

ANNUAL REPORT

Public Utility District No. 1 of Whatcom County

MCAG No. 1806

Submitted pursuant to RCW 43.09.230

To the

WASHINGTON STATE AUDITOR'S OFFICE

FOR THE FISCAL YEAR ENDED December 31, 2019

GOVERNMENT INFORMATION:

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I certify the 12th day of May 2020 that annual report information is complete, accurate and in conformity with the Budgeting, Accounting and Reporting Systems Manual, to the best of my knowledge and belief, having reviewed this information and taken all appropriate steps in order to provide such certification. I acknowledge and understand our responsibility for the design and implementation of controls to prevent and detect fraud. Finally, I acknowledge and understand our responsibility for immediately submitting corrected annual report information if any errors or an omission in such information is subsequently identified.

Audit Contact or Preparer Signature:

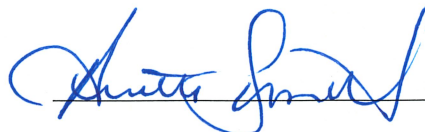


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Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2019

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 the Statement of Revenues, Expenses, and Change in Net Assets 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:

	2019	2018
ASSETS		
Current Assets	\$ 12,237,063	\$ 11,582,416
Non-Current Assets	3,660,097	3,681,952
Capital Assets (Net)	45,028,590	43,342,846
TOTAL ASSETS	\$ 60,925,749	\$ 58,607,214
LIABILITIES		
Current Liabilities	3,715,682	4,371,841
Non-Current Liabilities	21,650,649	22,729,963
TOTAL LIABILITIES	\$ 25,366,332	\$ 27,101,804
NET POSITION		
Net Investment in Capital Assets	22,465,845	19,227,119
Restricted for Debt Service	3,716,258	3,737,372
Restricted for Miscellaneous Reserves	-	52,350
Unrestricted	9,377,314	8,488,569
TOTAL NET POSITION	\$ 35,559,417	\$ 31,505,410

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2019

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

	2019	2018
REVENUES		
Operating Revenue	\$ 21,113,160	\$ 20,793,410
Nonoperating Revenue	611,255	613,526
TOTAL REVENUE	\$ 21,724,415	\$ 21,406,936
EXPENSES		
Operating Expenses	17,117,981	17,268,461
Nonoperating Expenses	1,352,428	1,403,790
TOTAL EXPENSES	\$ 18,470,408	\$ 18,672,251
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	\$ 3,254,007	\$ 2,734,686
Capital Contributions	800,000	-
Special / Extraordinary Items	-	-
CHANGE IN NET POSITION	\$ 4,054,007	\$ 2,734,686
BEGINNING NET POSITION	\$ 31,505,410	\$ 28,770,725
ENDING NET POSITION	\$ 35,559,417	\$ 31,505,410

FINANCIAL POSITION

Analysis of Changes in Total Net Position from 2018-2019

For the twelve months ending December 31, 2019, the total net position of the District increased by approximately \$4,054,000 or 12.9%. Total assets increased by \$2,319,000 and total liabilities decreased by \$1,735,000 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 \$709,000 from timing of payments, an increase in Net Receivables of \$20,000 due primarily to timing of customer payments, a decrease of \$73,000 in Restricted Cash and Cash Equivalents due to a decrease in LUD assessments received as compared to debt payments, a decrease in Bond Issue costs due to standard amortization of \$22,000 and an increase in Total Capital Assets Net of Depreciation of \$1,686,000.

The major components of the decrease in total liabilities included a decrease in Accounts Payables of \$113,000 due to timing of payments, an increase of \$23,000 in Accrued Employee Payable due to adjustments in the liability for vacation and sick leave payouts and the Teamster Withdrawal Liability, a decrease in the Accrued Insurance Claims Reserve of \$3,000, an increase in Utility Taxes of \$5,000, an increase of \$86,000 in Contractor Retainage, an increase in Deposits and Other Payables of \$7,000, and a net decrease in the bonds principal and interest payable of \$1,740,000 due to debt service payments.

Public Utility District No. 1 of Whatcom County
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended December 31, 2019

RESULTS OF OPERATIONS

Analysis of changes in Revenue, Expenses, and change in Net Position for 2018-2019

Income before Contributions, and Extraordinary Items increased from \$2,735,000 in 2018 to \$3,254,000 in 2019 (a \$519,000 increase). Operating Revenue increased by \$320,000 due to a combination of rate increases and an increase in usage. Operating expenses decreased by \$150,000. Non-operating Revenue decreased by \$2,000. Non-operating Expenses reflected an overall decrease of \$51,000, resulting primarily from a decrease in interest expense.

CAPITAL ASSETS

Analysis of Changes in Capital Assets from 2018-2019

During 2019, total capital assets increased by \$1,686,000 and were comprised of an overall increase in non-depreciated assets, including construction-work-in-progress for \$264,000 (\$93,000 of construction-work-in-progress was expensed during 2019 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 \$2,489,000, the Grandview Water Utility stayed constant, the Electric Utility increased by \$255,000, a \$174,000 increase for general utility and office assets accounted for in the Internal Services Fund and an increase in accumulated depreciation of \$1,497,000. SEE NOTE 4.

