

LAKE WHATCOM WATER AND SEWER DISTRICT

Special-Purpose Schedules

December 31, 2014

LAKE WHATCOM WATER AND SEWER DISTRICT

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CERTIFIED PUBLIC ACCOUNTANTS

LISTENING THINKING LEADING

vshcpa.com

MAIN OFFICE

Phone: 360.734.8715 Toll Free: 877.634.8715 Fax: 360.738.1176
2200 Rimland Drive, Suite #205, Bellingham, WA 98226

SOUTH SURREY OFFICE

Phone: 604.531.6638
Suite 404, 1688 152 Street, Surrey, BC V4A 4N2

ACCOUNTANTS' COMPILATION REPORT

Board of Commissioners
Lake Whatcom Water and Sewer District
Bellingham, Washington

We have compiled the special-purpose schedules of detail of revenues and expenditures, liabilities, labor relations consultant(s), and risk management of Lake Whatcom Water and Sewer District as of and for the year ended December 31, 2014. We have not audited or reviewed the accompanying special-purpose schedules and, accordingly, do not express an opinion or provide any assurance about whether the special-purpose schedules are in accordance with the form 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.

Management is responsible for the preparation and fair presentation of the special-purpose schedules in accordance with the form 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 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the special-purpose schedules.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of special-purpose schedules without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the special-purpose schedules.

The accompanying special-purpose schedules were prepared for the purpose of complying with requirements of the State Auditor's Office, and are not intended to be a presentation in conformity 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 and is not intended to be and should not be used by anyone other than these specified parties.

VSH **ALLC**

Bellingham, Washington
April 6, 2015

DETAIL OF REVENUES AND EXPENDITURES

For the Year Ended December 31, 2014

MCAG	Fund Number	Fund Name	BARS Account	Description	Amount
2330	401	Enterprise	3081000	Beginning Fund Bal-Reserved	563,840
2330	401	Enterprise	3088000	Beg Fund Bal-Unreserved	2,006,925
2330	401	Enterprise	3336600	State Generated Revenue - DWSRF Loan	175,649
2330	401	Enterprise	3434000	Water Sales and Services	1,744,440
2330	401	Enterprise	3435000	Sewer Sales and Services	3,486,310
2330	401	Enterprise	3438000	Combined Water and Sewer Sales and Services	39,825
2330	401	Enterprise	3590000	Non-Court Fines and Penalties	64,178
2330	401	Enterprise	3611000	Investment Interest	5,368
2330	401	Enterprise	3614000	Interest on Assessments	31,314
2330	401	Enterprise	3681000	Special Assessments-Capital	58,262
2330	401	Enterprise	3691000	Sale of Scrap and Junk	3,967
2330	401	Enterprise	3699000	Other Miscellaneous	40,187
2330	401	Enterprise	3790000	Capital Contributions	98,654
2330	401	Enterprise	3951000	Sale of Capital Assets	5,000
2330	401	Enterprise	5341010	Water Salaries	762,723
2330	401	Enterprise	5341020	Water Benefits	269,685
2330	401	Enterprise	5341030	Water Admin Supplies	11,548
2330	401	Enterprise	5341040	Water Admin Services	405,562
2330	401	Enterprise	5344040	Water Training Services	18,065
2330	401	Enterprise	5345030	Water Maintenance Supplies	104,172
2330	401	Enterprise	5345040	Water Maintenance Services	21,948
2330	401	Enterprise	5346040	Water Operations Contracted	44,579
2330	401	Enterprise	5348030	Water Operations Supplies	20,559
2330	401	Enterprise	5348040	Water Operations Services	103,404
2330	401	Enterprise	5351010	Sewer Salaries	674,988
2330	401	Enterprise	5351020	Sewer Benefits	236,045
2330	401	Enterprise	5351030	Sewer Admin Supplies	12,277
2330	401	Enterprise	5351040	Sewer Admin Services	321,672
2330	401	Enterprise	5354040	Sewer Training Services	7,413
2330	401	Enterprise	5355030	Sewer Maintenance Supplies	36,786
2330	401	Enterprise	5355040	Sewer Maintenance Services	43,787
2330	401	Enterprise	5356040	Sewer Operations Contracted	674,517
2330	401	Enterprise	5358030	Sewer Operations Supplies	20,610
2330	401	Enterprise	5358040	Sewer Operations Services	100,689
2330	401	Enterprise	5913870	Principal Payments-Combined Utilities	291,192
2330	401	Enterprise	5923880	Interest Payments-Combined Utilities	221,666
2330	401	Enterprise	5943460	Capital Expenditures-Water Utilities	217,696
2330	401	Enterprise	5943860	Capital Expenditures-Combined Utilities	1,050,673
2330	401	Enterprise	5081000	End Fund Balance-Reserved	566,495
2330	401	Enterprise	5088000	End Fund Balance-Unreserved	2,085,167

