



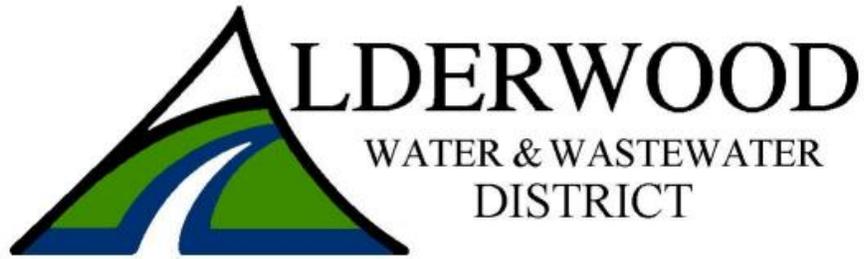
2016

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Alderwood Water & Wastewater District
Lynnwood, Washington

As of and For the Years Ended
December 31, 2016 and 2015





Lynnwood, Washington

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**As of and For the Years Ended
December 31, 2016 and 2015**

Prepared by the:

Alderwood Water & Wastewater District Finance Department

Accountant

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Cover Photo Courtesy of Sarith Chim Photography

ALDERWOOD WATER & WASTEWATER DISTRICT LYNNWOOD, WASHINGTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

As of and For the Years Ended

December 31, 2016 and 2015

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July 19, 2017

To the Alderwood Water & Wastewater District Board of Commissioners:

We are pleased to transmit the Comprehensive Annual Financial Report (CAFR) for Alderwood Water & Wastewater District (District) for the fiscal year ended December 31, 2016. The financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards, by the Washington State Auditor's Office (SAO).

The Finance Department prepares the report and management assumes full responsibility for the completeness and reliability of the information contained herein, based upon a comprehensive framework of internal control that it has established for this purpose. The internal control structure is designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for preparation of the financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

An independent audit is performed annually by the SAO pursuant to Chapter 43.09.310 Revised Code of Washington (RCW). The audit for the fiscal year ended December 31, 2016 was conducted between May and July of 2017. It involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based on the results of these audit procedures, the auditor issued an unmodified ("clean") opinion. The auditor's report on our financial statements and related notes are included in the Financial Section of this report.

The CAFR contains three sections: Introductory, Financial, and Statistical. The Introductory Section is designed to provide background information about the District. The Financial Section includes the Management's Discussion and Analysis (MD&A), the Financial Statements and the Notes to the Financial Statements. The MD&A provides a narrative analysis of financial condition and operating results; it should be read in conjunction with this letter of transmittal. The Statistical Section provides economic and financial data for the last ten years.

I. DISTRICT PROFILE

The District is a special purpose district organized under RCW Chapter 57 to provide water and wastewater service to specific areas of south Snohomish County. Snohomish County is situated between northern Puget Sound to the west and the crest line of the North Cascade Range to the east. It shares its northern border with rural Skagit County and its southern border with King County. The District was formed by public election in 1931. As a public agency, it is governed by

a five-member Board of Commissioners. Each Commissioner resides within the District service area and is elected by the District's registered voters to six-year terms.

The District service area is the largest water and sewer district in the State of Washington, serving a population of over 245,000 retail and wholesale customers. The District service area is approximately 44 square miles, and includes unincorporated areas and portions of the cities of Bothell, Lynnwood, Mountlake Terrace, Mill Creek, Mukilteo, and Brier. The District is bordered on the north by the City of Everett and on the northwest by the City of Mukilteo, on the east by Cross Valley Water District and the Silver Lake Water and Sewer District.

A. The Water System

Service Area and Customers. The District provides retail water service to unincorporated areas of SW Snohomish County, the City of Brier, and portions of the Cities of Lynnwood, Bothell, Mukilteo and Mill Creek. The District provides wholesale water service to the Cities of Mountlake Terrace, Lynnwood, and Edmonds, Mukilteo Water & Wastewater District, Silver Lake Water and Sewer District as well as the Clearview Water Supply Agency.

As of the end of 2016, the District served 51,817 retail accounts directly and roughly 31,000 accounts indirectly through the wholesale agreement with the agencies listed above. Water consumption by the District's wholesale customers accounts for approximately 50 percent of the total average daily demand. Records indicate that over 93% of the District's accounts are residential and approximately 79% of consumption within the retail service area is from residential accounts.

Contractual Agreements and Water Rights. Since the incorporation of the District in 1931, the District has purchased water from the City of Everett. During the period from 1954 to 1961, the District augmented the Everett water supply with ten deep wells. However, due to increasing demand and the inability to find sufficient water through a test well program, the District signed a long-term agreement with the City of Everett. The current contract with Everett provides water to the District until January 1, 2055.

B. The Wastewater System

Service Area and Customers.

In 1966, the District was authorized to provide wastewater service within the unincorporated area of its boundaries. Currently, the District serves these areas and portions of the cities of Bothell, Lynnwood, Mukilteo, Mill Creek and Brier. As of the end of 2016, the District served 39,159 retail wastewater accounts. In addition, the District provides wholesale wastewater transmission service for portions of the City of Brier and Silver Lake Water and Sewer District.

Of all District retail wastewater accounts, approximately 97% are residential. These accounts contribute approximately 81% of the total revenue in the Wastewater Fund. Approximately 13,000 properties within the District's wastewater service area have septic systems. As these septic systems fail with age, we expect many of these properties to connect to District wastewater service and we plan for that additional growth in wastewater flows.

Service Contract. Transmission and treatment of sewage is provided by three sources: (1) a contract with King County Department of Natural Resources and Parks (KCDNRP); (2) a

contract with the City of Everett; and (3) the District's own treatment plant. Treatment of sewage in most of the eastern half of the District is provided by the KCDNRP through a long-term contract with the District, which expires July 1, 2056. Contract service is also provided by the City of Everett to the northeast portion of the District; that agreement expires March 31, 2020. KCDNRP treats approximately 82 percent of the District's sewage, 16 percent is treated by the District's plant, and 2 percent is treated by the City of Everett.

District Facilities: The District's renovated Picnic Point Wastewater Treatment Facility became fully operational in 2013. The expanded and state-of-the-art plant is capable of processing 4 million gallons a day ("mgd") and a maximum peak-hour flow of 8.8 mgd equivalent. The Picnic Point plant serves the northwest portion of the District and is located north of the City of Lynnwood with outfall into Puget Sound. In the near future, the District will modify existing facilities to re-route wastewater flows in specific areas from KCDNRP facilities to the new Picnic Point treatment plant.

The District currently has 12 active sanitary sewer lift stations ranging in capacity from 100 gallons per minute to 2,500 gallons per minute. All stations have a back-up power supply. The District has approximately 450 miles of sanitary sewer mains and laterals for local collection and transmission to treatment facilities.

II. ECONOMIC CONDITIONS AND OUTLOOK

The District is located in Northwest Washington, north of the City of Seattle and south of the City of Everett, in southwest Snohomish County. The District's customers are predominantly residential, so the financial health of the residents living within the District, as opposed to those working within the District, has the most impact on the District's economic outlook. An indication that the local economy continues to improve is the rebound of median household income for Snohomish County residents to pre-recession levels. Median income peaked in 2008 at \$64,289 and then declined in 2009 and 2010. After bottoming out at \$62,034, incomes have continued to grow since 2011. The continuing economic recovery has catapulted Snohomish County's median household income in the past three years, and it now stands at \$77,985 in 2016.

Another indication of the financial health of the District's customers is the number of water accounts locked for nonpayment. From 2008 to 2009, the District experienced a 52% increase in the number of locks for nonpayment - from 580 to 881. Subsequently, this number declined each year until reaching 259 in 2013. In 2014 and 2015, the number of locks increased slightly, before dropping again, to 231, in 2016.

When an account stays delinquent for an extended period of time, the District files a lien against the property. Like locks for nonpayment, liens can be seen as a proxy for the economic health of the District's customers. In 2012, the District filed 143 property liens for delinquent accounts - a 36% decrease from the 225 liens filed in 2011 and the first year-over-year decrease since 2008. Since then, the number of annual lien filings has drastically fallen. In 2016, there were only 9 lien filings, the lowest number seen since 2002.

The largest sectors of employment in Snohomish County are manufacturing, government and wholesale retail trade. In 2016, approximately 63,500 jobs or 16.2% of the county's total employment was in manufacturing (primarily aerospace). Boeing, the aircraft manufacturing company, is by far the county's largest employer. With roughly 34,500 employees, it employs

approximately 10% of the workforce in the County. The second largest employer is the Providence Regional Medical Center with roughly 4,800 employees.

According to the Washington State Employment Security Department, the December 2016 unemployment rate for Snohomish County stood at 3.9%. Only King County had a lower unemployment rate in the same month. By comparison, the State of Washington unemployment rate in the same month was at 5.3% and the U.S. rate was 4.7%.

Employment in Snohomish County is rebounding, but many of the County's residents work in the Seattle Metropolitan area, which is located in King County to the south. The American Community Survey estimated that, in 2011, 33% of Snohomish County's working residents commuted to King County for work. The December 2016 unemployment rate for King County was 3.4%, down from 4.2% in December 2015. The District's customers are seeing the benefits of a strong regional economy.

The limitation on affordable and developable land in the Seattle Metropolitan area has historically driven growth in Snohomish County, in particular residential growth in the County's southern portion. During the economic downturn, growth within the District dropped as reflected in the side sewer permits and water meter applications issued by the District. Since 2010, the District has experienced a gradual rebound in new service connections:

	2010	2011	2012	2013	2014	2015	2016
Side Sewer Permits	779	840	879	877	888	857	974
Water Meter Applications	710	981	968	870	995	894	950

Consistent with construction activity in Snohomish County and the local housing market, the rebound is below development levels from 2004 through 2008, when water meter applications averaged 1,439 and side sewer permits averaged 1,347 per year.

Financial projections in the District's 2016-2017 biennial budget assume modest growth in new service connections. The expectation is that the gradual rebound in the local economy will continue. As a result, the District continues to plan for adequate infrastructure to support future growth within our boundaries, while maintaining reasonable rates for our customers.

III. LONG-TERM FINANCIAL PLANNING

Unlike many municipal governments, special purpose water and wastewater districts are not legally mandated by the state to formally adopt a budget. The District has chosen to adopt a biennial budget to serve as a financial plan and a budgetary control for District expenses. The Finance Department prepares and submits a proposed two-year budget to the Board of Commissioners (Board) every other fall based on the Board-adopted financial policies. Budget proceedings take place during regularly scheduled commissioner meetings and work sessions. After review and public input, a final budget is adopted by the Board.

In late 2009, the District adopted fiscal policies to promote financial health and stability. Two strong commitments set forth in the policies are a fair, balanced rate structure that supports the cost to provide service, and a commitment to establish an integrated capital funding strategy.

The District does not receive any tax revenue and therefore relies solely on the water and wastewater service revenues received from the ratepayers and General Facility Connection Charges (GFCs). Every three years, the District conducts a utility rate study and review of the GFC charges, to ensure that the fees collected adequately and fairly recoup the cost to provide water and wastewater services. The District includes a contribution for capital in the rates for both water and wastewater. In 2011, the contribution from rates to capital was \$2.5 million for each utility. In 2012, that amount was increased to \$3.5 million, where it remained from 2013 to 2016.

The fiscal policies also established levels for operating and capital reserves for both water and wastewater. Through 2016, the District maintained an operating reserve equal to at least 90 days of annual operating expenses for the water utility, and 60 days of annual operating expenses for the wastewater utility. The capital reserve for each utility is maintained at the greater of \$10 million or 2% of the original capital assets' value.

In 2009, the District adopted a 20-year Comprehensive Water Plan, as required by state law. Although not required by law, the District also adopted a 20-year Comprehensive Wastewater Plan. The fiscal policies commit the District to updating each plan every 6 years and maintaining a 6-year capital project schedule. These plans provide a summary of the capital improvement projects and the estimated costs for the period.

Recognizing the importance of balancing long-range planning with ever-changing conditions, the District is undertaking a unique update of its water and wastewater Comprehensive plans. Instead of creating a stagnant document which is out of date before it is finally printed, the District is creating a model or plan that will frequently be updated with new information. The goal is to create a plan that can respond to changing circumstances, like those our communities faced during the last five years. The District began work on such a *living* plan in 2013. The draft Water Plan and Sewer Plans were submitted to the Washington State Department of Health and the Washington State Department of Ecology, respectively, in early 2017. The District is now in the process of responding to the State's questions and expects to submit final plans in late 2017.

IV. MAJOR INITIATIVES

During 2016, the District completed the Olympus Meadow Sewer Trunk in order to provide sufficient future capacity for sewer flows in the area. The activation of this new sewer trunk is awaiting completion of King County's North Creek Interceptor replacement project. The District concurrently completed the majority of the Olympus Meadows Water Transmission line to efficiently install a section of the upcoming Eastside Transmission main installation. To proactively address needs at the Picnic Point Wastewater Treatment Plant, the District contracted with HDR to complete an evaluation of the capacity and reliability of the plant. The District completed the upgrade of one of the two primary sodium hypochlorite systems used to ensure clean and safe water for all users of District's water.

V. AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Alderwood Water & Wastewater District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2015. This was the fourth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This financial report is possible because of the hard work and efforts of the Finance Department staff and all the departments within the District. Further acknowledgment must be extended to each member of the Board of Commissioners for their continued support and interest in the accounting and financial functions of the District. The District would also like to thank the SAO, which provided a timely audit and opinion of this CAFR.

Respectfully Submitted,



Jeff Clarke
General Manager



Sridhar Krishnan
Finance Director



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Alderwood Water & Wastewater District
Washington

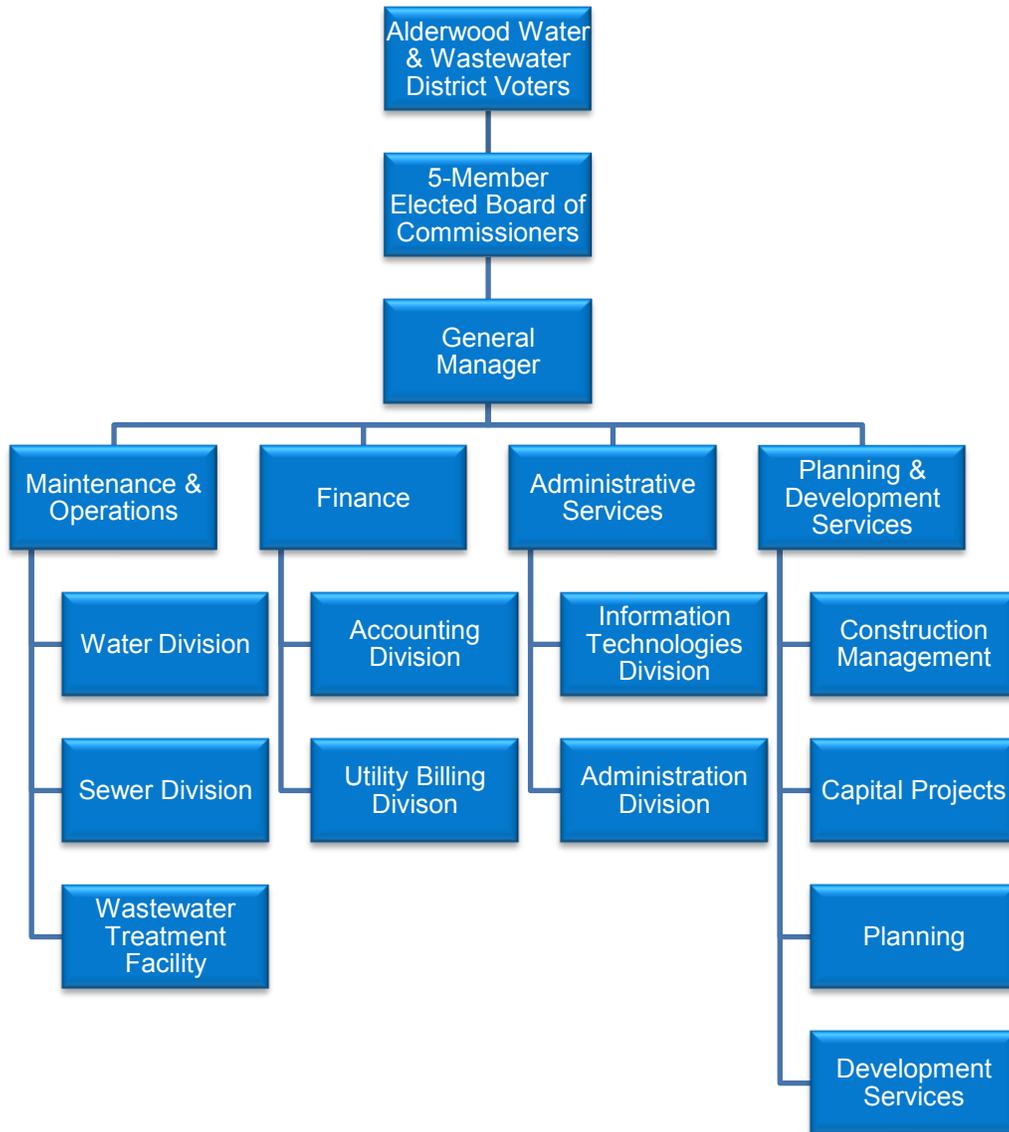
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2015

A handwritten signature in black ink, which appears to read "Jeffrey R. Emer".