LONG-TERM DEBT

Analysis of Changes in Long-Term Debt from 2018-2019

During 2019, the District's indebtedness for the 2010 LTGO bonds was reduced by \$1,415,000, the 2012 LTGO bond issue was reduced by \$675,000, the District's indebtedness for the 2013 LTGO bonds was reduced by \$270,000, the District's indebtedness for the 2016 LTGO bonds reduced by \$146,000, and the District borrowed \$800,000 from the Whatcom County Economic Development Investment Program for a total overall long-term debt reduction of \$1,706,000. 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
STATEMENT OF NET POSITION
As of December 31, 2019

ASSETS**CURRENT ASSETS**

Cash & Cash Equivalents	
Cash	\$ 14,646
Whatcom County Investment Pool	10,178,362
Total Cash & Cash Equivalents	10,193,008
Receivables (Net):	
Customers	1,737,571
Other	10,977
Total Accounts Receivables (Net)	1,748,548
Restricted Cash & Cash Equivalents	253,836
Prepayments	41,670
TOTAL CURRENT ASSETS	\$ 12,237,063

NON-CURRENT ASSETS

Bond Issue Costs	197,675
Restricted Assets	
Investments - Bond Reserves	3,462,423
Capital Assets Not Being Depreciated	
Land	108,000
Easements	56,260
Construction in Progress	653,220
Capital Assets Being Depreciated:	
Buildings & Structures	25,609,649
Machinery & Equipment	38,523,038
Intangible	866,000
Less Accumulated Depreciation	(20,787,578)
Total Capital Assets (Net)	45,028,590
TOTAL NONCURRENT ASSETS	\$ 48,688,687

TOTAL ASSETS

	\$ 60,925,749
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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, 2019

LIABILITIES**CURRENT LIABILITIES**

Accounts Payable	\$ 805,988
Accrued Employee Payable	454,395
Accrued Insurance Claims Reserve	57,336
Accrued Utility Taxes	322,018
Contractor Retainage	131,225
Bonds, Notes, and Loans Payable	
2010 LTGO Series A&B Bonds Principal - Current	1,035,000
2010 LTGO Series A&B Interest	63,504
2012 LTGO Series A&B Bonds Principal - Current	360,000
2012 LTGO Series A&B Interest	5,282
2013 LTGO Bond Principal - Current	275,000
2013 LTGO Bond Interest	14,550
2016 LTGO Bond Principal - Current	145,763
2016 LTGO Bond Interest	2,031
2019 EDI Loan Principal - Current	36,332
2019 EDI Loan Interest	667
Deposits & Other Payables	6,590
TOTAL CURRENT LIABILITIES	<u>\$ 3,715,682</u>

NON-CURRENT LIABILITIES

Bonds, Notes, and Loans Payable	
2010 LTGO Series A&B Bonds Principal	13,786,911
2012 LTGO Bond Principal	1,547,684
2013 LTGO Bond Principal	4,532,048
2016 LTGO Bond Principal	1,020,339
2019 EDI Loan Principal	763,668
TOTAL NON-CURRENT LIABILITIES	<u>\$ 21,650,649</u>

TOTAL LIABILITIES

\$ 25,366,332

NET POSITION

Net Investment in Capital Assets	22,465,845
Restricted for Debt Service	3,716,258
Unrestricted	9,377,314
TOTAL NET POSITION	<u>\$ 35,559,417</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, 2019

OPERATING REVENUE

Utility Sales and Service Revenues	\$ 21,043,527
Other Operating Revenue	69,633
TOTAL OPERATING REVENUE	<u>\$ 21,113,160</u>

OPERATING EXPENSES

Operations:	
Purchased Power	9,324,770
Water Purification	259,659
Taxes / Process / Delivery Costs	580,304
General Operations	834,189
Maintenance	1,141,832
Administration:	
General Administration	2,581,785
Planning and Development Expense	113,602
Depreciation Expense	1,692,228
Utility Tax Expense	589,611
TOTAL OPERATING EXPENSES	<u>\$ 17,117,981</u>

OPERATING INCOME (LOSS)**\$ 3,995,180****NONOPERATING REVENUE**

Lease Income	23,776
Grant Revenue	146,634
Assessment Income	144,705
Interest Income	300,886
Interest Fees	(9,404)
Connection Fee	-
Penalties	4,659
TOTAL NONOPERATING REVENUE	<u>\$ 611,255</u>

NONOPERATING EXPENSE

Interest Expense	1,084,823
Amortization	21,855
Grant Expenses	222,372
Loss (Gain) on Property Disposal	23,377
TOTAL NONOPERATING EXPENSE	<u>\$ 1,352,428</u>

**INCOME BEFORE CONTRIBUTIONS,
AND EXTRAORDINARY ITEMS**
\$ 3,254,007

Capital Contributions (Connection Charges)	800,000
Special / Extraordinary Items	-

CHANGE IN NET POSITION**\$ 4,054,007****TOTAL NET POSITION - JANUARY 1st****\$ 31,505,410****TOTAL NET POSITION - DECEMBER 31st****\$ 35,559,417**

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 21,145,705
Payments to suppliers	(13,456,622)
Payments to employees (Labor only)	(2,016,283)

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

\$ 5,672,800

CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES

Payments Received (Paid) for Non-operating work	(47,304)
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**NET CASH PROVIDED (USED) BY NONCAPITAL
FINANCING ACTIVITIES**

\$ (47,304)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	\$ 800,000
Purchase of Capital Assets	(3,401,350)
Principal paid on Capital Debt	(2,505,763)
Interest paid on Capital Debt	(1,119,280)
Capital Contributions	800,000
Assessments Received for 2007 & 2016 debt payments	144,705

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

\$ (5,281,688)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	291,481
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NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES

\$ 291,481

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

635,289

BALANCE BEGINNING OF YEAR

13,273,978

BALANCE END OF YEAR

\$ 13,909,267

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, 2019

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

Operating Income (Loss)	\$ 3,995,180
Adjustments to reconcile operating income to net cash	
Cash Provided (Used) by operating activities:	
Depreciation	1,692,228
Change in Assets and Liabilities:	
Decrease (Increase) in Net Accounts Receivable	(19,605)
Decrease (Increase) in Prepayments	248
Increase (Decrease) in Account Payable	(112,542)
Increase (Decrease) in Accrued Employee Payable	22,907
Increase (Decrease) in Accrued Insurance Claims Reserve	(2,938)
Increase (Decrease) in Accrued Utility Taxes	4,684
Increase (Decrease) in Contractor Retainage	86,047
Increase (Decrease) in Deposits & Other Payables	6,590
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 5,672,800</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, 2019

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 rule, the effect of the interfund 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. Starting in 2019, these expenses were allocated across all of the utilities, including the Grandview Utility.

