

LAKE WHATCOM WATER AND SEWER DISTRICT

Special-Purpose Schedules

December 31, 2015

LAKE WHATCOM WATER AND SEWER DISTRICT

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ACCOUNTANTS' COMPILATION REPORT

To the Board of Commissioners
Lake Whatcom Water and Sewer District

Management is responsible for the accompanying special-purpose schedules of Lake Whatcom Water and Sewer District, which comprise the detail of revenues and expenditures, liabilities, labor relations consultant(s), and risk management as of and for the year ended December 31, 2015, included in the accompanying forms prescribed by the Cash Basis Budgeting, Accounting, and Reporting System (BARS) that is promulgated by the State Auditor's Office under authority of Washington State Law. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the special-purpose schedules included in the accompanying prescribed form, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion or conclusion, nor do we provide any form of assurance on these special-purpose schedules.

Other Matter

The special-purpose schedules included in the accompanying prescribed form are intended to comply with the requirements of the Washington State Auditor's Office, and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the management of Lake Whatcom Water and Sewer District; it is not intended to be and should not be used by anyone other than these specified parties.

VSH PLLC

Bellingham, Washington
May 18, 2016

LAKE WHATCOM WATER AND SEWER DISTRICT
DETAIL OF REVENUES AND EXPENDITURES
For the Year Ended December 31, 2015

MCAG	Fund Number	Fund Name	BARS Account	Description	Amount
2330	401	Enterprise	3081000	Beginning Fund Bal-Reserved	524,448
2330	401	Enterprise	3088000	Beginning Fund Bal-Unreserved	2,127,214
2330	401	Enterprise	3300000	State Generated Revenue - DWSRF Loan	1,889,661
2330	401	Enterprise	3434000	Water Sales and Services	1,986,211
2330	401	Enterprise	3435000	Sewer Sales and Services	3,685,234
2330	401	Enterprise	3438000	Combined Water and Sewer Sales and Services	29,762
2330	401	Enterprise	3590000	Non-Court Fines and Penalties	59,921
2330	401	Enterprise	3611000	Investment Interest	14,982
2330	401	Enterprise	3614000	Interest on Assessments	22,009
2330	401	Enterprise	3681000	Special Assessments-Capital	46,320
2330	401	Enterprise	3691000	Sale of Scrap and Junk	1,720
2330	401	Enterprise	3699000	Other Miscellaneous	0
2330	401	Enterprise	3790000	Capital Contributions	84,906
2330	401	Enterprise	3952000	Insurance Recoveries	15,943
2330	401	Enterprise	5340010	Water Salaries	808,247
2330	401	Enterprise	5340020	Water Benefits	290,959
2330	401	Enterprise	5341030	Water Admin Supplies	12,652
2330	401	Enterprise	5341040	Water Admin Services	386,014
2330	401	Enterprise	5344040	Water Training Services	19,163
2330	401	Enterprise	5345030	Water Maintenance Supplies	107,423
2330	401	Enterprise	5345040	Water Maintenance Services	41,736
2330	401	Enterprise	5346040	Water Operations Contracted	45,669
2330	401	Enterprise	5348030	Water Operations Supplies	23,405
2330	401	Enterprise	5348040	Water Operations Services	105,134
2330	401	Enterprise	5351010	Sewer Salaries	702,923
2330	401	Enterprise	5351020	Sewer Benefits	250,355
2330	401	Enterprise	5351030	Sewer Admin Supplies	12,756
2330	401	Enterprise	5351040	Sewer Admin Services	303,744
2330	401	Enterprise	5354040	Sewer Training Services	9,283
2330	401	Enterprise	5355030	Sewer Maintenance Supplies	34,896
2330	401	Enterprise	5355040	Sewer Maintenance Services	30,766
2330	401	Enterprise	5356040	Sewer Operations Contracted	564,567
2330	401	Enterprise	5358030	Sewer Operations Supplies	23,655
2330	401	Enterprise	5358040	Sewer Operations Services	86,222
2330	401	Enterprise	5913870	Principal Payments-Combined Utilities	424,396
2330	401	Enterprise	5923880	Interest Payments-Combined Utilities	334,177
2330	401	Enterprise	5943460	Capital Expenditures-Water Utilities	2,293,302
2330	401	Enterprise	5943860	Capital Expenditures-Combined Utilities	439,199
2330	401	Enterprise	5081000	End Fund Balance-Reserved	576,111
2330	401	Enterprise	5088000	End Fund Balance-Unreserved	2,561,577

