



Office of the Washington State Auditor
Pat McCarthy

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

For the period January 1, 2017 through December 31, 2018

Published November 25, 2019

Report No. 1025095





**Office of the Washington State Auditor
Pat McCarthy**

November 25, 2019

Board of Commissioners
Public Utility District No. 1 of Whatcom County
Ferndale, Washington

Report on Financial Statements

Please find attached our report on Public Utility District No. 1 of Whatcom County's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Public Utility District No. 1 of Whatcom County
January 1, 2017 through December 31, 2018**

Board of Commissioners
Public Utility District No. 1 of Whatcom County
Ferndale, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Public Utility District No. 1 of Whatcom County, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy

State Auditor

Olympia, WA

November 14, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Public Utility District No. 1 of Whatcom County January 1, 2017 through December 31, 2018

Board of Commissioners
Public Utility District No. 1 of Whatcom County
Ferndale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Public Utility District No. 1 of Whatcom County, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Utility District No. 1 of Whatcom County, as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

November 14, 2019

FINANCIAL SECTION

Public Utility District No. 1 of Whatcom County January 1, 2017 through December 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2018

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2018

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2018

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2018

Statement of Cash Flows – 2017

Notes to Financial Statements – 2018

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions – Teamster – 2018

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2018

OVERVIEW OF FINANCIAL STATEMENTS

The District's Annual Financial Report consists of the following four parts:

1. Management's Discussion and Analysis (MD & A) (this section)
2. Financial statements
3. Notes to the financial statements
4. Required supplemental information

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:

	2018	2017
ASSETS		
Current Assets	\$ 11,582,416	\$ 10,661,116
Non-Current Assets	3,681,952	3,756,158
Capital Assets (Net)	43,342,846	43,790,136
TOTAL ASSETS	\$ 58,607,214	\$ 58,207,409
LIABILITIES		
Current Liabilities	4,371,841	4,173,740
Non-Current Liabilities	22,729,963	25,262,945
TOTAL LIABILITIES	\$ 27,101,804	\$ 29,436,685
NET POSITION		
Net Investment in Capital Assets	19,227,119	17,249,949
Restricted for Debt Service	3,737,372	3,734,606
Restricted for Miscellaneous Reserves	52,350	52,350
Unrestricted	8,488,569	7,733,820
TOTAL NET POSITION	\$ 31,505,410	\$ 28,770,725

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2018

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

	2018	2017
REVENUES		
Operating Revenue	\$ 20,793,410	\$ 19,526,338
Nonoperating Revenue	613,526	500,444
TOTAL REVENUE	\$ 21,406,936	\$ 20,026,782
EXPENSES		
Operating Expenses	17,268,461	15,353,873
Nonoperating Expenses	1,403,790	1,480,531
TOTAL EXPENSES	\$ 18,672,251	\$ 16,834,405
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	\$ 2,734,686	\$ 3,192,377
Capital Contributions	-	-
Special / Extraordinary Items	-	-
CHANGE IN NET POSITION	\$ 2,734,686	\$ 3,192,377
BEGINNING NET POSITION	\$ 28,770,725	\$ 25,578,347
ENDING NET POSITION	\$ 31,505,410	\$ 28,770,725

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2017-2018

For the twelve months ending December 31, 2018, the total net position of the District increased by approximately \$2,735,000 or 9.5%. Total assets increased by \$400,000 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 \$944,000 from the slow-down in capital projects and extraordinary maintenance projects, a decrease in Net Receivables of \$80,000 due primarily to timing of customer payments, an increase of \$2,000 in Prepayments, a decrease of \$22,000 in Deferred Charges due to the standard amortization, an increase in Restricted Cash and Cash Equivalents of \$55,000, a decrease in Restricted Investments of \$52,000 and a decrease in Total Capital Assets Net of Depreciation of \$447,000.

The major components of the decrease in total liabilities included a increase in Accounts Payables of \$8,000 due to timing of payments, an increase of \$62,000 in Accrued Employee Payable due to an adjustment in the liability for vacation and sick leave payouts and the addition of the Teamster Withdrawal Liability, a decrease in the Accrued Insurance Claims Reserve of \$3,000, an increase in Utility Taxes of \$22,000, an increase of \$31,000 in Contractor Retainage, and a net decrease in the bonds principal and interest payable of \$2,455,000 due to debt service payments.

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2018

RESULTS OF OPERATIONS

Analysis of changes in Revenue, Expenses, and change in Net Position for 2017-2018

Total Net Position (excluding Extraordinary Items and Capital Contributions) decreased from \$3,192,000 in 2017 to \$2,735,000 in 2018 (a rounded \$458,000 decrease). Operating Revenue increased by \$1,267,000 due to a combination of rate increases by both the District and BPA and 2017 having a Phillips 66 turnaround. Operating expenses increased by \$1,915,000, mainly due to the increased use of power by Phillips 66. Non-operating Revenue increased by \$113,000, due primarily to an increase in Grant Revenue. Non-operating Expenses reflected an overall decrease of \$77,000, resulting primarily from a decrease in interest expense.