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 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 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.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

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, 2019, the treasurer was holding \$10,178,362 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, Restricted Cash & Cash Equivalents, and 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. 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*. A separate schedule of interfund loans receivable and payable is furnished in Note 9, *Interfund Balances and Transfers*.

5. Restricted Assets and Liabilities

These accounts contain resources for debt service. Specific debt service reserve requirements are described in Note 7, *Long Term Debt*.

The restricted assets of the enterprise funds are composed of the following:

RESTRICTED RESERVE BALANCES	2019
Restricted Cash & Cash Equivalents	
LUD #2 Cash & Investments	\$ 253,836
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>
TOTAL RESTRICTED RESERVE BALANCES	\$ 3,716,258

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

For The Year Ended December 31, 2019

6. Capital Assets See Note 4, *Capital Assets*.

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable fund. The District defines capital assets 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 as projects or major components of the project are constructed.

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

7. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and floaters (in lieu of holidays). 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 current 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.

8. Pensions

The District carries no liability for pensions. Union employees are covered under the Teamster pension and the non-union employees have access to contributing to investments funds through Mass Mutual, a 457 plan. The District does not take part in the PERS retirement system. See Note 10, *Pension Plan*.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

9. Other Accrued Liabilities

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

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

NOTE 2 – ACCOUNTING AND REPORTING CHANGES

2019

1. **INTERNAL** – Towards the end of 2019, the SAO audit of our 2017 and 2018 annual reports occurred. One recommendation was to move the investments we have with the Whatcom County Treasurer, which previously had been listed as investments, up under Cash and Cash Equivalents due to their liquidity.
2. **INTERNAL** – Previously, only certain general expenses from the Internal Services fund were allocated to the Grandview utility. Starting in 2019, all general expenses are allocated to the three utilities (Industrial Water, Grandview, and Electric) based on O&M hours.

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.
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.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

Cash on hand at December 31, 2019 was \$13,909,267. The carrying amount of the District's deposits was \$13,909,267, and the bank balance was the same.

The District's deposits 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, 2019

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 1.08 years as of December 31, 2019. Short-term Whatcom County Investment Pool funds are classified as Cash and Cash Equivalents on the Statement of Net Position. Per the Whatcom County guidelines, a 90 day advanced notice must be given to the county for any withdrawal that exceeds \$5 million. If the District should choose to close their accounts, the County Treasurer will develop a reasonable distribution schedule for the withdrawal of the balance of the funds. Regardless of the size of the balance, all monies shall be distributed back to the District within one year.

As of December 31, 2019, the District had the following investments in the WCIP:

	2019	
	<u><i>Maturities</i></u>	<u><i>Amortized Cost</i></u>
INVESTMENTS		
Short-Term Investments		
Whatcom County Investment Pool	\$ 10,446,844	\$ 10,446,844
Non-Current		
Whatcom County Investment Pool	3,462,423	3,462,423
TOTAL INVESTMENTS	<u>\$ 13,909,267</u>	<u>\$ 13,909,267</u>

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ending December 31, 2019 was as follows:

	2019 Beginning Balance	2019 Activity		2019 Ending Balance
		Increase	Decrease	
CAPITAL ASSETS NOT BEING DEPRECIATED				
LAND				
Industrial Water Utility	\$ 108,000	\$ -	\$ -	\$ 108,000
TOTAL LAND	108,000	-	-	108,000
EASEMENTS				
Industrial Water Utility	\$ -	\$ 56,260	\$ -	\$ 56,260
TOTAL EASEMENTS	-	56,260	-	56,260
CONSTRUCTION-IN-PROGRESS				
Industrial Water Utility	205,941	2,432,591	(2,638,532)	-
Grandview Potable Water Utility	-	-	-	-
Electric Utility	198,107	753,117	(328,837)	622,387
General Utility & Office (Internal Services Utility)	41,561	256,940	(267,667)	30,833
TOTAL CONSTRUCTION-IN-PROGRESS	445,609	3,442,647	(3,235,036)	653,220
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	\$ 553,609	\$ 3,498,907	\$ (3,235,036)	\$ 817,480
CAPITAL ASSETS BEING DEPRECIATED				
BUILDINGS & STRUCTURES				
Industrial Water Utility	17,330,348	2,156,916	-	19,487,264
Grandview Water Utility	93,807	-	-	93,807
Electric Utility	4,457,485	(1)	-	4,457,484
General Utility & Office (Internal Services Utility)	1,561,095	10,000	-	1,571,095
TOTAL BUILDINGS & STRUCTURES	23,442,735	2,166,915	-	25,609,649
MACHINERY & EQUIPMENT				
Industrial Water Utility	20,027,689	384,371	(51,965)	20,360,096
Grandview Water Utility	3,131,080	-	-	3,131,080
Electric Utility	12,207,315	328,838	(73,486)	12,462,667
General Utility & Office (Internal Services Utility)	2,405,001	257,354	(93,159)	2,569,196
TOTAL MACHINERY & EQUIPMENT	37,771,086	970,563	(218,611)	38,523,038
INTANGIBLE				
Industrial Water Utility	866,000	-	-	866,000
TOTAL INTANGIBLE	866,000	-	-	866,000
TOTAL CAPITAL ASSETS BEING DEPRECIATED	\$ 62,079,820	\$ 3,137,478	\$ (218,611)	\$ 64,998,688
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Structures	(6,352,049)	(462,103)	-	(6,814,153)
Machinery & Equipment	(12,418,934)	(1,186,825)	195,233	(13,410,525)
Intangible	(519,600)	(43,300)	-	(562,900)
TOTAL ACCUMULATED DEPRECIATION	(19,290,583)	(1,692,227)	195,233	(20,787,578)
TOTAL CAPITAL ASSETS BEING DEPRECIATED (NET)	\$ 42,789,237	\$ 1,445,251	\$ (23,377)	\$ 44,211,109
TOTAL CAPITAL ASSETS, NET	\$ 43,342,846	\$ 4,944,158	\$ (3,258,414)	\$ 45,028,590

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

Initial depreciation on utility plant is typically recorded in the year subsequent to capitalization of the asset. If the project spans multiple years, and a portion can be deemed completed and placed into use, that portion will be capitalized and depreciation will begin in the subsequent year, regardless if the entire project is complete.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are capitalized; charges that relate to abandoned projects are expensed. The District expensed \$92,700 in CWIP projects in 2019.

