

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, 2017

GOVERNMENT INFORMATION:

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PREPARER INFORMATION and CERTIFICATION:

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I certify the 8th 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, 2017

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:

	2017	2016
ASSETS		
Current Assets	\$ 10,661,116	\$ 9,119,345
Non-Current Assets	3,756,158	4,086,683
Capital Assets (Net)	43,790,136	44,144,361
TOTAL ASSETS	\$ 58,207,409	\$ 57,350,388
LIABILITIES		
Current Liabilities	\$ 4,173,740	\$ 4,061,114
Non-Current Liabilities	25,262,945	27,710,926
TOTAL LIABILITIES	\$ 29,436,685	\$ 31,772,041
NET POSITION		
Net Investment in Capital Assets	\$ 17,249,949	\$ 15,421,955
Restricted for Debt Service	3,734,606	3,662,102
Restricted for Miscellaneous Reserves	52,350	60,000
Unrestricted	7,733,820	6,434,290
TOTAL NET POSITION	\$ 28,770,725	\$ 25,578,347

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2017

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

	2017	2016
REVENUES		
Operating Revenue	\$ 19,526,338	\$ 19,868,201
Nonoperating Revenue	500,444	667,780
TOTAL REVENUE	\$ 20,026,782	\$ 20,535,981
EXPENSES		
Operating Expenses	15,353,873	15,781,077
Nonoperating Expenses	1,480,531	1,476,609
TOTAL EXPENSES	\$ 16,834,405	\$ 17,257,686
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	\$ 3,192,377	\$ 3,278,295
CHANGE IN NET POSITION	\$ 3,192,377	\$ 3,278,295
BEGINNING NET POSITION	\$ 25,578,347	\$ 22,300,052
ENDING NET POSITION	\$ 28,770,725	\$ 25,578,347

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2016-2017

For the twelve months ending December 31, 2017, the total net position of the District increased by approximately \$3,192,000 or 12%. Total assets increased by \$857,000 and total liabilities decreased by \$2,335,000 producing a net increase in net position.

The major components contributing to the increase in assets were an increase in Cash and Cash Equivalents of \$1,174,000 from the slow-down in capital projects and extraordinary maintenance projects, an increase in net receivables of \$96,000 due primarily to timing of customer payments, a decrease of \$123,000 in Deferred Charges due to the early refinance of the 2007 bonds, a \$142,000 decrease in bond reserves due also to the early refinance of the 2007 bonds, an increase in Restricted Cash and Cash Equivalents of \$214,000, a decrease in Other Investments of \$8,000 due to the partial release of mitigation funds held in escrow, and a decrease in total capital assets net of depreciation of \$354,000.

The major components of the decrease in total liabilities included an increase in Accounts Payables of \$60,000 due to timing of payments, an increase of \$2,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts, a decrease in Utility Taxes of \$9,000, an decrease of \$5,000 in Contractor Retainage, a decrease of \$1,000 in Deposits, and a net decrease in the bonds principal and interest payable of \$2,382,000 due to debt service payments and the 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, 2017

RESULTS OF OPERATIONS

Analysis of changes in Revenue, Expenses, and change in Net Position for 2016-2017

Total Net Position (excluding Extraordinary Items and Capital Contributions) decreased from \$3,278,000 in 2016 to \$3,192,000 in 2017 (an \$86,000 decrease). Operating Revenue decreased by \$342,000 due to a combination of rate increases by both the District and BPA but offset by a decrease in revenue due to the Phillips 66 turnaround. Operating expenses decreased by \$427,000, mainly due to the decreased use of power. Non-operating Revenue decreased by \$167,000, due to a decrease in assessment income and Connection Fees. Non-operating Expenses reflected an overall increase of \$4,000, resulting primarily from an increase in grant expenses.

CAPITAL ASSETS

Analysis of Changes in Capital Assets from 2016-2017

During 2017, total capital assets decreased by \$354,000 and were comprised of an overall increase in non-depreciated assets, including construction-work-in-progress for \$21,000 (\$11,500 of construction-work-in-progress was expensed during 2017 mainly consisting of equipment which did not qualify for capitalization), the Industrial Water Utility increased by \$156,000, the Grandview Water Utility remained the same, the Electric Utility increased by \$257,000, a \$797,000 increase for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$1,585,000. SEE NOTE 3.

LONG-TERM DEBT

Analysis of Changes in Long-Term Debt from 2016-2017

During 2017, the District finished payments on the refinanced 2007 Water Revenue bonds, the District's indebtedness for the 2010 LTGO bonds was reduced by \$1,308,000, the 2012 LTGO bond issue was reduced by \$655,000, the District's indebtedness for the 2013 LTGO bonds was reduced by \$279,000, and the District's indebtedness for the 2016 LTGO bonds remained the same since interest was only paid. SEE NOTE 6.