Executive Director/CEO

ALDERWOOD WATER & WASTEWATER DISTRICT
Organizational Chart
January 1, 2016 through December 31, 2016



ALDERWOOD WATER & WASTEWATER DISTRICT
Snohomish County, Washington
January 1, 2016 through December 31, 2016

Directory of Officials

Elected

		<u>Term</u>	<u>Expiration</u>
President/ Commissioner	Dean R. Lotz	4	December 31, 2019
Vice-President/ Commissioner	Larry D. Jones	6	December 31, 2017
Secretary/ Commissioner	Paul D McIntyre	6	December 31, 2019
Commissioner	Michael R. Dixon	6	December 31, 2017
Commissioner	Donna Cross	6	December 31, 2021

Appointed

General Manager	Jeff Clarke
Finance Director	Sridhar Krishnan
Director of Maintenance & Operations	Joe Bolam
Administrative Services Manager	Mike Pivec
Capital Projects Manager	Paul Richart
Planning & Development Services Director	Duane Huskey, P.E.
Attorney	Joseph P. Bennett Hendricks - Bennett, PLLC

Mailing Addresses

District Office	3626 - 156th St. S.W. Lynnwood, WA 98087-5021
District's Attorney:	402 Fifth Avenue South Edmonds, WA 98020

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

July 19, 2017

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of the Alderwood Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Alderwood Water and Wastewater District, Snohomish County, Washington, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Note 1, during the year ended December 31, 2015, the District has implemented the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 21 and pension plan information on pages 60 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The information identified in the table of contents as the Introductory and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated July 19, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy". The signature is written in black ink and is positioned above the printed name.

Pat McCarthy

State Auditor

Olympia, WA

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ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

As Management of the Alderwood Water & Wastewater District (District), we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal years ending December 31, 2016 and December 31, 2015. Please read this in conjunction with the financial statements, including the notes to the financial statements, which follow.

Financial Highlights

- For the year ending December 31, 2016, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$438.4 million. Of this amount, referred to as net position, 23.7% or \$104.0 million is shown as unrestricted and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets (\$328.8 million or 75.0%) or restricted for debt service payments and reserves (\$5.6 million or 1.3%).
- As of the end of 2016, the District's total net position increased by \$12.7 million or 3.0% from the prior year. Net Position for the Water Fund increased \$9.8 million or 5.0% and the Net Position for the Wastewater Fund increased \$3.0 million or 1.3%.
- In 2016, the District made corrective payments to the two agencies that receive and treat District sewage flows after discovering software and human errors that resulted in several years of underreporting sewer customers. The District paid \$3,238,343 to King County and \$75,360 to City of Everett. Both amounts were accrued as 2016 expenses.
- A 2016 rate study resulted in modest increases in water and sewer charges, and significant changes to the structure of the District's sewer rates for single-family residences. The new rates took effect January 1, 2017, and are accessible on the District's website - www.awwd.com.
- In 2016, the Washington State Department of Revenue (DOR) began an audit of the District's sewer collection excise tax payments. The audit is ongoing and is expected to conclude in 2017. With DOR's approval, the District will be implementing a new methodology for estimating the proportion of lateral (collection) and interceptor (transmission) pipes in the sewer system annually.
- The District implemented Government Accounting Standards Board Statement No. 72, Accounting and Financial Reporting for Pensions (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

- The District implemented Government Accounting Standards Board Statement No. 79 (GASB 79), which addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

Overview of the Financial Statements

We think it would be helpful to first explain the purpose of the District's three basic financial statements:

- **Comparative Statement of Net Position**
- **Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position**
- **Comparative Statement of Cash Flows**

The **Comparative Statement of Net Position** presents detailed information on all of the District's assets, liabilities, and deferred outflows/inflows. The difference between the sum of total assets and deferred outflows and the sum of total liabilities and deferred inflows is represented as net position. This statement reports all of the District's assets, outflows, liabilities, and inflows at a precise date - in our case December 31. It is like taking a "financial photograph" of the District on the last day of the year. While it is interesting to know this information, it is more useful to compare it to what the District looked like at the same date of the prior year. To that end we have elected to present two years of financial statements, thus we call our statements "comparative". By looking at the two years together, a reader can see what changes have occurred in individual line items and begin to make a determination whether the changes, taken as a whole, indicate that the District's financial position has improved or deteriorated.

The **Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position** represents twelve months worth of revenue and expenses beginning January 1 and ending December 31, the same ending date as the comparative statement of net position. This statement, in part, measures the success of the District's operations to collect enough revenue to pay for the costs of providing water and wastewater services. It also reports other non-operating revenue and expenses such as investment interest income and bond interest expense. As mentioned above, looking at one year's statement provides interesting information, but looking at two years together provides information that can be compared and analyzed.

The **Comparative Statement of Cash Flows** reports cash receipts and cash payments in several categories such as cash flows from operations, capital financing and investing. In total these activities explain the changes that have occurred in cash, as reported on the comparative statement of net position, and they answer the question, "did we increase or decrease cash and what caused the changes?"

Notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements. The Comprehensive Annual Financial Report (CAFR) also includes a Statistical Section, which provides more details about the District.

The District operates a water utility and a wastewater (sewer) utility and is required to report separate financial information for both funds; thus assets, liabilities, results of operations, and cash flows are reported separately on the financial statements.

Financial Position

The District's overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations. There are no restrictions, commitments or other limitations that would significantly affect the availability of fund resources for future use. Capital assets have continued to increase as new connections have been added to our water and wastewater systems and significant investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

Total Net Position (Dollars in Millions)

	Water			Wastewater			Total		
	2016	2015	2014	2016	Restated* 2015	2014	2016	Restated* 2015	2014
Current and Other Assets	\$ 62.6	\$ 61.2	\$ 59.5	\$ 65.6	\$ 63.4	\$ 59.7	\$ 128.2	\$ 124.5	\$ 119.3
Capital Assets	181.6	175.5	172.6	243.3	241.2	241.4	424.9	416.6	414.1
Total Assets	244.2	236.6	232.2	308.9	304.5	301.2	553.1	541.2	533.3
Total Deferred Outflows of Resources	0.83	0.51	-	0.83	0.51	-	1.65	1.02	-
Long-Term Liabilities	30.3	33.3	32.4	71.0	72.1	69.9	101.4	105.4	102.4
Other Liabilities	7.6	6.1	8.6	7.1	3.8	5.5	14.7	9.9	14.1
Total Liabilities	37.9	39.4	41.0	78.1	75.9	75.4	116.0	115.3	116.4
Total Deferred Inflows of Resources	0.1	0.6	-	0.1	0.6	-	0.3	1.2	-
Net Investment in Capital Assets	152.8	143.4	136.9	176.0	172.0	170.9	328.8	315.4	307.7
Restricted	3.5	3.6	3.5	2.1	2.1	2.1	5.6	5.7	5.6
Unrestricted	50.6	50.2	50.8	53.3	54.4	52.8	104.0	104.7	103.6
Total Net Position	\$ 207.0	\$ 197.2	\$ 191.2	\$ 231.5	\$ 228.5	\$ 225.7	\$ 438.4	\$ 425.7	\$ 416.9

*2015 Restatement due to change in calculation formula. Refer to Note 10 of the notes to the financial statements for additional information.

Analysis of changes in Total Net Position from 2015 (Restated) - 2016:

For the twelve months ending December 31, 2016, the total net position of the District increased by \$12.7 million or 3.0% (\$425.7 million for 2015 vs. \$438.4 million for 2016). The amount of net position invested in capital assets, net of related debt, was increased by \$13.4 million (\$315.4 million for 2015 vs. \$328.8 million for 2016) or 4.2%. The amount of net position, which is unrestricted, was decreased by \$0.7 million (\$104.7 million for 2015 vs. \$104.0 million for 2016) or 1.4%. Unrestricted net position is the amount which may be used to meet the District's ongoing obligations, including future capital investments. These changes to net investment in capital assets, net of related debt, are largely the result of the District continuing to invest current assets in capital projects during 2016. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

Analysis of changes in Total Net Position from 2014 – 2015 (Restated):

For the twelve months ending December 31, 2015, the total net position of the District increased by \$8.8 million or 2.1% (\$416.9 million for 2014 vs. \$425.7 million for 2015). The amount of net position invested in capital assets, net of related debt, was increased by \$7.7 million (\$307.7 million for 2014 vs. \$315.4 million for 2015) or 2.5%. The amount of net position which is unrestricted was increased by \$1.1 million (\$103.6 million for 2014 vs. \$104.7 million for 2015) or 1.1%. Unrestricted net position is the amount which may be used to meet the District's ongoing obligations, including future capital investments. These changes to net investment in capital assets, net of related debt, are largely the result of the District continuing to invest current assets in capital projects during 2015. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

Revenues, Expenses and Changes in Fund Net Position (Dollars in Millions)

	Water			Wastewater			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Utility Revenue	\$ 35.7	\$ 35.5	\$ 34.3	\$ 42.2	\$ 41.0	\$ 39.8	\$ 77.8	\$ 76.5	\$ 74.1
Interest and Investment Revenue	0.6	0.6	0.7	0.9	0.7	1.0	1.5	1.3	1.7
Other Nonoperating Revenue	0.1	0.1	0.1	0.8	1.2	-	1.0	1.3	0.1
Total Revenues	36.4	36.2	35.1	43.9	42.9	40.8	80.3	79.1	75.9
Operation Expenses	21.4	20.6	18.4	34.6	29.6	27.3	56.1	50.1	45.8
Maintenance Expenses	4.1	5.3	6.8	1.9	1.7	1.9	6.0	7.0	8.7
Depreciation Expenses	5.2	5.2	5.1	9.4	9.2	9.0	14.6	14.4	14.1
Taxes	1.2	1.2	1.3	0.4	0.4	0.4	1.6	1.6	1.6
Total Operating Expenses	31.9	32.3	31.5	46.3	40.8	38.7	78.2	73.1	70.2
Nonoperating Expenses	1.3	1.4	1.7	3.0	2.8	3.3	4.3	4.2	4.9
Total Expenses	33.2	33.7	33.2	49.3	43.7	42.0	82.5	77.3	75.1
Inc. Before Cap. Contributions	3.2	2.6	2.0	(5.5)	(0.7)	(1.2)	(2.3)	1.8	0.8
Capital Contributions									
Contributed Systems	4.2	5.5	2.6	5.3	4.7	4.3	9.5	10.2	6.9
Other Capital Contributions	2.4	2.1	2.1	3.1	3.0	2.9	5.5	5.0	5.1
Change in Net Position	9.8	10.1	6.7	2.9	6.9	6.0	12.7	17.0	12.7
Beginning Net Position	197.2	191.2	184.5	228.5	225.7	219.7	425.7	416.9	404.2
Cummulative effect of a change in accounting principle	-	(4.1)	-	-	(4.1)	-	-	(8.2)	-
Ending Net Position	\$ 207.0	\$ 197.2	\$ 191.2	\$ 231.5	\$ 228.5	\$ 225.7	\$ 438.4	\$ 425.7	\$ 416.9

*2015 Restatement due to change in classification of Other Nonoperating Revenue. Refer to Note 10 of the notes to the financial statements for additional information.

Analysis of changes in Revenues, Expenses, and Changes in Fund Net Position from 2015 (Restated) - 2016:

Income or loss before Capital Contributions decreased from 2015 to 2016 by \$4.1 million (\$1.8 million gain for 2015 vs. \$2.3 million loss for 2016). This was the result of an increase in total revenue of \$1.2 million and an increase in total expenses of \$5.2 million. Nonoperating expenses increased by \$0.1 million (\$4.2 million for 2015 vs. \$4.3 million for 2016) and operating expenses increased \$5.1 million (\$73.1 million for 2015 vs. \$78.2 million for 2016). The increases in 2016 revenue are primarily related to continued growth in the number of water and wastewater customers. Operating expenses in the water fund decreased slightly in 2016 as a return to normal summer weather brought a decrease in water purchases and the meter replacement program was no longer in progress. In the wastewater fund, the increase in operating expenses is mostly driven by higher costs for purchased treatment. Corrective payments for previously unreported customers further drove up the cost of purchased treatment (see above).

Capital Contributions reported on the Statement of Revenues, Expenses, and Changes in Net Position include 1) Developer Contributed Systems, a non-cash transaction, and 2) Other Capital Contributions, which includes customer payments of connection charges, a cash capital contribution. In 2016, developers contributed \$9.5 million in water and sewer mains and \$5.5 million in capital contribution (general facilities charges). This is a decrease in developer contributions of \$0.7 million or 6.9% (\$10.2 million for 2015 vs. \$9.5 million for 2016) and an increase in general facilities charges of \$0.5 million or 10.0% (\$5.0 million for 2015 vs. \$5.5 million for 2016).

Analysis of changes in Revenues, Expenses, and Changes in Fund Net Position from 2014 – 2015 (Restated):

Income or loss before Capital Contributions increased from 2014 to 2015 by \$1.0 million (\$0.8 million gain for 2014 vs. \$1.8 million gain for 2015). This was the result of an increase in total revenue of \$3.2 million and an increase in total expenses of \$2.2 million. Nonoperating expenses decreased by \$0.7 million (\$4.9 million for 2014 vs. \$4.2 million for 2015) and operating expenses increased \$2.9 million (\$70.2 million for 2014 vs. \$73.1 million for 2015). The increases in 2015 are primarily because a warmer than anticipated summer resulted in higher than projected revenues from water sales and related wastewater service charges. The weather also contributed to increased costs because the District purchased more water from Everett.

Capital Contributions reported on the Statement of Revenues, Expenses, and Changes in Net Position include 1) Developer Contributed Systems, a non-cash transaction, and 2) Other Capital Contributions, which includes customer payments of connection charges, a cash capital contribution. In 2015, developers contributed \$10.2 million in water and sewer mains and \$5.0 million in capital contribution (general facilities charges). This is an increase in developer contributions of \$3.3 million or 47.8% (\$6.9 million for 2014 vs. \$10.2 million for 2015) and a decrease in general facilities charges of \$.1 million or 2.0% (\$5.1 million for 2014 vs. \$5.0 million for 2015).

Capital Assets (Dollars in Millions)

	<u>Water</u>			<u>Wastewater</u>			<u>Total</u>		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Land and Land Rights	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.8	\$ 0.8	\$ 0.8
Construction in Progress	7.9	2.9	3.5	8.6	9.7	13.5	16.6	12.6	17.0
Total Plant not depreciated	8.4	3.3	4.0	9.0	10.1	13.8	17.4	13.4	17.8
Miscellaneous Intangible Plant	1.3	1.3	1.3	1.0	1.0	1.0	2.4	2.4	2.4
Structures & Improvements	27.0	27.2	26.7	143.7	139.5	138.5	170.8	166.7	165.2
Mains, Meters, Hydrants	210.9	205.6	198.1	166.6	159.0	150.5	377.5	364.7	348.6
Computers, Equipment & Furniture	5.6	5.2	4.6	12.1	11.4	8.2	17.7	16.6	12.8
Total Plant being depreciated	244.9	239.3	230.7	323.5	310.9	298.2	568.4	550.3	528.9
Less Accumulated Depreciation	(71.7)	(67.2)	(62.1)	(89.2)	(79.8)	(70.6)	(160.9)	(147.1)	(132.7)
Total Utility Plant	\$ 181.6	\$ 175.5	\$ 172.6	\$ 243.3	\$ 241.2	\$ 241.4	\$ 424.9	\$ 416.6	\$ 414.1

Refer to Note 3 of the notes to the financial statements for additional information.

Analysis of changes in Capital Assets from 2015-2016:

Total Plant being depreciated increased \$18.1 million (\$550.3 million for 2015 vs. \$568.4 million for 2016), or 3.3%. The water fund added \$5.6 million in depreciable assets or 2.3% (\$239.3 million for 2015 vs. \$244.9 million for 2016). The increase in water assets is primarily due to developer contributions (water mains & hydrants) totaling \$5.3 million; Elberta Road Water Main Replacement project of \$0.7 million; and the Sodium Hypochlorite System project of \$.5 million.

The wastewater fund added \$12.6 million in depreciable assets or 4.1% (\$310.9 million for 2015 vs. \$323.5 million for 2016). The increase in wastewater assets is primarily due to developer contributions (sewer mains) totaling \$4.2 million; \$6.4 million in projects with interlocal partners and \$1.0 million in Picnic Point Wastewater Facility improvements.