NOTE 5 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

A. Construction Commitments

The District has active construction projects as of December 31, 2019. The projects include:

		2019	
	District Capital Project #	Spent Through 12/31/19	Remaining Commitment
CONSTRUCTION IN PROGRESS			
Server Back-up Power	IS18	30,833	30,000
Ferndale Substation build	E22	622,387	4,000,000
TOTAL CONSTRUCTION IN PROGRESS		\$ 653,220	\$ 4,030,000

Of the Remaining Commitment balance of \$4,030,000, the District will be required to raise \$0 in future financing.

B. Other Commitments

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

PROJECT	SPENT TO DATE	REMAINING COMMITMENT
BKI-WO1-Electric system standards	\$ 17,948	\$ 10,052
BKI-WO2-Substation Protective Relay Settings	5,195	4,605
BKI-WO4-Ferndale Pump Substation Design	360,758	440,885
BKI-WO7-Standby Generator for Server Room	10,809	8,391
BKI-WO8-115kv Electric - Cherry Point	10,895	12,456
BKI-WO9-Electric on-call	2,907	12,093
BKI-WO10-P66 mis-operation Invest	11,162	8,839
PSE-WO1-Alcoa Property Easement	-	98,630
PSE-WO3-On Call Services	1,320	18,680
PSE-WO4-P2 Survey E Sediment Pond	1,339	4,996
PSE-WO5-P1 Easements	4,658	2,323
RH2-WO15-Drought Contingency	15,000	5,000
	\$ 441,990	\$ 626,949

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

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.

NOTE 6– SHORT-TERM DEBT

The District had no short-term debt obligations in 2019.

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	\$ 430,000
2010 LTGO Series B - Funded Water Plant 2 rebuild and the purchase of two substations	2011-2030	4.88%	\$ 20,980,000	\$ 985,000
2012 LTGO - Refunded the 2004 LTGO bonds	2012-2024	2.60%	\$ 5,980,000	\$ 675,000
2013 LTGO - Funding to complete the Water Plant 2 rebuild	2014-2032	2.66%	\$ 6,025,000	\$ 270,000
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, 2019

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
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	1,260,000	538,550	410,000	15,580	315,000	133,800	145,763	12,186
2025-2029	7,345,000	1,648,725			1,780,000	469,200	437,287	18,279
2030-2032	1,710,000	89,775			1,250,000	101,400		
TOTAL	\$ 14,785,000	\$ 5,003,750	\$ 1,910,000	\$ 204,990	\$ 4,505,000	\$ 1,349,150	\$ 1,166,102	\$ 109,672

The annual debt service requirements to maturity for debt from direct borrowings and direct placement are as follows:

Year Ending December 31:	2019 EDI LOAN	
	PRINCIPAL	INTEREST
2020	36,332	8,000
2021	36,696	7,637
2022	37,063	7,270
2023	37,433	6,899
2024	37,807	6,525
2025-2029	194,785	26,877
2030-2034	204,721	16,941
2035-2039	215,164	6,498
TOTAL	\$ 800,000	\$ 86,645

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, 2019, restricted assets in proprietary funds contain \$3,716,258 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. 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 \$1,275,774. Principal and interest paid for the current year and total Grandview assessment revenue were \$173,181 and \$144,705 respectively.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

NOTE 8 – RESTRICTED COMPONENT OF NET POSITION

The District's statement of net position reports \$3,716,258 of restricted component of net position for debt service, of which everything is restricted by enabling legislation.

NOTE 9 – INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Interfund balances at December 31, 2019 were as follows:

		Due From					
		Industrial Water	Grandview	Electric	Alcoa Fund	Internal Service	Total
Due To	Industrial Water		\$ 805,683			\$2,875,609	\$3,681,292
	Grandview					3,664	3,664
	Electric					1,045,241	1,045,241
	Alcoa Fund			162,122		215,368	377,490
	Internal Service	1,361,016	13,446	573,450			1,947,912
	Total	\$1,361,016	\$ 819,128	\$735,571	\$ -	\$4,139,882	

The interfund balances are a result of four categories. The first two, Capital, including depreciation, and Employee Payable, are allocations between the Internal Services account to the active utilities. The Interfund Capital spreads the net capital assets from the Internal Services to the other utilities. The Interfund Employee Payable spreads the liability for accrued employee vacation, sick time, and Teamster withdrawal to the appropriate utilities. Neither of these are expected to be paid back, but adjusted to the new balances annually.

The third category is the loan between the Grandview and Industrial Water utility for the line connection between the Industrial water system and the Grandview fire system. 2018 was the start of this interfund loan. Currently, the payback is scheduled over 30 years. The Grandview Utility has experienced growth recently and any unbudgeted growth will be balanced with reducing the payback time and keeping rates low. The line will remain an asset of the Industrial Water utility, but since it was constructed due to a need at Grandview, the Grandview utility will be paying back the Industrial Water utility. The last category is a result of a loan between the Alcoa Escrow fund and the Electric Utility. This is expected to be paid back within the next five years.