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, PO Box 2308, Ferndale, WA 98248.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 2017

ASSETS**CURRENT ASSETS**

Cash & Cash Equivalents	
Cash	\$ 15,699
Whatcom County Investment Pool	8,524,243
Total Cash & Cash Equivalents	<u>8,539,943</u>
Receivables (Net):	
Customers	1,716,494
Other	92,162
Total Accounts Receivables (Net)	<u>1,808,656</u>
Restricted Cash & Cash Equivalents	272,183
Prepayments	40,333
TOTAL CURRENT ASSETS	<u>\$ 10,661,116</u>

NON-CURRENT ASSETS

Bond Issue Costs	\$ 241,385
Restricted Assets	
Investments - Bond Reserves	3,462,423
Investments - Other	52,350
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	165,437
Capital Assets Being Depreciated:	
Buildings & Structures	23,328,924
Machinery & Equipment	37,268,895
Intangible	866,000
Less Accumulated Depreciation	<u>(17,947,120)</u>
Total Capital Assets (Net)	<u>43,790,136</u>
TOTAL NONCURRENT ASSETS	<u>\$ 47,546,294</u>

TOTAL ASSETS

\$ 58,207,409

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, 2017

LIABILITIES**CURRENT LIABILITIES**

Accounts Payable	\$ 910,855
Accrued Employee Payable	369,889
Accrued Insurance Claims Reserve	62,962
Accrued Utility Taxes	295,442
Contractor Retainage	14,470
Bonds, Notes, and Loans Payable	
2010 LTGO Series A&B Bonds Principal - Current	1,355,000
2010 LTGO Series A&B Interest	74,127
2012 LTGO Series A&B Bonds Principal - Current	660,000
2012 LTGO Series A&B Interest	7,787
2013 LTGO Bond Principal - Current	260,000
2013 LTGO Bond Interest	15,875
2016 LTGO Bond Principal - Current	145,763
2016 LTGO Bond Interest	2,539
Deposits & Other Payables	(969)
TOTAL CURRENT LIABILITIES	<u>\$ 4,173,740</u>

NON-CURRENT LIABILITIES

Bonds, Notes, and Loans Payable	
2010 LTGO Series A&B Bonds Principal	\$ 16,243,622
2012 LTGO Bond Principal	2,581,758
2013 LTGO Bond Principal	5,125,700
2016 LTGO Bond Principal	1,311,865
TOTAL NON-CURRENT LIABILITIES	<u>\$ 25,262,945</u>

TOTAL LIABILITIES**\$ 29,436,685****NET POSITION**

Net Investment in Capital Assets	\$ 17,249,949
Restricted for Debt Service	3,734,606
Restricted for Miscellaneous Reserves	52,350
Unrestricted	7,733,820
TOTAL NET POSITION	<u>\$ 28,770,725</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, 2017

OPERATING REVENUE

Utility Sales and Service Revenues	\$ 19,488,686
Other Operating Revenue	37,652
TOTAL OPERATING REVENUE	<u>\$ 19,526,338</u>

OPERATING EXPENSES

Operations:	
Purchased Power	\$ 8,128,431
Water Purification	225,690
Taxes / Process / Delivery Costs	497,165
General Operations	909,957
Maintenance	1,250,878
Administration:	
General Administration	2,123,131
Planning and Development Expense	42,263
Depreciation Expense	1,591,489
Utility Tax Expense	584,868
TOTAL OPERATING EXPENSES	<u>\$ 15,353,873</u>

OPERATING INCOME (LOSS)**\$ 4,172,465****NONOPERATING REVENUE**

Lease Income	\$ 23,026
Grant Revenue	79,233
Assessment Income	242,187
Interest Income	145,286
Interest Fees	(9,994)
Connection Fee	8,000
Penalties	12,706
TOTAL NONOPERATING REVENUE	<u>\$ 500,444</u>

NONOPERATING EXPENSE

Interest Expense	\$ 1,342,250
Amortization	29,399
Grant Expenses	106,132
Loss (Gain) on Property Disposal	2,751
TOTAL NONOPERATING EXPENSE	<u>\$ 1,480,531</u>

**INCOME BEFORE CONTRIBUTIONS,
AND EXTRAORDINARY ITEMS****\$ 3,192,377****CHANGE IN NET POSITION****\$ 3,192,377****TOTAL NET POSITION - JANUARY 1st****\$ 25,578,348****TOTAL NET POSITION - DECEMBER 31st****\$ 28,770,725**

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 19,478,760
Payments to suppliers	(11,826,059)
Payments to employees (Labor only)	(1,938,897)

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

\$ 5,713,804

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

Payments Received (Paid) for Non-operating work	\$ 8,833
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**NET CASH PROVIDED (USED) BY NONCAPITAL
FINANCING ACTIVITIES**

\$ 8,833

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	\$ (1,240,015)
Principal paid on Capital Debt	(2,350,000)
Interest paid on Capital Debt	(1,280,606)
Capital Contributions	8,000
Assessments Received for 2007 & 2016 debt payments	242,187

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

\$ (4,620,434)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	\$ 135,293
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NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES

\$ 135,293

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

1,237,495

BALANCE BEGINNING OF YEAR

11,089,403

BALANCE END OF YEAR

\$ 12,326,899

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, 2017

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

Operating Income (Loss)	\$ 4,172,465
Adjustments to reconcile operating income to net cash	
Cash Provided (Used) by operating activities:	
Depreciation	1,591,489
Change in Assets and Liabilities:	
Decrease (Increase) in Net Accounts Receivable	(95,620)
Decrease (Increase) in Prepayments	(1,326)
Increase (Decrease) in Account Payable	60,365
Increase (Decrease) in Accrued Employee Payable	1,829
Increase (Decrease) in Accrued Insurance Claims Reserve	(287)
Increase (Decrease) in Accrued Utility Taxes	(8,862)
Increase (Decrease) in Contractor Retainage	(5,279)
Increase (Decrease) in Deposits & Other Payables	(969)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 5,713,805

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, 2017

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 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, 2017, the treasurer was holding \$8,524,243 in short-term residual investments of surplus cash. This amount is classified on the balance sheet as Cash and Cash Equivalents 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, 2017

(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, and also the Restricted Investments under Current and 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 \$52,350 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	2017
Bond Reserves	
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>\$ 3,462,423</u>
Other Restricted Funds	
LUD #2 Cash Investments	272,183
Project Reserve Fund	52,350
	<u>\$ 324,533</u>
TOTAL RESTRICTED RESERVE BALANCES	\$ 3,786,956

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, 2017

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, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2017 was \$12,326,899. The carrying amount of the District’s deposits held by Whatcom County was \$12,326,899, and the bank balance was the same.