CAPITAL ASSETS

Analysis of Changes in Capital Assets from 2017-2018

During 2018, total capital assets decreased by \$447,000 and were comprised of an overall increase in non-depreciated assets, including construction-work-in-progress for \$280,000 (\$21,000 of construction-work-in-progress was expensed during 2018 mainly consisting of labor and equipment which did not qualify for capitalization), and the following change in capital assets: the Industrial Water Utility increased by \$95,000, the Grandview Water Utility decreased by \$18,000, the Electric Utility increased by \$278,000, a \$261,000 increase for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$1,343,000. SEE NOTE 4.

LONG-TERM DEBT

Analysis of Changes in Long-Term Debt from 2017-2018

During 2018, the District's indebtedness for the 2010 LTGO bonds was reduced by \$1,358,000, the 2012 LTGO bond issue was reduced by \$660,000, the District's indebtedness for the 2013 LTGO bonds was reduced by \$284,000, and the District's indebtedness for the 2016 LTGO bonds reduced by \$146,000, for a total reduction of \$2,448,000. SEE NOTE 7.

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
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, 2018

ASSETS**CURRENT ASSETS**

Cash & Cash Equivalents	
Cash	\$ 15,043
Whatcom County Investment Pool	9,469,213
Total Cash & Cash Equivalents	<u>9,484,256</u>
Receivables (Net):	
Customers	1,727,084
Other	1,859
Total Accounts Receivables (Net)	<u>1,728,943</u>
Restricted Cash & Cash Equivalents	327,299
Prepayments	41,918
TOTAL CURRENT ASSETS	<u>\$ 11,582,416</u>

NON-CURRENT ASSETS

Bond Issue Costs	219,530
Restricted Assets	
Investments - Bond Reserves	3,462,423
Investments - Assessments	-
Investments - Other	-
Capital Assets Not Being Depreciated	
Land	108,000
Construction in Progress	445,609
Capital Assets Being Depreciated:	
Buildings & Structures	23,442,735
Machinery & Equipment	37,771,086
Intangible	866,000
Less Accumulated Depreciation	<u>(19,290,583)</u>
Total Capital Assets (Net)	<u>43,342,846</u>
TOTAL NONCURRENT ASSETS	<u>\$ 47,024,798</u>

TOTAL ASSETS	<u>\$ 58,607,214</u>
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The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 2018

LIABILITIES**CURRENT LIABILITIES**

Accounts Payable	\$ 918,530
Accrued Employee Payable	431,488
Accrued Insurance Claims Reserve	60,274
Accrued Utility Taxes	317,334
Contractor Retainage	45,178
Bonds, Notes, and Loans Payable	
2010 LTGO Series A&B Bonds Principal - Current	1,415,000
2010 LTGO Series A&B Interest	69,131
2012 LTGO Series A&B Bonds Principal - Current	675,000
2012 LTGO Series A&B Interest	6,632
2013 LTGO Bond Principal - Current	270,000
2013 LTGO Bond Interest	15,225
2016 LTGO Bond Principal - Current	145,763
2016 LTGO Bond Interest	2,285
Deposits & Other Payables	0
TOTAL CURRENT LIABILITIES	<u>\$ 4,371,841</u>

NON-CURRENT LIABILITIES

Bonds, Notes, and Loans Payable	
2010 LTGO Series A&B Bonds Principal	14,825,266
2012 LTGO Bond Principal	1,907,221
2013 LTGO Bond Principal	4,831,374
2016 LTGO Bond Principal	1,166,102
TOTAL NON-CURRENT LIABILITIES	<u>\$ 22,729,963</u>

TOTAL LIABILITIES**\$ 27,101,804****NET POSITION**

Net Investment in Capital Assets	19,227,119
Restricted for Debt Service	3,737,372
Restricted for Miscellaneous Reserves	52,350
Unrestricted	8,488,569
TOTAL NET POSITION	<u>\$ 31,505,410</u>

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

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	<u>40,333</u>
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	<u>\$ 58,207,409</u>
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The notes to financial statements are an integral part of this statement.

Public Utility District No. 1 of Whatcom County
STATEMENT OF NET POSITION
As of December 31, 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, 2018

OPERATING REVENUE

Utility Sales and Service Revenues	\$ 20,774,919
Other Operating Revenue	18,491
TOTAL OPERATING REVENUE	\$ 20,793,410

OPERATING EXPENSES

Operations:	
Purchased Power	9,143,378
Water Purification	237,913
Taxes / Process / Delivery Costs	570,993
General Operations	900,461
Maintenance	1,402,003
Administration:	
General Administration	2,710,551
Planning and Development Expense	82,522
Depreciation Expense	1,639,794
Utility Tax Expense	580,846
TOTAL OPERATING EXPENSES	\$ 17,268,461

OPERATING INCOME (LOSS)**\$ 3,524,949****NONOPERATING REVENUE**

Lease Income	23,276
Grant Revenue	205,478
Assessment Income	173,751
Interest Income	220,288
Interest Fees	(10,503)
Penalties	1,237
TOTAL NONOPERATING REVENUE	\$ 613,526

NONOPERATING EXPENSE

Interest Expense	1,169,664
Amortization	21,855
Grant Expenses	179,547
Loss (Gain) on Property Disposal	32,724
TOTAL NONOPERATING EXPENSE	\$ 1,403,790