B. Interfund Transfers

Interfund transfers at December 31, 2019 were as follows:

		Transfer From					
		Industrial Water	Grandview	Electric	Alcoa Fund	Internal Service	Total
Transfer To	Industrial Water						\$ -
	Grandview	(746,076)					(746,076)
	Electric	602,643					602,643
	Alcoa Fund						-
	Internal Service						-
	Total	(143,432)	-	-	-	-	

The transfers all dealt with one utility paying back another utility for fixed assets or bond costs. In 2019, there were three transfers:

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

- \$746,076 the 2019 amount owed from the Grandview utility to the Industrial Water utility for the construction of the Vista Road water line. This amount does not match the balance due, due to 2018 activity and the annual payment of \$60,000.
- \$413,559 was transferred for the Industrial Water's portion of Electric construction projects
- \$189,084 was transferred from Industrial Water to Electric for a portion of Electric's bond payment, which paid for an asset the Industrial Water utility uses.

NOTE 10 - 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 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 2019 rate of District contribution to the employee is 8.20% of gross earnings. Employees may or may not elect to contribute any portion up to the allowable limit to the Mass Mutual plan. The Plan, available to eligible employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The District has neither fiduciary responsibility nor liability for the Plan and accordingly no records are reflected on the Districts accounts.

B. Union

At year-end, the District's union employees (one chief water operator and five 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.wcptension.org/forms-documents-webcasts/plan-documents>. This link also connects to the Summary Plan Description that 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. During 2019, the District contributed \$6.00 per qualified hour, per employee, up to a maximum of 2080 hours (\$12,480) per year per employee. No minimum contribution is required to be paid if no qualified hours are worked. If the District was to exit the plan, an 'unfunded withdrawal liability' could be required. The estimated withdrawal liability for the District at the end of 2019 is \$2,964. The liability is 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:

<u>2010</u>	<u>\$ 4.40</u>	<u>2015</u>	<u>\$ 5.50</u>
<u>2011</u>	<u>\$ 4.50</u>	<u>2016</u>	<u>\$ 5.50</u>
<u>2012</u>	<u>\$ 4.75</u>	<u>2017</u>	<u>\$ 5.50</u>
<u>2013</u>	<u>\$ 5.00</u>	<u>2018</u>	<u>\$ 5.75</u>
<u>2014</u>	<u>\$ 5.25</u>	<u>2019</u>	<u>\$ 6.00</u>

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

NOTE 11 – SEGMENT INFORMATION

The District operated four proprietary segments and an Internal Services Fund in 2019. The following changes occurred in the District's segments during 2019:

A. INDUSTRIAL WATER UTILITY

Routine maintenance projects on Water Treatments Plants #1 and #2 are ongoing for the entire water system facilities including IT and SCADA projects. In 2019, the project to extend a line between the Industrial water system at Aldergrove to the Grandview fire system was completed. The project was funded with a combination of an \$800,000 grant and \$800,000 loan, both coming from the Whatcom County Economic Development Investment Program. The balance of the project was funded internally from rate revenue. Water consumption was just over 2018 consumption.

B. GRANDVIEW WATER UTILITY

The District finished the work on extending the Industrial water system waterline from a connection on the Aldergrove transmission line to the Grandview fire system. Water consumption was slightly over 2018.

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 2019, 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 was planned to start in 2019, but due to permitting delays, is scheduled for 2020. Starting in 2017, a portion of the Electric General Services fee was allocated to the Industrial Water utility in order to cover a pro-rated share of non-direct expenses such as administrative costs. The District's Electric Utility, besides serving our one industrial customer, also provides power and electrician services to our 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 2019 to pay to the Port of Bellingham for a Public Fiber Strategic Plan. May 2010 concluded the agreement with Alcoa. No future revenues besides interest income are anticipated. As of December 31, 2019, the remaining fund balance is \$253,897.

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, 2019

	403	411	481	490	500		
	INDUSTRIAL WATER UTILITY	GRANDVIEW UTILITY	ELECTRIC UTILITY	ALCOA SVCS	INTERNAL SERVICES FUND	ELIMINATION	DISTRICT TOTAL
OPERATING REVENUE							
Utility Sales and Service Revenues	\$ 9,204,706	\$ 252,933	\$ 11,671,053	\$ -	\$ -	\$ (85,164)	\$ 21,043,527
Other Operating Revenue	2,273	81	67,279	-	-		69,633
TOTAL OPERATING REVENUE	\$ 9,206,979	\$ 253,014	\$ 11,738,331	\$ -	\$ -	\$ (85,164)	\$ 21,113,160
OPERATING EXPENSES							
Operations:							
Purchased Power	601,647	7,248	8,715,875	-	-		9,324,770
Water Purification	258,342	1,318	-	-	-		259,659
Taxes / Process / Delivery Costs	-	-	580,304	-	-		580,304
General Operations	613,260	63,364	157,566	-	-		834,189
Maintenance	738,849	27,853	375,130	-	-		1,141,832
Administration							
General Administration	1,786,429	24,512	856,008	-	-	(85,164)	2,581,785
Planning and Development Expenses	98,977	-	-	14,625	-		113,602
Depreciation Expense	1,102,207	81,780	508,242	-	-		1,692,228
Utility Tax Expense	459,604	12,761	117,246	-	-		589,611
TOTAL OPERATING EXPENSES	\$ 5,659,314	\$ 218,835	\$ 11,310,371	\$ 14,625	\$ -	\$ (85,164)	\$ 17,117,981
OPERATING INCOME (LOSS)	\$ 3,547,665	\$ 34,179	\$ 427,961	\$ (14,625)	\$ -	\$ -	\$ 3,995,180
NONOPERATING REVENUE							
Lease Income	23,776	-	-	-	-		23,776
Grant Revenue	146,634	-	-	-	-		146,634
Assessment Income	-	144,705	-	-	-		144,705
Interest Income	222,054	14,822	58,545	5,465	-	-	300,886
Interest Fees	(7,442)	184	(1,962)	(184)	-		(9,404)
Penalties	4,659	-	-	-	-		4,659
TOTAL NONOPERATING REVENUE	\$ 389,681	\$ 159,710	\$ 56,583	\$ 5,281	\$ -	\$ -	\$ 611,255
NONOPERATING EXPENSE							
Interest Expense	954,639	27,164	103,020	-	-	-	1,084,823
Amortization	16,255	1,661	3,939	-	-		21,855
Interfund Expense	(143,432)	746,076	(602,643)	-	-		-
Grant Expenses	222,372	-	-	-	-		222,372
Loss (Gain) on Property Disposal	2,598	-	20,779	-	-		23,377
TOTAL NONOPERATING EXPENSE	\$ 1,052,432	\$ 774,901	\$ (474,905)	\$ -	\$ -	\$ -	\$ 1,352,428
INCOME BEFORE CONTRIBUTIONS, AND EXTRAORDINARY ITEMS	2,884,914	(581,012)	959,449	(9,344)	-	-	3,254,007
Capital Contributions	800,000	-	-	-	-		800,000
Extraordinary Items	-	-	-	-	-		-
CHANGE IN NET POSITION	\$ 3,684,914	\$ (581,012)	\$ 959,449	\$ (9,344)	\$ -	\$ -	\$ 4,054,007
NET POSITION - JANUARY 1st	\$ 16,577,643	\$ 1,215,189	\$ 13,027,781	\$ 640,730	\$ 44,067	\$ -	\$ 31,505,410
NET POSITION - DECEMBER 31st	\$ 20,262,557	\$ 634,177	\$ 13,987,230	\$ 631,386	\$ 44,067		\$ 35,559,417

