO4-Refinery Substation Wetland	-	4,000
PSE-WO5-Water Plant 2 East Pond	5,830	90
PSE-WO6-Vista Drive Watermain Extension	65,335	144,076
RH2-WO1-Industrial Water Supply Phase 1	22,819	1,253
RH2-WO2-WTP1 Intake Analysis	12,293	2,145
RH2-WO3-Industrial Water Supply Phase 2	89,571	99,296
RH2-WO5-Tech Assistant Water Supply Mgmt	11,677	8,323
RH2-WO10-Education & Outreach WRIA1	682	1,268
BRD-WO1-Drought Contingency Plan	660	173,941
	\$ 436,730	\$ 535,990

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

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.

In 2016, the District entered into negotiation with BPA for the development of an agreement covering BPA’s provision of services related to NERC electric system reliability standards. The agreement is expected to be completed during 1st quarter 2017.

NOTE 5 – SHORT-TERM DEBT

The District had no short-term debt obligations in 2016.

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 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	\$ 375,000
2010 LTGO Series B -Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 880,000
2012 LTGO - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 640,000
2013 LTGO - Funding to complete the Water Plant 2 rebuild	2014-2032	2.66%	\$ 6,025,000	\$ 250,000
2016 LTGO - Advanced refunded 2007 Water Revenue Bonds	2018-2027	2.09%	\$ 1,457,628	\$ -

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

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		2016 LTGO BONDS	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2017	\$ 1,305,000	\$ 942,713	\$ 655,000	\$ 104,910	\$ 255,000	\$ 195,600		\$ 30,464
2018	1,355,000	889,525	660,000	93,448	260,000	190,500	145,763	30,464
2019	1,415,000	829,575	675,000	79,588	270,000	182,700	145,763	27,418
2020	1,035,000	762,050	360,000	63,388	275,000	174,600	145,763	24,372
2021	1,090,000	710,300	365,000	53,488	285,000	166,350	145,763	21,325
2022-2026	6,320,000	2,677,750	1,185,000	88,115	1,585,000	666,800	728,814	60,929
2027-2031	6,340,000	853,650			1,925,000	324,000	145,762	3,046
2032					435,000	17,400		
TOTAL	\$ 18,860,000	\$ 7,665,563	\$ 3,900,000	\$ 482,935	\$ 5,290,000	\$ 1,917,950	\$ 1,457,628	\$ 198,019

The revenue bond currently outstanding after refunding 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	\$ 130,000

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31:	2007 WATER REVENUE	
	PRINCIPAL	INTEREST
2017	\$ 135,000	\$ 6,919

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, 2016, restricted assets in proprietary funds contain \$3,662,102 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 2007 bonds were advanced refunded in 2016 with \$1,457,628 of LTGO bonds. The bonds are payable from Grandview LUD #2 Assessment revenues and revenues of the water system and are payable through 2027. The total principal and interest remaining to be paid on the bonds is \$1,797,565. Principal and interest paid for the current year and total Grandview assessment revenue were \$207,648 and \$435,501 respectively.

B. Refunded Debt

The District issued \$1,457,628 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 \$1,845,000. 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 \$270,856 and resulted in an economic gain of \$410,418.

2007	\$ 4.05	2012	\$ 4.75
2008	\$ 4.15	2013	\$ 5.00
2009	\$ 4.25	2014	\$ 5.25
2010	\$ 4.40	2015	\$ 5.50
2011	\$ 4.50	2016	\$ 5.50

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

For The Year Ended December 31, 2016

NOTE 7 – RESTRICTED COMPONENT OF NET POSITION

The District’s statement of net position reports \$3,662,102 of restricted component of net position for debt service, of which everything is restricted by enabling legislation. The net position also includes \$60,000 of restricted component of net position for miscellaneous reserves for a project mitigation reserve.

NOTE 8 - PENSION PLANS

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

a. NON-UNION

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 2016 rate of District contribution to the employee is 7.80% 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.

b. UNION

At year-end, the District’s union employees (six water operator positions) were eligible to be covered under the collective bargaining agreement with Teamsters Union Local No. 231 of Whatcom County’s pension plan. This plan is a multiemployer, defined benefit pension plan. Financial statements for the Pension plan may be found here: <http://www.wctpension.org/forms-documents-webcasts/plan-documents>. This link also connects to the Summary Plan Description which describes the benefits available. Benefits include pension, disability, and survivor benefits. The current contract, outlining the District’s responsibilities with Teamsters, is scheduled to expire at the end of 2017 and will be renegotiated. Payment is made to the Pension plan monthly for each of the union employees and therefore the District does not carry a liability.