Analysis of changes in Capital Assets from 2014-2015:

Total Plant being depreciated increased \$21.4 million (\$528.9 million for 2014 vs. \$550.3 million for 2015), or 4.0%. The water fund added \$8.6 million in depreciable assets or 2.2% (\$230.7 million for 2014 vs. \$239.3 million for 2015). The increase in water assets is primarily due to developer contributions (water mains & hydrants) totaling \$5.5 million; North Road project improvements of \$0.7 million; Lockwood Road PRV station and Canyon Park tank altitude control projects totaling \$0.7 million; and acquisition of a hydro-excavator for \$0.4 million. The wastewater fund added \$12.7 million in depreciable assets or 4.3% (\$298.2 million for 2014 vs. \$310.9 million for 2015). The increase in wastewater assets is primarily due to developer contributions (sewer mains and lift station #25) totaling \$4.7 million; \$2.8 million in lift station improvement projects; the \$1.9 million Swamp Creek Interceptor project and the \$1.7 million elimination of lift station #7 project.

Long-Term Liabilities

At the end of the current fiscal year, the District had total long term debt outstanding of \$94,946,166; the net decrease of \$4,989,215 is a result of normal repayment and new draws on State Revolving Fund loans. The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. has assigned a rating of "Aa2". In April 2013, S&P affirmed its "AA+" rating for the District. Additional detailed information about the District's long-term debt can be found in Note 5 to the Financial Statements.

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ALDERWOOD WATER & WASTEWATER DISTRICT

COMPARATIVE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Net Position

As of December 31, 2016 and December 31, 2015

	2016		Total
	Water Fund	Wastewater Fund	
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 16,313,096	\$ 22,738,128	\$ 39,051,224
Investments	35,938,206	33,940,345	69,878,551
Receivables, net	4,566,297	6,139,395	10,705,692
Inventories	875,385	32,180	907,565
Prepayments	297,465	297,465	594,930
Other Current/Accrued Assets	90,908	71,441	162,349
TOTAL CURRENT ASSETS	<u>58,081,357</u>	<u>63,218,954</u>	<u>121,300,311</u>
Noncurrent Assets:			
Restricted cash/equivalents	3,537,920	2,099,171	5,637,091
Deposits with Fiscal Agents/Trustees	156,027	144,000	300,027
Restricted Investments	-	-	-
Assessments Receivable	-	142,880	142,880
Investment in Clearview Water Supply Agency	811,183	-	811,183
Capital Assets Not Being Depreciated:			
Land	460,812	364,737	825,549
Construction Works in Progress	7,944,591	8,620,667	16,565,258
Capital Assets Being Depreciated:			
Plant	26,492,641	144,797,471	171,290,112
Distribution and collection systems	201,498,181	166,582,823	368,081,004
Machinery and equipment	16,870,357	12,113,509	28,983,866
Less accumulated depreciation	(71,687,264)	(89,171,327)	(160,858,591)
TOTAL NONCURRENT ASSETS	<u>186,084,448</u>	<u>245,693,931</u>	<u>431,778,379</u>
TOTAL ASSETS	<u>244,165,805</u>	<u>308,912,885</u>	<u>553,078,690</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	827,041	827,041	1,654,082
LIABILITIES			
Current Liabilities:			
Accounts Payable	1,504,245	1,168,218	2,672,463
Other Current/Accrued Liabilities	1,706,589	3,540,675	5,247,264
Compensated Absences	142,953	143,017	285,970
Customer Deposits	604,878	584,445	1,189,323
Bonds, Notes and Loans Payable	3,588,595	1,680,891	5,269,486
TOTAL CURRENT LIABILITIES	<u>7,547,260</u>	<u>7,117,246</u>	<u>14,664,506</u>
Noncurrent Liabilities:			
Bonds, Notes and Loans Payable	25,168,577	65,656,556	90,825,133
Compensated Absences	428,858	\$ 429,051	857,909
Interest Accrued	117,560	309,608	427,168
Net Pension Liability	4,626,025	4,626,025	9,252,050
TOTAL NONCURRENT LIABILITIES	<u>30,341,020</u>	<u>71,021,240</u>	<u>101,362,260</u>
TOTAL LIABILITIES	<u>37,888,280</u>	<u>78,138,486</u>	<u>116,026,766</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	143,066	143,066	286,132
NET POSITION			
Net Investment in Capital Assets	152,822,146	175,970,433	328,792,579
Restricted for debt service	3,537,920	2,099,171	5,637,091
Unrestricted	50,601,434	53,388,770	103,990,204
TOTAL NET POSITION	<u>\$ 206,961,500</u>	<u>\$ 231,458,374</u>	<u>\$ 438,419,874</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Net Position

As of December 31, 2016 and December 31, 2015

	Restated 2015	
Water Fund	Wastewater Fund	Total
\$ 44,466,697	\$ 45,289,385	\$ 89,756,082
6,993,835	9,632,677	16,626,512
3,761,513	5,718,027	9,479,540
907,452	33,486	940,938
365,224	355,984	721,208
35,191	42,880	78,071
<u>56,529,912</u>	<u>61,072,439</u>	<u>117,602,351</u>
1,278,944	2,117,398	3,396,342
250,078	-	250,078
2,307,926	-	2,307,926
-	178,140	178,140
811,183	-	811,183
460,812	364,737	825,549
2,877,257	9,698,374	12,575,631
26,660,348	140,533,478	167,193,826
196,212,371	159,013,732	355,226,103
16,470,632	11,389,282	27,859,914
<u>(67,216,542)</u>	<u>(79,848,231)</u>	<u>(147,064,773)</u>
180,113,009	243,446,910	423,559,919
<u>236,642,921</u>	<u>304,519,349</u>	<u>541,162,270</u>
512,196	512,196	1,024,392
2,027,775	1,037,017	3,064,792
135,631	322,318	457,949
132,984	133,048	266,032
493,780	508,561	1,002,341
3,293,095	1,820,261	5,113,356
<u>6,083,265</u>	<u>3,821,205</u>	<u>9,904,471</u>
28,773,003	67,376,459	96,149,462
398,951	399,145	798,096
125,238	317,603	442,841
3,988,008	3,988,008	7,976,016
<u>33,285,200</u>	<u>72,081,215</u>	<u>105,366,415</u>
<u>39,368,466</u>	<u>75,902,420</u>	<u>115,270,886</u>
601,519	601,519	1,203,038
143,398,780	171,954,652	315,353,432
3,586,870	2,117,398	5,704,268
50,199,482	54,455,556	104,655,038
<u>\$ 197,185,132</u>	<u>\$ 228,527,606</u>	<u>\$ 425,712,738</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statement of Revenue, Expenses & Changes in Fund Net Position
For the Years Ended December 31, 2016 and December 31, 2015

	2016		Total
	Water Fund	Wastewater Fund	
OPERATING REVENUE:			
Utility Revenue	\$ 33,908,383	\$ 42,150,115	\$ 76,058,498
Other Charges for Services	1,748,396	-	1,748,396
Total Operating Revenue	<u>35,656,779</u>	<u>42,150,115</u>	<u>77,806,894</u>
OPERATING EXPENSES:			
General Operations	7,542,492	7,074,025	14,616,517
Purchased Water/Wastewater	13,867,619	27,568,406	41,436,025
Maintenance Expense	4,099,334	1,906,950	6,006,284
Depreciation Expense	5,206,540	9,383,804	14,590,344
Taxes	1,220,013	366,538	1,586,551
Total Operating Expenses	<u>31,935,998</u>	<u>46,299,723</u>	<u>78,235,721</u>
OPERATING INCOME (LOSS)	<u>3,720,781</u>	<u>(4,149,608)</u>	<u>(428,827)</u>
NONOPERATING REVENUE (EXPENSES):			
Interest and Investment Revenue	636,230	857,188	1,493,418
Rent	125,581	-	125,581
Other Capital Revenue	-	843,127	843,127
Gains (Losses) on Capital Asset Disposition	(104,098)	(210,319)	(314,417)
Interest on Long-Term Debt	(1,198,475)	(2,790,393)	(3,988,868)
Total Nonoperating Revenues (Expenses)	<u>(540,762)</u>	<u>(1,300,397)</u>	<u>(1,841,159)</u>
Income Before Capital Contributions	<u>3,180,019</u>	<u>(5,450,005)</u>	<u>(2,269,986)</u>
Capital Contributions			
Contributed Systems	4,217,474	5,302,690	9,520,164
Other Capital Contributions	2,378,874	3,078,082	5,456,956
Total Capital Contributions	<u>6,596,348</u>	<u>8,380,772</u>	<u>14,977,120</u>
CHANGE IN NET POSITION	<u>9,776,367</u>	<u>2,930,767</u>	<u>12,707,134</u>
TOTAL NET POSITION, January 1	197,185,133	228,527,607	425,712,740
Cummulative effect of a change in accounting principle	\$ -	\$ -	-
TOTAL NET POSITION, December 31	<u>\$ 206,961,500</u>	<u>\$ 231,458,374</u>	<u>\$ 438,419,874</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statement of Revenue, Expenses & Changes in Fund Net Position
For the Years Ended December 31, 2016 and December 31, 2015

Water Fund	2015	
	Wastewater Fund	Total
\$ 33,779,264	\$ 41,016,423	\$ 74,795,687
1,735,863	-	1,735,863
<u>35,515,127</u>	<u>41,016,423</u>	<u>76,531,550</u>
6,939,123	6,792,952	13,732,075
13,636,490	22,740,943	36,377,433
5,293,353	1,696,472	6,989,825
5,186,428	9,221,508	14,407,936
1,233,473	394,778	1,628,251
<u>32,288,867</u>	<u>40,846,653</u>	<u>73,135,520</u>
<u>3,226,260</u>	<u>169,770</u>	<u>3,396,030</u>
570,616	731,861	1,302,477
120,367	-	120,367
15,000	1,176,026	1,191,026
(3,778)	-	(3,778)
<u>(1,374,126)</u>	<u>(2,812,449)</u>	<u>(4,186,575)</u>
<u>(671,921)</u>	<u>(904,562)</u>	<u>(1,576,483)</u>
<u>2,554,339</u>	<u>(734,792)</u>	<u>1,819,547</u>
5,494,277	4,679,767	10,174,044
2,072,927	2,958,284	5,031,211
<u>7,567,204</u>	<u>7,638,051</u>	<u>15,205,255</u>
<u>10,121,543</u>	<u>6,903,259</u>	<u>17,024,802</u>
191,166,005	225,726,763	416,892,768
\$ (4,102,415)	\$ (4,102,415)	(8,204,831)
<u>\$ 197,185,133</u>	<u>\$ 228,527,607</u>	<u>\$ 425,712,739</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016		
	Water Fund	Wastewater Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 34,851,995	\$ 41,728,747	\$ 76,580,742
Cash paid for purchased water	(15,149,197)	-	(15,149,197)
Cash paid to other municipalities for sewage treatment	-	(24,352,025)	(24,352,025)
Cash payments to suppliers for goods & services	(4,756,868)	(4,858,473)	(9,615,341)
Cash payments to employees for services	(4,772,672)	(4,162,655)	(8,935,327)
Cash payments of taxes	(1,271,984)	(380,561)	(1,652,545)
Other receipt (payments)	125,581	-	125,581
Net Cash Provided by Operating Activities	9,026,855	7,975,033	17,001,888
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(6,557,551)	(5,959,232)	(12,516,783)
Cash payments to employees for services	(375,982)	(375,982)	(751,964)
Principal received on ULID assessments	-	35,261	35,261
Interest received on ULID assessments	-	8,020	8,020
Principal paid on Bonds	(2,900,000)	(925,000)	(3,825,000)
Proceeds from WA DWSTF Loans	124,150	-	124,150
Decrease(Increase) from fiscal agent	94,051	(144,000)	(49,949)
Principal paid on WA State Revolving Fund Loan	-	(407,158)	(407,158)
Principal paid on PWTF Loan	(393,095)	(488,103)	(881,198)
Interest paid on bonds and loans	(1,346,133)	(2,798,388)	(4,144,521)
Capital contributed by developers	2,378,874	3,078,082	5,456,956
Cash received for Judgements & Settlements CIP	-	843,127	843,127
Increase(Decrease) from customer deposits & performance bonds	111,098	75,883	186,981
Net Cash Provided (Used) for Capital Financing Activities	(8,864,588)	(7,057,490)	(15,922,078)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and maturities of investments	8,402,309	8,187,899	16,590,208
Purchase of investments	(34,998,765)	(32,476,372)	(67,475,137)
Interest received on investments	539,564	801,446	1,341,010
Net Cash Provided (Used) by Investing Activities	(26,056,892)	(23,487,027)	(49,543,919)
NET INCREASE (DECREASE) IN CASH	(25,894,625)	(22,569,484)	(48,464,109)
Cash and Equivalents at Beginning of Year	45,745,641	47,406,783	93,152,424
Cash and Equivalents at End of Year (Note 7) *	\$ 19,851,016	\$ 24,837,299	\$ 44,688,315
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Operating Income	\$ 3,720,781	\$ (4,149,608)	\$ (428,827)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	5,206,540	9,383,804	14,590,344
Other receipts (payments)	125,581	-	125,581
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	(841,299)	(317,408)	(1,158,707)
Decrease (Increase) in materials and supplies	30,356	1,306	31,662
Decrease (Increase) in prepayments	67,759	58,519	126,278
Decrease (Increase) in accrued revenue	36,514	(103,960)	(67,446)
Increase (Decrease) in accounts payable	(795,685)	(20,571)	(816,256)
Increase (Decrease) in misc. current and long term liabilities	1,476,308	3,122,951	4,599,259
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,026,855	\$ 7,975,033	\$ 17,001,888
* RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:			
Cash and Cash Equivalents	\$ 16,313,096	\$ 22,738,128	\$ 39,051,224
Restricted Funds	3,537,920	2,099,171	5,637,091
Total Cash and Cash Equivalents	\$ 19,851,016	\$ 24,837,299	\$ 44,688,315
NONCASH INVESTING, CAPITAL AND FINANCIAL ACTIVITIES:			
Contributions of capital assets from developers	\$ 4,217,474	\$ 5,302,690	\$ 9,520,164
Increase (Decrease) in fair value of investments	\$ 80,143	\$ 600,588	\$ 680,731

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	Restated 2015	
Water Fund	Wastewater Fund	Total
\$ 37,473,919	\$ 40,567,068	\$ 78,040,987
(12,809,808)	-	(12,809,808)
-	(24,620,855)	(24,620,855)
(9,515,516)	(4,414,095)	(13,929,611)
(4,625,733)	(3,943,938)	(8,569,671)
(1,223,911)	(432,182)	(1,656,093)
135,367	-	135,367
9,434,318	7,155,998	16,590,316
(2,214,359)	(4,356,914)	(6,571,273)
(363,216)	(363,216)	(726,432)
-	60,395	60,395
-	11,726	11,726
(3,515,000)	(455,000)	(3,970,000)
359,491	-	359,491
-	-	-
-	(396,323)	(396,323)
(393,095)	(488,103)	(881,198)
(1,514,849)	(2,864,325)	(4,379,174)
2,072,927	2,958,284	5,031,211
-	1,176,026	1,176,026
100,851	119,760	220,611
(5,467,250)	(4,597,690)	(10,064,940)
6,039,580	6,993,789	13,033,369
-	-	-
580,470	731,373	1,311,843
6,620,050	7,725,162	14,345,212
10,587,118	10,283,470	20,870,588
35,158,523	37,123,313	72,281,836
\$ 45,745,641	\$ 47,406,783	\$ 93,152,424
\$ 3,226,260	\$ 169,770	\$ 3,396,030
5,186,428	9,221,508	14,407,936
135,367		135,367
2,059,368	(368,007)	1,691,361
352,814	5,411	358,225
(95,213)	(91,616)	(186,829)
(100,577)	(81,048)	(181,625)
358,897	(1,572,076)	(1,213,179)
(1,689,026)	(127,944)	(1,816,970)
\$ 9,434,318	\$ 7,155,998	\$ 16,590,316
\$ 44,466,697	\$ 45,289,385	\$ 89,756,082
1,278,944	2,117,398	3,396,342
\$ 45,745,641	\$ 47,406,783	\$ 93,152,424
\$ 5,494,277	\$ 4,679,767	\$ 10,174,044
\$ 55,143	\$ (75,407)	\$ (20,264)

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

These notes are an integral part of the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Alderwood Water & Wastewater District (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.

Reporting Entity

The Alderwood Water & Wastewater District was incorporated in 1931 and operates under the laws of the state of Washington applicable to municipal government, and is governed by an elected five-member Board of Commissioners. As required by GAAP, management has considered all potential component units in defining the reporting entity. The Alderwood Water & Wastewater District has no component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 Revised Code of Washington (RCW). The District uses the following accounting manual:

- (1) Uniform System of Accounts for Class A Water Utilities
- (2) National Association of Regulatory Utility Commissioners

The District uses the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principle ongoing operation. The principal operating revenues of the District are charges to customers for water and wastewater services. Operating expenses for the District include the cost of water from the wholesale provider, wastewater treatment costs, administrative services, operating and maintenance costs, depreciation on capital assets and taxes. All revenues and expenses meeting this definition are reported as operating revenues and expenses.

Unbilled utility service receivables are recorded at year-end.

Administrative costs that are not specifically identified with a particular system are proportionately allocated between the Water and Wastewater Funds using a predetermined rate based on past experience, currently 50% water and 50% wastewater.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments, (including restricted assets) with maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., mains, valves, hydrants, and similar items), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one 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 are constructed.