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

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2019

	403 INDUSTRIAL WATER UTILITY	411 GRANDVIEW UTILITY	481 ELECTRIC UTILITY	490 ALCOA SVC	500 INTERNAL SERVICES FUND	DISTRICT TOTAL
ASSETS						
CURRENT ASSETS						
Cash & Cash Equivalents						
Cash	\$ (41,143)	\$ (30)	\$ (18,588)	\$ 283	\$ 74,125	\$ 14,646
Whatcom County Investment Pool	7,193,799	398,828	2,241,543	253,614	90,579	10,178,362
Total Cash & Cash Equivalents	7,152,656	398,797	2,222,955	253,897	164,703	10,193,008
Receivables (Net):						
Customers	831,101	23,294	883,175	-	-	1,737,571
Other	3,544	-	7,195	-	239	10,977
Interfund Receivables	805,683	(805,683)	(162,122)	162,122	-	(0)
Interfund Transfers - Capital	1,903,527	1,052	647,856	215,368	(2,767,802)	-
Interfund Transfers - Employee	(302,895)	(7,386)	(141,150)	-	451,431	0
Total Accounts Receivables (Net)	3,240,961	(788,723)	1,234,954	377,490	(2,316,133)	1,748,548
Other Current Assets						
Restricted Cash & Cash Equivalents	-	253,836	-	-	-	253,836
Prepayments	-	-	-	-	41,670	41,670
Other						
TOTAL CURRENT ASSETS	\$ 10,393,616	\$ (136,089)	\$ 3,457,909	\$ 631,386	\$ (2,109,760)	\$ 12,237,063
NON-CURRENT ASSETS						
Bond Issue Costs	159,523	13,287	24,865	-	-	197,675
Noncurrent Restricted Assets						
Investments - Bond Reserves	2,849,655	-	612,767	-	-	3,462,423
Capital Assets Not Being Depreciated						
Land	108,000	-	-	-	-	108,000
Easements	56,260	-	-	-	-	56,260
Construction in Progress	-	-	622,387	-	30,833	653,220
Capital Assets Being Depreciated:						
Buildings & Structures	19,487,264	93,807	4,457,484	-	1,571,095	25,609,649
Machinery & Equipment	20,360,096	3,131,080	12,462,667	-	2,569,196	38,523,038
Intangible	866,000	-	-	-	-	866,000
Less Accumulated Depreciation	(13,243,651)	(1,292,462)	(4,848,143)	-	(1,403,321)	(20,787,578)
Total Capital Assets (Net)	27,633,968	1,932,424	12,694,395	-	2,767,802	45,028,590
TOTAL NONCURRENT ASSETS	\$ 30,643,146	\$ 1,945,711	\$ 13,332,027	\$ -	\$ 2,767,802	\$ 48,688,687
TOTAL ASSETS	\$ 41,036,763	\$ 1,809,622	\$ 16,789,936	\$ 631,386	\$ 658,043	\$ 60,925,749

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
Statement of Net Position
As of December 31, 2019