The contributions to the plan are based on the collective-bargaining agreement. Currently the District contributes \$5.50 per qualified hour, per employee, up to a maximum of 2080 hours (\$11,440) per year per employee. The employees do not contribute to this plan. The last ten years of contribution rates per qualified hour are as follows:

2007	\$ 4.05	2012	\$ 4.75
2008	\$ 4.15	2013	\$ 5.00
2009	\$ 4.25	2014	\$ 5.25
2010	\$ 4.40	2015	\$ 5.50
2011	\$ 4.50	2016	\$ 5.50

NOTE 9 – SEGMENT INFORMATION

The District operated four proprietary segments and an Internal Services Fund in 2016. The following changes occurred in the District’s segments during 2016:

a. INDUSTRIAL WATER UTILITY

The District initiated several engineering studies related to future upgrades of industrial water system facilities. Non-routine maintenance projects associated with the industrial water supply distribution system and also Water

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

Treatment Plant No.1 were completed during the year.

b. GRANDVIEW WATER UTILITY

The Grandview Potable Water Utility had a slight growth in water consumption between 2015 and 2016. Revenue growth was due to increases in water consumption and the unit rates charged. The Grandview Fire Water Utility extended its fire water supply distribution system to connect to the adjacent Delta Tech Industrial Park fire water supply system.

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 2016, the District replaced pole structures and re-sagged transmission lines, based on engineering studies completed in 2015. The District conducted engineering studies at its Refinery substation to identify tests and projects to be completed during the Phillips 66 Refinery's scheduled 2017 major maintenance turn-around.

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 31st, 2016, the remaining fund balance is \$344,512.

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, 2016

	403	411	481	490	500	DISTRICT TOTAL
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVCS	INTERNAL SERVICES FUND	
OPERATING REVENUE						
Utility Sales and Service Revenues	\$ 8,674,956	\$ 198,414	\$ 10,966,637	\$ -	\$ -	\$ 19,840,008
Other Operating Revenue	48,058	28	11,975	-	-	60,061
TOTAL OPERATING REVENUE	\$ 8,723,014	\$ 198,443	\$ 10,978,612	\$ -	\$ -	\$ 19,900,069
OPERATING EXPENSES						
Operations:						
Purchased Power	\$ 526,653	\$ 5,805	\$ 8,118,373	\$ -	\$ -	\$ 8,650,832
Water Purification	161,529	786	-	-	-	162,314
Taxes / Process / Delivery Costs	-	-	539,893	-	-	539,893
General Operations	771,280	44,910	100,642	-	-	916,832
Maintenance	732,405	49,704	198,622	-	-	980,731
Administration						
General Administration	1,590,064	33,743	679,278	-	-	2,303,086
Planning and Development Expenses	105,055	-	-	-	-	105,055
Depreciation Expense	1,043,558	75,720	467,970	-	-	1,587,249
Utility Tax Expense	436,025	10,760	119,706	-	-	566,491
TOTAL OPERATING EXPENSES	\$ 5,366,570	\$ 221,428	\$ 10,224,485	\$ -	\$ -	\$ 15,812,483
OPERATING INCOME (LOSS)	\$ 3,356,445	\$ (22,985)	\$ 754,127	\$ -	\$ -	\$ 4,087,586
NONOPERATING REVENUE						
Lease Income	\$ 22,776	\$ -	\$ -	\$ -	\$ -	\$ 22,776
Assessment Income	-	435,501	-	-	-	435,501
Interest Income	73,481	6,008	23,679	3,167	-	106,335
Interest Fees	(6,303)	(568)	(2,019)	(271)	-	(9,161)
Connection Fee	-	80,000	-	-	-	80,000
TOTAL NONOPERATING REVENUE	\$ 89,953	\$ 520,940	\$ 21,660	\$ 2,896	\$ -	\$ 635,450
NONOPERATING EXPENSE						
Interest Expense	\$ 1,136,011	\$ 106,623	\$ 136,219	\$ -	\$ -	\$ 1,378,854
Amortization	16,255	8,596	3,939	-	-	28,790
Interfund Expense	194,013	1,350	(195,363)	-	-	-
Loss (Gain) on Property Disposal	22,542	-	14,555	-	-	37,097
TOTAL NONOPERATING EXPENSE	\$ 1,368,822	\$ 116,569	\$ (40,650)	\$ -	\$ -	\$ 1,444,741
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	2,077,576	\$ 381,386	\$ 816,437	\$ 2,896	\$ -	\$ 3,278,295
Capital Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Extraordinary Items	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 2,077,576	\$ 381,386	\$ 816,437	\$ 2,896	\$ -	\$ 3,278,295
NET POSITION - JANUARY 1st	\$ 9,708,802	\$ 638,817	\$ 11,189,261	\$ 719,106	\$ 44,067	\$ 22,300,052
NET POSITION - DECEMBER 31st	\$ 11,786,378	\$ 1,020,203	\$ 12,005,698	\$ 722,002	\$ 44,067	\$ 25,578,347