**INCOME BEFORE CONTRIBUTIONS,
AND EXTRAORDINARY ITEMS****\$ 2,734,686**

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

CHANGE IN NET POSITION**\$ 2,734,686****TOTAL NET POSITION - JANUARY 1st****\$ 28,770,725****TOTAL NET POSITION - DECEMBER 31st****\$ 31,505,411**

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 20,819,750
Payments to suppliers	(13,505,204)
Payments to employees (Labor only)	(1,951,519)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 5,363,027</u>

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

Payments Received (Paid) for Non-operating work	50,444
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>\$ 50,444</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(1,225,228)
Principal paid on Capital Debt	(2,420,763)
Interest paid on Capital Debt	(1,203,937)
Assessments Received for 2007 & 2016 debt payments	173,751
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (4,676,176)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	209,784
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ 209,784</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

947,079

BALANCE BEGINNING OF YEAR

12,326,899

BALANCE END OF YEAR

\$ 13,273,978

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, 2018

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

Operating Income (Loss)	\$ 3,524,949
-------------------------	--------------

Adjustments to reconcile operating income to net cash

Cash Provided (Used) by operating activities:

Depreciation	1,639,794
--------------	-----------

Change in Assets and Liabilities:

Decrease (Increase) in Net Accounts Receivable	79,713
Decrease (Increase) in Prepayments	(1,585)
Increase (Decrease) in Account Payable	7,674
Increase (Decrease) in Accrued Employee Payable	61,600
Increase (Decrease) in Accrued Insurance Claims Reserve	(2,688)
Increase (Decrease) in Accrued Utility Taxes	21,892
Increase (Decrease) in Contractor Retainage	30,708
Increase (Decrease) in Deposits & Other Payables	969

NET CASH PROVIDED BY OPERATING ACTIVITIES

	\$ 5,363,027
--	--------------

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	<u>\$ 5,713,804</u>

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

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

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	<u>\$ (4,620,434)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

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

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	<u>\$ 5,713,805</u>

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, 2018

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 external electric customer, Phillips 66, along with our two water treatment plants.

As a general rule, the effect of the intrafund activity has been eliminated for the district-wide financial statements.

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 economic resources measurement focus and 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. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all funds on the cash basis of accounting. Budgets for debt service

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

2. Amending the Budget

The General Manager is authorized to transfer budgeted amounts between departments within any fund; however, the commission must approve any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions or salary ranges.

E. 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, 2018, the treasurer was holding \$9,469,213 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 (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 Non-current assets.

2. Investments See Note 3, *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. Restricted Assets and Liabilities

These accounts contain resources for mitigation and debt service. Specific debt service reserve requirements are described in Note 7, *Long Term Debt*. The \$52,350 reflected under Restricted Cash and Cash Equivalents and also under Miscellaneous Reserves on the Net Position refers to a permitting requirement that a reserve be set aside for possible wetland mitigation expenses on a project constructed at Phillips 66. The fund was originally established in 2011 by Resolution 634. Restricted funds currently include the following:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

RESTRICTED RESERVE BALANCES	2018
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	274,949
Project Reserve Fund	52,350
	<u>\$ 327,299</u>
TOTAL RESTRICTED RESERVE BALANCES	\$ 3,789,722

5. Capital Assets See Note 4, *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.

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.

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	2-20
Intangible	20

6. 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.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

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. If a non-union employee dies while currently employed at the district, sick leave is compensated at 100%

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.

7. Other Accrued Liabilities

These accounts consist of Accrued Wages, Accrued Employee Benefits, Accrued Insurance Claims Reserve, Accrued Utility Taxes, Deposits and Contractor Retainage.

8. Long-Term Debt See Note 7, *Long-Term Debt*

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

2018

1. GASB 89 Accounting for Interest Cost Incurred before the end of a construction period – Although the District is not currently accruing interest on any construction project, it is likely to be applicable in the near future. The Summary of Significant Accounting Policies was changed to reflect this. See Note 1, *Summary of Significant Accounting Policies*
2. INTERNAL – Schedules 1, 9, 15, and 21 were removed from the end of the Annual Report. They are still reported to the State Auditor's office. An additional liability was added to reflect the amount owed if the District withdrew from the Teamsters Union.

2017

1. INTERNAL – The District decided to add an intrafund charge between the Electric Utility and the Industrial Water Utility to cover a portion of the indirect costs incurred by the Electric Utility.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2018 was \$13,273,978. The carrying amount of the District's deposits was \$13,273,978, 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.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

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 0.90 years as of December 31, 2018. Short-term Whatcom County Investment Pool funds are classified as Cash and Cash Equivalents on the Statement of Net Position.