Property, plant, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Building	40-50
Building Improvements	25
Vehicles	7
Equipment	3-10
Reservoirs	75
Water Pipes	75
Sewer Pipes	50

Additional detailed information on capital assets can be found in Note 3.

Funds

The District reports financial activity in two separate funds – water and wastewater. All financial statements are presented for each fund separately.

Restricted Funds

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 for specific uses, including debt service and other special reserve requirements. Assets and liabilities shown as

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

current in the accompanying *Comparative Statement of Net Position* exclude current maturities on revenues bonds and accrued interest thereon because debt service funds are provided for their payment.

Receivables

Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien, foreclosure, and water shutoff rights provided by the Revised Code of Washington. If a lien were established against the property in question, such lien would be superior to all other liens except those established for the payment of general taxes and special assessments. Foreclosure rights are enforced by civil action in the Snohomish County Superior Court.

Inventories

Inventories are valued at First in First Out (FIFO), which approximates the market value.

Investments

Investments are stated at fair value on the *Comparative Statement of Net Position*. Changes in value, as measured by the underlying fair value as reported by the third-party custodian are recorded and presented in the *Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position* as Interest and Investment Revenue. Additional detailed information on investments can be found in Note 2.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net assets that is applicable to a future reporting period.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. All vacation and sick pay is accrued when incurred in the proprietary funds.

Vacation pay, which may be accumulated up to 240 hours per employee, is payable upon resignation, retirement, or death. Employees may sell back to the District accrued but unused vacation benefits with certain restrictions, up to a maximum of 80 hours for non-represented staff and 40 hours for represented staff.

Sick leave may accumulate indefinitely and is payable in part upon separation, retirement or death. For non-represented staff, and represented staff hired after January 1, 2014, upon voluntary separation, the employee will receive 25% of the accrued and unused sick leave after 10 years of service or 50% after 20 years of service. For represented staff hired before this date, the employee will receive 50% of the accrued and unused sick leave after 10 years of service. Upon death of an employee, his/her beneficiary will receive 50% of the accrued and

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

unused sick leave. Annually an employee may sell back to the District accrued sick leave in excess of 384 hours at 50% of the current hourly rate.

Vacation benefits are accrued for all eligible employees. Sick leave benefit amounts for represented and non-represented employees are accrued for employees with 10 or more years of service.

As of December 31, 2016, the recorded liability for accrued payroll, unpaid vacation leave and sick leave benefits included \$285,970 in current liabilities and \$857,909 in noncurrent liabilities. As of December 31, 2015, the recorded liability for these accruals included \$266,032 in current liabilities and \$798,096 in noncurrent liabilities.

Debt:

Rebatable Arbitrage

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the District to rebate excess arbitrage earnings from bond proceeds to the federal government. The District elects the revenue reduction method whereby the arbitrage rebate is recorded as a reduction of interest revenue. The District contracts with a firm to independently calculate its arbitrage rebate liability. The District has no reportable arbitrage liability as of December 31, 2016.

Construction Financing:

Wastewater Facilities - City of Everett

On December 30, 1981, the District and the City of Everett entered into an agreement whereby the District agreed to contribute toward the cost of certain city wastewater facilities that benefit the District. The agreement encompasses various wastewater projects which obligate the District to pay approximately 3.7% of the total improvement cost.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Change in Accounting Policy - Deposits and Investments

The District implemented Government Accounting Standards Board Statement No. 72, Fair Value Measurement and Application (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District implemented Government Accounting Standards Board Statement No. 79 (GASB 79), which addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Alderwood Water & Wastewater District's (AWWD's) bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC.

Cash and Deposits

Cash on Hand	\$ 3,200
FDIC or PDPC Insured Bank Deposits	1,635,775
Total	\$ 1,638,975

Investments

All surplus cash is invested in accordance with an investment policy approved by the AWWD Board of Commissioners. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080). Eligible investments which the District held at year end include US Treasury Notes, Government Sponsored Enterprises (GSE's) securities, Washington State Local Government Investment Pool, obligations of state and local government agencies.

The Local Government Investment Pool (LGIP) is managed and operated by the Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts appropriate rules. The State Treasurer is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee. The terms of the policy are designed to ensure the safety and liquidity of the funds deposited in the LGIP. The LGIP is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP has no limitations or restrictions on withdrawals.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 2 – DEPOSITS AND INVESTMENTS continued

Investments Measured at Amortized Cost

As of December 31, 2016 Alderwood Water & Wastewater District held the following investments at amortized cost:

Washington State Local Government Investment Pool	43,349,368
Total	\$ 43,349,368

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The District's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a

person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The Washington State Local

Government Investment Pool is a 2a7-like pool and is unrated. The credit ratings on securities held by Alderwood Water & Wastewater District on December 31, 2016 are listed below:

Investment Type	Ratings		Fair Value
	Moody's	S&P	
U.S Treasury Notes	Aaa	AA+	\$ 29,973,875
Government Sponsored Enterprises			
Federal National Mortgage Association	Aaa	AA+	11,491,609
Federal Home Loan Bank	Aaa	AA+	8,030,012
Federal Farm Credit Bank	Aaa	AA+	4,937,080
Federal Home Loan Mortgage Corporation	Aaa	AA+	15,445,976
Total			\$ 69,878,551

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, Alderwood Water & Wastewater District would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's Investment Policy requires that all security transactions entered into by Alderwood Water & Wastewater District will be conducted on a delivery-versus-payment (DVP) basis and will be held in safekeeping by a third party custodian. All of the District's securities at year end were held in safekeeping by a third party custodian and are not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. It is the District's policy to diversify its investments by security type and institution. The District's policy is to assure that no single institution or security is invested to such an extent that a delay of liquidation at maturity is likely to cause a current cash flow emergency. With the exception of U.S. Treasury securities and authorized pools, no more than 35% of the entity's total investment portfolio will be invested in a single security type,

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 2 – DEPOSITS AND INVESTMENTS continued

issuer or financial institution. Detail information on concentration risk is covered in the Alderwood Water & Wastewater District Investment Policy.

Deposits and Investments	Fair Value	At Cost	Percent of Total
U.S Treasury Notes	\$ 29,973,875		26.10%
Government Sponsored Enterprises			
Federal National Mortgage Association	11,491,609		10.00%
Federal Home Loan Bank	8,030,012		6.99%
Federal Farm Credit Bank	4,937,080		4.30%
Federal Home Loan Mortgage Corporation	15,445,976		13.45%
FDIC or PDPC Insured Bank Deposits		\$ 1,635,775	1.42%
Washington State Local Government Investment Pool		43,349,368	37.74%
Total	\$ 69,878,551	\$ 44,985,143	
Total Deposits and Investments		\$ 114,863,694	

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 2 years. The portfolio weighted maturity at year end was 0.89 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2016 was 30 days.

The following schedule presents the investments and related maturities as of December 31, 2016.

Investment Type	Fair Value	Maturity (in years)	
		Less than 1 year	1-5 year
US Treasury	\$ 29,973,875	\$ 20,013,715	\$ 9,960,160
Government Sponsored Enterprise (GSE's)	39,904,676	5,055,077	34,849,599
Total	\$ 69,878,551	\$ 25,068,792	\$ 44,809,759

Fair Value Hierarchy

Securities classified as Level 1 in the fair value hierarchy are valued using prices quoted in active markets for identical securities, Level 2 securities are valued using observable inputs, and Level 3 securities are valued using unobservable inputs. U.S. Treasury securities classified in Level 1 are valued using quoted prices in an active market for identical assets. Government Sponsored Enterprise (GSE) Securities classified in Level 2 are valued using quoted prices for similar securities and interest rates. The level of fair value measurement is based on the lowest level of significant input for the security type in its entirety. There are no Level 3 security

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 2 – DEPOSITS AND INVESTMENTS continued

classifications to report. Cash on hand, bank deposits, cash held by other entities and the Local Government Investment Pool (LGIP) are valued using a cost based measure.

Investments by Fair Value

Investment Type	Fair Value as of 12/31/2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury	\$ 29,973,875	\$ 29,973,875		
Government Sponsored Enterprise (GSE's)	\$ 39,904,676		\$ 39,904,676	
Total	\$ 69,878,551	\$ 29,973,875	\$ 39,904,676	

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 - UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2016 is as follows:

	Beginning Balance 1/1/2016	Increase	Decrease	Ending Balance 12/31/2016
Water				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 460,813	\$ -	\$ -	\$ 460,813
Construction in Progress	2,877,257	7,951,434	2,884,099	7,944,592
Total Utility Plant not being depreciated	3,338,070	7,951,434	2,884,099	8,405,405
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,339,289	7,457	-	1,346,746
Structures & Improvements	27,184,743	1,004,674	1,150,788	27,038,629
Wells & Supply Mains	653,889	-	-	653,889
Pumping Equipment	11,281,201	-	-	11,281,201
Water Treatment Equipment	16,494	34,889	34,889	16,494
Reservoirs & Standpipes	16,005,426	80,548	65,274	16,020,700
Mains	159,691,654	5,409,974	938,685	164,162,943
Meters, Meter Installations & Hydrants	17,997,718	777,925	7,728	18,767,915
Computers, Office Equipment & Furniture	1,187,642	54,583	42,949	1,199,276
Transportation Equipment	1,893,542	331,326	44,979	2,179,889
Other General Plant Equipment	2,091,754	101,744	-	2,193,498
Total Utility Plant being depreciated	239,343,352	7,803,119	2,285,291	244,861,180
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(1,141,706)	-	62,813	(1,204,519)
Structures & Improvements	(9,589,114)	633,017	1,037,727	(9,993,824)
Wells & Supply Mains	(418,546)	-	4,938	(423,484)
Pumping Equipment	(4,537,454)	-	558,250	(5,095,704)
Water Treatment Equipment	(47,925)	-	-	(47,925)
Reservoirs & Standpipes	(3,796,064)	10,719	324,309	(4,109,654)
Mains	(34,549,567)	91,038	2,207,753	(36,666,282)
Meters, Meter Installations & Hydrants	(8,893,309)	1,665	708,428	(9,600,072)
Computers, Office Equipment & Furniture	(1,152,500)	924	121,138	(1,272,714)
Transportation Equipment	(1,465,254)	-	81,758	(1,547,012)
Other General Plant Equipment	(1,625,104)	-	100,972	(1,726,076)
Total Accumulated Depreciation	(67,216,543)	737,364	5,208,086	(71,687,265)
Total Utility Plant being depreciated, net	172,126,809	8,540,483	7,493,377	173,173,915
Total Utility Plant, Net	\$ 175,464,879	\$ 16,491,917	\$ 10,377,476	\$ 181,579,320

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 - UTILITY PLANT AND DEPRECIATION – continued

Utility Plant activity for the year ended December 31, 2016 is as follows:

	Beginning Balance 1/1/2016	Increase	Decrease	Ending Balance 12/31/2016
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 364,737	\$ -	\$ -	\$ 364,737
Construction in Progress	9,698,374	12,691,537	13,769,244	8,620,667
Total Utility Plant not being depreciated	10,063,111	12,691,537	13,769,244	8,985,404
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,041,716	7,457	-	1,049,173
Structures & Improvements	139,491,760	9,055,128	4,798,591	143,748,297
Mains	159,013,734	9,549,118	1,980,027	166,582,825
Pumping Equipment	7,579,391	322,709	160,979	7,741,121
Sewage Treatment Equipment	390,060	345,125	172,563	562,623
Computers, Office Equipment & Furniture	925,525	54,583	42,025	938,083
Transportation Equipment	1,519,019	327,425	41,078	1,805,366
Other General Plant Equipment	975,287	91,030	-	1,066,317
Total Utility Plant being depreciated	310,936,492	19,752,574	7,195,263	323,493,803
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(1,041,717)	-	2,490	(1,044,207)
Structures & Improvements	(24,341,545)	66,054	5,430,268	(29,705,759)
Mains	(49,134,060)	-	3,279,454	(52,413,514)
Pumping Equipment	(2,345,775)	-	411,697	(2,757,472)
Sewage Treatment Equipment	(169,015)	-	44,317	(213,332)
Computers, Office Equipment & Furniture	(720,525)	-	96,304	(816,829)
Transportation Equipment	(1,320,413)	12,712	92,022	(1,399,723)
Other General Plant Equipment	(775,181)	-	45,309	(820,490)
Total Accumulated Depreciation	(79,848,231)	78,766	9,401,862	(89,171,327)
Total Utility Plant being depreciated, net	231,088,261	19,831,340	16,597,124	234,322,477
Total Utility Plant, Net	\$ 241,151,372	\$ 32,522,876	\$ 30,366,368	\$ 243,307,880

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 - UTILITY PLANT AND DEPRECIATION – continued

Utility Plant activity for the year ended December 31, 2015 is as follows:

	Beginning Balance 1/1/2015	Increase	Decrease	Ending Balance 12/31/2015
Water				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 460,838	\$ -	\$ 25	\$ 460,813
Construction in Progress	3,514,008	2,011,041	2,647,793	2,877,257
Total Utility Plant not being depreciated	3,974,846	2,011,041	2,647,818	3,338,070
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,339,289	-	-	1,339,289
Structures & Improvements	26,668,148	527,601	11,006	27,184,743
Wells & Supply Mains	653,889	-	-	653,889
Pumping Equipment	11,223,982	57,219	-	11,281,201
Water Treatment Equipment	16,494	-	-	16,494
Reservoirs & Standpipes	15,506,421	508,878	9,872	16,005,426
Mains	153,194,912	6,518,484	21,743	159,691,654
Meters, Meter Installations & Hydrants	17,533,146	464,572	-	17,997,718
Computers, Office Equipment & Furniture	1,112,481	111,495	36,335	1,187,642
Transportation Equipment	1,850,043	43,499	-	1,893,542
Other General Plant Equipment	1,596,078	564,464	68,788	2,091,754
Total Utility Plant being depreciated	230,694,882	8,796,213	147,743	239,343,351
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	1,020,728	-	120,978	1,141,706
Structures & Improvements	8,575,381	1,565	1,015,298	9,589,114
Wells & Supply Mains	413,621	-	4,924	418,546
Pumping Equipment	3,979,813	-	557,642	4,537,454
Water Treatment Equipment	47,925	-	-	47,925
Reservoirs & Standpipes	3,498,858	-	297,206	3,796,064
Mains	32,451,519	13,738	2,111,786	34,549,567
Meters, Meter Installations & Hydrants	8,112,374	-	780,935	8,893,309
Computers, Office Equipment & Furniture	1,046,665	17,402	123,238	1,152,500
Transportation Equipment	1,398,381	-	66,873	1,465,254
Other General Plant Equipment	1,517,406	-	107,697	1,625,104
Total Accumulated Depreciation	62,062,671	32,705	5,186,576	67,216,543
Total Utility Plant being depreciated, net	168,632,210	8,828,917	5,334,319	172,126,808
Total Utility Plant, Net	\$ 172,607,056	\$ 10,839,958	\$ 7,982,137	\$ 175,464,878

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 3 - UTILITY PLANT AND DEPRECIATION – continued

Utility Plant activity for the year ended December 31, 2015 is as follows:

	Beginning Balance 1/1/2015	Increase	Decrease	Ending Balance 12/31/2015
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 364,737	\$ -	\$ -	\$ 364,737
Construction in Progress	13,476,231	3,863,150	7,641,006	9,698,374
Total Utility Plant not being depreciated	13,840,968	3,863,150	7,641,006	10,063,111
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,041,716	-	-	1,041,716
Structures & Improvements	138,484,396	1,016,805	9,441	139,491,760
Mains	150,506,977	8,506,757	-	159,013,734
Pumping Equipment	4,685,620	2,893,771	-	7,579,391
Sewage Treatment Equipment	264,113	125,947	-	390,060
Computers, Office Equipment & Furniture	844,671	117,189	36,335	925,525
Transportation Equipment	1,519,019	-	-	1,519,019
Other General Plant Equipment	901,891	73,396	-	975,287
Total Utility Plant being depreciated	298,248,403	12,733,865	45,776	310,936,493
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	980,813	-	60,904	1,041,717
Structures & Improvements	18,983,834	-	5,357,711	24,341,545
Mains	45,988,755	-	3,145,305	49,134,060
Pumping Equipment	1,947,553	-	398,221	2,345,775
Sewage Treatment Equipment	128,262	-	40,752	169,015
Computers, Office Equipment & Furniture	640,523	17,402	97,404	720,525
Transportation Equipment	1,235,390	-	85,023	1,320,413
Other General Plant Equipment	738,994	-	36,187	775,181
Total Accumulated Depreciation	70,644,125	17,402	9,221,508	79,848,231
Total Utility Plant being depreciated, net	227,604,278	12,751,267	9,267,283	231,088,262
Total Utility Plant, Net	\$ 241,445,246	\$ 16,614,417	\$ 16,908,289	\$ 241,151,373

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress as of December 31, 2016 is composed of the following:

Water Fund	Project Number	Project Authorization	Expended Through 12/31/16	Future Funds Committed at 12/31/16
Fencing at M&O and Canyon Park Tanks	J1202 W	\$ 236,118	\$ 2,683	\$ 233,434.53
196th St SE & 13th Dr SE 660 Zone Water Transmission Main	W1002	7,535,701	5,847,356	1,688,345
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	W1102	10,913,919	1,287,920	9,625,999
Reservoir #2 & #3 Coatings	W1401	721,838	206,799	515,039
Vacation of Admiralty Way Logging Road	W1407	131,663	15,314	116,349
Water Main Relocation 228th & Fitzgerald Rd	W1504	360,000	86,328	273,672
Community Transit Swift BRT II SR 527/128th	W1607	200,000.00	6,200	193,800
Trans Mains 1 and 2 Air-Vac and Blowoff Replacement	W1609	481,000.00	5,746	475,254
Reservoir 1 and Meter Vault Rehabilitation	W1610	510,500.00	1,579	508,921
All Other Projects		811,912	484,666	327,246
Total - Water Fund		\$ 21,902,651	\$ 7,944,592	\$ 13,958,059
Wastewater Fund				
Fencing at M&O and Canyon Park Tanks	J1202 S	\$ 236,121	\$ 2,687	\$ 233,433.94
Olympus Meadows Trunk Sewer Improvement Project	S1004	5,800,000	5,396,138	403,862
Harvest Road Sewer Replacement (NC-23A & B)	S1102	1,069,895	303,141	766,754
Picnic Point Flow Distribution	S1210	2,551,745	981,258	1,570,487
Picnic Point Sewer Rehabilitation	S1305	61,000	50,128	10,872
PPWWTF Closeout	S1401	1,413,831	425,211	988,620
Picnic Point Odor Control	S1403	125,000	71	124,929
Picnic Point WWTF Fieldbus	S1502	1,310,000	124,277	1,185,723
Misc Sewer Rehab Projects	S1503	300,000	19,877	280,123
All Other Projects		1,410,229	1,317,877	92,352
Total - Wastewater Fund		\$ 14,277,821	\$ 8,620,667	\$ 5,657,154

Note: Project Authorizations do not include District staff labor

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 4 - CONSTRUCTION IN PROGRESS – continued

Construction in progress as of December 31, 2015 is composed of the following:

Water Fund	Project Number	Project Authorization	Expended Through 12/31/15	Future Funds Committed at 12/31/15
Fencing at M&O and Canyon Park Tanks	J1202 W	\$ 236,118	\$ 2,618	\$ 233,500
196th St SE & 13th Dr SE 660 Zone Water Transmission Main	W1002	7,535,701	1,377,179	6,158,522
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	W1102	11,718,025	1,077,479	10,640,546
Reservoir #2 & #3 Coatings	W1401	721,838	107,817	614,021
Sodium Hypochlorite System Upgrade	W1402	620,934	71,250	549,684
Elberta Road Water Main Replacement	W1404	626,400	125,173	501,227
Vacation of Admiralty Way Logging Road	W1407	131,663	13,060	118,603
Water Main Relocation 228th & Fitzgerald Rd	W1504	360,000	21,832	338,168
All Other Projects		751,912	80,850	
Total - Water Fund		\$ 22,702,591	\$ 2,877,257	\$ 19,154,272
Wastewater Fund				
Fencing at M&O and Canyon Park Tanks	J1202 S	\$ 236,121	\$ 2,621	\$ 233,500
Olympus Meadows Trunk Sewer Improvement Project	S1004	4,937,549	1,271,660	3,665,889
Harvest Road Sewer Replacement (NC-23A & B)	S1102	1,069,895	154,293	915,602
Picnic Point Flow Distribution	S1210	2,551,745	259,533	2,292,212
Picnic Point Sewer Rehabilitation	S1305	4,000,000	48,992	3,951,008
PPWWTF Closeout	S1401	1,413,831	404,396	1,009,435
Picnic Point Odor Control	S1403	125,000	71	124,929
Picnic Point WWTF Fieldbus	S1502	1,200,000	35,758	1,164,242
Misc Sewer Rehab Projects	S1503	300,000	3,324	296,676
Elberta Road CIPP Installation	S1507	212,000	4,111	207,889
All Other Projects		5,277,859	7,513,613	
Total - Wastewater Fund		\$ 21,324,000	\$ 9,698,374	\$ 13,861,380

Note: Project Authorizations do not include District staff labor.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 5 - LONG-TERM LIABILITIES**Loans Payable**

The State of Washington has a low-cost financing program that allows public entities to borrow funds to finance public works projects. This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board. The State Revolving Fund program administered by the State of Washington also provides lower-cost financing to public projects that meet certain requirements. The District's Long-Term Loans Payable is composed of the following loans:

Water Fund

Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2016	Outstanding 12/31/2015	Interest Rate
99-791-001	Reservoir No 1 Cover	6/7/1999	7/1/2019	\$ 3,420,060	\$ 546,363	\$ 728,483	1%
00-691-001	NE Low Pressure Area Improvements	5/15/2000	7/1/2020	1,402,800	311,106	388,883	1%

Water Fund

State Revolving Fund	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2016	Outstanding 12/31/2015	Interest Rate
DM12-952-098	Pump Station 2 and High Tank Upgrade	8/15/2012	10/1/2036	\$ 5,262,090	\$ 2,397,549	\$ 2,530,746	1.5%
DM13-952-125	660/520/340 Water Pressure Zones	9/3/2013	10/1/2037	10,403,000	323,691	199,541	1.5%

Wastewater Fund

Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2016	Outstanding 12/31/2015	Interest Rate
05-691-PRE-108	Picnic Point Wastewater Facility Upgrade	4/26/2005	7/1/2025	\$ 1,000,000	\$ 473,684	\$ 526,316	0.5%
05-691-PRE-126	Picnic Point Wastewater Facility Upgrade	8/15/2005	7/1/2025	1,000,000	480,263	533,626	0.5%
06-962-001	Picnic Point Wastewater Facility Upgrade	4/17/2006	7/1/2026	7,000,000	3,821,089	4,203,198	0.5%

Wastewater Fund

State Revolving Fund	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2016	Outstanding 12/31/2015	Interest Rate
L0900006	Picnic Point Wastewater Facility Upgrade	2/11/2011	2/11/2031	\$ 9,308,953	\$ 7,322,430	\$ 7,729,588	2.7%

In 2000, the District partially funded construction of improvements to the Northeast pressure zone with PWTF loans. Construction of a cover for Reservoir No. 1 (which has a capacity of 28 million gallons) was also funded in part by a PWTF loan during 1999. A total of \$9 million in PWTF loans were used to fund construction of the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005 (\$7 million of these funds were used for pre-construction design and planning activities). Each of these loans will be repaid over a period not to exceed 20 years at the interest rates stated above.

The District was granted a State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction of the liquids facility as part of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$5,262,090 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District requested a draw of \$223,269 from the 2012 SRF loan during 2015 and began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the 660/520/340 Water Pressure Zones Project for \$10,403,000 and requested draws in the amount of \$124,150 during 2016. The SRF loans are to be repaid over a period not to exceed 24 years at the interest rate stated above.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 5 - LONG-TERM LIABILITIES – continued**Bonds**

The Long-Term Bond Debt is composed of the following bond issues:

Water Obligations

Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Water Fund Portion		
				Original Issue	Outstanding 12/31/2016	Outstanding 12/31/2015
2009 Water / Sewer Revenue	3% - 4%	11/3/2009	12/1/2018	23,885,000	6,155,000	9,055,000
2010 Series B Bond	4.2% - 5.55%	2/9/2010	12/1/2029	18,743,500	18,743,500	18,743,500
Total Bonds Outstanding					<u>\$ 24,898,500</u>	<u>\$ 27,798,500</u>

Wastewater Obligations

Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Wastewater Fund Portion		
				Original Issue	Outstanding 12/31/2016	Outstanding 12/31/2015
2010 Series A Bond	2% - 2.65%	2/9/2010	12/1/2016	3,675,000	-	460,000
2010 Series B Bond	4.2% - 5.55%	2/9/2010	12/1/2029	30,581,500	30,581,500	30,581,500
2013 Revenue Bonds	2% - 4.625%	10/9/2013	12/1/2043	25,000,000	23,790,000	24,710,000
Total Bonds Outstanding					<u>\$ 54,371,500</u>	<u>\$ 55,751,500</u>

The District issued Water and Sewer Revenue bonds in December 2009 in the amount of \$23,885,000 to provide for a current refunding of all of the District's outstanding Water and Sewer Revenue bonds, 1998, and Water and Sewer Revenue bonds, 1999. An arbitrage rebate calculation was completed in January of 2017 and no rebate liability exists from issuance through December 1, 2016.

In February 2010 the District issued \$53 million in new Water and Sewer Revenue bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. Series A of the 2010 issuance consists of \$3,675,000 in bonds issued as tax-exempt. Series B was issued as Build America Bonds – direct payment. The District has contracted with the Bank of New York, Mellon, the current fiscal agent, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all of the Series B bond proceeds have been fully drawn and expended. The Series A bonds qualify for the small issuer exemption from arbitrage rebate because the amount of tax exempt debt issued in 2010 was less than \$5 million. An arbitrage rebate calculation for the Series B Bonds was completed in January of 2017 and no rebate liability exists from issuance through December 1, 2016. The Series A bonds were retired in 2016.

In October 2013, the District issued \$25,000,000 in revenue bonds to finance upcoming sewer capital improvement projects. These bonds will mature in December 2043. The District began paying debt service on the 2013 sewer bonds in 2014. As of December 31, 2014, all of the 2013 Revenue Bond proceeds have been fully drawn and expended.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - LONG-TERM LIABILITIES – continued**All Long-Term Liabilities**

The annual requirements to amortize all debt, including interest, are as follows:

Water Fund Long-Term Liabilities

Year	Principal	Interest	Total Debt
			Service
2017	3,588,595	1,225,536	4,814,131
2018	3,731,393	1,097,614	4,829,006
2019	1,836,103	959,374	2,795,477
2020	1,695,995	893,125	2,589,121
2021	1,662,135	822,486	2,484,621
2022-2026	9,034,134	2,961,897	11,996,032
2027-2031	6,421,850	701,333	7,123,184
2032-2036	488,429	17,418	505,847
2037-2041	18,575	279	18,854
2042-2046	-	-	-
	<u>\$ 28,477,209</u>	<u>\$ 8,679,063</u>	<u>\$ 37,156,271</u>

Wastewater Fund Long-Term Liabilities

Year	Principal	Interest	Total Debt
			Service
2017	1,680,891	2,797,804	4,478,695
2018	1,718,526	2,752,360	4,470,886
2019	3,780,773	2,705,393	6,486,166
2020	3,886,041	2,564,643	6,450,684
2021	3,999,739	2,412,182	6,411,921
2022-2026	21,675,767	9,583,774	31,259,541
2027-2031	15,822,230	4,902,271	20,724,501
2032-2036	4,905,000	2,763,225	7,668,225
2037-2041	6,135,000	1,539,200	7,674,200
2042-2046	2,865,000	200,263	3,065,263
	<u>\$ 66,468,966</u>	<u>\$ 32,221,114</u>	<u>\$ 98,690,081</u>

All bond debt is secured by the total of all District revenues. Water Restricted Assets as of December 31, 2016 and December 31, 2015 are \$3,537,920 and \$3,586,870, respectively. Wastewater Restricted Assets as of December 31, 2016 and December 31, 2015 are \$2,099,171 and \$2,117,398, respectively. These represent debt service funds and reserve requirements as contained in the various bond indentures. Per bond resolutions, ULID assessments are dedicated to the payment of debt service.

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

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 5 - LONG-TERM LIABILITIES – continuedChanges in long-term liabilities as of December 31, 2016:

Description	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Amounts Due Within One Year
<u>WATER FUND</u>					
Compensated Absences	\$ 531,935	\$ 563,559	\$ 523,684	\$ 571,810	\$ 142,953
Net Pension Liability (See Note 6)	\$ 3,988,008	\$ 4,626,025	\$ 3,988,008	\$ 4,626,025	-
PWTF Loan	728,483	-	182,121	546,363	182,121
PWTF Loan	388,883	-	77,777	311,106	77,777
WA State Revolving Fund Loan	2,530,746	-	133,197	2,397,549	133,197
WA State Revolving Fund Loan	199,541	124,150	-	323,691	-
	<u>\$ 8,367,596</u>	<u>\$ 5,313,734</u>	<u>\$ 4,904,787</u>	<u>\$ 8,776,544</u>	<u>\$ 536,048</u>
<u>WASTEWATER FUND</u>					
Compensated Absences	\$ 532,193	\$ 563,559	\$ 523,684	\$ 572,068	\$ 143,017
Net Pension Liability (See Note 6)	\$ 3,988,008	\$ 4,626,025	\$ 3,988,008	\$ 4,626,025	-
PWTF Loan	526,316	-	52,632	473,684	52,632
PWTF Loan	533,626	-	53,363	480,263	53,363
PWTF Loan	4,203,198	-	382,109	3,821,089	382,109
WA State Revolving Fund Loan	7,729,587	-	407,158	7,322,430	418,288
	<u>\$ 17,512,928</u>	<u>\$ 5,189,584</u>	<u>\$ 5,406,953</u>	<u>\$ 17,295,559</u>	<u>\$ 1,049,409</u>
<u>COMBINED WATER / WASTEWATER UTILITY</u>					
2009 Revenue Bond	\$ 9,055,000	\$ -	\$ 2,900,000	\$ 6,155,000	\$ 3,015,000
2010 Series A Bond	460,000	-	460,000	-	-
2010 Series B Bond	49,325,000	-	-	49,325,000	475,000
2013 Sewer Revenue Bond	24,255,000	-	465,000	23,790,000	480,000

Changes in long-term liabilities as of December 31, 2015:

Description	Beginning Balance 1/1/2015	Additions	Reductions	Ending Balance 12/31/2015	Amounts Due Within One Year
<u>WATER FUND</u>					
Compensated Absences	\$ 486,266	\$ 505,311	\$ 459,642	\$ 531,935	\$ 132,984
PWTF Loan	910,604	-	182,121	728,483	182,121
PWTF Loan	466,657	-	77,777	388,880	77,777
WA State Revolving Fund Loan	2,440,875	223,068	133,197	2,530,746	133,197
WA State Revolving Fund Loan	63,319	136,222	-	199,541	-
	<u>\$ 4,367,721</u>	<u>\$ 864,601</u>	<u>\$ 852,737</u>	<u>\$ 4,379,585</u>	<u>\$ 526,079</u>
<u>WASTEWATER FUND</u>					
Compensated Absences	\$ 486,266	\$ 505,311	\$ 459,642	\$ 531,935	\$ 132,984
PWTF Loan	578,944	-	52,632	526,312	52,632
PWTF Loan	586,986	-	53,363	533,623	53,363
PWTF Loan	4,585,307	-	382,109	4,203,198	382,109
WA State Revolving Fund Loan	8,125,911	-	396,323	7,729,588	396,323
	<u>\$ 14,363,414</u>	<u>\$ 505,311</u>	<u>\$ 1,344,068</u>	<u>\$ 13,524,657</u>	<u>\$ 1,017,411</u>
<u>COMBINED WATER / WASTEWATER UTILITY</u>					
2009 Revenue Bond	\$ 12,570,000	\$ -	\$ 3,515,000	\$ 9,055,000	\$ 2,900,000
2010 Series A Bond	460,000	-	-	460,000	460,000
2010 Series B Bond	49,325,000	-	-	49,325,000	-
2013 Sewer Revenue Bond	24,710,000	-	455,000	24,255,000	465,000
	<u>\$ 87,065,000</u>	<u>\$ -</u>	<u>\$ 3,970,000</u>	<u>\$ 83,095,000</u>	<u>\$ 3,825,000</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2016:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$9,252,050
Pension assets	\$0
Deferred outflows of resources	\$1,654,082
Deferred inflows of resources	\$286,132
Pension expense/expenditures	\$801,485

State Sponsored Pension Plans

Substantially all Alderwood Water & Wastewater District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of the Supreme, Appeals and Superior Courts; employees of the legislature; employees of district and municipal courts; employees of local governments; and higher education employees not participating in higher education retirement programs. PERS is comprised of three separate pension plans for membership purposes. PERS plans 1 and 2 are defined benefit plans, and PERS plan 3 is a defined benefit plan with a defined contribution component.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 - PENSION PLANS - continued

years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 1			
Actual Rates:	Contribution	Employer	Employee*
PERS Plan 1		6.23%	6.00%
PERS Plan 1 UAAL		4.77%	6.00%
Administrative Fee		0.18%	
	Total	11.18%	6.00%

* For employees participating in JBM, the contribution rate was 12.26%.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by three percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS - continued

PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options. Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2016 were as follows:

PERS Plan 2/3			
Actual Rates:	Contribution	Employer 2/3	Employee 2*
PERS Plan 2/3		6.23%	6.12%
PERS Plan 1 UAAL		4.77%	
Administrative Fee		0.18%	
Employee PERS Plan 3			varies
	Total	11.18%	6.12%

* For employees participating in JBM, the contribution rate was 15.30%.