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

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2016

	403	411	481	490	500		DISTRICT
	INDUSTRIAL	GRANDVIEW	ELECTRIC	ALCOA SVC	INTERNAL	ELIMINATION	TOTAL
	WATER UTILITY	UTILITY	UTILITY		SERVICES FUND		
ASSETS							
CURRENT ASSETS							
Cash & Cash Equivalents	\$ (105,556)	\$ 1,620	\$ (36,390)	\$ 1,323	\$ 155,887	\$ -	\$ 16,884
Short Term Investments	4,633,294	209,266	2,116,280	343,189	48,389		7,350,418
Receivables (Net):							
Customers	768,497	19,101	844,101	-	-		1,631,699
Other	79,947	-	1,390	-	-		81,337
LUD #1 West Smith Road Receivable	-	-	-	-	-		-
Interfund Receivables	-	-	90,000	-	-	(90,000)	-
Interfund Transfers - Capital	1,306,113	-	299,669	377,490	(1,983,271)		-
Interfund Transfers - Employee	(267,391)	-	(100,668)	-	368,059		(0)
Total Accounts Receivables (Net)	<u>1,887,165</u>	<u>19,101</u>	<u>1,134,491</u>	<u>377,490</u>	<u>(1,615,212)</u>	<u>(90,000)</u>	<u>1,713,036</u>
Other Current Assets							
Prepayments	-	-	-	-	39,007		39,007
Other							
TOTAL CURRENT ASSETS	\$ 6,414,903	\$ 229,987	\$ 3,214,381	\$ 722,002	\$ (1,371,929)	\$ (90,000)	\$ 9,119,345
NON-CURRENT ASSETS							
Construction Contracts & Other Receivables	-	-	-	-	-		-
Bond Issue Costs	208,289	119,610	36,682	-	-		364,581
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,849,655	141,919	612,767	-	-		3,604,341
Investments - Assessments	-	57,761	-	-	-		57,761
Investments - Other	-	-	60,000	-	-		60,000
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	67,947	-	-	-	76,698		144,645
Capital Assets Being Depreciated:							
Buildings & Structures	17,227,345	98,977	4,457,485	-	1,545,117		23,328,924
Machinery & Equipment	19,879,893	3,144,204	11,671,859	-	1,362,683		36,058,639
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	<u>(10,562,863)</u>	<u>(1,083,597)</u>	<u>(3,714,159)</u>	<u>-</u>	<u>(1,001,228)</u>		<u>(16,361,847)</u>
Total Capital Assets (Net)	<u>27,586,321</u>	<u>2,159,584</u>	<u>12,415,185</u>	<u>-</u>	<u>1,983,271</u>		<u>44,144,361</u>
TOTAL NONCURRENT ASSETS	\$ 30,644,266	\$ 2,478,873	\$ 13,124,634	\$ -	\$ 1,983,271	\$ -	\$ 48,231,044
TOTAL ASSETS	\$ 37,059,169	\$ 2,708,860	\$ 16,339,015	\$ 722,002	\$ 611,342	\$ (90,000)	\$ 57,350,388