As of December 31, 2018, the District had the following investments:

	2018	
	<u><i>Maturities</i></u>	<u><i>Amortized Cost</i></u>
INVESTMENTS		
Short-Term Investments		
Whatcom County Investment Pool	\$ 9,796,512	\$ 9,796,512
Non-Current		
Whatcom County Investment Pool	3,462,423	3,462,423
TOTAL INVESTMENTS	<u>\$ 13,258,935</u>	<u>\$ 13,258,935</u>

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ending December 31, 2018 was as follows:

	2018	2018 Activity		2018
	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	103,754	282,769	(180,582)	205,941
Grandview Potable Water Utility	-	-	-	-
Electric Utility	38,774	576,440	(417,107)	198,107
General Utility & Office (Internal Services Utility)	22,909	344,134	(325,483)	41,561
TOTAL CONSTRUCTION-IN-PROGRSS	165,437	1,203,343	(923,172)	445,609
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 273,437	\$ 1,203,343	\$ (923,172)	\$ 553,609
CAPITAL ASSETS BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
Industrial Water Utility	17,227,345	103,003	-	17,330,348
Grandview Water Utility	98,977	-	(5,170)	93,807
Electric Utility	4,457,485	-	-	4,457,485
General Utility & Office (Internal Services Utility)	1,545,117	15,978	-	1,561,095
TOTAL BUILDINGS & STRUCTURES	23,328,924	118,981	(5,170)	23,442,735
MACHINERY & EQUIPMENT				
Industrial Water Utility	20,035,609	99,463	(107,383)	20,027,689
Grandview Water Utility	3,144,204	-	(13,124)	3,131,080
Electric Utility	11,929,278	417,107	(139,070)	12,207,315
General Utility & Office (Internal Services Utility)	2,159,803	309,505	(64,307)	2,405,001
TOTAL MACHINERY & EQUIPMENT	37,268,895	826,075	(323,884)	37,771,086
INTANGIBLE				
Industrial Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 61,463,819	\$ 945,056	\$ (329,055)	\$ 62,079,820
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	(5,901,327)	(455,893)	5,170	(6,352,049)
Machinery & Equipment	(11,569,494)	(1,140,600)	291,160	(12,418,934)
Intangible	(476,300)	(43,300)	-	(519,600)
TOTAL ACCUMULATED DEPRECIATION	(17,947,120)	(1,639,793)	296,331	(19,290,583)
TOTAL CAPITAL ASSETS BEING DEPRECIATED (NET)	\$ 43,516,699	\$ (694,737)	\$ (32,724)	\$ 42,789,237
TOTAL CAPITAL ASSETS, NET	\$ 43,790,136	\$ 508,606	\$ (955,896)	\$ 43,342,846

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 \$20,600 in CWIP projects in 2018.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

NOTE 5 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The District has active construction projects as of December 31, 2018. The projects include:

		2018		
	District Capital Project #	Spent Through 12/31/18	Remaining Commitment	Required Future Financing
CONSTRUCTION IN PROGRESS				
Fiber Install	IS15	\$ 40,455	\$ 300,000	\$ -
Server Back-up Power	IS18	1,106	75,000	
Ferndale Substation build	E22	198,107	4,190,000	-
Industrial Water - Grandview connect	RW32	164,955	2,600,000	1,600,000
PSE Whitehorn Meter/Valve Relocate	RW34	40,986	260,000	-
TOTAL CONSTRUCTION IN PROGRESS		\$ 445,609	\$ 7,425,000	\$ 1,600,000

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

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
BKI-WO1-Electric system standards	\$ 7,036	\$ 20,964
BKI-WO3-Ferndale Substation Design and Cost	7,775	9,725
BKI-WO4-Ferndale Substation Design and Permit	48,463	591,077
BKI-WO5-Refinery Substation Modifications	-	20,000
EPS-WO18-Backbone Communication Fiber	56,919	15,081
MAR-WO1-Consult Electric System Stds	1,000	14,000
PIT-WO2-SCADA Support	10,649	9,351
PSE-WO6-Vista Drive Watermain Extension	129,285	80,126
PSE-WO8-Wetland Monitoring	-	2,925
PSE-WO10-Grandview Customer Connection	-	7,500
PSE-WO11-Alcoa Property Easement	-	16,125
PSE-WO12-Plant 1 Surveying	-	23,080
RH2-WO3-Industrial Water Supply Phase 2	161,698	27,169
RH2-WO8-PSE-Whitehorn Meter Vault	33,886	27,414
RH2-WO12-Technical Assistance WRIA1	25,351	9,649
RH2-WO1-Drought Contingency	89,120	10,880
WES-WO2-Enterprise Substation Meter Testing	-	35,037
	\$ 571,184	\$ 920,101

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

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 was completed and executed on May 22, 2018.

The District also executed a short-term construction agreement with BPA for communications facilities on November 5, 2018.

NOTE 6– SHORT-TERM DEBT

The District had no short-term debt obligations in 2018.

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt

The District issues general obligation and revenue bonds to finance the acquisition or construction of expanded facilities and replacement of aging infrastructure. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for 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	\$ 410,000
2010 LTGO Series B - Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 945,000
2012 LTGO - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 660,000
2013 LTGO - Funding to complete the Water Plant 2 rebuild	2014-2032	2.66%	\$ 6,025,000	\$ 260,000
2016 LTGO - Advanced refunded 2007 Water Revenue Bonds	2018-2027	2.09%	\$ 1,457,628	\$ 145,763

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

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
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	1,200,000	598,550	395,000	29,998	305,000	146,000	145,763	15,232
2024-2028	6,980,000	2,012,188	410,000	15,580	1,710,000	537,600	583,050	30,464
2029-2032	3,335,000	264,863			1,635,000	166,800		
TOTAL	\$ 16,200,000	\$ 5,833,325	\$ 2,585,000	\$ 284,578	\$ 4,775,000	\$ 1,531,850	\$ 1,311,865	\$ 137,090

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bond 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, 2018, restricted assets in proprietary funds contain \$3,737,372 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 \$1,448,955. Principal and interest paid for the current year and total Grandview assessment revenue were \$176,227 and \$173,751 respectively.