LAKE WHATCOM WATER AND SEWER DISTRICT
SCHEDULE OF LIABILITIES
 For the Year Ended December 31, 2015

ID. No.	Description	Maturity / Payment Due Date	(1) Beginning Balance 01/01/15	(2) Additions	(3) Reductions	BARS Code for Redemption of Debt Only	(4) Ending Balance 12/31/15
263.92	SV / Geneva Intertie Loan PW-01-691-PRE- 119 - Issued 2002	7/1/2021	\$ 62,584	\$ -	\$ 62,584	591.38.70	\$ -
263.92	SV / Geneva Intertie Loan PW-02-691-064 - Issued 2002	7/1/2022	378,016	-	47,252	591.38.70	330,764
252.11	Refunding Bonds - Issued 2009	11/1/2029	4,860,000	-	245,000	591.38.70	4,615,000
263.92	Post Point - Issued 2015	7/1/2034	-	2,362,364	69,560	591.38.70	2,292,804
259.12	Compensated absences		90,851	10,936	-	-	101,787
263.92	Latecomer fees and other deferred credits		18,500	-	-	-	18,500
264.30	Net Pension Liability		-	1,204,407	-	-	1,204,407
Totals			\$ 5,409,951	\$ 3,577,707	\$ 424,396		\$ 8,563,262

LAKE WHATCOM WATER AND SEWER DISTRICT
LABOR RELATIONS CONSULTANT(S)
For the Year Ended December 31, 2015

Has your government engaged labor relations consultants? _____ Yes X No

If yes, please provide the following information for each consultant:

Name Of Firm
Name Of Consultant
Business Address
Amount Paid To Consultant During Fiscal Year
Terms And Conditions, As Applicable, Including:
Rates (E.g., Hourly, etc.) _____
Maximum Compensations Allowed _____
Duration Of Service _____
Services Provided _____

Certified Correct this _____ day of _____, _____ to the best of my knowledge and belief:
Signature
Name
Title

LAKE WHATCOM WATER AND SEWER DISTRICT
RISK MANAGEMENT
For the Year Ended December 31, 2015

Public entity risk pool members are not required to report those risks transferred to the pool.
The District is a member of the Water & Sewer Risk Management Pool.

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lake Whatcom Water and Sewer District (the District) reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under authority of Washington State Law, Chapter 43.09 RCW.

The District was incorporated in 1968 and operates under the laws of the state of Washington applicable to a water-sewer district. The District is a general purpose government and provides water and sewer services. The District uses single-entry, cash basis accounting, which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. The District's resources are allocated to and accounted for in individual funds depending on their intended purposes. The following fund type is used by the District:

PROPRIETARY FUND TYPE

Enterprise Fund

This fund accounts for operations that provide goods and services to the general public and is supported primarily through user charges.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received, and expenditures are recognized when paid, including those properly chargeable against the reporting year budget appropriations as required by state law.

Purchases of capital assets are expensed during the year of acquisition. There is neither capitalization of capital assets nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Cash

It is the District's policy to invest all temporary cash surpluses, which are included in the fund balances shown on *Schedule 01 - Detail of Revenues and Expenditures*. The interest earned on these investments is posted to the enterprise fund.

d. Deposits

The District's deposits and certificates of deposit are insured by the Federal Deposit Insurance Corporation and the Washington Public Deposit Protection Commission.

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

e. Investments

See Note 2, *Investments*.

f. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. The capital assets of the District are recorded as expenditures when purchased.

g. Compensated Absences

Vacation leave may be accumulated up to 80 hours and is payable upon separation or retirement.