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2016

	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	\$ 79,882	\$ 2,335	\$ 627,267	\$ -	\$ 141,006	\$ -	\$ 850,490
Accrued Employee Payable	-	-	-	-	368,059	-	368,059
Accrued Insurance Claims Reserve	9,399	1,186	2,050	-	50,614	-	63,249
Accrued Utility Taxes	36,075	848	267,381	-	-	-	304,304
Contractor Retainage	5,841	-	6,312	-	7,596	-	19,749
Interfund Payables	-	90,000	-	-	-	(90,000)	-
Bonds, Notes, and Loans Payable							
2007 Water Revenue Bond - Current	-	135,000	-	-	-	-	135,000
2007 Water Revenue Bond - Interest	-	1,153	-	-	-	-	1,153
2010 LTGO Bond Series A&B - Current	1,209,211	-	95,789	-	-	-	1,305,000
2010 LTGO Bond Series A&B - Interest	70,750	-	7,809	-	-	-	78,559
2012 LTGO Bond Series A&B - Current	311,466	-	343,534	-	-	-	655,000
2012 LTGO Bond Series A&B - Interest	5,890	-	2,853	-	-	-	8,743
2013 LTGO Bond - Current	255,000	-	-	-	-	-	255,000
2013 LTGO Bond - Interest	16,300	-	-	-	-	-	16,300
2016 LTGO Bond - Current	-	-	-	-	-	-	-
2016 LTGO Bond - Interest	-	508	-	-	-	-	508
Deposits & Other Payables	0	-	-	-	-	-	0
TOTAL CURRENT LIABILITIES	\$ 1,999,813	\$ 231,029	\$ 1,352,996	\$ -	\$ 567,276	\$ (90,000)	\$ 4,061,114
NON-CURRENT LIABILITIES							
Bonds, Notes, and Loans Payable							
2010 LTGO Bond Series A&B Principal	\$ 15,837,559	\$ -	\$ 1,764,418	\$ -	\$ -	-	\$ 17,601,977
2012 LTGO Bond Principal	2,025,392	-	1,215,903	-	-	-	3,241,295
2013 LTGO Bond Principal	5,410,026	-	-	-	-	-	5,410,026
2016 LTGO Bond Principal	-	1,457,628	-	-	-	-	1,457,628
TOTAL NONCURRENT LIABILITIES	\$ 23,272,977	\$ 1,457,628	\$ 2,980,321	\$ -	\$ -	\$ -	\$ 27,710,926
TOTAL LIABILITIES	\$ 25,272,790	\$ 1,688,657	\$ 4,333,317	\$ -	\$ 567,276	\$ (90,000)	\$ 31,772,041
NET POSITION							
Net Investment in Capital Assets	\$ 3,381,804	\$ 566,956	\$ 9,489,925	\$ -	\$ 1,983,271	-	\$ 15,421,955
Restricted for Debt Service	2,849,655	199,679	612,767	-	-	-	3,662,102
Restricted for Miscellaneous Reserves	-	-	60,000	-	-	-	60,000
Unrestricted	5,554,920	253,568	1,843,005	722,002	(1,939,204)	-	6,434,290
TOTAL NET POSITION	\$ 11,786,378	\$ 1,020,203	\$ 12,005,698	\$ 722,002	\$ 44,067	\$ -	\$ 25,578,347

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Cash Flows
As of December 31, 2016