NOTE 8 – RESTRICTED COMPONENT OF NET POSITION

The District's statement of net position reports \$3,737,372 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.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

NOTE 9 - 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 2018 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.

The contributions to the plan are based on the collective-bargaining agreement. Currently the District contributes \$5.75 per qualified hour, per employee, up to a maximum of 2080 hours (\$11,960 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. This liability was added to the District's statements starting in 2018. The employees do not contribute to this plan. The last ten years of contribution rates per qualified hour are as follows:

2009	\$ 4.25	2014	\$ 5.25
2010	\$ 4.40	2015	\$ 5.50
2011	\$ 4.50	2016	\$ 5.50
2012	\$ 4.75	2017	\$ 5.50
2013	\$ 5.00	2018	\$ 5.75

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

NOTE 10 – SEGMENT INFORMATION

The District operated four proprietary segments and an Internal Services Fund in 2018. The following changes occurred in the District's segments during 2018:

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.

b. GRANDVIEW WATER UTILITY

The District has been continuing to work on extending the Industrial water system waterline from a connection on the Aldergrove transmission line to the Grandview fire system. Grandview added one new connection in 2018. Water consumption was up 125% from 2017.

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 2018, the District replaced pole structures and continued the yearly routine maintenance. The District worked with engineers to plan the replacement of the Ferndale substation, located at water treatment plant 1. Construction is planned to start in 2019. Starting in 2017, a portion of the General Services fee was allocated to the Industrial Water utility.

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. The funds were utilized in 2018 to pay off an interfund load between the Grandview and Electric utility. May 2010 concluded the agreement with Alcoa. No future revenues besides interest income are anticipated. As of December 31, 2018, the remaining fund balance is \$263,240.

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, 2018

	403	411	481	490	500	
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVCS	INTERNAL SERVICES FUND	DISTRICT TOTAL
OPERATING REVENUE						
Utility Sales and Service Revenues	\$ 9,105,269	\$ 235,558	\$ 11,520,000	\$ -	\$ -	\$ 20,774,919
Other Operating Revenue	17,276	220	996	-	-	18,491
TOTAL OPERATING REVENUE	\$ 9,122,545	\$ 235,778	\$ 11,520,995	\$ -	\$ -	\$ 20,793,410
OPERATING EXPENSES						
Operations:						
Purchased Power	597,000	7,465	8,538,913	-	-	9,143,378
Water Purification	236,998	915	-	-	-	237,913
Taxes / Process / Delivery Costs	-	-	570,993	-	-	570,993
General Operations	659,837	78,242	162,382	-	-	900,461
Maintenance	1,102,971	18,055	280,977	-	-	1,402,003
Administration						
General Administration	1,664,981	19,455	1,112,024	-	-	2,710,551
Planning and Development Expenses	82,522	-	-	-	-	82,522
Depreciation Expense	1,073,969	75,720	490,104	-	-	1,639,794
Utility Tax Expense	454,099	11,857	114,890	-	-	580,846
TOTAL OPERATING EXPENSES	\$ 5,872,377	\$ 211,710	\$ 11,270,282	\$ -	\$ -	\$ 17,268,461
OPERATING INCOME (LOSS)	\$ 3,250,168	\$ 24,068	\$ 250,713	\$ -	\$ -	\$ 3,524,949
NONOPERATING REVENUE						
Lease Income	23,276	-	-	-	-	23,276
Grant Revenue	205,478	-	-	-	-	205,478
Assessment Income	-	173,751	-	-	-	173,751
Interest Income	157,304	10,323	47,344	5,317	-	220,288
Interest Fees	(7,488)	(470)	(2,288)	(258)	-	(10,503)
Penalties	1,237	-	-	-	-	1,237
TOTAL NONOPERATING REVENUE	\$ 379,806	\$ 183,604	\$ 45,056	\$ 5,059	\$ -	\$ 613,526
NONOPERATING EXPENSE						
Interest Expense	1,023,494	30,211	115,960	-	-	1,169,664
Amortization	16,255	1,661	3,939	-	-	21,855
Interfund Expense	180,499	79,607	(350,106)	90,000	-	-
Grant Expenses	179,547	-	-	-	-	179,547
Loss (Gain) on Property Disposal	4,204	-	28,521	-	-	32,724
TOTAL NONOPERATING EXPENSE	\$ 1,403,999	\$ 111,478	\$ (201,687)	\$ 90,000	\$ -	\$ 1,403,790
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	\$ 2,225,976	\$ 96,194	\$ 497,456	\$ (84,941)	\$ -	\$ 2,734,686
Capital Contributions	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-
CHANGE IN NET POSITION	\$ 2,225,976	\$ 96,194	\$ 497,456	\$ (84,941)	\$ -	\$ 2,734,686
NET POSITION - JANUARY 1st	\$ 14,351,667	\$ 1,118,995	\$ 12,530,325	\$ 725,671	\$ 44,067	\$ 28,770,725
NET POSITION - DECEMBER 31st	\$ 16,577,643	\$ 1,215,189	\$ 13,027,781	\$ 640,730	\$ 44,067	\$ 31,505,410