The district's actual PERS plan contributions were \$475,623 to PERS Plan 1 and \$580,842 to PERS Plan 2/3 for the year ended December 31, 2016.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2016 with a valuation date of June 30, 2015. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS - continued

Additional assumptions for subsequent events and law changes are current as of the 2015 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2016. Plan liabilities were rolled forward from June 30, 2015, to June 30, 2016, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3.0% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation:

- For all systems, except LEOFF Plan 2, the assumed valuation interest rate was lowered from 7.8% to 7.7%. Assumed administrative factors were updated.
- Valuation software was corrected on how the nonduty disability benefits for LEOFF Plan 2 active members is calculated.
- New LEOFF Plan 2 benefit definitions were added within the OSA valuation software to model legislation signed into law during the 2015 legislative session.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS - continued**Long-Term Expected Rate of Return**

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.40%
Real Estate	15%	5.80%
Global Equity	37%	6.60%
Private Equity	23%	9.60%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$5,258,778	\$4,360,876	\$3,588,176
PERS 2/3	9,005,531	4,891,174	(2,546,138)

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS - continued

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the district reported a total pension liability of \$9,252,050 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$4,360,876
PERS 2/3	4,891,174

At June 30, the district's proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share 6/30/15	Proportionate Share 6/30/16	Change in Proportion
PERS 1	0.083423%	0.081201%	(0.002222%)
PERS 2/3	0.101096%	0.097145%	(0.003951%)

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2016. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2016, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2016, the state of Washington contributed 39.46 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.54 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2016, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2015, with update procedures used to roll forward the total pension liability to the measurement date.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS - continued**Pension Expense**

For the year ended December 31, 2016, the district recognized pension expense as follows:

	Pension Expense
PERS 1	\$112,764
PERS 2/3	688,721
TOTAL	\$801,485

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2016, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0.00	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$109,800	\$0
Changes of assumptions	\$0.00	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0.00	\$0
Contributions subsequent to the measurement date	\$240,872	\$0
TOTAL	\$350,672	\$0

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$260,452	(\$161,466)
Net difference between projected and actual investment earnings on pension plan investments	\$598,539	\$0
Changes of assumptions	\$50,554	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$99,822	\$0
Contributions subsequent to the measurement date	\$294,043	(\$124,666)
TOTAL	\$1,303,409	(\$286,132)

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 6 - PENSION PLANS - continued

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$260,452	(\$161,466)
Net difference between projected and actual investment earnings on pension plan investments	\$708,339	\$0
Changes of assumptions	\$50,554	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$99,822	\$0
Contributions subsequent to the measurement date	\$534,915	(\$124,666)
TOTAL	\$1,654,082	(\$286,132)

Deferred outflows of resources related to pensions resulting from the district's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	PERS Plan 1
2017	(\$27,035)
2018	(\$27,035)
2019	\$100,839
2020	\$63,031
2021	\$0
Thereafter	\$0

Year ended December 31:	PERS Plan 2/3
2017	\$6,014
2018	\$6,014
2019	\$435,328
2020	\$275,879
2021	\$0
Thereafter	\$0

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 7 - STATEMENT OF CASH FLOWS

Cash and Equivalent balances are as follows:

	Water Fund		Wastewater Fund	
	12/31/2016	12/31/2015	12/31/2016	12/31/2015
Cash	\$ 143,547	\$ 725,043	\$ 1,195,400	\$ 549,225
Investment in LGIP and Umpqua Bank	19,707,469	45,020,598	23,641,899	46,857,558
Cash and Equivalents	<u>\$ 19,851,016</u>	<u>\$ 45,745,641</u>	<u>\$ 24,837,299</u>	<u>\$ 47,406,783</u>

The Local Government Investment Pool (LGIP) and Umpqua Bank Public Funds Money Market are included with the cash balances because they are demand accounts. These balances are available each day through deposit or withdrawal transactions, which may not exceed the balance on hand.

NOTE 8 - RISK MANAGEMENT

The Alderwood Water and Wastewater District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into 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 62 members. 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 8 - 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/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 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	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$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:			
Commercial 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	\$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	\$0	\$25,000
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. 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.			

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 follows. 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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 8 - RISK MANAGEMENT continued

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, 2017, written notice must be in possession of the Pool by April 30, 2017). 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 Services and Adjusters Northwest.

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.

NOTE 9 – CLEARVIEW WATER SUPPLY AGENCY (Joint Venture)

In February of 2005 the Clearview Water Supply Agency (Agency) commenced operations. The Agency is a municipal corporation formed by the District, Cross Valley Water District and Silver Lake Water & Sewer District. The three members advanced operating funds as follows:

	Total	Alderwood Water & Wastewater District	Silver Lake Water & Sewer District	Cross Valley Water District
Initial Owner Contribution	\$ 1,170,916	\$ 811,183	\$ 327,761	\$ 31,972

A three member Board with each member district providing a representative governs the Agency. The purpose of the Agency is to provide water to the members and maintain/operate certain facilities. The Agency currently has no plant and equipment; the member districts jointly own the facilities. The District has been contracted by the Agency to maintain and operate the facilities as well as provide administrative support for the Agency.

The Agency purchases all of its water from the Alderwood Water & Wastewater District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all of the Agency's expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses of the agency, monthly charges to the three members are equal to the monthly expenses. As a result the operating net income at year end is zero. Annual financial statements are available by contacting the Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 10 – OTHER DISCLOSURES

Payroll and Human Resources Information System (HRIS) -The District implemented ADP as its HRIS system in an effort to streamline processes between Payroll and Human Resources. The new system went live on September 19, 2016.

Corrective Payments to Sewage Treatment Agencies - In 2016, the District made corrective payments to the two agencies that receive and treat District sewage flows after discovering software and human errors that resulted in several years of underreporting sewer customers. The District paid \$3,238,343 to King County and \$75,360 to City of Everett. Both amounts were accrued as 2016 expenses.

Restatements:

Comparative Statement of Net Position

Capital Assets and the Unrestricted portion of Net Position for 2015 were restated due to a correction of a formula error. The correction did not impact the ending Net Position. The condensed table for Total Net Position in the Management Discussion and Analysis (MD&A) section was also restated due to this correction.

Other Nonoperating Revenue

Rent revenue was reclassified on the Comparative Statement of Cash Flows from Financial Activities to Operating Activities. Net Cash Provided by Operating and Financing Activities totals for 2015 were affected. Changes did not impact Net increase (decrease) in cash. The MD&A Revenue, Expenses and Changes in Fund Net Position table now reflects rent revenue as a component of Total Revenues.

Required Supplementary Information (RSI)

The covered employer payroll was recalculated for PERS 1 to include all eligible earnings that are subject to components of the PERS 1 employer contribution calculations as well as PERS 2/3 plans to include PERS 2 eligible earnings. Contributions were also recalculated to reflect the June 30th and December 31st year ends.

**ALDERWOOD WATER & WASTEWATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (RSI) – STATE SPONSORED PLANS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2016
Last Ten Fiscal Years***

	2015 Restated**	2016
Employer's proportion of the net pension liability (asset)	0.083423%	0.081201%
Employer's proportionate share of the net pension liability	\$4,363,799	\$4,360,876
Employer's covered employee payroll	\$9,264,779	\$9,383,256
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	47.10%	46.48%
Plan fiduciary net position as a percentage of the total pension liability	59.10%	57.03%

*Additional year's information will be displayed as it becomes available.

**2015 Restatement due to re-cacluation of covered payroll. Refer to Note 10 of the notes to the financial statements for additional information.

**Schedule of Employer Contributions
PERS 1
As of December 31, 2016
Last Ten Years***

	2015	2016
Statutorily or contractually required contributions	\$423,748	\$475,623
Contributions in relation to the statutorily or contractually required contributions	(\$423,748)	(\$475,623)
Contribution deficiency (excess)	\$0	\$0
Covered employer payroll	\$9,366,709	\$9,604,515
Contributions as a percentage of covered employee payroll	4.52%	4.95%

*Additional year's information will be displayed as it becomes available.

**ALDERWOOD WATER & WASTEWATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (RSI) – STATE SPONSORED PLANS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2016
Last Ten Fiscal Years***

	2015 Restated**	2016
Employer's proportion of the net pension liability (asset)	0.101096%	0.097145%
Employer's proportionate share of the net pension liability	\$3,612,218	\$4,891,174
Employer's covered employee payroll	\$8,991,768	\$9,103,079
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	40.17%	53.73%
Plan fiduciary net position as a percentage of the total pension liability	89.20%	85.82%

*Additional year's information will be displayed as it becomes available.

**Schedule of Employer Contributions
PERS 2/3
As of December 31, 2016
Last Ten Fiscal Years***

	2015	2016
Statutorily or contractually required contributions	\$509,457	\$580,842
Contributions in relation to the statutorily or contractually required contributions	(\$509,457)	(\$580,842)
Contribution deficiency (excess)	\$0	\$0
Covered employer payroll	\$9,089,093	\$9,323,549
Contributions as a percentage of covered employee payroll	5.61%	6.23%

*Additional year's information will be displayed as it becomes available.

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STATISTICAL SECTION

This portion of Alderwood Water & Wastewater District's Comprehensive Annual Financial Report presents detailed information to provide a context for understanding the information in the financial statements, notes and required supplementary information about the District's overall financial health.

FINANCIAL TRENDS

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

REVENUE CAPACITY

These schedules contain information to help the reader assess the District's most significant revenue sources – providing water and wastewater service to our ratepayers.

DEBT CAPACITY

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the ability of the District to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

OPERATING INFORMATION

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides.

Sources: *Unless otherwise noted, the information in these schedules is derived from the information contained in the Comprehensive Annual Financial Reports and other data compiled by the District each year.*

ALDERWOOD WATER & WASTEWATER DISTRICT
 Statement of Revenue, Expenses Changes in Fund Net Position
 Water Fund
 Last Ten Fiscal Years

Schedule 1 - Water Fund

	2016	2015	2014	Restated 2013	Restated 2012
OPERATING REVENUE:					
Utility Revenue	\$ 33,908,383	\$ 33,779,264	\$ 32,485,509	\$ 28,452,790	\$ 29,939,114
Other Charges for Services	1,748,396	1,735,863	1,789,034	1,159,482	1,035,856
Total Operating Revenue	35,656,779	35,515,127	34,274,543	29,612,272	30,974,970
OPERATING EXPENSES:					
General Operations	7,542,492	6,939,123	6,336,233	5,884,039	5,846,120
Purchased Water	13,867,619	13,636,490	12,093,029	10,449,389	13,353,668
Maintenance Expense	4,099,334	5,293,353	6,777,833	4,894,909	4,869,794
Depreciation Expense	5,206,540	5,186,428	5,109,674	4,946,127	4,962,219
Taxes	1,220,013	1,233,473	1,185,266	1,147,328	1,086,234
Total Operating Expenses	31,935,998	32,288,867	31,502,035	27,321,792	30,118,035
Operating Income (Loss)	3,720,781	3,226,260	2,772,508	2,290,480	856,935
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	636,230	570,616	743,898	261,806	841,420
Rent	125,581	120,367	115,301	365,603	106,396
Other Capital Revenue	-	15,000			
Gains (Losses) on Capital Asset Disposition	(104,098)	(3,778)	(220,168)	(78,235)	(1,608,539)
Interest on Long-Term Debt	(1,338,456)	(1,462,007)	(1,590,355)	(1,672,778)	(1,741,731)
Amortization Debt Discount Expense/Premium	139,981	87,881	139,981	139,981	74,725
Total Nonoperating Revenues (Expenses)	(540,762)	(671,921)	(811,343)	(983,623)	(2,327,729)
Income Before Capital Contributions	3,180,019	2,554,339	1,961,165	1,306,857	(1,470,794)
Capital Contributions					
Contributed Systems	4,217,474	5,494,277	2,586,710	2,210,438	1,286,402
Other Capital Contributions	2,378,874	2,072,927	2,135,046	2,031,798	2,184,401
Total Capital Contributions	6,596,348	7,567,204	4,721,756	4,242,236	3,470,803
CHANGE IN NET POSITION	9,776,367	10,121,543	6,682,921	5,549,093	2,000,009
TOTAL NET POSITION, January 1	197,185,133	191,166,005	184,483,084	178,933,991	177,272,202
Cumulative effect of change in accounting principle	-	(4,102,415)			(338,220)
TOTAL NET POSITION, December 31	\$ 206,961,500	\$ 197,185,133	\$ 191,166,005	\$ 184,483,084	\$ 178,933,991
NET POSITION					
Net Investment in Capital Assets	152,822,146	143,398,780	136,852,375	134,645,229	125,139,564
Restricted	3,537,920	3,586,870	3,498,878	3,675,393	3,630,794
Unrestricted	50,601,434	50,199,482	50,814,752	46,162,462	50,163,633
TOTAL NET POSITION	\$ 206,961,500	\$ 197,185,133	\$ 191,166,005	\$ 184,483,084	\$ 178,933,991

ALDERWOOD WATER & WASTEWATER DISTRICT
 Statement of Revenue, Expenses Changes in Fund Net Position
 Water Fund
 Last Ten Fiscal Years

Schedule 1 - Water Fund

2011	2010	2009	2008	2007
\$ 27,511,872	\$ 26,513,466	\$ 26,406,357	\$ 22,273,075	\$ 22,571,306
27,511,872	26,513,466	26,406,357	22,273,075	22,571,306
5,160,796	5,535,150	5,850,551	5,402,634	5,247,723
10,827,434	10,396,280	12,927,074	10,040,330	10,399,613
3,366,128	2,183,162	1,836,371	1,939,898	1,783,020
5,549,109	4,859,621	4,328,722	4,082,226	3,818,508
1,048,023	994,060	956,184	842,102	828,118
25,951,490	23,968,273	25,898,902	22,307,190	22,076,982
1,560,382	2,545,192	507,455	(34,115)	494,324
485,932	501,852	410,143	1,288,715	2,541,196
101,968	89,600	76,907	274,499	4,749
14,117	-	(191,738)	21,050	30,580
(1,817,542)	(1,756,571)	(1,254,488)	(1,283,896)	(1,360,763)
74,725	75,265	(18,141)	(38,043)	(38,043)
(1,140,800)	(1,089,854)	(977,317)	262,325	1,177,719
419,582	1,455,339	(469,862)	228,210	1,672,043
2,313,811	2,972,240	1,651,122	4,717,391	5,004,765
1,924,137	1,628,398	1,871,035	2,210,774	4,126,074
4,237,948	4,600,638	3,522,157	6,928,165	9,130,839
4,657,530	6,055,976	3,052,295	7,156,375	10,802,882
172,614,672	166,558,695	163,506,400	156,350,024	145,547,142
\$ 177,272,202	\$ 172,614,672	\$ 166,558,695	\$ 163,506,399	\$ 156,350,024
114,575,850	110,773,067	124,620,893	119,731,805	107,948,209
6,761,571	11,067,661	5,444,785	4,970,497	4,849,569
55,934,781	50,773,944	36,493,017	38,804,097	43,552,246
\$ 177,272,202	\$ 172,614,672	\$ 166,558,695	\$ 163,506,399	\$ 156,350,024

ALDERWOOD WATER & WASTEWATER DISTRICT
 Statement of Revenue, Expenses Changes in Fund Net Position
 Wastewater Fund
 Last Ten Fiscal Years

Schedule 2 - Wastewater Fund

	2016	2015	2014	Restated 2013	Restated 2012
OPERATING REVENUE:					
Utility Revenue	\$ 42,150,115	\$ 41,016,423	\$ 39,824,337	\$ 36,542,512	\$ 34,494,862
Total Operating Revenue	42,150,115	41,016,423	39,824,337	36,542,512	34,494,862
OPERATING EXPENSES:					
General Operations	7,074,025	6,792,952	6,313,635	5,986,676	6,004,836
Purchased Wastewater Treatment	25,116,754	22,740,943	21,016,545	20,479,777	18,160,577
Maintenance Expense	1,906,950	1,696,472	1,928,859	1,988,218	1,917,601
Depreciation Expense	9,383,804	9,221,508	9,026,778	7,875,086	6,814,451
Taxes	366,538	394,778	421,780	348,793	381,311
Total Operating Expenses	43,848,071	40,846,653	38,707,597	36,678,550	33,278,776
Operating Income (Loss)	(1,697,956)	169,770	1,116,740	(136,038)	1,216,086
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	857,188	731,861	957,134	461,564	1,038,170
Rent	-	-	-	-	-
Capital Revenue	843,127	1,176,026			
Gains (Losses) on Capital Asset Disposition	(210,319)	-	(416,677)	(1,535)	149,556
Interest on Long-Term Debt	(2,829,405)	(2,852,075)	(2,887,632)	(2,068,075)	(1,841,697)
Amortization Debt Discount Expense/Premium	39,012	39,626	39,626	(177,404)	(31,483)
Total Nonoperating Revenues (Expenses)	(1,300,397)	(904,562)	(2,307,549)	(1,785,450)	(685,454)
Income Before Capital Contributions	(2,998,353)	(734,792)	(1,190,809)	(1,921,488)	530,632
Capital Contributions					
Contributed Systems	5,302,690	4,679,767	4,313,145	2,388,722	3,491,271
Other Capital Contributions	3,078,082	2,958,284	2,924,470	2,744,135	1,110,454
Total Capital Contributions	8,380,772	7,638,051	7,237,615	5,132,857	4,601,725
CHANGE IN NET POSITION	5,382,419	6,903,259	6,046,806	3,211,369	5,132,357
TOTAL NET POSITION, January 1	228,527,607	225,726,763	219,679,957	216,512,537	211,581,740
Cumulative effect of change in accounting principle	-	(4,102,415)		(43,949)	(201,560)
TOTAL NET POSITION, December 31	\$233,910,026	\$228,527,607	\$225,726,763	\$ 219,679,957	\$ 216,512,537
NET POSITION					
Net Investment in Capital Assets	176,797,474	172,466,848	170,869,471	171,589,853	185,049,009
Restricted	2,099,171	2,117,398	2,097,794	11,733,458	2,208,956
Unrestricted	55,013,381	53,943,360	52,759,498	36,356,646	29,254,572
TOTAL NET POSITION	\$233,910,026	\$228,527,607	\$225,726,763	\$ 219,679,957	\$ 216,512,537