	403 INDUSTRIAL WATER	411 GRANDVIEW	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL SERVICE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 8,607,050	\$ 184,513	\$ 10,996,217	\$ -	\$ 5,718	\$ 19,793,498
Payments to suppliers	(2,005,667)	(67,233)	(8,968,336)	-	(1,199,456)	(12,240,692)
Payments to employees (Labor only)					(1,919,043)	(1,919,043)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 6,601,383	\$ 117,280	\$ 2,027,880	\$ -	\$ (3,112,781)	\$ 5,633,763
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) Other Utilities	(2,869,945)	(66,703)	(708,910)	-	3,645,557	-
Payments Received (Paid) for Non-operating work	22,776					22,776
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (2,847,169)	\$ (66,703)	\$ (708,910)	\$ -	\$ 3,645,557	\$ 22,776
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(112,070)	-	(245,029)		(399,284)	(756,383)
Principal paid on Capital Debt	(1,717,333)	(130,000)	(427,667)			(2,275,000)
Interest paid on Capital Debt	(1,167,398)	(77,648)	(137,162)			(1,382,208)
Capital Contributions		80,000				80,000
Assessments Received for 2007 & 2016 debt payments		435,501				435,501
Issue costs of debt		6				6
Proceeds / (Funding) of Reserve Requirements		(547,174)				(547,174)
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,996,801)	\$ (239,315)	\$ (809,858)	\$ -	\$ (399,284)	\$ (4,445,259)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	67,468	5,439	21,757	2,896	(388)	97,173
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 67,468	\$ 5,439	\$ 21,757	\$ 2,896	\$ (388)	\$ 97,173
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 824,881	\$ (183,298)	\$ 530,870	\$ 2,896	\$ 133,104	\$ 1,308,453
BALANCE BEGINNING OF YEAR	6,552,512	593,863	2,221,787	341,616	71,172	9,780,950
BALANCE END OF PERIOD	\$ 7,377,393	\$ 410,565	\$ 2,752,657	\$ 344,512	\$ 204,276	\$ 11,089,403

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Cash Flows
As of December 31, 2016

	403 INDUSTRIAL WATER	411 GRANDVIEW	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL SERVICE	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH						
Operating Income (Loss)	\$ 3,356,445	\$ (22,985)	\$ 754,127	\$ -	\$ -	\$ 4,087,586
Adjustments to reconcile operating income to net cash provided (used) by operating activity						
Depreciation	942,363	75,720	433,987	-	135,178	1,587,249
Decrease (Increase) in Net Accounts Receivable	(188,735)	(3,576)	7,460	-	(0)	(184,851)
Decrease (Increase) in Prepayments	-	-	-	-	49,961	49,961
Interfund Transfers	2,505,620	65,353	855,965	-	(3,426,938)	0
Increase (Decrease) in Account Payable	(13,956)	1,459	(38,094)	-	33,755	(16,837)
Increase (Decrease) in Accrued Employee Payable	-	-	-	-	37,079	37,079
Increase (Decrease) in Accrued Insurance Claims Reserve	9,399	1,186	2,050	-	50,614	63,249
Increase (Decrease) in Accrued Utility Taxes	2,300	124	11,473	-	(25)	13,872
Increase (Decrease) in Contractor Retainage	(11,591)	-	912	-	7,596	(3,083)
Increase (Decrease) in Deposits & Other Payables	(462)	-	-	-	-	(462)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,601,383	\$ 117,280	\$ 2,027,880	\$ -	\$ (3,112,781)	\$ 5,633,763

Public Utility District No. 1 of Whatcom County
 NOTES TO FINANCIAL STATEMENT
 For The Year Ended December 31, 2016

NOTE 10 - PROPERTY TAXES

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

Property Tax Calendar	
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 2016 was \$25,299,329,005. 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 2016 or 2015.

Washington State Constitution and Washington State Law, RCW 84.55.010 and RCW 54.16.080, 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 2016, NoaNet was able to cover its debt obligations from operations. The District was not assessed in 2016.

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

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

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, 2016 is \$0.

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 18 Public Utility Districts and NOANET, a Washington nonprofit mutual corporation providing broadband communications services [See NOTE-11 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 Designated Liability Pool 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
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2016

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.

PURMS, per an annual actuarial report, maintains an asset on their books called the Year-End Claims Reserve Receivable. This is an estimate of unreported and unresolved claims outstanding at year-end. It was recommended that this Reserve needs to be reflected on the balance sheet of the insurance pool members. The District started recording this reserve in 2016. Per the year-end Actuarial report, the District's share of the Claims Reserve Receivable at year end was \$63,249 (\$50,356 for the Liability Pool, \$12,893 for the Property Pool), compared to the 2015 share balance of \$65,890 (\$51,533 for the Liability Pool, \$14,357 for the Property Pool), a \$2,641 reduction.