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].

Investments in Whatcom County Investment Pool [WCIP]

The District is a participant in the WCIP, an external investment pool. The District reports its investment in the Pool at the amortized cost, which is the same as the value of the Pool per share. The responsibility for managing the pool resides with the County Treasurer. The Pool is established from the RCW 36.29 which authorizes the County Treasurer to invest the funds of participants. The County’s investment policy is established by the Administrative Finance Committee, consisting of the Treasurer as Chairman, the Auditor as Secretary, and the Chair of the County Council. The County external investment pool does not have a credit rating and had a weighted average maturity of 1.34 years as of December 31, 2017. Short-term Whatcom County Investment Pool funds are classified as Cash and Cash Equivalents on the Statement of Net Position

As of December 31, 2017, the District had the following investments:

	2017	
	<u>Maturities</u>	<u>Amortized Cost</u>
INVESTMENTS		
Short-Term Investments		
Whatcom County Investment Pool	\$ 8,796,427	\$ 8,796,427
Non-Current		
Whatcom County Investment Pool	3,514,773	3,514,773
TOTAL INVESTMENTS	\$ 12,311,199	\$ 12,311,199

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2017

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ending December 31, 2017 was as follows:

	2017	2017 Activity		2017
	Beginning Balance	Increase	Decrease	Ending Balance
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	67,947	180,261	(144,454)	103,754
Grandview Potable Water Utility	-	-	-	-
Electric Utility	-	305,161	(266,386)	38,774
General Utility & Office (Internal Services Utility)	76,698	724,283	(778,071)	22,909
TOTAL CONSTRUCTION-IN-PROGRSS	144,645	1,209,704	(1,188,912)	165,437
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 252,645	\$ 1,209,704	\$ (1,188,912)	\$ 273,437
CAPITAL ASSETS BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
Industrial Water Utility	\$ 17,227,345	\$ -	\$ -	\$ 17,227,345
Grandview Water Utility	98,977	-	-	98,977
Electric Utility	4,457,485	-	-	4,457,485
General Utility & Office (Internal Services Utility)	1,545,117	-	-	1,545,117
TOTAL BUILDINGS & STRUCTURES	23,328,924	-	-	23,328,924
MACHINERY & EQUIPMENT				
Industrial Water Utility	19,879,893	155,717	-	20,035,609
Grandview Water Utility	3,144,204	-	-	3,144,204
Electric Utility	11,671,859	266,386	(8,967)	11,929,278
General Utility & Office (Internal Services Utility)	1,362,683	797,120	-	2,159,803
TOTAL MACHINERY & EQUIPMENT	36,058,639	1,219,223	(8,967)	37,268,895
INTANGIBLE				
Industrial Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 60,253,563	\$ 1,219,223	\$ (8,967)	\$ 61,463,819
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	\$ (5,443,905)	\$ (457,422)	\$ -	\$ (5,901,327)
Machinery & Equipment	(10,484,943)	(1,090,767)	6,216	(11,569,494)
Intangible	(433,000)	(43,300)	-	(476,300)
TOTAL ACCUMULATED DEPRECIATION	(16,361,847)	(1,591,489)	6,216	(17,947,120)
TOTAL CAPITAL ASSETS BEING DEPRECIATED (NET)	\$ 43,891,716	\$ (372,266)	\$ (2,751)	\$ 43,516,699
TOTAL CAPITAL ASSETS, NET	\$ 44,144,361	\$ 837,439	\$ (1,191,663)	\$ 43,790,136

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 \$11,500 in CWIP projects in 2017.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2017

NOTE 4 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The District has active construction projects as of December 31, 2017. The projects include:

	District Capital Project #	Annual Project Authorization	2017		Required Future Financing
			Expended Through 12/31/17	Committed	
CONSTRUCTION IN PROGRESS					
Fiber Install	IS15	\$ 1,010,150	\$ 22,909	\$ 1,487,000	\$ -
115kV Transmission Structures	E6	700,000	38,774	4,200,000	-
Industrial Water - Grandview connect	RW32	2,000,000	91,158	2,000,000	1,600,000
PSE Whitehorn Meter/Valve Relocate	RW34	258,000	7,235	258,000	-
Plant 2 Basin Enclosures	RW36	-	5,361	250,000	-
TOTAL CONSTRUCTION IN PROGRESS		\$ 3,968,150	\$ 165,437	\$ 8,195,000	\$ 1,600,000

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

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
EES-WO1-Regulator Analysis & NERC Support	\$ 6,843	\$ 3,158
EPS-WO7-Backbone Communication System	52,723	23,277
EPS-W12-TAR Work	13,583	10,318
EPS-W13-TAR Work	82,286	19,594
EPS-W15-TAR Work	5,375	9,250
EPS-W16-Phillips66 Substation upgrade	5,965	36,935
EPS-W18-Backbone Communications Fiber	640	59,360
PSE-WO16-6-Vista Drive Watermain Extension	83,308	126,103
PSE-WO17-5-Grandview Water Easements	5,765	5,992
PSE-WO17-6-Industrial Water Point of Delivery	5,338	4,662
RH2-WO3-Industrial Water Supply Phase 2	94,531	94,336
RH2-WO8-PSE-Whitehorn Meter Vault	1,821	33,819
RH2-WO10-Education & Outreach WRIA1	682	1,268
RH2-WO12-Technical Assistance WRIA1	1,275	18,725
RH2-WO1-Drought Contingency	33,875	66,125
GC-WO1-Water Supply Planning	15,365	4,635
GC-WO2-Water Supply Symposium	4,990	2,670
COR-WO1-DOH Grant N21873 Work	34,978	15,022
COR-WO2-DOH Grant N21873 Work	50,125	68,875
	\$499,465	\$ 604,124