ALDERWOOD WATER & WASTEWATER DISTRICT
 Statement of Revenue, Expenses Changes in Fund Net Position
 Wastewater Fund
 Last Ten Fiscal Years

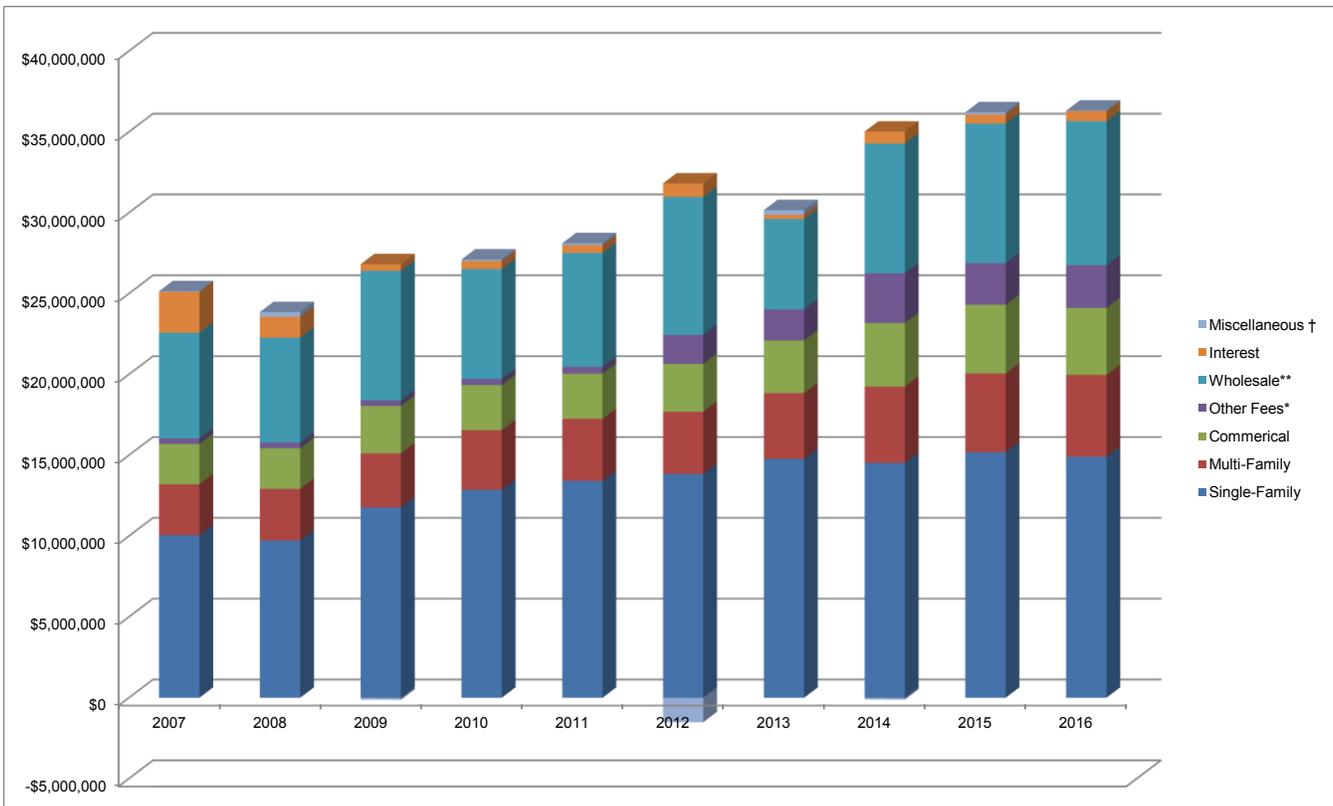
Schedule 2 - Wastewater Fund

2011	2010	2009	2008	2007
\$ 31,781,529	\$ 29,921,704	\$ 27,389,112	\$ 25,847,905	\$ 23,946,417
31,781,529	29,921,704	27,389,112	25,847,905	23,946,417
5,128,819	4,524,846	4,593,349	4,484,209	4,292,164
17,767,393	15,578,050	15,417,404	13,287,674	13,075,128
1,691,135	1,399,438	1,557,890	1,413,838	1,443,220
6,941,288	3,720,224	3,399,810	3,061,553	2,780,466
326,105	310,734	246,990	274,196	217,360
31,854,740	25,533,292	25,215,443	22,521,470	21,808,338
(73,211)	4,388,412	2,173,669	3,326,435	2,138,079
633,918	654,319	511,669	2,070,590	3,866,359
-	-	-	-	-
(3,773,164)	-	2,774	12,310	17,501
(1,866,197)	(1,543,485)	(126,678)	(141,897)	(144,806)
(31,483)	(32,549)	(10,162)	(6,500)	(6,500)
(5,036,926)	(921,715)	377,603	1,934,503	3,732,554
(5,110,137)	3,466,697	2,551,272	5,260,938	5,870,633
1,854,280	3,201,852	1,461,770	7,831,599	7,525,262
1,042,335	629,776	1,049,438	1,580,335	1,291,430
2,896,615	3,831,628	2,511,208	9,411,934	8,816,692
(2,213,522)	7,298,325	5,062,480	14,672,872	14,687,325
213,795,262	206,496,937	201,434,458	186,761,586	172,074,261
\$ 211,581,740	\$ 213,795,262	\$ 206,496,938	\$ 201,434,458	\$ 186,761,586
170,240,190	155,319,344	166,846,233	129,564,397	111,273,321
2,967,970	2,909,640	749,266	3,079,287	3,320,778
38,373,580	55,566,278	38,901,439	68,790,774	72,167,487
\$ 211,581,740	\$ 213,795,262	\$ 206,496,938	\$ 201,434,458	\$ 186,761,586

ALDERWOOD WATER & WASTEWATER DISTRICT
 Revenue by Source - Water Fund
 Last Ten Fiscal Years

Schedule 3 - Water Fund

Fiscal Year	Charges for Water Services							Total
	Single-Family	Multi-Family	Commerical	Other Fees*	Wholesale**	Interest	Miscellaneous †	
2007	10,054,527	3,147,299	2,495,535	345,361	6,528,585	2,541,196	35,329	25,147,831
2008	9,730,140	3,185,300	2,522,309	342,059	6,493,267	1,288,715	295,549	23,857,339
2009	11,772,826	3,339,402	2,935,907	344,525	8,013,697	410,143	(114,831)	26,701,669
2010	12,860,535	3,689,461	2,789,304	378,544	6,795,622	501,852	89,600	27,104,918
2011	13,413,353	3,836,804	2,791,509	421,936	7,048,270	485,932	116,085	28,113,889
2012	13,834,461	3,858,420	2,962,007	1,789,030	8,531,051	841,420	(1,502,143)	30,314,246
2013	14,773,079	4,072,251	3,256,975	1,917,277	5,592,691	261,806	287,368	30,161,447
2014	14,520,016	4,726,351	3,930,593	3,075,251	8,022,333	743,898	(104,867)	34,913,574
2015	15,185,517	4,867,834	4,257,917	2,570,540	8,633,319	570,616	131,589	36,217,331
2016	14,908,980	5,057,984	4,145,240	2,632,861	8,911,714	636,231	21,483	36,314,493



* "Other Fees" includes connection charges, miscellaneous service revenues, late fees, and revenues from engineering charges, water use permits, and miscellaneous revenues related to the Clearview Water Supply Agency. Beginning in 2012, due to a change in accounting policy, AWWD began recognizing Contributions of Water Meters as Operating Revenues. From 2012 on, Contributions of Water Meters are reported in the "Other Fees" category as well. These two items are also reported as "Other Charges for Services" on the Statement of Revenue, Expenses, and Changes in Net Fund Position. Thus, a significant increase in "Other Fees" can be seen in years 2012 through 2014. For more information on this policy change, please see the Management Discussion and Analysis subsection of the 2013 CAFR.

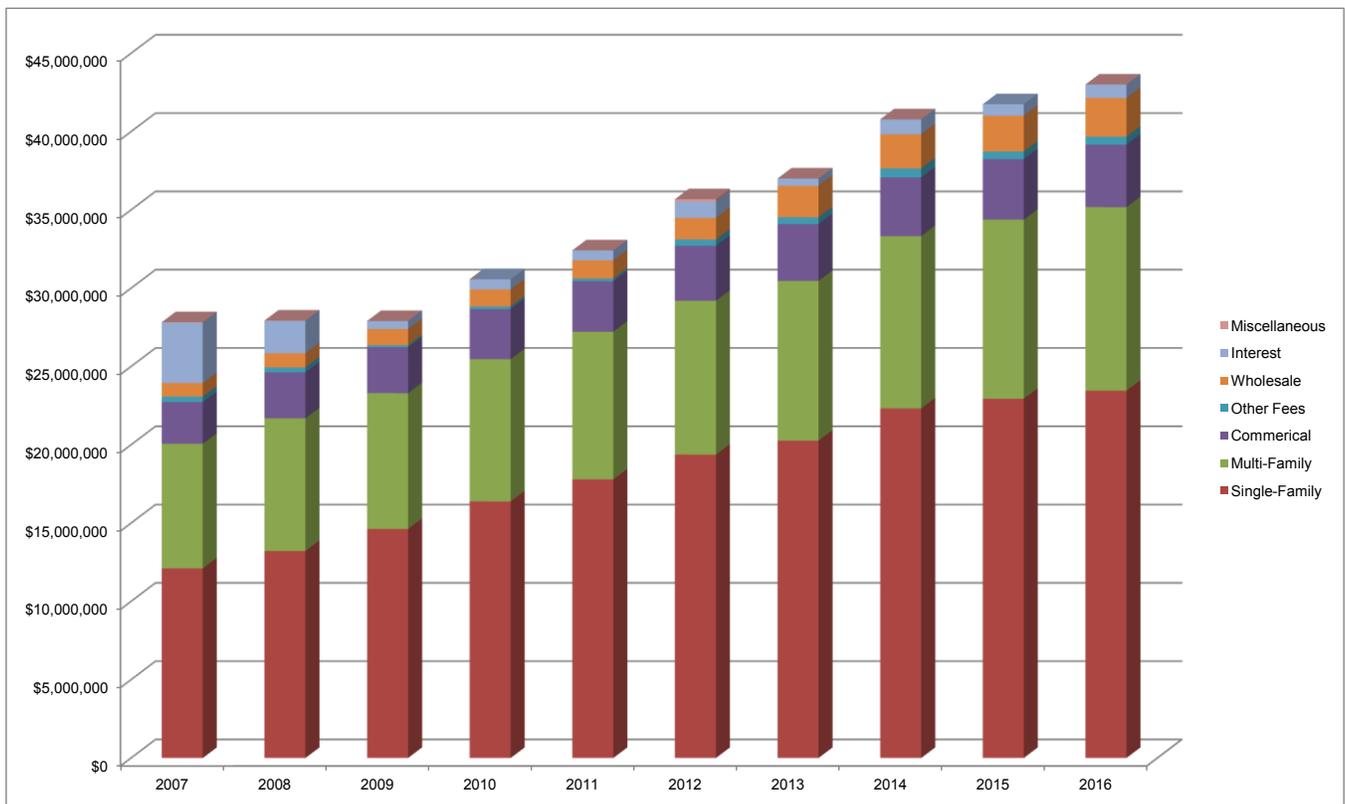
** In 2013, revenues from the sale of water to the Clearview Water Supply Agency were not recognized as wholesale revenue. Thus, a significant drop in wholesale revenue can be seen in those years. In 2015, the District returned to its original method of recognizing this inflow as wholesale revenue.

† "Miscellaneous" includes rent revenue and gains /losses from capital asset disposition.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Revenue by Source - Wastewater Fund
 Last Ten Fiscal Years

Schedule 4 - Wastewater Fund

Fiscal Year	Charges for Wastewater Services					Interest	Miscellaneous	Total
	Single-Family	Multi-Family	Commerical	Other Fees	Wholesale			
2007	12,104,177	7,962,081	2,662,456	349,981	867,723	3,866,359	17,501	27,830,277
2008	13,221,270	8,474,036	2,930,084	316,412	906,101	2,070,590	12,310	27,930,805
2009	14,623,323	8,676,285	2,928,814	132,155	1,028,535	511,669	2,774	27,903,555
2010	16,382,166	9,084,821	3,199,981	170,765	1,083,970	654,319	-	30,576,023
2011	17,786,705	9,438,980	3,215,132	174,941	1,165,771	633,918	-	32,415,447
2012	19,370,587	9,827,123	3,507,393	403,863	1,385,676	1,038,170	149,556	35,682,368
2013	20,264,819	10,202,271	3,632,070	429,678	2,013,674	461,564	-	37,004,076
2014	22,319,289	11,011,951	3,744,053	571,747	2,177,297	957,134	-	40,781,471
2015	22,940,913	11,438,839	3,862,963	488,670	2,285,038	731,861	-	41,748,284
2016	23,455,957	11,723,185	3,985,496	509,798	2,475,679	857,189	-	43,007,304



ALDERWOOD WATER & WASTEWATER DISTRICT
 Connections by Type of Service Classification
 Water and Wastewater Funds
 Last Ten Fiscal Years

Schedule 5

Water Accounts

Fiscal Year	Single-Family	Multi-Family	Single-Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Irrigation	Fire Protection	Total	Increase/Decrease Prior Yr.
2007	39,027	2,299	1,020	302	70	18	809	653	44,198	
2008	39,725	2,299	1,035	301	69	18	848	676	44,971	1.7%
2009	40,240	2,300	1,038	300	69	18	869	695	45,529	1.2%
2010	41,031	2,299	1,050	305	68	21	884	719	46,377	1.9%
2011	41,898	2,304	1,058	315	68	20	907	754	47,324	2.0%
2012	42,662	2,335	1,073	312	68	19	939	786	48,194	1.8%
2013	43,405	2,337	1,082	317	66	19	963	811	49,000	1.7%
2014	44,205	2,386	1,088	319	66	19	992	875	49,950	1.9%
2015	44,983	2,396	1,097	315	66	20	1,023	890	50,790	1.7%
2016	45,862	2,435	1,116	315	66	20	1,056	947	51,817	2.0%

Wastewater Accounts

Fiscal Year	Single-Family	Multi-Family	Single Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Total	Increase/Decrease Prior Yr.
2007	28,350	2,115	766	268	57	18	31,574	
2008	29,187	2,120	786	268	57	18	32,436	2.7%
2009	29,783	2,121	795	269	57	18	33,043	1.9%
2010	30,595	2,122	802	274	56	20	33,869	2.5%
2011	31,479	2,126	811	285	56	20	34,777	2.7%
2012	32,269	2,157	827	285	56	19	35,613	2.4%
2013	33,055	2,166	834	289	54	19	36,417	2.3%
2014	33,866	2,218	845	291	54	19	37,293	2.4%
2015	34,710	2,230	846	289	54	20	38,149	2.3%
2016	35,658	2,275	862	290	54	20	39,159	2.6%

ALDERWOOD WATER & WASTEWATER DISTRICT
 Rates and Example Bill Amounts
 Water and Wastewater Service
 Last Ten Fiscal Years

Schedule 6

All example bill amounts assume a single-family household with a standard 3/4" x 5/8" meter.

Water Service

Fiscal Year	Bi-Monthly Base Rate	Example Water Bill Amounts		
		Total Charges for 10ccf	Total Charges for 20ccf	Total Charges for 40 ccf
2007	\$ 20.46	\$ 35.06	\$ 49.66	\$ 78.86
2008	20.70	35.45	50.20	79.70
2009	22.78	40.08	57.38	91.98
2010	25.96	46.21	66.46	106.96
2011	27.26	48.61	69.96	112.66
2012	27.26	48.61	69.96	112.66
2013	27.26	48.61	69.96	112.66
2014	29.90	44.30	71.30	129.30
2015	29.90	44.30	71.30	129.30
2016	29.90	44.30	71.30	129.30

Notes:

- In all above years, rates included a base charge and volume charges.
- Years 2007 - 2013 had different volume charges for summer and winter. The average of these two charges is used to calculate the above bill examples.
- In 2014 - 2016, 4 ccf of water is included in base charge. Above 4 ccf, tiered volume charges used.