Sick leave may be accumulated up to 720 hours. If an employee terminates with at least ten years of service, he or she will be paid for sick leave balances up to 720 hours at one-quarter of his or her final pay rate.

h. Long-Term Debt

See Note 3, *Debt Service Requirements*.

i. Risk Management

The District is a member of the Water and Sewer Risk Management Pool (the Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 66 members, and its fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group-purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment), General Liability, Automotive Liability, Excess Liability, Crime, Public Officials Liability, Identity Fraud Reimbursement Program, and bonds of various types. All coverages are on an "occurrence" basis.

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

i. Risk Management, (continued)

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$10,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$75,000,000 (\$25,000,000 dedicated to Alderwood and \$50,000,000 shared by all members)
Terrorism	\$1,000 - \$10,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	\$10,000,000
Liability:			
Comprehensive General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices/Benefits	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$25,000	\$0
A. \$100,000 member deductibles per occurrence in Flood Zones, except Zones A&V \$250,000 member deductible per occurrence in Flood Zones A&V			
B. Member deductible for earthquakes is 5%, subject to \$100,000 minimum earthquake shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for cyber liability is \$100,000 and where applicable, the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

i. Risk Management, (continued)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above, except where noted. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the cyber liability, and that part of the boiler & machinery deductible which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g., to withdraw from the Pool on November 1, 2016, written notice must be in the Pool's possession by April 30, 2016). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool, which then determines coverage and performs claims adjustment in consultation with Arcadia Claims Service.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, which is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

j. Reserved Fund Balance

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted or have been reserved for specific uses including debt service and other special reserve requirements. Restricted funds totaled \$576,111 as of December 31, 2015.

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 2. INVESTMENTS

As required by state law, all investments of the District's funds are obligations of the U.S. Government or deposits with Washington State banks and savings and loan institutions, or other investments allowed by Chapter 39.59 RCW.

Investments by type at December 31, 2015, are as follows :

<u>Investment Type</u>	<u>Total</u>	<u>Investment Maturities</u>			
		<u>Less Than 6 Months</u>	<u>6 Months to 1 Year</u>	<u>1-5 years</u>	<u>More Than 5 Years</u>
Local Government Investment Pool	\$ 502,486	\$ 502,486	\$ -	\$ -	\$ -
Financing Corporation Strip Bond	499,311	-	-	499,311	-
Federal Home Loan Bank Bonds	<u>1,004,774</u>	-	-	<u>1,004,774</u>	-
	<u>\$ 2,006,571</u>	<u>\$ 502,486</u>	<u>\$ -</u>	<u>\$ 1,504,085</u>	<u>\$ -</u>

The District's Federal Home Loan Bank Bonds and Financing Corporation Strip Bond have maturity dates ranging from March 2017 to October 2019. The securities have 0-1.45% interest rates.

Credit Risk - The District's investment policy limits investments to those authorized by state of Washington statutes governing the investment of public funds. As of December 31, 2015, the District's investments in Federal Home Loan Bank were rated Aaa by Moody's Rating Service.

NOTE 3. DEBT SERVICE REQUIREMENTS

Revenue Debt - The District issued revenue debt in 2009 for the purpose of constructing upgrades to water and sewer pump stations, replacing telemetry equipment throughout the District, refunding the District's outstanding 1997 revenue bonds, and paying the issuance costs of the debt. The District has also issued revenue debt to finance construction of various improvements to the water and sewer systems.

The revenue debts currently outstanding are as follows:

<u>Project</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Amount Outstanding</u>
2009 Refunding Bonds	\$ 6,080,000	3.0 - 4.0 %	\$ 4,615,000
SV / Geneva Intertie Loan PW-02-691-064	893,683	2.0 %	330,764
2015 Post Point	<u>2,362,364</u>	5.13 %	<u>2,292,804</u>
Totals	<u>\$ 9,336,047</u>		<u>\$ 7,238,568</u>

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 3. DEBT SERVICE REQUIREMENTS, (continued)