	403	411	481	490	500	DISTRICT
	INDUSTRIAL	GRANDVIEW	ELECTRIC	ALCOA SVC	INTERNAL	TOTAL
	WATER UTILITY	UTILITY	UTILITY		SERVICES FUND	
LIABILITIES						
CURRENT LIABILITIES						
Accounts Payable	\$ 96,659	\$ 1,035	\$ 658,313	\$ -	\$ 49,981	\$ 805,988
Accrued Employee Payable	2,721	243	-	-	451,431	454,395
Accrued Insurance Claims Reserve	5,016	396	2,076	-	49,848	57,336
Accrued Utility Taxes	38,920	952	282,147	-	-	322,018
Contractor Retainage	57,277	-	11,233	-	62,716	131,225
Bonds, Notes, and Loans Payable						
2010 LTGO Bond Series A&B - Current	926,053	-	108,947	-	-	1,035,000
2010 LTGO Bond Series A&B - Interest	56,820	-	6,685	-	-	63,504
2012 LTGO Bond Series A&B - Current	305,968	-	54,032	-	-	360,000
2012 LTGO Bond Series A&B - Interest	4,502	-	780	-	-	5,282
2013 LTGO Bond - Current	275,000	-	-	-	-	275,000
2013 LTGO Bond - Interest	14,550	-	-	-	-	14,550
2016 LTGO Bond - Current	-	145,763	-	-	-	145,763
2016 LTGO Bond - Interest	-	2,031	-	-	-	2,031
2019 EDI Loan - Current	36,332	-	-	-	-	36,332
2019 EDI Loan - Interest	667	-	-	-	-	667
Deposits & Other Payables	1,905	4,685	-	-	-	6,590
TOTAL CURRENT LIABILITIES	\$ 1,822,390	\$ 155,105	\$ 1,124,212	\$ -	\$ 613,976	\$ 3,715,682
NON-CURRENT LIABILITIES						
Bonds, Notes, and Loans Payable						
2010 LTGO Bond Series A&B Principal	12,335,658	-	1,451,253	-	-	13,786,911
2012 LTGO Bond Principal	1,320,443	-	227,241	-	-	1,547,684
2013 LTGO Bond Principal	4,532,048	-	-	-	-	4,532,048
2016 LTGO Bond Principal	-	1,020,339	-	-	-	1,020,339
2019 EDI Loan Principal	763,668	-	-	-	-	763,668
TOTAL NONCURRENT LIABILITIES	\$ 18,951,816	\$ 1,020,339	\$ 1,678,494	\$ -	\$ -	\$ 21,650,649
TOTAL LIABILITIES	\$ 20,774,206	\$ 1,175,444	\$ 2,802,706	\$ -	\$ 613,976	\$ 25,366,332
NET POSITION						
Net Investment in Capital Assets	7,796,634	766,322	11,135,086	-	2,767,802	22,465,845
Restricted for Debt Service	2,849,655	253,836	612,767	-	-	3,716,258
Unrestricted	9,616,268	(385,981)	2,239,377	631,386	(2,723,736)	9,377,314
TOTAL NET POSITION	\$ 20,262,557	\$ 634,177	\$ 13,987,230	\$ 631,386	\$ 44,067	\$ 35,559,417

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flows

As of December 31, 2019

	403	411	481	490	500	
	INDUSTRIAL	GRANDVIEW	ELECTRIC	BPA-ALCOA	INTERNAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES	WATER			ESCROW	SERVICE	
Receipts from Customers	\$ 9,197,947	\$ 286,866	\$ 11,651,828	\$ -	\$ 9,063	\$ 21,145,705
Payments to suppliers	(2,055,951)	(46,894)	(9,756,462)	(14,625)	(1,582,691)	(13,456,622)
Payments to employees (Labor only)					(2,016,283)	(2,016,283)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 7,141,997	\$ 239,972	\$ 1,895,367	\$ (14,625)	\$ (3,589,911)	\$ 5,672,800
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers from (to) Other Utilities	(3,271,067)	(181,367)	(462,464)	-	3,914,898	0
Payments Received for Non-operating work	175,069					175,069
Payments (Paid) for Non-operating work	(222,372)					(222,372)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (3,318,370)	\$ (181,367)	\$ (462,464)	\$ -	\$ 3,914,898	\$ (47,304)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Capital Debt	800,000					800,000
Purchase of Capital Assets	(2,391,606)	-	(753,117)		(256,627)	(3,401,350)
Principal paid on Capital Debt	(1,882,284)	(145,763)	(477,716)			(2,505,763)
Interest paid on Capital Debt	(987,430)	(27,418)	(104,433)			(1,119,280)
Capital Contributions	800,000					800,000
Assessments Received for 2007 & 2016 debt payments		144,705				144,705
NET CASH PROVIDED / (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (3,661,319)	\$ (28,476)	\$ (1,335,266)	\$ -	\$ (256,627)	\$ (5,281,688)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	214,089	14,984	56,347	5,281	780	291,481
NET CASH PROVIDED / (USED) FROM INVESTING ACTIVITIES	\$ 214,089	\$ 14,984	\$ 56,347	\$ 5,281	\$ 780	\$ 291,481
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 376,396	\$ 45,113	\$ 153,984	\$ (9,344)	\$ 69,140	\$ 635,289
BALANCE BEGINNING OF YEAR	9,625,914	607,521	2,681,739	263,240	95,563	13,273,978
BALANCE END OF PERIOD	\$ 10,002,311	\$ 652,633	\$ 2,835,723	\$ 253,897	\$ 164,703	\$ 13,909,267

Public Utility District No. 1 of Whatcom County

NOTES TO FINANCIAL STATEMENT

Statement of Cash Flows

As of December 31, 2019

	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)	\$ 3,547,665	\$ 34,179	\$ 427,961	\$ (14,625)	\$ 0	\$ 3,995,180
Adjustments to reconcile operating income to net cash						
provided (used) by operating activity						
Depreciation	956,781	75,720	442,658	-	217,069	1,692,228
Decrease (Increase) in Net Accounts Receivable	(36,203)	3,517	13,130	-	(49)	(19,605)
Decrease (Increase) in Prepayments	-	-	-	-	248	248
Interfund Transfers	2,722,672	127,723	1,067,475	-	(3,917,871)	-
Increase (Decrease) in Account Payable	(75,005)	(3,958)	(67,059)	-	33,480	(112,542)
Increase (Decrease) in Accrued Employee Payable	(17,513)	(1,331)	-	-	41,751	22,907
Increase (Decrease) in Accrued Insurance Claims Reserve	(2,671)	(574)	400	-	(93)	(2,938)
Increase (Decrease) in Accrued Utility Taxes	2,212	11	2,461	-	-	4,684
Increase (Decrease) in Contractor Retainage	42,153	-	8,341	-	35,553	86,047
Increase (Decrease) in Deposits & Other Payables	1,905	4,685	-	-	-	6,590
NET CASH PROVIDED BY OPERATING						
ACTIVITIES	\$ 7,141,997	\$ 239,972	\$ 1,895,367	\$ (14,625)	\$ (3,589,911)	\$ 5,672,800

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

NOTE 12 - PROPERTY TAX

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 has assessed valuation of taxable property for 2019 was \$32,203,527,231. 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 2019 or 2018.