Wastewater Service

Fiscal Year	Bi-Monthly Base Rate	Example Wastewater Bill Amounts		
		Total Charges for 10ccf	Total Charges for 20ccf	Total Charges for 40 ccf
2007	\$ 71.72	\$ 71.72	\$ 71.72	\$ 71.72
2008	79.88	79.88	79.88	79.88
2009	84.73	84.73	84.73	84.73
2010	92.06	92.06	92.06	92.06
2011	97.34	97.34	97.34	97.34
2012	102.92	102.92	102.92	102.92
2013	102.92	102.92	102.92	102.92
2014	108.00	108.00	115.50	145.50
2015	108.00	108.00	115.50	145.50
2016	108.00	108.00	115.50	145.50

Notes:

- In years 2007 - 2013, a flat fee was charged with no volume charge component.
- In years 2014 - 2016, 15 ccf of water is included in a base charge. Above 15 ccf, volume charges used.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Ten Largest Customers by Revenue
 Water Fund
 Current and Ten Fiscal Years Ago

Schedule 7

Water Fund

Ratepayer	2016		Ratepayer	2007	
	Total Amount Billed for Water	Percent of Fund Retail Revenue		Total Amount Billed for Water	Percent of Fund Retail Revenue
1 Avalon Bay Communities #494800	\$ 131,176	0.5%	1 ERP Operating LP	\$ 101,618	0.6%
2 Harbour Pointe Golf Course	111,391	0.4%	2 The Renaissance	80,124	0.5%
3 Northcreek Apartments, LLC	105,975	0.4%	3 Keelers Corner	68,200	0.4%
4 The Renaissance	100,714	0.4%	4 Archstone Communities	64,684	0.4%
5 Keelers Corner	99,274	0.4%	5 Avalon Bay Communities #494800	60,761	0.4%
6 B R E Properties, Inc.	91,777	0.3%	6 B R E Properties, Inc.	59,564	0.4%
7 ERP Operating LP	91,586	0.3%	7 On the Green	57,455	0.4%
8 Fairfield Crystal Cove LLC	86,433	0.3%	8 Crystal Cove Apartments	54,155	0.3%
9 GS Mill at Mill Creek	83,194	0.3%	9 Mukilteo School District No. 6	52,352	0.3%
10 Stonemeadow Farms	80,710	0.3%	10 Harbour Pointe Golf Course	49,413	0.3%
TOTAL	\$ 982,231	3.60%	TOTAL	\$ 648,326	4.00%

ALDERWOOD WATER & WASTEWATER DISTRICT
 Ten Largest Customers by Revenue
 Wastewater Fund
 Current and Ten Fiscal Years Ago

Schedule 8

Wastewater Fund

		2016		2016				2007		2007	
Ratepayer		Total Amount	Percent of Fund	Retail Revenue		Ratepayer		Total Amount	Percent of Fund	Retail Revenue	
		Billed for Wastewater						Billed for Wastewater			
1	Avalon Bay Communities #494800	\$ 334,330	0.8%			1	ERP Operating LP	\$ 229,978	1.0%		
2	GS Mill at Mill Creek	221,198	0.6%			2	Archstone Communities #494800	177,914	0.8%		
3	Northcreek Apartments, LLC	204,626	0.5%			3	The Renaissance	161,247	0.7%		
4	The Renaissance	197,380	0.5%			4	Avalon Bay Communities	157,101	0.7%		
5	Keelers Corner	195,146	0.5%			5	Keelers Corner	146,738	0.6%		
6	ERP Operating LP	190,596	0.5%			6	On the Green	142,346	0.6%		
7	Fairfield Crystal Cove LLC	190,579	0.5%			7	Crystal Cove Apartments	129,332	0.6%		
8	FRG Grove LLC & JSP Grove LLC	167,538	0.4%			8	Nevins Adams Properties	121,228	0.5%		
9	Vintage at Urban Center LLC	165,089	0.4%			9	Avalon Bay Communities Inc	119,462	0.5%		
10	Green Acres Park	162,839	0.4%			10	Wandering Creek	114,725	0.5%		
TOTAL		\$ 2,029,319	5.10%			TOTAL		\$ 1,500,071	6.50%		

ALDERWOOD WATER & WASTEWATER DISTRICT
 Outstanding Debt by Type
 Water and Wastewater Funds Combined
 Last Ten Fiscal Years

Schedule 9

Fiscal Year	Revenue Bonds	Public Works Trust Fund & State Revolving Fund Loans	Total Outstanding Debt	Per Account*	Percentage of Personal Income
2007	30,830,000	6,254,439	37,084,439	541.36	1.36%
2008	28,525,000	11,222,757	39,747,757	572.85	1.39%
2009	23,885,000	10,496,631	34,381,631	491.30	1.25%
2010	74,190,000	17,884,677	92,074,677	1,298.03	3.30%
2011	71,360,000	18,681,457	90,041,457	1,251.22	3.03%
2012	68,450,000	17,511,708	85,961,708	1,126.08	2.63%
2013	90,460,000	16,726,487	107,186,487	1,343.49	3.13%
2014	87,065,000	17,758,410	104,823,410	1,292.84	2.88%
2015	83,095,000	16,840,381	99,935,381	1,224.26	2.48%
2016	79,270,000	15,676,175	94,946,175	1,146.18	2.24%

* Accounts Served is based on District retail water accounts plus the retail accounts of the District's wholesale customers.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Debt Service Coverage
 Water and Wastewater Funds Combined
 Last Ten Fiscal Years

Schedule 10

Fiscal Year	Change in Net Position	Adjustments to (from) Change in Net Position				Available for Debt Service	Debt Service**	Debt Service Coverage Ratio
		Depreciation	Interest Expense	Debt Discount Amortization	Contributed Capital Systems			
2007	25,490,207	6,598,974	1,505,569	44,543	(12,530,027)	21,109,266	4,084,914	5.17
2008	21,829,247	7,143,779	1,425,794	44,543	(12,548,990)	17,894,373	4,263,979	4.20
2009	8,114,775	7,728,532	1,381,166	28,303	(3,112,892)	14,139,884	1,826,995	7.74
2010	13,354,301	8,579,845	3,300,055	(42,715)	(6,174,091)	19,017,395	5,811,217	3.27
2011	2,444,008	12,490,397	3,683,739	(43,242)	(4,168,091)	14,406,811	6,146,373	2.34
2012	7,132,366	11,776,670	3,583,428	(43,242)	(5,057,019)	17,392,203	6,756,259	2.57
2013	8,760,462	12,821,213	3,740,853	(37,423)	(4,599,160)	20,685,945	7,608,467	2.72
2014	12,729,727	14,136,452	4,477,987	179,607	(6,899,855)	24,623,918	9,138,844	2.69
2015	17,024,802	14,407,936	4,314,082	127,507	(10,174,044)	25,700,283	9,626,695	2.67
2016	15,158,786	14,590,344	4,167,861	178,993	(9,520,164)	24,575,820	9,257,877	2.65

* Updated the formula in the "Available for Debt Service" column to be reduced by the Contributed Capital Systems number. The resulting Debt Service Coverage Ratio is lower in all years.

** Debt Service includes all bonds and outstanding loans (Public Works Trust Fund and State Revolving Fund), but excludes Build America Bonds interest payments from the Federal Government of \$698,365, \$860,998, \$860,998, \$792,549, \$798,576, \$800,298, and \$802,020 in 2010, 2011, 2012, 2013, 2014, 2015 and 2016 respectively.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Snohomish County Selected Demographics
 Last Ten Fiscal Years

Schedule 11

Fiscal Year	Total County Population	Total Unincorporated County Population	District Accounts Served*	Total County Median Household Income	Total County Per Capita Personal Income	Total County Unemployment Rate
2007	686,300	318,685	68,502	63,682	39,757	4.1%
2008	696,600	324,320	69,386	64,289	41,073	7.4%
2009	704,300	328,285	69,981	63,297	39,302	10.9%
2010	713,335	302,292	70,934	62,034	39,375	10.2%
2011	717,000	304,435	71,963	62,687	41,336	8.2%
2012	722,900	308,445	76,337	64,033	42,818	6.1%
2013	730,500	312,500	79,782	64,391	42,916	5.3%
2014	741,000	320,335	81,080	68,637	44,967	4.4%
2015	757,600	330,260	81,629	75,292	49,327	4.7%
2016	772,860	338,595	82,837	77,985	51,091	3.9%

* Accounts Served is based on District retail water accounts plus the retail accounts of the District's wholesale customers.

Source: Population figures, median household income are from the Washington State Office of Financial Management. Per capita personal income provided US Bureau of Economic Analysis. Unemployment rates are provided by the Washington State Employment Security Department, and are not seasonally adjusted.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Snohomish County - Principal Private Employers
 Current and Ten Fiscal Years Ago

Schedule 12

Employer	Product/Service	2016			2007		
		Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Boeing	Aircraft Manufacturing	1	34,500	8.7%	1	29,000	8.2%
Providence Regional Medical Center	Medical Services	2	4,775	1.2%	3	3,250	0.9%
Tulalip Tribes Enterprises	Gaming, Real Estate, Gov't Services	3	3,200	0.8%	4	2,300	0.7%
Premiera Blue Cross	Health Insurer	4	2,600	0.7%	2	3,310	0.9%
Walmart	Retail	5	2,312	0.6%	-	-	-
Everett Clinic	Health Care	6	2,255	0.6%	9	1,400	0.4%
Philips Medical Systems	Ultrasound Technology	7	2,000	0.5%	7	1,500	0.4%
Swedish Medical Center - Edmonds	Health Care	8	1,850	0.5%	-	-	-
Albertson's / Safeway (21 locations)	Retail - Grocery	9	1,500	0.4%	-	-	-
Fred Meyer / QFC (18 locations)	Retail - Grocery	10	1,350	0.3%	-	-	-
Rinker Materials Northwest	Construction Materials	-	N/A	-	5	1,800	0.5%
Verizon Northwest	Telecommunications	-	N/A	-	6	1,500	0.4%
Goodrich Corp.	Aerospace Services	-	N/A	-	8	1,420	0.4%
Fluke Corp. (Danaher)	Electronic Testing Equipment	-	N/A	-	10	1,120	0.3%
Total			56,342	14.2%		46,600	13.2%
Total County Employment (Private + Public)			396,665		353,760		

Source: Information on principal employers provided by Economic Alliance of Snohomish County.
 Total county employment provided by Washington State Employment Security Department.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Snohomish County - Principal Public Employers
 Current and Ten Fiscal Years Ago

Schedule 13

Employer	2016			2007		
	Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Naval Station Everett	1	3,669	0.9%	1	6,000	1.7%
Washington State (includes colleges)	2	2,950	0.7%	2	3,000	0.8%
Snohomish County Government	3	2,617	0.7%	3	2,700	0.8%
Edmonds School District	4	2,605	0.7%	5	1,400	0.4%
Everett School District	5	2,195	0.6%	4	1,770	0.5%
Mukilteo School District	6	1,755	0.4%	-	-	-
Edmonds Community College	7	1,516	0.4%	-	-	-
Marysville School District	8	1,341	0.3%	6	1,270	0.4%
City of Everett	9	1,193	0.3%	8	1,200	0.3%
Snohomish School District	10	1,117	0.3%	-	-	-
Monroe Correctional Complex	-	-	-	7	1,250	0.4%
Stevens Healthcare	-	-	-	9	1,200	0.3%
Snohomish County PUD	-	-	-	10	900	0.3%
Total		20,958	5.3%		20,690	5.8%
Total County Employment (Private + Public)		396,665			353,760	

Source: Information on principal employers provided by Economic Alliance of Snohomish County.
 Total county employment provided by Washington State Employment Security Department.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Water Meter Applications and Side Sewer Inspections
 Last Ten Fiscal Years

Schedule 14

Side Sewer Applications	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Total Side Sewers Inspected	974	857	888	877	879	840	779	601	892	1,372

Increase/Decrease from Prior Year 14% -3% 1% 0% 5% 8% 30% -33% -35%

Water Meter Application by size	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
3/4"	820	810	796	787	853	901	656	569	872	1,430
1"	27	42	98	34	40	32	16	27	22	32
1 1/2"	12	10	15	19	23	26	19	15	24	54
2"	63	26	68	28	40	10	7	5	12	13
3"	3	0	0	0	1	0	4	3	0	1
4"	16	2	12	1	6	4	1	7	9	5
6"	8	4	3	1	2	7	6	3	5	4
8"	1	0	3	0	3	1	1	1	3	1
10"	0	0	0	0	0	0	0	0	0	0
Total Meters Purchased	950	894	995	870	968	981	710	630	947	1,540

Increase/Decrease from Prior Year 6% -10% 14% -10% -1% 38% 13% -33% -39%

Note: Changes were made to number of side sewer applications sold in years 2009-2012 to reflect side sewers inspected as opposed to applications purchased. An application might be purchased but not inspected for several months to come. Inspection is a better indicator of a side sewer connection that will soon become active.

ALDERWOOD WATER & WASTEWATER DISTRICT
 District Employees by Function
 Last Ten Fiscal Years

Schedule 15

Fiscal Year	Commissioners	Administrative Services	Planning & Development Services	Capital Improvements	Finance	Maintenance & Operations	Total
2007	5	9	21	-	13	67	115
2008	5	9	20	-	13	64	111
2009	5	9	17	-	13	66	110
2010	5	9	18	-	13	65	110
2011	5	9	19	-	13	69	115
2012	5	9	12	7	13	65	111
2013	5	9	12	7	14	72	119
2014	5	11	12	9	13	79	129
2015	5	10	22	-	13	73	123
2016	5	12	22	-	14	84	137

Notes:

Commissioners are part-time elected positions.

Administrative Services consists of executive management, Commissioner support, human resources, risk management and information technology.

Planning & Development Services (PDS) consists of permitting, developer extension agreements, development review and inspection and until late 2011 the management of capital projects.

Capital Improvements group was split out from the PDS work group in late 2011 to handle management of capital projects. In late 2014, PDS and the Capital Improvements group were re-combined into one department called "Planning and Development Services".

Finance provides customer service, billing, accounting, investment and debt management services.

Maintenance & Operations manages the collection, transmission, treatment and distribution systems for both the water and wastewater utilities.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Water Operations Characteristics
 Last Ten Fiscal Years

Schedule 16

Year	Average Day Demand (mgd)	Maximum Day Demand (mgd)	Date of Maximum Day Demand (mgd)	Maximum Day Peaking Factor	Total Water Purchases (MG)
2007	26.7	49.6	July 11	1.86	8,277.5
2008	26.4	47.8	July 16	1.81	8,163.9
2009	28.0	51.5	July 30	1.84	8,646.6
2010	25.7	44.4	July 26	1.73	7,739.4
2011	25.5	39.8	September 11	1.56	7,628.0
2012	26.8	40.8	August 17	1.52	8,069.5
2013	27.5	44.6	August 7	1.62	8,377.5
2014	27.2	46.6	July 12	1.71	8,404.6
2015	27.9	51.4	July 7	1.84	8,951.1
2016	26.6	44.0	August 19	1.65	8,917.8
Average	26.8	46.0	July 31	1.72	8,317.6

mgd = million gallons per day

MG = million gallons

Note 1: Average Day Demand and Maximum Day Demand columns represent the total amount of water pumped / purchased from the City of Everett. The Total Water Purchases column is the total pumped water minus the amount subsequently sold to Silver Lake Water & Sewer District and Cross Valley Water District.

Note 2: Maximum Day Peaking Factor is the ratio of Maximum Day Demand to Average Day Demand for a given year. A smaller value indicates better management of pumping and water storage. This number is a component of the formula used by the City of Everett to calculate the per-unit of price of water charged to the District.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Operating and Capital Indicators - Water and Wastewater
 Last Ten Fiscal Years

Schedule 17

WATER	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Miles of Water Lines	675	672	657	649	637	632	624	619	614	604
Number of Reservoirs	8	8	8	8	8	8	8	8	8	8
Total Storage Capacity (mg)	96.5	96.5	96.5	96.5	96.5	96.5	96.5	96.5	96.5	96.5
Number of Pump Stations	3	3	3	3	3	3	3	3	3	3
Number of Pressure Reduction Valves	5	5	5	5	4	4	4	4	4	4
Total Water Purchases (mg)	8,918	8,951	8,405	8,378	8,070	7,628	7,739	8,647	8,164	8,277

Note: 2016 water pipe length was estimated.

WASTEWATER	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Miles of Wastewater Lines	447	442	436	428	422	418	413	408	404	394
Number of Lift Stations	12	12	10	13	12	12	12	12	12	12
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (mgd)	4	4	4	4	3	3	3	3	3	3
Total Wastewater Treated (mg)	956	799	800	796	815	781	792	745	748	770