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2017

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 2017, the District entered in to an agreement with BPA related to services BPA would provide to the District to assure compliance with the NERC electric system reliability standards associated with the Transmission Operator function (“TOP”). During the 4th quarter of 2017, the District entered into contract negotiations with BPA related to an agreement related to services BPA would provide to the District to support the District’s compliance with NERC electric system reliability standards related to the Transmission Planner function (“TP”). The agreement is anticipated to be completed and executed during the 2nd quarter of 2018.

NOTE 5 – SHORT-TERM DEBT

The District had no short-term debt obligations in 2017.

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.

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	\$ 395,000
2010 LTGO Series B -Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 910,000
2012 LTGO - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 655,000
2013 LTGO - Funding to complete the Water Plant 2 rebuild	2014-2032	2.66%	\$ 6,025,000	\$ 255,000
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, 2017

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
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	1,145,000	655,800	380,000	42,538	295,000	157,800	145,763	18,279
2023-2027	6,640,000	2,354,800	805,000	45,578	1,645,000	603,400	728,813	45,697
2028-2032	4,875,000	520,800			2,005,000	247,000		
TOTAL	\$17,555,000	\$6,722,850	\$3,245,000	\$378,025	\$5,035,000	\$1,722,350	\$1,457,628	\$167,554

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	\$ 135,000

The revenue bond debt service is completed in 2017.

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, 2017, restricted assets in proprietary funds contain \$3,734,606 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 originally 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 \$1,625,182. Principal and interest paid for the current year and total Grandview assessment revenue were \$172,383 and \$242,187 respectively.

Public Utility District No. 1 of Whatcom County
 NOTES TO FINANCIAL STATEMENT
 For The Year Ended December 31, 2017

NOTE 7 – RESTRICTED COMPONENT OF NET POSITION

The District’s statement of net position reports \$3,734,606 of restricted component of net position for debt service, of which everything is restricted by enabling legislation. The net position also includes \$52,350 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 2017 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 2021 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 currently) per year per employee. No minimum contribution is required if no qualified hours are worked. If the District was to exit the plan, an ‘unfunded withdrawal liability’ could be required. The liability would be based on the previous 5 years of contributions compared to the fund total. The employees do not contribute to this plan. The last ten years of contribution rates per qualified hour are as follows:

2008	\$ 4.15	2013	\$ 5.00
2009	\$ 4.25	2014	\$ 5.25
2010	\$ 4.40	2015	\$ 5.50
2011	\$ 4.50	2016	\$ 5.50
2012	\$ 4.75	2017	\$ 5.50

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2017

NOTE 9 – SEGMENT INFORMATION

The District operated four proprietary segments and an Internal Services Fund in 2017. The following changes occurred in the District's segments during 2017:

a. **INDUSTRIAL WATER UTILITY**

The District has been working on upgrades and non-routine maintenance projects specific to Water Treatment Plant #1. Routine maintenance projects on Water Treatments Plants #1 and #2 are ongoing for the entire water system facilities including IT and SCADA projects. There was one new customer added this year that installed a water line extension from our Aldergrove water transmission line.

b. **GRANDVIEW WATER UTILITY**

The District has been working with engineers looking at the feasibility of extending the Industrial water system waterline from a connection on the Aldergrove transmission line to the Grandview fire system. In 2017, the District began supplying the Delta Tech Industrial Park with water for their fire 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 2017, the District replaced pole structures and continued the yearly routine maintenance.

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, 2017, the remaining fund balance is \$348,181.