A comprehensive 2016 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

Risk pool insurance premiums and pool assessments for the District were as follows for 2016 and 2015:

PURMS 2015

<u>LIABILITY</u>						
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
				2,734,337.57	1.50%	41,085.37

<u>PROPERTY</u>						
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
				1,665,498.31	3.09%	51,436.15

PURMS 2016

<u>LIABILITY</u>						
01/06/2016	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,199,675.00		
01/06/2016	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	199,037.82	1.46%	20,390.99
04/08/2016	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	519,652.00	1.57%	8,134.05
07/06/2016	AEGIS	LIABILITY	PROF LIAB [E&O]	167,353.13	1.45%	2,426.83
09/01/2016	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	579,424.00	1.61%	9,317.18
11/07/2016	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	250,000.00	1.67%	4,167.93
11/22/2016	EVEREST NATIONAL	LIABILITY	FRONTING POLICY	5,000.00	1.45%	72.50
11/22/2016	BERKLEY	LIABILITY	CYBER POLICY \$10M EXCE	137,238.74	1.58%	2,162.31
12/15/2016	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	501,038.00	1.63%	8,173.38
12/31/2016	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	50,835.00	1.57%	800.58
				3,609,253.69	1.54%	55,645.75

<u>PROPERTY</u>						
04/01/2016	NATIONAL UNION & HOMESITE	PROPERTY	EXCESS PROPERTY POLICY	945,135.13	2.75%	26,009.27
08/03/2016	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	258,443.00	3.29%	8,499.89
12/31/2016	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	226,185.00	3.32%	7,512.20
				1,429,763.13	2.94%	42,021.36

Public Utility District No. 1 of Whatcom County
SUPPLEMENTAL SCHEDULES
For The Year Ended December 31, 2016

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Public Utility District No. 1 of Whatcom County
SCHEDULE 01 – Revenues and Expenses
For The Year Ended December 31, 2016

MCAG	Fund Number	Fund Name	Account Code	Account Title	Amount
1806	401	Operating	3081900	Restricted Net Position - Beginning	4,036,726
1806	401	Operating	3086000	Net Investment in Capital Assets - Beginning	13,800,327
1806	401	Operating	3088900	Unrestricted Net Position - Beginning	4,462,999
1806	401	Operating	3340690	State Grant from Other State Agencies	31,868
1806	401	Operating	3433000	Electricity/Gas Sales and Services	10,966,637
1806	401	Operating	3434000	Water Sales and Services	8,871,049
1806	401	Operating	3590000	Non-Court Fines and Penalties	2,350
1806	401	Operating	3611000	Investment Earnings	97,173
1806	401	Operating	3620000	Rents and Leases	22,776
1806	401	Operating	3681000	Special Assessments-Capital	435,501
1806	401	Operating	3699100	Miscellaneous Other	28,165
1806	401	Operating	3790000	Capital Contributions	80,000
1806	401	Operating	5013300	Depreciation, Depletion, Amortization - Electric/Gas Utilities	467,970
1806	401	Operating	5013400	Depreciation, Depletion, Amortization - Water Utilities	1,119,278
1806	401	Operating	5081900	Restricted Net Position-Ending	3,722,102
1806	401	Operating	5086000	Net Investment in Capital Assets-Ending	15,421,955
1806	401	Operating	5088900	Unrestricted Net Position-Ending	6,434,290
1806	401	Operating	5330010	Electric/Gas Utilities - Salaries	458,071
1806	401	Operating	5330020	Electric/Gas Utilities - Benefits	205,682
1806	401	Operating	5330030	Electric/Gas Utilities - Supplies	8,163,027
1806	401	Operating	5330040	Electric/Gas Utilities - Services	74,772
1806	401	Operating	5330050	Electric/Gas Utilities	659,598
1806	401	Operating	5340010	Water Utilities - Salaries	1,361,505
1806	401	Operating	5340020	Water Utilities - Benefits	682,106
1806	401	Operating	5340030	Water Utilities - Supplies	827,642
1806	401	Operating	5340040	Water Utilities - Services	1,346,044
1806	401	Operating	5340050	Water Utilities	446,785
1806	401	Operating	5913370	Debt Repayment - Electric/Gas Services	427,667
1806	401	Operating	5913470	Debt Repayment - Water Utilities	1,847,333
1806	401	Operating	5923380	Interest and Other Debt Service Cost - Electric/Gas Utilities	140,158
1806	401	Operating	5923480	Interest and Other Debt Service Cost - Water	1,267,486
1806	401	Operating	5943360	Capital Expenditures - Electric	245,029
1806	401	Operating	5943460	Capital Expenditures - Water	511,354
1806	401	Operating	5985030	Other Nonoperating Expenses - Supplies	37,097
1806	401	Operating	8100000	Cash, Cash Equivalents and Investments	7,566,981
1806	401	Operating	8200000	Other Current assets	1,842,043
1806	401	Operating	8300000	Other Noncurrent Assets	48,031,364
1806	401	Operating	8500000	Current Liabilities	4,151,114
1806	401	Operating	8600000	Noncurrent Liabilities	27,710,926