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

NOTE 13 - RISK MANAGEMENT

In January 2002, the Public Utility District No.1 of Whatcom County became a member of the Public Utility Risk Management Services, [PURMS], a joint self-insurance fund. Its membership is comprised of 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 2019, the Designated Balance of the Liability pool was \$3,500,000. Interim assessments are levied whenever the level of the liability program falls below \$500,000 of the Designated Liability Pool balance. Through PURMS, an AEGIS liability policy covers an additional \$35 million over the initial \$1 million. At the end of 2009, the District decided to also add another \$25 million in coverage through an EIM policy over the previous \$36 million in coverage.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

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 the Designated Balance, which in 2019 was \$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 \$57,336 (\$49,340 for the Liability Pool, \$7,996 for the Property Pool), compared to the 2018 share balance of \$60,274 (\$49,730 for the Liability Pool, \$10,544 for the Property Pool), a \$2,938 reduction.

A comprehensive 2019 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, 2019

Risk pool insurance premiums and pool assessments for the District were as follows for 2019 and 2018:

INVOICE DATE	CARRIER	TYPE	KIND	PREMIUM / ASSESSMENT		DISTRICT COST
<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	BEAZLEY	LIABILITY	CYBER POLICY \$10M EXCESS \$500K	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
<u>PURMS 2019</u>						
<u>LIABILITY</u>						
1/3/2019	AEGIS	LIABILITY	LIAB \$35M EXCESS \$1M	1,476,659.03		
1/3/2019	EIM	LIABILITY	LIAB \$25M EXCESS \$36M	390,575.38	1.53%	28,602.47
6/28/2019	AEGIS	LIABILITY	PROF LIAB [E&O] \$35M EXCESS \$500K	163,477.42	1.53%	2,504.17
4/15/2019	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	512,060.00	1.72%	8,806.21
11/12/2019	EVEREST NATIONAL	LIABILITY	FRONTING POLICY	5,000.00	1.53%	76.57
11/12/2019	RETENTION FUNDING ASSESS	LIABILITY	RETENTION FUNDING	50,000.00	1.74%	871.84
11/12/2019	BEAZLEY	LIABILITY	CYBER POLICY \$10M EXCESS \$500K	112,029.22	1.53%	1,716.10
9/5/2019	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	540,064.00	1.73%	9,353.97
11/12/2019	AEGIS	LIABILITY	\$35M EXCESS \$1M DRONE ENDORSE	4,225.92	1.53%	64.73
12/31/2019	GENERAL ASSESSMENT	LIABILITY	LIAB GENRL ASSESS	451,358.00	1.72%	7,762.99
				3,705,448.97	1.61%	59,759.05
<u>PROPERTY</u>						
4/2/2019	NATIONAL UNION & HOMESITE	PROPERTY	\$200M EXCESS \$250K	1,039,453.40	2.52%	26,213.18
6/6/2019	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	272,822.00	3.06%	8,341.46
10/2/2019	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	323,311.00	3.05%	9,872.83
12/31/2019	GENERAL ASSESSMENT	PROPERTY	PROP GENRL ASSESS	90,173.00	3.05%	2,751.78
				1,725,759.40	2.73%	47,179.25

NOTE 14 – SUBSEQUENT EVENTS

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, canceling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The District has taken measures to ensure the health and safety of customers, contractors, and employees. The District offices closed to the public March 23rd and are operating with a skeleton staff. All mandatory public meetings have switched to phone or video conferencing.

As of April, the District has experienced minimal increased expenses, no significant decrease in water and power sold to customers, but a slowdown in payments in the Grandview water utility. The Grandview Water Utility provides a small portion of the Districts total water systems revenue.

Public Utility District No. 1 of Whatcom County
NOTES TO FINANCIAL STATEMENT
For The Year Ended December 31, 2019

The length of time these measures will be in place, and the full extent of the financial impact on the District is unknown at this time.

In April 2020, Alcoa Intalco aluminum smelter announced they would be curtailing operations in the smelter section of the plant in July 2020. Alcoa Intalco consumes about 8.5% of the water sold by the District's Industrial Water system. Alcoa's curtailment decision appears to be based on aluminum market slowdown as they supply aluminum to residential and aircraft industrial production.

In August 2018, a contractor working on boring under the road for installation of additional fiber, hit our Douglas water transmission line causing substantial damage. The District declared an emergency to complete repairs and subsequently went into negotiations with the contractor and their insurance company to recoup damages. In February 2020, an agreement was reached and in April 2020, \$348,000 was received as compensation.

MCAG NO. 1806

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, 2019

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contribution Rate per Qualified Hour	\$ 6.00	\$ 5.75	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.25	\$ 5.00	\$ 4.75	\$ 4.50	\$ 4.40
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	\$ 12,480	\$ 11,960	\$ 11,440	\$ 11,440	\$ 11,440	\$ 10,920	\$ 10,400	\$ 9,880	\$ 9,360	\$ 9,152
# Covered Employees at 12/31	6	6	6	6	6	6	6	6	6	7
Actual Contributions	\$ 75,191	\$ 72,444	\$ 73,521	\$ 68,833	\$ 73,194	\$ 65,723	\$ 60,916	\$ 61,645	\$ 60,542	\$ 68,238
Covered-employee payroll	\$452,268	\$423,316	\$487,409	\$420,577	\$407,579	\$405,406	\$421,384	\$390,873	\$414,130	\$423,233
Contributions as a % of covered-employee payro	16.6%	17.1%	15.1%	16.4%	18.0%	16.2%	14.5%	15.8%	14.6%	16.1%

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