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, 2017

	403	411	481	490	500	ELIMINATION	DISTRICT TOTAL
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVCS	INTERNAL SERVICES FUND		
OPERATING REVENUE							
Utility Sales and Service Revenues	\$ 8,989,372	\$ 197,443	\$ 10,388,462	\$ -	\$ -	\$ (86,592)	\$ 19,488,686
Other Operating Revenue	36,307	1,345	-	-	-	-	37,652
TOTAL OPERATING REVENUE	\$ 9,025,680	\$ 198,788	\$ 10,388,462	\$ -	\$ -	\$ (86,592)	\$ 19,526,338
OPERATING EXPENSES							
Operations:							
Purchased Power	\$ 589,132	\$ 6,762	\$ 7,532,537	\$ -	\$ -	-	\$ 8,128,431
Water Purification	224,948	743	-	-	-	-	225,690
Taxes / Process / Delivery Costs	-	-	497,165	-	-	-	497,165
General Operations	732,301	52,427	125,230	-	-	-	909,957
Maintenance	663,421	42,785	544,673	-	-	-	1,250,878
Administration							
General Administration	1,520,556	23,795	665,372	-	-	(86,592)	2,123,131
Planning and Development Expenses	42,263	-	-	-	-	-	42,263
Depreciation Expense	1,044,802	75,720	470,967	-	-	-	1,591,489
Utility Tax Expense	450,086	10,482	124,300	-	-	-	584,868
TOTAL OPERATING EXPENSES	\$ 5,267,509	\$ 212,713	\$ 9,960,244	\$ -	\$ -	\$ (86,592)	\$ 15,353,873
OPERATING INCOME (LOSS)	\$ 3,758,171	\$ (13,924)	\$ 428,218	\$ -	\$ -	\$ -	\$ 4,172,465
NONOPERATING REVENUE							
Lease Income	\$ 23,026	\$ -	\$ -	\$ -	\$ -	-	\$ 23,026
Grant Revenue	79,233	-	-	-	-	-	79,233
Assessment Income	-	242,187	-	-	-	-	242,187
Interest Income	101,039	5,521	34,785	3,941	-	-	145,286
Interest Fees	(6,945)	(380)	(2,397)	(272)	-	-	(9,994)
Connection Fee	-	8,000	-	-	-	-	8,000
Penalties	12,706	-	-	-	-	-	12,706
TOTAL NONOPERATING REVENUE	\$ 209,059	\$ 255,329	\$ 32,388	\$ 3,669	\$ -	\$ -	\$ 500,444
NONOPERATING EXPENSE							
Interest Expense	\$ 1,083,319	\$ 132,058	\$ 126,873	\$ -	\$ -	-	\$ 1,342,250
Amortization	16,255	9,204	3,939	-	-	-	29,399
Interfund Expense	196,235	1,350	(197,585)	-	-	-	-
Grant Expenses	106,132	-	-	-	-	-	106,132
Loss (Gain) on Property Disposal	-	-	2,751	-	-	-	2,751
TOTAL NONOPERATING EXPENSE	\$ 1,401,941	\$ 142,612	\$ (64,022)	\$ -	\$ -	\$ -	\$ 1,480,531
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	2,565,289	\$ 98,792	\$ 524,628	\$ 3,669	\$ -	\$ -	\$ 3,192,377
CHANGE IN NET POSITION	\$ 2,565,289	\$ 98,792	\$ 524,628	\$ 3,669	\$ -	\$ -	\$ 3,192,377
NET POSITION - JANUARY 1st	\$ 11,786,378	\$ 1,020,203	\$ 12,005,698	\$ 722,002	\$ 44,067	\$ -	\$ 25,578,347
NET POSITION - DECEMBER 31st	\$ 14,351,667	\$ 1,118,995	\$ 12,530,325	\$ 725,671	\$ 44,067	\$ -	\$ 28,770,725

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2017

	403 INDUSTRIAL WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
ASSETS							
CURRENT ASSETS							
Cash & Cash Equivalents							
Cash	\$ (39,949)	\$ 2,588	\$ (8,501)	\$ 1,323	\$ 60,239	\$ -	\$ 15,699
Whatcom County Investment Pool	5,628,834	277,097	2,226,527	346,858	44,928	-	8,524,243
Total Cash & Cash Equivalents	5,588,885	279,684	2,218,026	348,181	105,166	-	8,539,943
Receivables (Net):							
Customers	789,353	19,319	907,823	-	-		1,716,494
Other	92,749	-	-	-	(587)		92,162
Interfund Receivables	-	-	90,000	-	-	(90,000)	-
Interfund Transfers - Capital	1,748,347	-	452,133	377,490	(2,577,969)		-
Interfund Transfers - Employee	(248,318)	-	(121,570)	-	369,889		-
Total Accounts Receivables (Net)	2,382,130	19,319	1,328,385	377,490	(2,208,668)	(90,000)	1,808,656
Other Current Assets							
Restricted Cash & Cash Equivalents	-	272,183	-	-	-		272,183
Prepayments	-	-	-	-	40,333		40,333
Other							
TOTAL CURRENT ASSETS	\$ 7,971,015	\$ 571,186	\$ 3,546,411	\$ 725,671	\$ (2,063,168)	\$ (90,000)	\$ 10,661,116
NON-CURRENT ASSETS							
Bond Issue Costs	\$ 192,034	\$ 16,609	\$ 32,743	\$ -	\$ -		\$ 241,385
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,849,655	-	612,767	-	-		3,462,423
Investments - Other	-	-	52,350	-	-		52,350
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	103,754	-	38,774	-	22,909		165,437
Capital Assets Being Depreciated:							
Buildings & Structures	17,227,345	98,977	4,457,485	-	1,545,117		23,328,924
Machinery & Equipment	20,035,609	3,144,204	11,929,278	-	2,159,803		37,268,895
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	(11,496,287)	(1,159,317)	(4,141,655)	-	(1,149,861)		(17,947,120)
Total Capital Assets (Net)	26,844,421	2,083,864	12,283,882	-	2,577,969		43,790,136
TOTAL NONCURRENT ASSETS	\$ 29,886,110	\$ 2,100,473	\$ 12,981,742	\$ -	\$ 2,577,969	\$ -	\$ 47,546,294
TOTAL ASSETS	\$ 37,857,125	\$ 2,671,659	\$ 16,528,154	\$ 725,671	\$ 514,801	\$ (90,000)	\$ 58,207,409