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

PUD No. 1 of Whatcom County

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2018

	403	411	481	490	500		
	INDUSTRIAL	GRANDVIEW	ELECTRIC	ALCOA SVC	INTERNAL	ELIMINATION	DISTRICT
	WATER UTILITY	UTILITY	UTILITY		SERVICES FUND		TOTAL
ASSETS							
CURRENT ASSETS							
Cash & Cash Equivalents							
Cash	\$ (7,062)	\$ 2,651	\$ 4,719	\$ 308	\$ 14,428	\$ -	\$ 15,043
Whatcom County Investment Pool	6,783,322	329,920	2,011,902	262,933	81,136	-	9,469,213
Total Cash & Cash Equivalents	6,776,259	332,572	2,016,621	263,240	95,563	-	9,484,256
Receivables (Net):							
Customers	796,774	26,811	903,500	-	-		1,727,084
Other	1,669	-	-	-	190		1,859
Interfund Receivables	119,607	-	(162,122)	162,122	-	(119,607)	-
Interfund Transfers - Capital	1,871,460	-	641,417	215,368	(2,728,245)		-
Interfund Transfers - Employee	(277,102)	-	(132,579)	-	409,680		-
Total Accounts Receivables (Net)	2,512,408	26,811	1,250,216	377,490	(2,318,375)	(119,607)	1,728,943
Other Current Assets							
Restricted Cash & Cash Equivalents	-	274,949	52,350	-	-		327,299
Prepayments	-	-	-	-	41,918		41,918
Other							
TOTAL CURRENT ASSETS	\$ 9,288,667	\$ 634,332	\$ 3,319,188	\$ 640,730	\$ (2,180,893)	\$ (119,607)	\$ 11,582,416
NON-CURRENT ASSETS							
Bond Issue Costs	175,779	14,948	28,804	-	-		219,530
Noncurrent Restricted Assets							
Investments - Bond Reserves	2,849,655	-	612,767	-	-		3,462,423
Capital Assets Not Being Depreciated							
Land	108,000	-	-	-	-		108,000
Construction in Progress	205,941	-	198,107	-	41,561		445,609
Capital Assets Being Depreciated:							
Buildings & Structures	17,330,348	93,807	4,457,485	-	1,561,095		23,442,735
Machinery & Equipment	20,027,689	3,131,080	12,207,315	-	2,405,001		37,771,086
Intangible	866,000	-	-	-	-		866,000
Less Accumulated Depreciation	(12,336,237)	(1,216,742)	(4,458,193)	-	(1,279,412)		(19,290,583)
Total Capital Assets (Net)	26,201,742	2,008,144	12,404,715	-	2,728,245		43,342,846
TOTAL NONCURRENT ASSETS	\$ 29,227,176	\$ 2,023,092	\$ 13,046,286	\$ -	\$ 2,728,245	\$ -	\$ 47,024,798
TOTAL ASSETS	\$ 38,515,843	\$ 2,657,423	\$ 16,365,473	\$ 640,730	\$ 547,352	\$ (119,607)	\$ 58,607,214

PUD No. 1 of Whatcom County

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2018

	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	\$ 171,664	\$ 4,993	\$ 725,372	\$ -	\$ 16,501	\$ -	\$ 918,530
Accrued Employee Payable	20,234	1,574	-	-	409,680	-	431,488
Accrued Insurance Claims Reserve	7,687	970	1,676	-	49,941	-	60,274
Accrued Utility Taxes	36,708	940	279,686	-	-	-	317,334
Contractor Retainage	15,124	-	2,891	-	27,163	-	45,178
Interfund Payables	-	119,607	-	-	-	(119,607)	-
Bonds, Notes, and Loans Payable							
2010 LTGO Bond Series A&B - Current	1,311,316	-	103,684	-	-	-	1,415,000
2010 LTGO Bond Series A&B - Interest	62,015	-	7,117	-	-	-	69,131
2012 LTGO Bond Series A&B - Current	300,968	-	374,032	-	-	-	675,000
2012 LTGO Bond Series A&B - Interest	5,046	-	1,586	-	-	-	6,632
2013 LTGO Bond - Current	270,000	-	-	-	-	-	270,000
2013 LTGO Bond - Interest	15,225	-	-	-	-	-	15,225
2016 LTGO Bond - Current	-	145,763	-	-	-	-	145,763
2016 LTGO Bond - Interest	-	2,285	-	-	-	-	2,285
TOTAL CURRENT LIABILITIES	\$ 2,215,987	\$ 276,132	\$ 1,496,044	\$ -	\$ 503,285	\$ (119,607)	\$ 4,371,841
NON-CURRENT LIABILITIES							
Bonds, Notes, and Loans Payable							
2010 LTGO Bond Series A&B Principal	13,264,712	-	1,560,554	-	-	-	14,825,266
2012 LTGO Bond Principal	1,626,127	-	281,094	-	-	-	1,907,221
2013 LTGO Bond Principal	4,831,374	-	-	-	-	-	4,831,374
2016 LTGO Bond Principal	-	1,166,102	-	-	-	-	1,166,102
TOTAL NON-CURRENT LIABILITIES	\$ 19,722,213	\$ 1,166,102	\$ 1,841,648	\$ -	\$ -	\$ -	\$ 22,729,963
TOTAL LIABILITIES	\$ 21,938,200	\$ 1,442,234	\$ 3,337,692	\$ -	\$ 503,285	\$ (119,607)	\$ 27,101,804
NET POSITION							
Net Investment in Capital Assets	5,381,049	696,279	10,421,547	-	2,728,245	-	19,227,119
Restricted for Debt Service	2,849,655	274,949	612,767	-	-	-	3,737,372
Restricted for Miscellaneous Reserves	-	-	52,350	-	-	-	52,350
Unrestricted	8,346,940	243,961	1,941,117	640,730	(2,684,178)	-	8,488,569
TOTAL NET POSITION	\$ 16,577,643	\$ 1,215,189	\$ 13,027,781	\$ 640,730	\$ 44,067	\$ -	\$ 31,505,410