Public Utility District No. 1 of Whatcom County
 SCHEDULE 09 - Liabilities
 For The Year Ended December 31, 2016

DEBT TYPE	LD. NO.	DESCRIPTION	DUE DATE	BEGINNING BALANCE 01/01/2016	ADDITIONS	REDUCTIONS	ENDING BALANCE DEBT 12/31/2016
General Obligation Debt/Liabilities							
	251.11	2010 General Obligation bonds, Series A	12/01/2030	\$ 1,610,000		\$ 375,000	\$ 1,235,000
	251.11	2010 General Obligation bonds, Series B	12/01/2030	18,505,000		880,000	17,625,000
	251.11	2010 General Obligation bond premium	12/01/2030	50,333		3,356	46,977
	251.11	2012 LTGO BONDS - Refi 2004 LTGO bonds	12/01/2024	4,540,000		640,000	3,900,000
	251.11	2012 LTGO bond discount	12/01/2024	(4,168)		(463)	(3,705)
	251.11	2013 LTGO bonds	12/01/2032	5,540,000		250,000	5,290,000
	251.11	2013 LTGO bond premium	12/01/2032	399,352		24,326	375,026
	251.11	2016 GO Bonds	12/01/2027	-	1,457,628		1,457,628
Total General Obligations				\$ 30,640,517	\$ 1,457,628	\$ 2,172,219	\$ 29,925,926
Revenue and Other (non G.O.) Debt/Liabilities							
	252.11	2007 Water Revenue Bonds	11/01/2027	\$ 2,110,000		\$ 1,975,000	\$ 135,000
	259.12	Compensated absences	Varies	322,184	45,875		368,059
Total Revenue and Other				\$ 2,432,184	\$ 45,875	\$ 1,975,000	\$ 503,059
Total Liabilities				\$ 33,072,701	\$ 1,503,503	\$ 4,147,219	\$ 30,428,985

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, 2016

Grantor/Program Title	Program Title	Identification Number	Amount
Department of Health	2 Year Pilot Small Systems	N21873	\$ 31,868
Sub-Total:			\$ 31,868
Grand Total:			\$ 31,868

LOCAL GOVERNMENT RISK ASSUMPTION

For The Year Ended December 31, 2016

1. Self-Insurance Program Manager: Annette Smith
2. Manager Phone: 360-384-4288 x11
3. Manager Email: annettesmith@pudwhatcom.org
4. How do you insure property and liability risks, if at all?
 - a. Self-insure some or all risks
 - b. Belong to a public entity risk pool**
 - c. Purchase private insurance
 - d. No insurance
5. How do you provide health and welfare insurance (e.g., medical, dental, prescription drug, and/or vision benefits) to employees, if at all?
 - a. Self-insure some or all benefits
 - b. Belong to a public entity risk pool
 - c. All benefits provided by health insurance company or HMO**
 - d. Not applicable - no such benefits offered
6. How do you insure unemployment compensation benefits, if any?
 - a. Self-insured (“Reimbursable”)
 - b. Belong to a public entity risk pool
 - c. Pay taxes to the Department of Employment Security (“Taxable”)**
 - d. Not applicable – no employees
7. How do you insure workers compensation benefits, if any?
 - a. Self-insured (“Reimbursable”)
 - b. Belong to a public entity risk pool
 - c. Pay premiums to the Department of Labor and Industries**
 - d. Not applicable – no employees
8. How do you insure other risks and obligations, if any?
 - a. Self-insure some or all other risks
 - b. Belong to a public entity risk pool**
 - c. Purchase private insurance
 - d. Not applicable – have no other insurable risks

If the answer to any of the above questions is (a), then answer the rest of the form in relation to the government’s self-insured risks.

If NOT, STOP, the local government does not need to complete the rest of this Schedule