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2017

	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	\$ 114,887	\$ 579	\$ 738,825	\$ -	\$ 56,563	\$ -	\$ 910,855
Accrued Employee Payable	-	-	-	-	369,889	-	369,889
Accrued Insurance Claims Reserve	8,935	1,128	1,949	-	50,950	-	62,962
Accrued Utility Taxes	37,175	790	257,477	-	-	-	295,442
Contractor Retainage	11,474	-	9,664	-	(6,668)	-	14,470
Interfund Payables	-	90,000	-	-	-	(90,000)	-
Bonds, Notes, and Loans Payable							
2010 LTGO Bond Series A&B - Current	1,255,526	-	99,474	-	-	-	1,355,000
2010 LTGO Bond Series A&B - Interest	66,637	-	7,490	-	-	-	74,127
2012 LTGO Bond Series A&B - Current	304,468	-	355,532	-	-	-	660,000
2012 LTGO Bond Series A&B - Interest	5,510	-	2,277	-	-	-	7,787
2013 LTGO Bond - Current	260,000	-	-	-	-	-	260,000
2013 LTGO Bond - Interest	15,875	-	-	-	-	-	15,875
2016 LTGO Bond - Current	-	145,763	-	-	-	-	145,763
2016 LTGO Bond - Interest	-	2,539	-	-	-	-	2,539
Deposits & Other Payables	(969)	-	-	-	-	-	(969)
TOTAL CURRENT LIABILITIES	\$ 2,079,519	\$ 240,799	\$ 1,472,688	\$ -	\$ 470,735	\$ (90,000)	\$ 4,173,740
NON-CURRENT LIABILITIES							
Bonds, Notes, and Loans Payable							
2010 LTGO Bond Series A&B Principal	\$ 14,579,031	\$ -	\$ 1,664,591	\$ -	\$ -	-	\$ 16,243,622
2012 LTGO Bond Principal	1,721,209	-	860,549	-	-	-	2,581,758
2013 LTGO Bond Principal	5,125,700	-	-	-	-	-	5,125,700
2016 LTGO Bond Principal	-	1,311,865	-	-	-	-	1,311,865
TOTAL NONCURRENT LIABILITIES	\$ 21,425,939	\$ 1,311,865	\$ 2,525,141	\$ -	\$ -	\$ -	\$ 25,262,945
TOTAL LIABILITIES	\$ 23,505,458	\$ 1,552,664	\$ 3,997,828	\$ -	\$ 470,735	\$ (90,000)	\$ 29,436,685
NET POSITION							
Net Investment in Capital Assets	\$ 4,306,157	\$ 626,236	\$ 9,739,587	\$ -	\$ 2,577,969	-	\$ 17,249,949
Restricted for Debt Service	2,849,655	272,183	612,767	-	-	-	3,734,606
Restricted for Miscellaneous Reserves	-	-	52,350	-	-	-	52,350
Unrestricted	7,195,855	220,576	2,125,621	725,671	(2,533,902)	-	7,733,820
TOTAL NET POSITION	\$ 14,351,667	\$ 1,118,995	\$ 12,530,325	\$ 725,671	\$ 44,067	\$ -	\$ 28,770,725

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flows

As of December 31, 2017

	403 INDUSTRIAL WATER	411 GRANDVIEW	481 ELECTRIC	490 BPA-ALCOA ESCROW	500 INTERNAL SERVICE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 9,037,925	\$ 189,260	\$ 10,250,667	\$ -	\$ 907	\$ 19,478,760
Payments to suppliers	(1,858,407)	(66,511)	(8,443,562)	-	(1,457,578)	(11,826,059)
Payments to employees (Labor only)					(1,938,897)	(1,938,897)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 7,179,518	\$ 122,749	\$ 1,807,105	\$ -	\$ (3,395,567)	\$ 5,713,804
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) Other Utilities	(3,138,995)	(64,391)	(836,639)	-	4,040,025	0
Payments Received for Non-operating work	114,964					114,964
Payments (Paid) for Non-operating work	(106,132)					(106,132)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (3,130,162)	\$ (64,391)	\$ (836,639)	\$ -	\$ 4,040,025	\$ 8,833
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(191,524)	-	(305,161)		(743,331)	(1,240,015)
Principal paid on Capital Debt	(1,775,676)	(135,000)	(439,324)			(2,350,000)
Interest paid on Capital Debt	(1,115,280)	(37,383)	(127,943)			(1,280,606)
Capital Contributions		8,000				8,000
Assessments Received for 2007 & 2016 debt payments		242,187				242,187
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (3,082,480)	\$ 77,804	\$ (872,427)	\$ -	\$ (743,331)	\$ (4,620,434)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	94,271	5,142	32,447	3,669	(236)	135,293
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 94,271	\$ 5,142	\$ 32,447	\$ 3,669	\$ (236)	\$ 135,293
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,061,147	\$ 141,303	\$ 130,486	\$ 3,669	\$ (99,109)	\$ 1,237,495
BALANCE BEGINNING OF YEAR	7,377,393	410,565	2,752,657	344,512	204,276	11,089,403
BALANCE END OF PERIOD	\$ 8,438,540	\$ 551,868	\$ 2,883,143	\$ 348,181	\$ 105,166	\$ 12,326,899

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Cash Flows
As of December 31, 2017

	403	411	481	490	500	TOTAL
	INDUSTRIAL	GRANDVIEW	ELECTRIC	BPA-ALCOA	INTERNAL	
	WATER			ESCROW	SERVICE	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH						
Operating Income (Loss)	\$ 3,758,171	\$ (13,924)	\$ 428,218	\$ -	\$ (0)	\$ 4,172,465
Adjustments to reconcile operating income to net cash provided (used) by operating activity						
Depreciation	933,424	75,720	433,711	-	148,633	1,591,489
Decrease (Increase) in Net Accounts Receivable	(33,658)	(217)	(62,332)	-	587	(95,620)
Decrease (Increase) in Prepayments	-	-	-	-	(1,326)	(1,326)
Interfund Transfers	2,481,276	63,041	902,603	-	(3,446,921)	(0)
Increase (Decrease) in Account Payable	35,005	(1,755)	111,558	-	(84,443)	60,365
Increase (Decrease) in Accrued Employee Payable	-	-	-	-	1,829	1,829
Increase (Decrease) in Accrued Insurance Claims Reserve	(464)	(59)	(101)	-	336	(287)
Increase (Decrease) in Accrued Utility Taxes	1,100	(57)	(9,905)	-	-	(8,862)
Increase (Decrease) in Contractor Retainage	5,632	-	3,352	-	(14,264)	(5,279)
Increase (Decrease) in Deposits & Other Payables	(969)	-	-	-	-	(969)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,179,518	\$ 122,749	\$ 1,807,105	\$ -	\$ (3,395,567)	\$ 5,713,804