The annual debt service requirements to maturity for revenue debts are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 370,465	\$ 319,991	\$ 690,456
2017	389,311	305,201	694,512
2018	403,358	289,608	692,966
2019	417,618	274,434	692,052
2020-2024	2,230,742	1,114,591	3,345,333
2025-2029	2,594,534	597,420	3,191,954
2030-2034	<u>832,540</u>	<u>135,656</u>	<u>968,196</u>
Totals	<u>\$ 7,238,568</u>	<u>\$ 3,036,901</u>	<u>\$10,275,469</u>

Total Debt - The accompanying *Schedule of Liabilities* (Schedule - 09) provides further detail on the outstanding debt and liabilities of the District and summarizes the District's debt transactions for the year ended December 31, 2015. There is \$576,111 in restricted assets of the District as of December 31, 2015; these represent sinking funds and reserve requirements as contained in the various indentures.

There are a number of other limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 4. PENSION PLANS

Substantially all the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System (PERS) Plans 1, 2, and 3 administered by the Washington State Department of Retirement Systems under cost-sharing, multiple-employer public employee defined-benefit, and defined-contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the District's financial statements. Contributions to the system by both employee and employer are based upon gross wages covered by plan benefits.

Historical trends or other information regarding each plan is presented in the *Washington State Department of Retirement Systems Annual Financial Report*. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES
December 31, 2015

NOTE 5. DEFERRED COMPENSATION PLANS

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. One plan is with the state of Washington, Committee for Deferred Compensation. The District also offers a deferred compensation plan with ICMA RC. These plans, available to eligible employees, permit them to defer a portion of their salary to future years.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. In June 2004, the state of Washington Deferred Compensation Plan assets were placed into trust for the exclusive benefit of participants and their beneficiaries. Pursuant to Governmental Accounting Standards Board (GASB) Statement 32, since the District is no longer the owner of these assets, as of December 31, 1998 the plan assets and liabilities are no longer considered to be property of the District.

NOTE 6. CAPITAL ASSET ACTIVITY

In addition to protecting against variations in the timing of operating costs and revenues, it is prudent to maintain a capital contingency amount to meet unexpected emergency capital outlays. While it would be impractical to reserve against major system-wide failures as a result of a catastrophic event, it is reasonable to identify and quantify possible failures of individual system components. The District utilizes an estimate of replacement costs to derive the targeted contingency dollar amount. The District's estimated replacement costs of capital assets as of December 31, 2015, totals \$121,000,000. This investment in capital assets includes water collection and transmission lines, pumping stations and equipment, sewage collection and transmission lines, service pipes from the distribution mains to customers' meters, administration and operation facilities, and transportation and office equipment. The District currently has approximately \$1,327,000 (1.1% of replacement value) for capital contingency.

**LAKE WHATCOM WATER AND SEWER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended December 31, 2015

Federal Agency Name	Federal Program Name	CFDA #	Other Award I.D. Number	Pass-Through Agency Name	From Pass - Through Awards	From Direct Awards	Total	Notes
Environmental Protection Agency	Capitilization for DWSRF	66.468	DM13-952-137	Drinking Water State Revolving Fund	\$ 1,844,943	-	\$ 1,844,943	1,2,4,7
Environmental Protection Agency	Capitilization for DWSRF	66.468	DM13-952-136	Drinking Water State Revolving Fund	44,718	-	44,718	1,2,4,7
Totals					\$ 1,889,661		\$ 1,889,661	

**LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

NOTE 1 – BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the Lake Whatcom Water and Sewer District's financial statements. The Lake Whatcom Water and Sewer District uses the cash basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Lake Whatcom Water and Sewer District's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 4 – FEDERAL LOANS

The Lake Whatcom Water and Sewer District was approved by the EPA and the PWB to receive a loan totaling \$2,398,750 and \$990,850 to improve its drinking water system. The amount listed for this loan includes the proceeds used during the year.

Both the current and prior year loans are also reported on the Lake Whatcom Water and Sewer District's Schedule of Liabilities.

NOTE 7 – INDIRECT COST RATE

The Lake Whatcom Water and Sewer District has elected to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.