PUD No. 1 of Whatcom County

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Cash Flows
As of December 31, 2018

	403	411	481	490	500	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES	INDUSTRIAL WATER	GRANDVIEW	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	
Receipts from Customers	\$ 9,155,301	\$ 210,969	\$ 11,445,762	\$ -	\$ 7,717	\$ 20,819,750
Payments to suppliers	(2,295,155)	(63,983)	(9,763,949)	(17,016)	(1,365,101)	(13,505,204)
Payments to employees (Labor only)					(1,951,519)	(1,951,519)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 6,860,147	\$ 146,986	\$ 1,681,813	\$ (17,016)	\$ (3,308,903)	\$ 5,363,027
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) Other Utilities	(2,692,012)	(98,710)	(779,582)	(72,984)	3,643,288	0
Payments Received for Non-operating work	229,991					229,991
Payments (Paid) for Non-operating work	(179,547)					(179,547)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (2,641,568)	\$ (98,710)	\$ (779,582)	\$ (72,984)	\$ 3,643,288	\$ 50,444
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of Capital Assets	(304,654)	(0)	(576,440)		(344,134)	(1,225,228)
Principal paid on Capital Debt	(1,819,994)	(145,763)	(455,006)			(2,420,763)
Interest paid on Capital Debt	(1,056,274)	(30,464)	(117,198)			(1,203,937)
Assessments Received for 2007 & 2016 debt payments		173,751				173,751
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (3,180,922)	\$ (2,476)	\$ (1,148,644)	\$ -	\$ (344,134)	\$ (4,676,176)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	149,717	9,853	45,009	5,059	146	209,784
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 149,717	\$ 9,853	\$ 45,009	\$ 5,059	\$ 146	\$ 209,784
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,187,374	\$ 55,653	\$ (201,404)	\$ (84,941)	\$ (9,603)	\$ 947,079
BALANCE BEGINNING OF YEAR	8,438,540	551,868	2,883,143	348,181	105,166	12,326,899
BALANCE END OF PERIOD	\$ 9,625,914	\$ 607,521	\$ 2,681,739	\$ 263,240	\$ 95,563	\$ 13,273,978

PUD No. 1 of Whatcom County

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Cash Flows
As of December 31, 2018

	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)	\$ 3,250,168	\$ 24,068	\$ 250,713	\$ (0)	\$ (0)	\$ 3,524,949
Adjustments to reconcile operating income to net cash provided (used) by operating activity						
Depreciation	943,129	75,720	427,087	-	193,858	1,639,794
Decrease (Increase) in Net Accounts Receivable	83,659	(7,492)	4,323	-	(777)	79,713
Decrease (Increase) in Prepayments	-	-	-	-	(1,585)	(1,585)
Interfund Transfers	2,503,276	48,710	997,980	(17,016)	(3,532,950)	(0)
Increase (Decrease) in Account Payable	56,776	4,414	(13,453)	-	(40,062)	7,674
Increase (Decrease) in Accrued Employee Payable	20,234	1,574	-	-	39,792	61,600
Increase (Decrease) in Accrued Insurance Claims Reserve	(1,248)	(157)	(273)	-	(1,010)	(2,688)
Increase (Decrease) in Accrued Utility Taxes	(467)	150	22,209	-	-	21,892
Increase (Decrease) in Contractor Retainage	3,651	-	(6,773)	-	33,831	30,708
Increase (Decrease) in Deposits & Other Payables	969	-	-	-	-	969
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,860,147	\$ 146,986	\$ 1,681,813	\$ (17,016)	\$ (3,308,903)	\$ 5,363,027

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

NOTE 11 - 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 2018 was \$28,763,666,830. 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 2018 or 2017.

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

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 16 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 2018, the Designated Balance of the Liability pool was \$3,450,000. 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, 2018

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 \$60,274 (\$49,730 for the Liability Pool, \$10,544 for the Property Pool), compared to the 2017 share balance of \$62,962 (\$50,705 for the Liability Pool, \$12,257 for the Property Pool), a \$2,688 reduction.