Public Utility District No. 1 of Whatcom County
 NOTES TO FINANCIAL STATEMENT
 For The Year Ended December 31, 2017

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 2017 was \$26,674,688,544. 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 2017 or 2016.

Washington State Constitution and Washington State Law, RCW 84.55.010 and RCW 54.16.080, limit the rate.

NOTE 11 - 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.

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 2017, the Designated Balance of the Liability pool was \$3,350,000. Interim assessments are levied whenever the level of the liability program falls below \$500,000 of the Designated Liability Pool balance.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2017

Through PURMS, an AEGIS liability policy covers an additional \$35 million over the initial \$1 million. At the end of 2009, the District decided to also add another \$25 million in coverage through an EIM policy over the previous \$36 million in coverage.

Effective April 1, 1997 the Fund established a self-insurance program for member's property. The property program provides property self-insurance for the first \$250,000 of individual loss claims. Assessments for the property pool are based upon a formula whose elements include: basis fees, property values and risk based rates. The assessments include amounts for excess insurance premiums, claims experience, and operating costs. For the property program, member Districts are obligated to replenish to a level of \$750,000 through annual assessments. Interim assessments are levied whenever the level of the property program is reduced to an amount less than \$500,000. PURMS maintains an Excess Property Insurance for its members in the Property Pool of \$200 million.

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 \$62,962 (\$50,705 for the Liability Pool, \$12,257 for the Property Pool), compared to the 2016 share balance of \$63,249 (\$50,356 for the Liability Pool, \$12,893 for the Property Pool), a \$287 reduction.

A comprehensive 2017 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 2017 and 2016:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2017

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

PURMS 2017

<u>LIABILITY</u>						
01/09/2017	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,288,881.81		
01/06/2016	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	210,624.13	1.43%	21,453.72
01/06/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	50,835.00	1.57%	800.58
05/31/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	1,079,768.00	1.53%	16,486.79
06/30/2017	AEGIS	LIABILITY	PROF LIAB [E&O]	166,868.16	1.42%	2,374.16
09/20/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	567,044.00	1.57%	8,917.14
11/07/2017	RETENTION FUNDING ASSESS.	LIABILITY	RETENTION FUNDING	100,000.00	1.64%	1,641.98
11/17/2017	EVEREST NATIONAL	LIABILITY	FRONTING POLICY	5,000.00	1.42%	71.14
11/17/2017	BERKLEY	LIABILITY	CYBER POLICY \$10M EXCE	109,791.20	1.50%	1,642.68
				3,578,812.30	1.49%	53,388.19

<u>PROPERTY</u>						
01/06/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	226,185.00	3.32%	7,512.20
01/30/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	280,357.00	3.24%	9,085.20
04/04/2017	NATIONAL UNION & HOMESITE	PROPERTY	EXCESS PROPERTY POLICY	858,145.14	2.77%	23,805.39
09/20/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	267,109.00	3.24%	8,661.80
				1,631,796.14	3.01%	49,064.59

Public Utility District No. 1 of Whatcom County
REQUIRED SUPPLEMENTAL INFORMATION
For The Year Ended December 31, 2017

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Schedule 01	Revenues and Expenses
Schedule 09	Long-Term Liabilities
Schedule 15	State Financial Assistance
Schedule 21	Risk Assumption
	10-Year Schedule of Employer's Required Contribution to Teamsters

Public Utility District No. 1 of Whatcom County
SCHEDULE 01 – Revenues and Expenses
For The Year Ended December 31, 2017

MCAG	Fund Number	Fund Name	Account Code	Account Title	Amount
1806	401	Operating	3081900	Restricted Net Position - Beginning	3,722,102
1806	401	Operating	3086000	Net Investment in Capital Assets - Beginning	15,421,955
1806	401	Operating	3088900	Unrestricted Net Position - Beginning	6,434,290
1806	401	Operating	3340690	State Grant from Other State Agencies	79,233
1806	401	Operating	3433000	Electricity/Gas Sales and Services	10,388,462
1806	401	Operating	3434000	Water Sales and Services	9,186,816
1806	401	Operating	3590000	Non-Court Fines and Penalties	12,762
1806	401	Operating	3611000	Investment Earnings	135,293
1806	401	Operating	3620000	Rents and Leases	23,026
1806	401	Operating	3681000	Special Assessments-Capital	242,187
1806	401	Operating	3699100	Miscellaneous Other	37,596
1806	401	Operating	3790000	Capital Contributions	8,000
1806	401	Operating	5013300	Depreciation, Depletion, Amortization - Electric/Gas Utilities	470,967
1806	401	Operating	5013400	Depreciation, Depletion, Amortization - Water Utilities	1,120,522
1806	401	Operating	5081900	Restricted Net Position-Ending	3,786,956
1806	401	Operating	5086000	Net Investment in Capital Assets-Ending	18,707,577
1806	401	Operating	5088900	Unrestricted Net Position-Ending	6,276,192
1806	401	Operating	5330010	Electric/Gas Utilities - Salaries	587,982
1806	401	Operating	5330020	Electric/Gas Utilities - Benefits	252,452
1806	401	Operating	5330030	Electric/Gas Utilities - Supplies	7,600,417
1806	401	Operating	5330040	Electric/Gas Utilities - Services	229,375
1806	401	Operating	5330050	Electric/Gas Utilities	621,466
1806	401	Operating	5340010	Water Utilities - Salaries	1,303,179
1806	401	Operating	5340020	Water Utilities - Benefits	673,608
1806	401	Operating	5340030	Water Utilities - Supplies	968,559
1806	401	Operating	5340040	Water Utilities - Services	1,151,371
1806	401	Operating	5340050	Water Utilities	460,568
1806	401	Operating	5913370	Debt Repayment - Electric/Gas Services	439,324
1806	401	Operating	5913470	Debt Repayment - Water Utilities	1,910,676
1806	401	Operating	5923380	Interest and Other Debt Service Cost - Electric/Gas Utilities	130,812
1806	401	Operating	5923480	Interest and Other Debt Service Cost - Water	1,240,837
1806	401	Operating	5943360	Capital Expenditures - Electric	296,193
1806	401	Operating	5943460	Capital Expenditures - Water	934,855
1806	401	Operating	5985010	Other Non-operating Expenses - Salaries	5,496
1806	401	Operating	5985030	Other Nonoperating Expenses - Supplies	2,881
1806	401	Operating	5985040	Other Non-operating Expenses - Services	100,506
1806	401	Operating	8100000	Cash, Cash Equivalents and Investments	8,812,126
1806	401	Operating	8200000	Other Current assets	1,938,990
1806	401	Operating	8300000	Other Noncurrent Assets	47,546,294
1806	401	Operating	8500000	Current Liabilities	4,263,740
1806	401	Operating	8600000	Noncurrent Liabilities	25,262,945

Public Utility District No. 1 of Whatcom County
 SCHEDULE 09 - Liabilities
 For The Year Ended December 31, 2017

2017	DEBT		DESCRIPTION	DUE DATE	BEGINNING			ENDING BALANCE
	TYPE	LD. NO.			BALANCE	ADDITIONS	REDUCTIONS	DEBT 12/31/2017
General Obligation Debt/Liabilities								
		251.11	2010 General Obligation bonds, Series A	12/01/2030	\$ 1,235,000		\$ 395,000	\$ 840,000
		251.11	2010 General Obligation bonds, Series B	12/01/2030	17,625,000		910,000	16,715,000
		251.11	2010 General Obligation bond premium	12/01/2030	46,977		3,356	43,622
		251.11	2012 LTGO BONDS - Refi 2004 LTGO bonds	12/01/2024	3,900,000		655,000	3,245,000
		251.11	2012 LTGO bond discount	12/01/2024	(3,705)		(463)	(3,242)
		251.11	2013 LTGO bonds	12/01/2032	5,290,000		255,000	5,035,000
		251.11	2013 LTGO bond premium	12/01/2032	375,026		24,326	350,700
		251.11	2016 GO Bonds	12/01/2027	1,457,628		-	1,457,628
			Total General Obligations		\$ 29,925,926	\$ -	\$ 2,242,219	\$ 27,683,708
Revenue and Other (non G.O.) Debt/Liabilities								
		252.11	2007 Water Revenue Bonds	11/01/2027	\$ 135,000		\$ 135,000	\$ -
		259.12	Compensated absences	Varies	368,059	1,829		369,889
			Total Revenue and Other		\$ 503,059	\$ 1,829	\$ 135,000	\$ 369,889
			Total Liabilities		\$ 30,428,985	\$ 1,829	\$ 2,377,219	\$ 28,053,596

Public Utility District No. 1 of Whatcom County
 SCHEDULE OF STATE FINANCIAL ASSISTANCE
 For The Year Ended December 31, 2017

Grantor/Program Title	Program Title	Identification Number	Amount
Department of Health	2 Year Pilot Small Systems	N21873	\$ 33,048
			Sub-Total: \$ 33,048
			Grand Total: \$ 33,048

LOCAL GOVERNMENT RISK ASSUMPTION

For The Year Ended December 31, 2017

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

MCAG NO. 1806

Public Utility District No. 1 of Whatcom County
10-Year Schedule of Employer's Required Contribution to Teamsters
For The Year Ended December 31, 2017

WESTERN CONFERENCE OF TEAMSTERS PENSION PLAN

Year Ended December 31,	Contribution Rate per Qualified hour	Annual Maximum Hours	Maximum Annual Contribution per Employee	# Covered Employees at 12/31	Contributions
2008	\$ 4.15	2,080	\$ 8,632	7	\$ 53,446
2009	\$ 4.25	2,080	\$ 8,840	7	\$ 63,485
2010	\$ 4.40	2,080	\$ 9,152	7	\$ 68,238
2011	\$ 4.50	2,080	\$ 9,360	6	\$ 60,542
2012	\$ 4.75	2,080	\$ 9,880	6	\$ 61,645
2013	\$ 5.00	2,080	\$ 10,400	6	\$ 60,916
2014	\$ 5.25	2,080	\$ 10,920	6	\$ 65,723
2015	\$ 5.50	2,080	\$ 11,440	6	\$ 73,194
2016	\$ 5.50	2,080	\$ 11,440	6	\$ 68,833
2017	\$ 5.50	2,080	\$ 11,440	6	\$ 73,521

Note: The contribution is solely based on straight-time compensable hour paid to the employee.