LAKE WHATCOM WATER AND SEWER DISTRICT

SCHEDULE OF LIABILITIES

For the Year Ended December 31, 2014

		(1)	(2)	(3)	(4)		
ID. No.	Description	Maturity/Payment Due Date	Beginning Balance 01/01/14	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/14
263.92	SV / Geneva Intertie Loan PW-01-691-PRE-119 - Issued 2002	7/1/2021	\$ 71,524	\$ -	\$ 8,940	591.38.70	\$ 62,584
263.92	SV / Geneva Intertie Loan PW-02-691-064- Issued 2002	7/1/2022	425,268	-	47,252	591.38.70	378,016
252.11	Refunding Bonds - Issued 2009	11/1/2029	5,095,000	-	235,000	591.38.70	4,860,000
259.12	Compensated absences		77,223	13,628	-	-	90,851
263.92	Latecomer fees and other deferred credits		18,500	-	-	-	18,500
Totals			\$ 5,687,515	\$ 13,628	\$ 291,192		\$ 5,409,951

LABOR RELATIONS CONSULTANT(S)

For the Year Ended December 31, 2014

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, 2014

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, 2014

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 Funds

These funds account for operations that provide goods and services to the general public and are 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 report 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. The amount is included in the fund balances shown on the Schedule 01 Detail of Revenues and Expenditures. The interest on these investments is posted to the enterprise fund.

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES

December 31, 2014

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

d. Deposits

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

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 each 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 has 68 members as of the fiscal year ended October 31, 2014. The Pool's 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, 2014

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-\$10,000	\$25,000	\$10,000,000
Liability:			
Comprehensive General Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$10,000	\$200,000	\$10,000,000
Employment Practices/Benefits	\$1,000 - \$10,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$10,000	\$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, 2014

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 as followed. 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 a 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, 2015, written notice must be in the Pool possession by April 30, 2015). 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 who 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, and 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 \$566,495 as of December 31, 2014.

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES

December 31, 2014

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, 2014, 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	\$ 501,409	\$ 501,409	\$ -	\$ -	\$ -
Financing Corporation					
Strip Bond	630,868	-	630,868	-	-
Federal Home Loan					
Bank Bonds	<u>997,549</u>	<u>-</u>	<u>-</u>	<u>997,549</u>	<u>-</u>
	<u>\$ 2,129,826</u>	<u>\$ 501,409</u>	<u>\$ 630,868</u>	<u>\$ 997,549</u>	<u>\$ -</u>

The District's Federal Home Loan Bank bonds and Financing Corporation Strip Bond have maturity dates ranging from September 2015 to July 2018. The securities have 0-1.15% 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, 2014, 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 bonds. 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%	\$ 4,860,000
SV / Geneva Intertie Loan PW-01-691-PRE-119	167,628	1%	62,584
SV / Geneva Intertie Loan PW-02-691-064	<u>893,683</u>	2%	<u>378,016</u>
Totals	<u>\$ 7,141,311</u>		<u>\$ 5,300,600</u>

See accountants' compilation report

LAKE WHATCOM WATER AND SEWER DISTRICT
NOTES TO SPECIAL-PURPOSE SCHEDULES

December 31, 2014

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>
2015	\$ 301,192	\$ 210,936	\$ 512,128
2016	306,192	200,101	506,293
2017	321,192	189,067	510,259
2018	331,192	177,433	508,625
2019	341,192	166,429	507,621
2020-2024	1,749,640	645,647	2,395,287
2025-2029	<u>1,950,000</u>	<u>273,758</u>	<u>2,223,758</u>
Totals	<u>\$ 5,300,600</u>	<u>\$ 1,863,371</u>	<u>\$ 7,163,971</u>

Total Debt - The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the District and summarizes the District's debt transactions for the period ended December 31, 2014. There is \$566,495 in restricted assets of the District as of December 31, 2014. 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 systems 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, 2014

NOTE 5. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan 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 until 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 replacement costs in capital assets as of December 31, 2014 amounts to \$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.