A comprehensive 2018 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

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2018

Risk pool insurance premiums and pool assessments for the District were as follows for 2018 and 2017:

INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
<u>PURMS 2017</u>						
<u>LIABILITY</u>						
1/9/2017	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,288,881.81		
1/6/2016	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	210,624.13	1.43%	21,453.72
1/6/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	50,835.00	1.57%	800.58
5/31/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	1,079,768.00	1.53%	16,486.79
6/30/2017	AEGIS	LIABILITY	PROF LIAB [E&O]	166,868.16	1.42%	2,374.16
9/20/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	567,044.00	1.57%	8,917.14
11/7/2017	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
12/31/2017	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	478,227.00	1.60%	7,648.22
				4,057,039.30	1.50%	61,036.41
<u>PROPERTY</u>						
1/6/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	226,185.00	3.32%	7,512.20
1/30/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	280,357.00	3.24%	9,085.20
4/4/2017	NATIONAL UNION & HOMESITE	PROPERTY	EXCESS PROPERTY POLICY	858,145.14	2.77%	23,805.39
9/20/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	267,109.00	3.24%	8,661.80
12/31/2017	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	123,591.00	3.24%	4,002.45
				1,755,387.14	3.02%	53,067.04
<u>PURMS 2018</u>						
<u>LIABILITY</u>						
1/3/2018	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,386,050.38		
1/3/2018	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	220,834.13	1.56%	25,031.13
7/2/2018	AEGIS	LIABILITY	PROF LIAB [E&O]	164,511.69	1.56%	2,562.68
7/9/2018	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	553,952.00	1.70%	9,441.77
11/13/2018	EVEREST NATIONAL	LIABILITY	FRONTING POLICY	5,000.00	1.56%	77.90
11/13/2018	BERKLEY	LIABILITY	CYBER POLICY \$10M EXCE	112,029.22	1.65%	1,843.86
11/13/2018	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	585,226.00	1.59%	9,303.22
12/31/2018	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	194,917.00	1.76%	3,421.96
				3,222,520.42	1.60%	51,682.52
<u>PROPERTY</u>						
4/6/2018	NATIONAL UNION & HOMESITE	PROPERTY	\$200M EXCESS \$250K	936,227.45	2.77%	25,971.21
7/9/2018	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	256,354.00	3.24%	8,313.71
12/31/2018	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	190,060.00	3.25%	6,184.88
				1,382,641.45	2.93%	40,469.80

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	<u>\$ 12,311,199</u>	<u>\$ 12,311,199</u>

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 Beginning Balance	2017 Activity		2017 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	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-PROGRESS	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:

2017					
	District Capital Project #	Annual Project Authorization	Expended Through 12/31/17	Committed	Required Future Financing
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	
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVCS	INTERNAL SERVICES FUND	DISTRICT TOTAL
OPERATING REVENUE						
Utility Sales and Service Revenues	\$ 8,989,372	\$ 197,443	\$ 10,388,462	\$ -	\$ -	\$ 19,488,686
Other Operating Revenue	36,307	1,345	-	-	-	37,652
TOTAL OPERATING REVENUE	\$ 9,025,680	\$ 198,788	\$ 10,388,462	\$ -	\$ -	\$ 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	-	-	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	\$ -	\$ -	\$ 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

PUD No. 1 of Whatcom County

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	-	-	-	-	-		272,183
Restricted Cash & Cash Equivalents	-	272,183	-	-	40,333		40,333
Prepayments	-	-	-	-	-		-
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

PUD No. 1 of Whatcom County

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

PUD No. 1 of Whatcom County

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
CASH FLOWS FROM OPERATING ACTIVITIES	INDUSTRIAL WATER	GRANDVIEW	ELECTRIC	BPA-ALCOA ESCROW	INTERNAL SERVICE	
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						0
Payments Received for Non-operating work	(3,138,995)	(64,391)	(836,639)	-	4,040,025	114,964
Payments (Paid) for Non-operating work	114,964					(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

PUD No. 1 of Whatcom County

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	
	INDUSTRIAL	GRANDVIEW	ELECTRIC	BPA-ALCOA	INTERNAL	TOTAL
	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

PUD No. 1 of Whatcom County

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 SUPPLEMENTARY INFORMATION
Western Conference of Teamsters Pension Plan
 Schedule of Employer Contributions
 For The Year Ended December 31, 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contribution Rate per Qualified Hour	\$ 5.75	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.25	\$ 5.00	\$ 4.75	\$ 4.50	\$ 4.40	\$ 4.25
Annual Maximum Hours	2,080	2,080	2,080	2,080	2,080	2,080	2,080	2,080	2,080	2,080
Maximum Annual Contribution per Employee	\$ 11,960	\$ 11,440	\$ 11,440	\$ 11,440	\$ 10,920	\$ 10,400	\$ 9,880	\$ 9,360	\$ 9,152	\$ 8,840
# Covered Employees at 12/31	6	6	6	6	6	6	6	6	7	7
Actual Contributions	\$ 72,444	\$ 73,521	\$ 68,833	\$ 73,194	\$ 65,723	\$ 60,916	\$ 61,645	\$ 60,542	\$ 68,238	\$ 63,485
Covered-employee payroll	\$423,316	\$487,409	\$420,577	\$407,579	\$405,406	\$421,384	\$390,873	\$414,130	\$423,233	\$402,241
Contributions as a % of covered-employee payroll	17.1%	15.1%	16.4%	18.0%	16.2%	14.5%	15.8%	14.6%	16.1%	15.8%

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

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov