



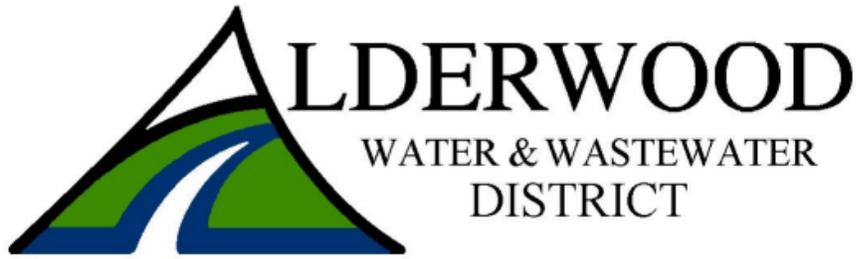
2019

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Alderwood Water & Wastewater District
Lynnwood, Washington

For the year ended December 31, 2019





Lynnwood, Washington

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended December 31, 2019

Prepared by the:

Alderwood Water & Wastewater District Finance Department

Accountant
Shauna Murphy

Payroll Accountant
Betsie Devenny

Financial Analyst
Ky Lewis IV

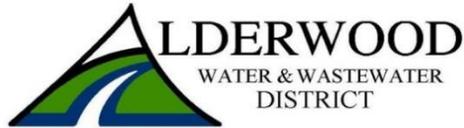
Cover Photos Courtesy of Chip Rountree

ALDERWOOD WATER & WASTEWATER DISTRICT LYNNWOOD, WASHINGTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT For the year ended December 31, 2019

Table of Contents

	<u>Pages</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	1-6
Certificate of Achievement	7
Organizational Chart	8
Directory of Officials	9
 <u>FINANCIAL SECTION</u>	
State Auditor's Office Report on Financial Statements.....	11-13
Management's Discussion & Analysis.....	15-19
Basic Financial Statements	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Net Position	22
Statement of Cash Flows	23
Notes to Financial Statements.....	24-44
Required Supplementary Information.....	45-47
 <u>STATISTICAL SECTION (unaudited)</u>	
Description of Statistical Section	48
Schedule 1 – Water – Rev., Exp. and Changes in Fund Net Position	49-50
Schedule 2 – Wastewater – Rev., Exp. and Changes in Fund Net Position.....	51-52
Schedule 3 – Water – Revenues by Source.....	53
Schedule 4 – Wastewater – Revenues by Source	54
Schedule 5 – Connections by Type of Service Classification.....	55
Schedule 6 – Water & Wastewater Utility Rates	56
Schedule 7 – Top Ten Water Ratepayers by Revenue	57
Schedule 8 – Top Ten Wastewater Ratepayers by Revenue	58
Schedule 9 – Outstanding District Debt by Type	59
Schedule 10 – Water & Wastewater Debt Service Coverage Ratios	60
Schedule 11 – Snohomish County Selected Demographics	61
Schedule 12 – Snohomish County Principal Private Employers	62
Schedule 13 – Snohomish County Principal Public Employers.....	63
Schedule 14 – Meter Applications and Side Sewer Inspections.....	64
Schedule 15 – District Employees by Function	65
Schedule 16 – Water Operations Characteristics.....	66
Schedule 17 – Operating and Capital Indicators	67



3626 - 156th Street SW • Lynnwood, WA 98087-5021 • 425-743-4605 • 425-742-4562 Fax • www.awwd.com

July 20, 2020

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, 2019. 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, 2019 was conducted in July of 2020. 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 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 has the largest service area for a water and wastewater district in the State of Washington, serving a population of over 250,000 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 Southwest 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 2019, the District served 55,232 retail accounts directly and roughly 33,667 accounts indirectly through wholesale agreements with the agencies listed above. Water consumption by the District's wholesale customers accounts for approximately 50% of the total average daily demand. Records indicate that over 93% of the District's accounts are residential and approximately 82% of water 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 2019, the District served 42,581 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 82% of the total revenue in the Wastewater Fund.

Treatment. 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.

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 6 million gallons a day ("mgd") and a maximum peak-hour flow of 13.2 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 2019, the District modified existing facilities to re-route wastewater flows in specific areas from KCDNRP facilities to the Picnic Point treatment plant.

The District currently has 12 active sanitary wastewater 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 490 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 grow is the consistent increase of median household income for Snohomish County residents. Continuing economic growth has catapulted Snohomish County's median household income over the last 5 years averaging 4.6% growth year over year. Based on projections published by the Office of Financial Management, the median household income stands at \$85,758 in 2019.

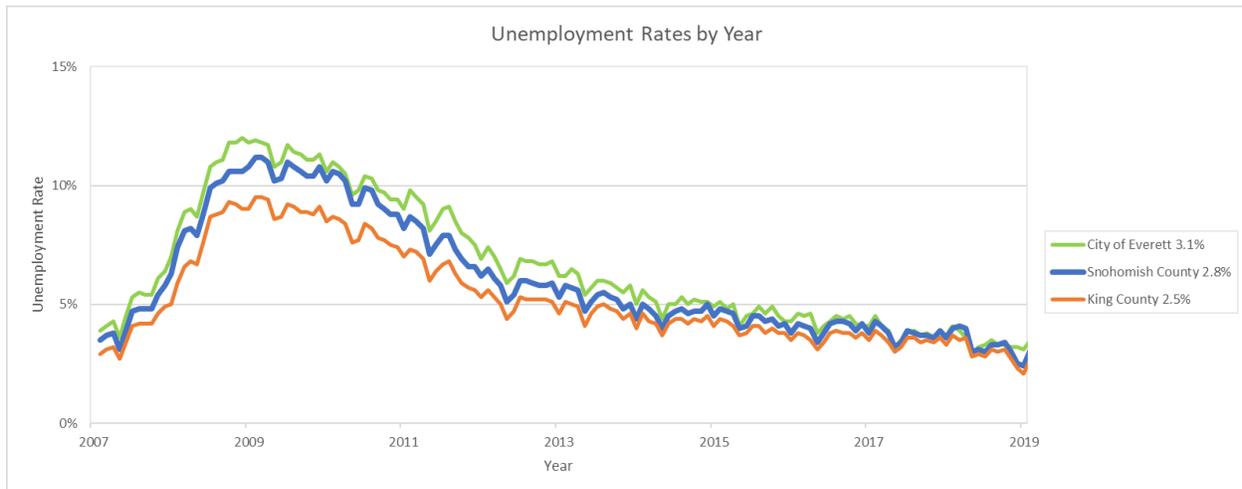
The largest sectors of employment in Snohomish County are aerospace, construction, and trade/transport/utility. Boeing, the aircraft manufacturing company, is by far the county's largest employer. With roughly 35,000 employees, it employs approximately 8.1% of the workforce in the County. The second largest employer is the Providence Regional Medical Center with roughly 4,900 employees.

According to the Washington State Employment Security Department, the December 2019 unemployment rate for Snohomish County stood at 2.4%. By comparison, King County reported an unemployment rate of 2.5%. By comparison, the State of Washington unemployment rate was 4.0% and the U.S. rate was 3.5%.

Employment in Snohomish County is strong, but many of the County's residents also 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 overall economy in the state has been growing at a steady pace since peak unemployment rates were reported in January 2010, with Snohomish County at 11.2% unemployment and King County reporting 9.5%.

Over the last decade not only has Snohomish County's unemployment rate dropped significantly and steadily, but it has also aligned more closely with the state's leading county in employment rates, King County.

Unemployment Rates by year – Snohomish and King Counties



The limitation on affordable and developable land in the Seattle Metropolitan area has historically driven growth in Snohomish County and particularly residential growth in the County's southern portion. Since 2016, the District has seen continued growth in development identifiable through the number of new services installed each year. Between 2011 and 2015 the District averaged 930 new services per year, and from 2016 to 2019 the District averaged 1,111 new services each year.

In addition, in 2019 over 20 miles of system main was added to the Districts infrastructure through developer extensions. Over the last 5 years this is the highest total miles of pipe installed. This is the result of continued development and growth in the service area.

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 Charges (GFCs).

Every three years, the District conducts a utility rate study and review of the GFCs, 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 \$5 million. In 2012, that amount was increased to \$7 million, where it remained from 2013 to 2017. In 2018 and 2019, an additional \$3 million and \$4.5 million, respectively, was added to support capital improvement projects including the building of Lift Station 23, the recoating of Reservoirs #2 and #3, the D-1 transmission main project, and the membrane replacement project at the Picnic Point Treatment Plant.

The fiscal policies also established levels for operating and capital reserves. Through 2019, 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 2018, 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.

The draft Water and Sewer Plans were submitted to the Washington State Department of Health and the Washington State Department of Ecology, respectively, in early 2017. Final approval came of the plans in May 2018.

IV. Major initiatives

During 2019, the District completed the first phase of a membrane upgrade project at the Picnic Point Wastewater Treatment Facility with the installation of membranes in two expansion tanks and replacement of membranes in two existing tanks which increased the capacity and reliability of the treatment facility. The second phase of this project will entail two additional membrane installations and the upgrading of necessary electrical and mechanical components at the treatment facility and is expected to be completed in the winter of 2020. The District also began the recoating of Reservoirs 2 & 3. This project was scheduled to be completed over the summers of 2019 and 2020 but was able to be substantially completed in one summer with only touch-up and repair work remaining to finalize in the spring of 2020.

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 the District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2018. This was the seventh consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, an agency 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,



John McClellan
Interim General Manager



Samuel Hecker
Interim Finance Manager



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Alderwood Water & Wastewater District
Washington**

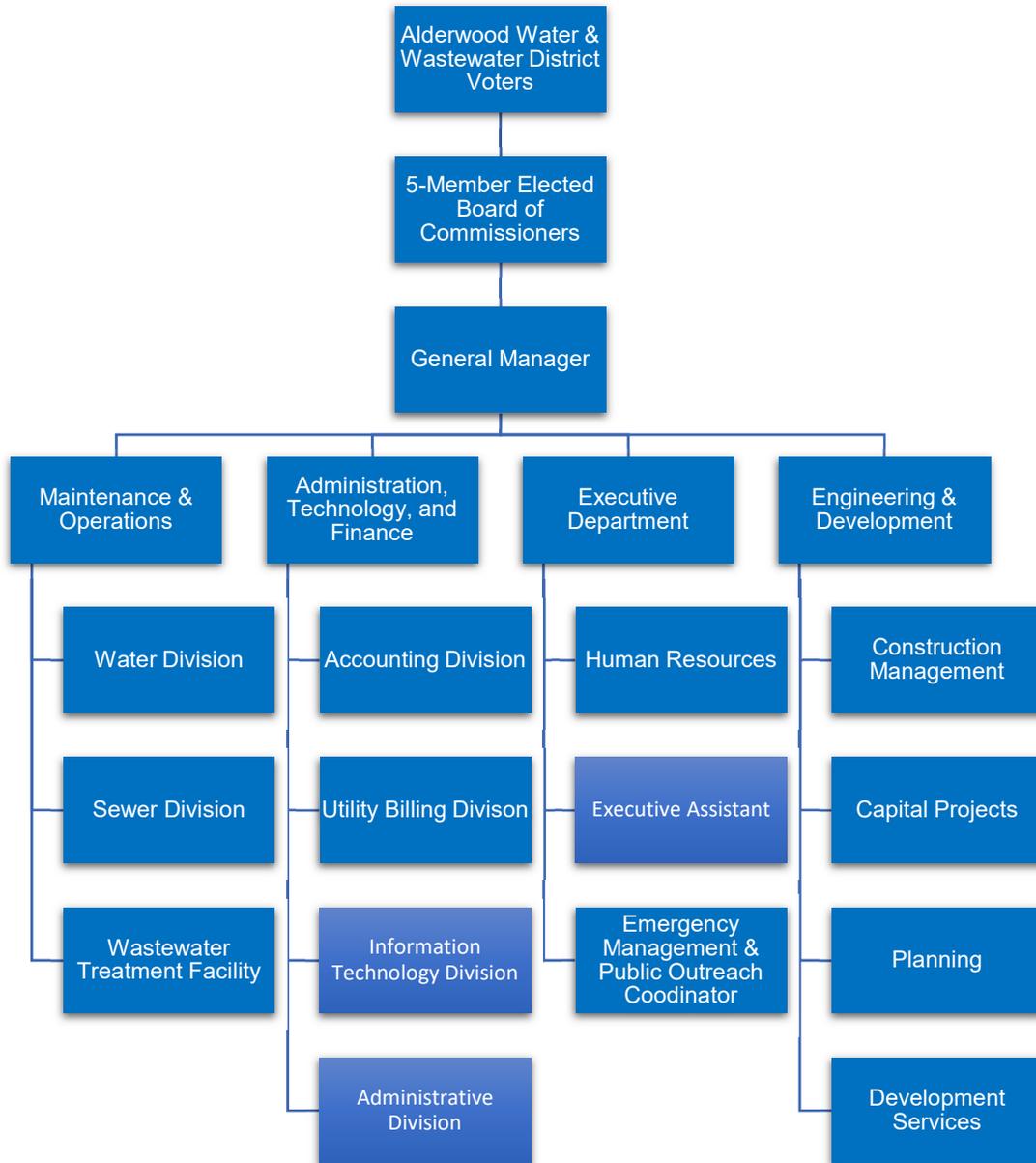
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2018

Christopher P. Morill

Executive Director/CEO

ALDERWOOD WATER & WASTEWATER DISTRICT
Organizational Chart
January 1, 2019 through December 31, 2019



ALDERWOOD WATER & WASTEWATER DISTRICT
Snohomish County, Washington
January 1, 2019 through December 31, 2019

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, 2023
Secretary/ Commissioner	Paul D. McIntyre	6	December 31, 2019
Commissioner	Donna Cross	6	December 31, 2021
Commissioner	Jack Broyles, Jr.	6	December 31, 2023

Appointed

General Manager	Jeff Clarke (until January 28, 2020)
Finance Director	Sridhar Krishnan (until March 2, 2020)
Director of Maintenance & Operations	Dave Barnes
Administrative Services Manager	Mike Pivec (until June 28, 2019) Position eliminated in reorganization
Capital Projects Manager	Paul Richart, P.E.
Engineering & Development Director	John McClellan, 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

This page left intentionally blank.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Alderwood Water and Wastewater District January 1, 2019 through December 31, 2019

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 12.

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 an opinion on these financial statements based on our audit. We conducted our audit 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alderwood Water and Wastewater District, as of December 31, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 10 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the District. 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 and required supplementary information listed on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express

an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2020 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.



Pat McCarthy
State Auditor
Olympia, WA

July 20, 2020

This page left intentionally blank.

Management's Discussion and Analysis

As management of the District we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2019. This should be read in conjunction with the financial statements, notes to the financial statements, and required supplementary information which follows this discussion.

Financial Highlights

- For the year ending December 31, 2019, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$497.5 million. Of this amount, 19.3% or \$96.1 million is unrestricted net position and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets, \$393.4 million or 79.1%, and restricted for debt service payments and reserves, \$7.4 million or 1.5%.
- As of the end of 2019, the District's total net position increased by \$39.9 million or 8.4% from the prior year.
- The District completed an internal rate study of water and wastewater rates in 2019. The Board of Commissioners adopted annual rate increases of 2% for water and 5%, 5%, and 4.5% for 2020-2022 in wastewater. Information regarding the District's water and wastewater rates are available on the District's website - www.awwd.com.

Overview of the Financial Statements

The District presents three basic financial statements:

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

The **Statement of Net Position** presents detailed information on all of the District's assets, liabilities, and deferred outflows/inflows of resources. The difference between the sum of total assets and deferred outflows of resources and the sum of total liabilities and deferred inflows of resources is represented as net position. This statement reports all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of December 31, 2019. It is like taking a "financial photograph" of the District on December 31, 2019.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents twelve months' worth of revenue and expenses beginning January 1, 2019 and ending December 31, 2019. 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, bond interest expense, and capital contributions.

The **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 the District's cash.

Notes to the Financial Statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees. The Comprehensive Annual Financial Report (CAFR) also includes a Statistical Section, which provides more details about the District.

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.

Alderwood Water and Wastewater District's Net Position

	2019	Restated 2018	Increase (Decrease)	% Change
Current and other assets	\$ 120,473,491	\$ 121,680,206	\$ (1,206,715)	(1.0)%
Capital assets, net	478,014,552	440,627,181	37,387,371	8.5%
Total assets	<u>598,488,043</u>	<u>562,307,387</u>	36,180,656	6.4%
Total deferred outflows of resources	<u>1,233,968</u>	<u>1,107,352</u>	126,616	11.4%
Current liabilities	15,392,098	11,558,858	3,833,240	33.2%
Long-term liabilities	84,470,662	91,546,407	(7,075,745)	(7.7)%
Total liabilities	<u>99,862,760</u>	<u>103,105,265</u>	(3,242,505)	(3.1)%
Total deferred inflows of resources	<u>2,380,741</u>	<u>2,104,581</u>	276,160	13.1%
Net investment in capital assets	393,366,283	349,502,851	43,863,432	12.6%
Restricted for debt service	7,432,500	7,894,003	(461,503)	(5.8)%
Restricted for interlocal agreements	617,634	0	617,634	100.0%
Unrestricted	96,062,091	100,211,395	(4,149,304)	(4.1)%
Total net position	<u>\$ 497,478,508</u>	<u>\$ 457,608,249</u>	\$ 39,870,259	8.7%

Analysis of the Statement of Net Position

- Decrease of current assets of approximately \$1.2 million was due to a planned use of cash for capital projects in 2019. The District had two large capital projects under construction in 2019: Picnic Point Wastewater Treatment Facility Membrane Replacements and Reservoir #2 & #3 Recoating. Expenses for these projects totaled \$10.2 million in 2019.
- Capital assets consist of land; construction in progress; plant; distribution and collection systems; machinery and equipment; and accumulated depreciation. The \$37.4 million increase in net capital assets is primarily due to assets contributed by developers through system extensions in the amount of \$22.1 million. The remaining is due to construction-in-progress, largely due to the Membrane Replacement project listed above.
- The 33.2% increase in current liabilities was mostly due to the change in accounts payable. The accounts payable balance is cyclical and is related to timing of board meetings and payment schedules.
- Changes in long-term liabilities reflect the scheduled reduction of debt due to annual principal payments.

Alderwood Water and Wastewater changes in net position

	2019	Restated 2018	Increase (Decrease)	% Change
Total operating revenue	\$ 89,568,419	\$ 88,760,417	\$ 808,002	0.9%
Interest and investment revenue	4,014,914	2,901,955	1,112,959	38.4%
Other nonoperating revenue	190,654	179,103	11,551	6.4%
Total revenues	<u>93,773,987</u>	<u>91,841,475</u>	1,932,512	2.1%
Total operating expenses	90,882,344	87,287,676	3,594,668	4.1%
Nonoperating expenses	3,922,823	19,544,487	(15,621,664)	(79.9)%
Total expenses	<u>94,805,167</u>	<u>106,832,163</u>	(12,026,996)	(11.3)%
Income before cap. contributions	<u>(1,031,180)</u>	<u>(14,990,688)</u>	13,959,508	(93.1)%
Capital contributions	40,901,439	18,789,327	22,112,112	117.7%
Change in net position	39,870,259	3,798,639	36,071,620	949.6%
Beginning net position	<u>457,608,249</u>	<u>453,809,610</u>	3,798,639	0.8%
Ending net position	<u>\$ 497,478,508</u>	<u>\$ 457,608,249</u>	<u>\$ 39,870,259</u>	8.7%

Analysis of the Statement of Revenues, Expenses, and Changes in Net Position

- Total revenue increased by 2.1% in 2019, this is due to a combination of rate increases and higher interest rates our investments.
- The 4.1% increase in operating expenses is attributable to increased rates in both purchased water and purchased wastewater treatment.
- The 79.9% decrease in nonoperating expenses is due to an accounting change of the capital asset threshold from \$5,000 to \$25,000.

- Capital contributions are general facility charges (GFC) revenues and developer-contributed assets. These assets are donated to the District once the new development is complete and approved by the District. In 2019 the District began using a unit price method to more accurately represent the value of assets donated through development instead of relying on information from developers. The new unit price methodology increased capital contributions by 117.7%.
- The result of the accounting changes of capital asset threshold change and the developer contribution methodology resulted in the 949.6% increase in change in net position.

Alderwood Water and Wastewater District's Capital Assets

	2019	Restated 2018	Increase (Decrease)	% Change
Land	\$ 1,041,092	1,041,092	\$ (0)	\$ (0)
Construction-in-progress	29,890,025	21,206,547	8,683,478	40.9%
Total assets not depreciated	30,931,117	22,247,639	8,683,478	39.0%
Plant	170,170,895	161,654,214	8,516,681	5.3%
Distribution and collection systems	435,131,129	401,563,582	33,567,547	8.4%
Machinery and equipment	28,636,797	28,192,124	444,673	1.6%
Total assets being depreciated	633,938,821	591,409,920	42,528,901	7.2%
Less accumulated depreciation	(186,855,386)	(173,030,379)	(13,825,007)	8.0%
Total assets	\$ 478,014,552	\$ 440,627,180	\$ 37,387,372	8.5%

Analysis of Changes in Capital Assets

Capital assets being depreciated increased \$42.5 million from 2018 to 2019. This was mostly made up of:

- \$33.6 million net increase to distribution and collection systems. The majority of this is from developer contributions.
- Construction-in-progress increased \$8.7 million. This is the combination of completing projects in 2019 and significant work on the Membrane Replacement Project and Recoating of Reservoirs #2 & #3.
- Additional information about asset depreciation and other construction-in-progress capital projects can be found in Notes 1, 3, and 4.
- In accordance with the new threshold of \$25,000, the District removed 117 assets that did not meet this threshold from the fixed asset ledger. This resulted in a prior period adjustment in the amount of \$630,215.
- An additional 27 assets were identified as consisting of individual assets that did not meet the previous asset threshold of \$5,000. This resulted in a prior period adjustment of \$6,371,192.
- Nine assets were identified as being property of the City of Everett. These were originally booked as Alderwood assets based on the work the District performed. Removing these assets resulted in a prior period adjustment of \$7,250,252.

Alderwood Water and Wastewater District's Long-term debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$83.9 million; the net decrease of \$5.8 million is a result of normal principal payments 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 6 to the Financial Statements.

	<u>2019</u>	<u>Restated 2018</u>
Public Works Trust Fund Loans	\$ 3,388,503	\$ 4,136,504
State Revolving Fund Loans	13,593,082	14,476,896
Bond Obligations	66,895,000	71,175,000
<u>Total</u>	<u>\$ 83,876,585</u>	<u>\$ 89,788,400</u>

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to Alderwood Water and Wastewater District, 3626 – 156th St. SW, Lynnwood, WA 98087.

BASIC FINANCIAL STATEMENTS

ALDERWOOD WATER & WASTEWATER DISTRICT

Statement of Net Position

December 31, 2019

ASSETS

Current Assets:

Cash and cash equivalents	\$ 16,606,869
Investments	78,874,465
Receivables, net	13,590,420
Interest receivable	485,729
Inventories	950,108
Prepaid items	730,044
Total current assets	<u>111,237,635</u>

Noncurrent Assets:

Restricted investments	8,050,134
Deposits with fiscal agent/trustee	300,177
Assessments receivable	67,370
Long-term receivables	818,175

Capital Assets:

Land	1,041,092
Construction-in-progress	29,890,025
Plant	170,170,895
Distribution and collection systems	435,131,129
Machinery and equipment	28,636,797
Less accumulated depreciation	(186,855,386)
Total noncurrent assets	<u>487,250,408</u>

Total assets 598,488,043

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	1,233,968
Total deferred outflows of resources	<u>1,233,968</u>

LIABILITIES

Current liabilities:

Accounts payable	6,468,406
Accrued wages and benefits	417,845
Compensated absences	364,180
Customer deposits	2,232,639
Bonds, notes, and loans payable	5,909,028
Total current liabilities	<u>15,392,098</u>

Noncurrent liabilities:

Bonds, notes, and loans payable	78,739,241
Compensated absences	1,092,538
Accrued interest	373,197
Net pension liability	4,265,686
Total noncurrent liabilities	<u>84,470,662</u>

Total liabilities 99,862,760

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	2,380,741
Total deferred inflows of resources	<u>2,380,741</u>

NET POSITION

Net investment in capital assets	393,366,283
Restricted for debt service	7,432,500
Restricted for interlocal agreements	617,634
Unrestricted	96,062,091
Total net position	<u>\$ 497,478,508</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended December 31, 2019

Operating revenues:	
Water charges for services	\$ 39,152,298
Wastewater charges for services	49,401,108
Other charges for services	1,015,013
Total operating revenues	89,568,419
Operating expenses:	
Personnel services	16,526,776
Supplies and services	10,008,241
Purchased water	17,701,255
Purchased wastewater	29,535,669
Depreciation	15,381,489
Taxes	1,728,914
Total operating expenses	90,882,344
Operating income (loss)	(1,313,925)
Nonoperating revenues (expenses):	
Investment earnings	4,014,914
Rental income	136,923
Miscellaneous revenue	53,731
Gain (loss) on disposition of asset	(231,329)
Interest expense	(3,691,494)
Total nonoperating revenues (expenses)	282,745
Income before capital contributions	(1,031,180)
Capital contributions - general facility charges	5,899,604
Capital contributions - developers	35,001,835
Change in net position	39,870,259
Net position-beginning	472,456,551
Prior period adjustment	(14,848,302)
Restated net position-beginning	457,608,249
Net position-ending	\$ 497,478,508

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

ALDERWOOD WATER & WASTEWATER DISTRICT

Statement of Cash Flows
For the year ended December 31, 2019

	Total
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 87,171,454
Payments for purchased water	(17,701,255)
Payments for sewage treatment	(29,535,669)
Payments to suppliers and service providers	(8,938,246)
Payments to and for employees salaries and bene	(17,433,308)
Other operating receipts (payments)	1,015,013
Net cash provided by (used for) operating activiti	<u>14,577,989</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(18,240,848)
Proceeds from disposal of assets	113,302
Payments received on ULID assessments	22,163
Proceeds from capital debt	-
Principal paid on capital debt	(5,911,815)
Interest paid on capital debt	(3,683,633)
Capital contributions	5,899,604
Other capital related receipts (payments)	980,313
Net cash provided by (used for) capital and relat	<u>(20,820,915)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	49,370,783
Purchase of investments	(58,427,162)
Interest on investments	4,950,428
Net cash provided by investing activities	<u>(4,105,951)</u>
Net increase (decrease) in cash and cash equi	(10,348,875)
Cash and cash equivalents at beginning of year	<u>26,955,744</u>
Cash and cash equivalents at end of year	<u>\$ 16,606,869</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ (1,313,925)</u>
Adjustments to reconcile operating income (loss) to to net cash provided by (used for) operating activities:	
Depreciation expense	15,381,489
Decrease (increase) in accounts receivable	(1,381,952)
Decrease (increase) in inventories	(39,555)
Decrease (increase) in prepaid items	(153,932)
Increase (decrease) in accounts payable	2,992,396
Increase (decrease) in employee benefits	(906,532)
Total adjustments	<u>15,891,914</u>
Net cash provided by (used for) operating activities	<u>\$ 14,577,989</u>
Schedule of non-cash capital and related financing activities	
Contributions of capital assets from developers	\$ 35,001,835
Increase (decrease) in fair value of investments	(1,028,189)
Amortization of bond premium	(32,265)

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

Alderwood Water & Wastewater District

Notes to the Financial Statements

December 31, 2019

Note 1: Summary of significant accounting policies

The financial statements of the 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.

A. Reporting entity

The District was incorporated in 1931 and operates under the laws of the state of Washington applicable to special purpose districts. It is governed by an elected five-member Board of Commissioners and has no component units.

B. Measurement focus, basis of accounting, and financial statement presentation

The financial statements are prepared using the 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.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principle ongoing operations. 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 not meeting this definition are reported as non-operating revenues and expenses.

Unbilled utility service receivables are recorded at year-end.

All activities of the District are reported within a single enterprise fund.

C. Assets, liabilities, deferred outflows/inflows of resources, and net position

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with maturity of three months or less when purchased, to be cash equivalents.

2. Investments

Investments are reported at fair value except for investments in the Washington State Local Government Investment Pool which are reported at amortized cost. The District is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Certificates of Deposit with Washington State depositories that participate in the State Insurance Pool, bankers acceptances, the State Investment Pool, and in other investments authorized by law. District

policy requires that all investments be purchased DVP (delivery vs. payment), which means cash payments for securities are made at the same time as, or after, the delivery of the security. Securities are held in safekeeping by a third-party custodian. Additional detailed information on investments can be found in Note 2.

3. Receivables, net

The District uses the allowance method of accounting for doubtful accounts. Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien, foreclosure, and water shutoff rights provided by RCW 57.08.081.

4. Inventories and prepaid items

Inventories are valued using the first in first out (FIFO) method. The cost of inventory is recorded as expense when consumed, rather than when purchased.

Certain payments to vendors such as insurance and maintenance agreements, reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

5. Restricted investments

In accordance with bond resolutions and interlocal agreements, separate restricted reserves are required to be established. The assets held in these reserves are restricted for specific uses, including debt service and other special reserve requirements.

6. Long-term Receivables

The District's long-term receivables consist of capacity charges billable to customers over the next 15 years. In the 2013 contract amendment to the King County Sewer Disposal Agreement, it was agreed that, as a result of redirecting the sewage and waste of Area D away from King County's regional wastewater facilities to the District's Picnic Point Wastewater Treatment Facility, the District would pay the County the amount of capacity charges still owed and the County would assign the District the right to collect those capacity charges. The District will begin billing customers in 2020 and will continue on a quarterly basis until all installments are billed. The portion of these receivables billable within one year is reflected in Receivables, net.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., mains, valves, 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 \$25,000 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 using a unit cost method.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency or extend the useful life 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 completed.

Land and construction-in-progress are not depreciated. Other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Capital asset classes	Useful Life
Building	40 - 50
Building Improvements	25
Vehicles	7
Equipment	3 - 10
Reservoirs	75
Water Pipes	75
Wastewater Pipes	50

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

8. 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. The District records deferred outflows/inflows of resources related to their participation in Washington State pension programs.

9. 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.

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 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.

10. 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.

D. Revenues and expenses

1. Other charges for services

Other charges include preliminary engineering charges, water use permits, side sewer permits, industrial waste surcharges, and sales of supplies and materials.

Note 2: Deposits and Investments

A. Cash on hand and deposits with financial institutions

The District'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 on hand at December 31, 2019 was \$3,200 and the bank balance was \$3,086,579.

B. Investments

All surplus cash is invested in accordance with an investment policy approved by the District's 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).

The Washington State Local Government Investment Pool (LGIP) is managed and operated by the Washington Office of the State Treasurer (OST). The OST is responsible for establishing the investment policy for the pool and reviews it annually. Any proposed changes are reviewed by the LGIP Advisory Committee.

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>. As of December 31, 2019, the District held \$7,651,166 in LGIP investments and an in-transit deposit from US Bank in the amount of \$6,000,000.

All investments are subject to the following risks:

Interest rate risk is the risk that the District may face should interest rate variances affect the value of investments. As a means of limiting its exposure to fair value losses caused by a rise in 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 two years. The portfolio weighted maturity at year end was 1.3 years.

The following schedule presents the investments and related maturities as of December 31, 2019:

Investment Type	Investment Maturities (in years)		
	Fair Value	Less than 1 year	1-5 year
U.S. Treasury Notes	\$ 25,126,565	\$ 15,049,610	\$ 10,076,955
Government Sponsored Enterprises	61,798,034	17,094,072	44,703,962
Total	\$ 86,924,599	\$ 32,143,682	\$ 54,780,917

Credit risk is the chance that an issuer or other counterparty to an investment will not fulfill its obligations. 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. All of the District's investments are held in organizations with a Moody's rating of Aaa, excluding investments with The Washington State Local Government Investment Pool which is unrated.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 the District will be conducted on a 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 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, issuer or financial institution. Detailed information on concentration risk is covered in the District Investment Policy.

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 classifications to report.

Investment Type	Fair Value	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)
U.S. Treasury Notes	\$ 25,126,565	\$ 25,126,565	\$ -	\$ -
Government Sponsored Enterprises	61,798,034	-	61,798,034	-
Total	\$ 86,924,599	\$ 25,126,565	\$ 61,798,034	\$ -

Note 3: Utility plant and depreciation

Capital asset activity for the year ended December 31, 2019 was as follows:

	Restated Balance December 31, 2018	Increases	Decreases	Balance December 31, 2019
Capital assets, not being depreciated:				
Land	\$ 1,041,092	\$ -	\$ -	\$ 1,041,092
Construction-in-progress	21,206,547	19,552,482	(10,869,004)	29,890,025
Total capital assets, not being depreciated	<u>22,247,639</u>	<u>19,552,482</u>	<u>(10,869,004)</u>	<u>30,931,117</u>
Capital assets, being depreciated:				
Plant	161,654,214	8,516,681	-	170,170,895
Distribution and collection systems	401,563,582	35,097,411	(1,529,864)	435,131,129
Machinery and equipment	28,192,124	820,118	(375,445)	28,636,797
Total capital assets, being depreciated	<u>591,409,920</u>	<u>44,434,210</u>	<u>(1,905,309)</u>	<u>633,938,821</u>
Less accumulated depreciation for:				
Plant	(52,034,366)	(6,309,958)	-	(58,344,325)
Distribution and collection systems	(107,032,626)	(7,473,818)	1,195,255	(113,311,188)
Machinery and equipment	(13,963,386)	(1,597,713)	361,226	(15,199,872)
Total accumulated depreciation	<u>(173,030,378)</u>	<u>(15,381,489)</u>	<u>1,556,481</u>	<u>(186,855,386)</u>
Total capital assets being depreciated, net	<u>418,379,542</u>	<u>29,052,721</u>	<u>(348,828)</u>	<u>447,083,435</u>
Capital assets, net	<u>\$ 440,627,181</u>	<u>\$ 48,605,203</u>	<u>\$ (11,217,832)</u>	<u>\$ 478,014,552</u>

In 2019, the District raised the capital asset threshold from \$5,000 to \$25,000. The District also removed assets that were determined to be capitalized in error from prior years. This resulted in a prior period adjustment to net position and beginning capital asset balances in the amount of \$(14,251,659).

Note 4: Significant Construction Commitments

The District had the following significant construction projects in progress as of December 31, 2019. Project budgets include District staff labor:

Project Name	Expended to Date	Remaining Budget
PPWWTF Equalization Basin	\$ 774	\$ 11,278,227
Water Pressure Reduction - Phase 2 (380E and 420 Zones)	564,424	4,584,216
Valve Vaults, Air Vacs & Blowoff Upgrades on Transmission M	171,789	4,317,391
164th St SW Transmission Main Connection	299,527	4,315,749
Queensborough Sewer Rehab Project (NC-35(A))	5,770	4,251,230
180th Snohomish County Phase 2	202,430	3,380,871
Reservoir #2 and #3 Coating	6,672,709	3,071,943
Water Pressure Reduction - Phase 1 (380W and 330 Zones)	568,835	2,454,503
PPWWTF Membranes (PP-TF(E))	16,095,582	1,961,439
2019 CIPP Sewer Installation (SCOLL-19A)	1,240	1,648,760
Snohomish County North Creek Trail Phase 1	16,595	1,505,633
	<u>\$24,599,676</u>	<u>\$42,769,962</u>

Note 5: 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 2019:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$4,265,686
Pension assets	\$0
Deferred outflows of resources	\$1,233,968
Deferred inflows of resources	\$2,380,741
Pension expense/expenditures	\$497,730

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 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 2019 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee
January - June 2019:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Total	12.83%	6.00%
July - December 2019:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%

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. 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 2019 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2
January - June 2019:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	12.83%	7.41%
July - December 2019:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.90%

The District's actual PERS plan contributions were \$595,214 to PERS Plan 1 and \$872,902 to PERS Plan 2/3 for the year ended December 31, 2019.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2019 with a valuation date of June 30, 2018. 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* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2018 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2019. Plan liabilities were rolled forward from June 30, 2018, to June 30, 2019, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.50% salary inflation
- **Salary increases:** In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.4%

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 changes in methods and assumptions since the last valuation.

- OSA updated modeling to reflect providing benefit payments to the date of the initial retirement eligibility for terminated vested members who delay application for retirement benefits.
- OSA updated COLA programming to reflect legislation signed during the 2018 legislative session that provides PERS and TRS Plan 1 annuitants who are not receiving a basic minimum, alternate minimum, or temporary disability benefit with a one-time permanent 1.5% increase to their monthly retirement benefit, not to exceed a maximum of \$62.50 per month.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent. To determine that rate, an asset sufficiency test included an assumed 7.5 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.5 percent except LEOFF 2, which has assumed 7.4 percent). Consistent with the long-term expected rate of return, a 7.4 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 7.4 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4 percent was determined using a building-block-method. In selecting this assumption, the Office of the State Actuary (OSA) reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered capital market assumptions and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns over various time horizons.

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, 2019, 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%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	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 7.4 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 (6.4 percent) or 1-percentage point higher (8.4 percent) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$4,084,503	\$3,261,553	\$2,547,536
PERS 2/3	7,701,297	1,004,133	(4,491,334)

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, 2019, the District reported a total pension liability of \$4,265,686 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,261,553
PERS 2/3	1,004,133

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

	Proportionate Share 6/30/18	Proportionate Share 6/30/19	Change in Proportion
PERS 1	0.082100%	0.084818%	(0.002718%)
PERS 2/3	0.100679%	0.103376%	0.002697%

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.

The collective net pension liability (asset) was measured as of June 30, 2019, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2018, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2019, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$275,306
PERS 2/3	222,424
TOTAL	497,730

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2019, 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	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$217,899)
Changes of assumptions	\$0	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0	\$0
Contributions subsequent to the measurement date	\$276,474	\$0
TOTAL	\$276,474	(\$217,899)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$287,786	(\$215,883)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$1,461,808)
Changes of assumptions	\$25,713	(\$421,301)
Changes in proportion and differences between contributions and proportionate share of contributions	\$212,926	(\$64,051)
Contributions subsequent to the measurement date	\$431,169	\$0
TOTAL	\$957,494	(\$2,162,842)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$287,686	(\$215,883)
Net difference between projected and actual investment earnings on pension plan investments	\$0	(\$1,679,507)
Changes of assumptions	\$25,713	(\$421,301)
Changes in proportion and differences between contributions and proportionate share of contributions	\$212,926	(\$64,051)
Contributions subsequent to the measurement date	\$707,643	\$0
TOTAL	\$1,233,968	(\$2,380,741)

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, 2020. 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
2020	(\$48,102)
2021	(\$113,941)
2022	(\$40,661)
2023	(\$15,195)
2024	\$0
Thereafter	\$0

Year ended December 31:	PERS Plan 2/3
2020	(\$422,714)
2021	(\$716,788)
2022	(\$299,322)
2023	(\$144,689)
2024	(\$71,444)
Thereafter	\$18,439

Note 6: Long-term Liabilities

Loans Payable

The Districts long-term loan debt is comprised of the following:

Public Works Trust Fund Loans	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2019
99-791-001 Water Reservoir No 1 Cover	1999	3,420,060	1.000%	2019	\$ -
00-691-001 Water Low Pressure Area Improvement	2000	1,402,800	1.000%	2020	77,776
05-691-PRE-108 Wastewater Facility Upgrade	2005	1,000,000	0.500%	2025	315,790
05-691-PRE-126 Wastewater Facility Upgrade	2005	1,000,000	0.500%	2025	320,175
06-962-001 Wastewater Facility Upgrade	2006	7,000,000	0.500%	2026	2,674,762
					<u>\$ 3,388,503</u>
State Revolving Fund Loans	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2019
L0900006 Wastewater Facility Upgrade	2011	\$ 9,308,953	2.700%	2031	\$ 6,032,950
DM-12-952-098 Water Pump Station & High Tank	2012	2,663,943	1.500%	2034	2,010,406
DM-13-952-125 660/520/340 Water Pressure Zone	2013	5,858,044	1.500%	2038	5,549,726
					<u>\$ 13,593,082</u>

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.

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 28,000,000 gallons, was also funded in part by a PWTF loan during 1999. A total of \$9,000,000 in PWTF loans were used to fund construction of the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005. \$7,000,000 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 \$2,663,943 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the D-1 Transmission Main Project. The final draw on the loan was completed in 2018, resulting in a total of \$5,858,044 with the first payment beginning in 2019.

Bonds

The District's long-term bond debt is composed of the following bond issues:

Bond Obligations	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2019
2010 State Revenue Bond - Series B	2010	49,325,000	4.200% - 5.500%	2029	\$ 44,605,000
2013 State Revenue Bond	2013	25,000,000	2.000% - 4.625%	2043	22,290,000
					<u>\$ 66,895,000</u>

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. These bonds were issued as Build America Bonds – direct payment and were split into Series A and Series B. Series A totaled \$3.675 million and has been paid in full. 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 2010 bond proceeds were fully drawn and expended.

In October 2013, the District issued \$25,000,000 in revenue bonds to finance upcoming wastewater capital improvement projects. As of December 31, 2014, all of the 2013 Revenue Bond proceeds were fully drawn and expended.

All bond debt is secured by the District revenues. Restricted investments for debt services as of December 31, 2019 is \$ 7,432,500. This represents 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.

The debt service requirements for the District's loans and bonds are as follows for the years ending December 31:

Year	Principal	Interest
2020	5,876,763	3,536,768
2021	5,956,384	3,376,894
2022	6,109,122	3,212,676
2023	6,277,207	2,834,612
2024	6,455,650	2,579,906
2025-2029	33,577,811	8,664,577
2030-2034	7,603,694	3,366,013
2035-2039	6,534,954	2,093,711
2035-2043	5,485,000	648,425
	<u>\$83,876,585</u>	<u>\$30,313,582</u>

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.

Changes in the District's long-term liabilities for the year ended December 31, 2019 are as follows:

	Restated Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due within one year
Public Works Trust Fund loans	\$ 4,136,504	\$ -	\$ (748,001)	\$ 3,388,503	\$ 565,880
State Revolving Fund loans	14,476,896	-	(883,814)	13,593,082	895,883
Bond obligations	71,175,000	-	(4,280,000)	66,895,000	4,415,000
Bond premium	803,950	-	(32,266)	771,684	32,265
Pension obligation	5,385,618	1,468,116	(2,588,048)	4,265,686	-
Compensated absences	1,479,326	1,456,716	(1,479,326)	1,456,718	364,180
	<u>\$ 97,457,294</u>	<u>\$ 2,924,832</u>	<u>\$ (10,011,454)</u>	<u>\$90,370,673</u>	<u>\$ 6,273,208</u>

During 2019, it was discovered that loan origination fees for a state revolving loan were not recognized when incurred. This resulted in a prior period adjustment to net position and beginning loan balance in the amount of \$64,663.

Note 7: Risk Management

Unemployment

The District is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the District. Below is an analysis of claims activity for the two-year period ended December 31, 2019:

	2018	2019
Liability - beginning	\$ 319	\$ 3,738
Claims incurred	4,429	17,182
Claim payments	(1,011)	(16,548)
Liability - ending	<u>\$ 3,738</u>	<u>\$ 4,372</u>

Water and Sewer Risk Management Pool

The 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 70 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: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

Members make an annual premium 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	\$275,000,000
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	\$700,000,000 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	\$15,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$15,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$50,000	N/A	\$2,000,000
Deadly Weapon/Active Shooter	\$10,000	N/A	\$500,000
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 \$50,000 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 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. There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

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, 2019, written notice must be in possession of the Pool by April 30, 2019). 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 various independent public adjusters.

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 8: Other Parties

Clearview Water Supply Agency

During 2004, the District negotiated a 50-year supply contract for water with the Clearview Water Supply Agency (CWSA). The purpose of CWSA is to provide water to the members and maintain and operate certain facilities. CWSA currently has no plant and equipment; the member districts jointly own the facilities. The District has been contracted to maintain and operate the facilities as well as provide administrative support for CWSA.

CWSA purchases all of its water from the 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 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, monthly charges to the three members are equal to the monthly expenses.

In 2018, the Board of Commissioners of the (CWSA) adopted a resolution clarifying that CWSA is not a joint venture under Governmental Accounting Standards Board (GASB) Statement No. 14 but is a jointly governed organization under Chapter 39.34 RCW. The CWSA is comprised of three Special Purpose Districts: Alderwood Water & Wastewater District, Cross Valley Water District, and Silver Lake Water & Sewer District. The CWSA Board's action was the result of discussions between representatives of the Washington State Auditor's Office (SAO) and the representatives for the three member districts of CWSA as to how to clarify the nature of CWSA's relationship with its three member districts.

Annual financial statements are available by contacting Clearview Water Supply Agency at 3626 – 156th St. SW, Lynnwood, WA 98087 or by calling (425) 743-4605.

Wholesale Customers

The District has interlocal agreements to sell wholesale water to the cities of Edmonds, Lynnwood, Mountlake Terrace, the Mukilteo Water & Wastewater District and the Silver Lake Water & Sewer District. A portion of each payment from the wholesale customers is set aside by the district in a wholesale rate stabilization fund that can be used to mitigate future rate increases. This liability is currently at \$617,634.

Note 9: Other Disclosures

Prior Period Adjustments

In December 2019, the Finance Director approved for the District's capital asset threshold policy to be raised from \$5000 to \$25,000. Assets that did not meet the new threshold were retired. This resulted in a reduction in net position of \$630,215. An additional 27 assets were identified as consisting of individual assets that did not meet the previous asset threshold of \$5,000. This resulted in a reduction in net position of \$6,371,192. Nine assets were identified as being property of the City of Everett. These were originally booked as Alderwood assets based on the work the District performed in their construction. Removing these assets resulted in a reduction of net position of \$7,250,252. In addition, the District determined that prior years' revenues for wholesale water sales have been overstated. The total amounts billed to wholesale customers were recorded as revenue when a portion should have been accounted for as a liability for the wholesale rate stabilization fund. This adjustment resulted in a reduction in net position of \$531,980. It was also discovered that loan origination fees had not been booked for Water State Revolving Fund - DM13-952-125. This increased the beginning balance of the liability and brought about a prior adjustment in the amount of \$64,663. The total prior period adjustment recorded by the District was a \$14,848,302 reduction in net position.

Note 10: Subsequent Events

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

As a result of these measures, economic uncertainties have arisen which are likely to negatively impact operating results, though such potential impact is unknown at this time. As of March 26, 2020, the District closed its administrative office to the public. The majority of staff are working remotely. Public meetings are still ongoing via the use virtual online meetings. Maintenance and Operations maintains a crew on site to respond to emergencies such as water main breaks, sewer plugs, service leaks, etc. The District has refrained from disconnecting service due to late payment and has suspended all late fees until the Governor lifts the emergency mandate. The debt accrued is expected to be paid in full. Payment plans will be arranged for up to twelve months. Management has performed their analysis through May 21st, the date the financial statements were available for issuance.

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

Required Supplementary Information

Alderwood Water & Wastewater District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2019
Last Ten Fiscal Years*

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.084818%	0.082100%	0.085174%	0.081201%	0.083423%
Employer's proportionate share of the net pension liability	\$3,261,553	\$3,666,614	\$4,041,573	\$4,360,876	\$4,363,799
Covered payroll	\$11,503,864	\$10,611,754	\$9,983,247	\$9,383,256	\$9,264,779
Employer's proportionate share of the net pension liability as a percentage of covered payroll	28.35%	34.55%	40.48%	46.48%	47.10%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	63.22%	61.24%	57.03%	59.10%

Alderwood Water & Wastewater District
Schedule of Employer Contributions
PERS 1
As of December 31, 2019
Last Ten Years*

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$595,214	\$ 571,908	\$ 519,497	\$ 475,623	\$ 423,748
Contributions in relation to the statutorily or contractually required contributions*	\$ (595,214)	\$ (571,908)	\$ (519,497)	\$ (475,623)	\$ (423,748)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$11,592,985	\$10,945,922	\$10,278,440	\$9,604,515	\$9,366,709
Contributions as a percentage of covered payroll	5.13%	5.22%	5.05%	4.95%	4.52%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

Required Supplementary Information

**Alderwood Water & Wastewater District
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2019
Last Ten Fiscal Years***

	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.103376%	0.100679%	0.102567%	0.097145%	0.101096%
Employer's proportionate share of the net pension liability	\$1,004,133	\$1,719,004	\$3,563,713	\$4,891,174	\$3,612,218
Covered payroll	\$11,235,764	\$10,404,020	\$ 9,696,517	\$9,103,079	\$8,991,768
Employer's proportionate share of the net pension liability as a percentage of covered payroll	8.94%	16.52%	36.75%	53.73%	40.17%
Plan fiduciary net position as a percentage of the total pension liability	97.77%	95.77%	90.97%	85.82%	89.20%

**Alderwood Water & Wastewater District
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2019
Last Ten Fiscal Years***

	2019	2018	2017	2016	2015
Statutorily or contractually required contributions	\$872,902	\$ 802,909	\$ 686,573	\$ 580,842	\$509,457
Contributions in relation to the statutorily or contractually required contributions	\$(872,902)	\$(802,909)	\$(686,573)	\$(580,842)	\$(509,457)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$11,329,843	\$10,706,558	\$10,035,870	\$9,323,549	\$9,089,093
Contributions as a percentage of covered payroll	7.70%	7.50%	6.84%	6.23%	5.61%

* Until a full 10-year trend is compiled, information is presented only for those years for which information is available.

This page left intentionally blank.

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 revenues, expenses, and changes in net position
Water Fund
Last ten fiscal years

Schedule 1 - Water Fund

	2019	Restated 2018	2017	Restated 2016	2015
OPERATING REVENUE:					
Utility Revenue	\$ 39,152,298	\$ 39,002,595	\$ 36,429,724	\$ 33,908,383	\$ 33,779,264
Other Charges for Services	761,732	954,470	2,750,087	1,748,396	1,735,863
Total Operating Revenue	39,914,030	39,957,065	39,179,811	35,656,779	35,515,127
OPERATING EXPENSES:					
General Operations	15,234,966	14,525,642	14,384,742	11,641,825	12,232,476
Purchased Water	17,701,255	16,504,199	14,802,677	13,072,224	13,636,490
Depreciation Expense	4,979,821	5,160,063	5,141,286	5,206,540	5,186,428
Taxes	1,349,825	1,338,605	1,316,350	1,220,013	1,233,473
Total Operating Expenses	39,265,867	37,528,509	35,645,055	31,140,602	32,288,867
 Operating Income (Loss)	 648,163	 2,428,556	 3,534,757	 4,516,178	 3,226,260
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	2,212,211	1,415,938	730,433	636,231	570,616
Rent	136,923	140,530	133,306	125,581	120,367
Other Capital Revenue	26,920	12,720	-	-	15,000
Gains (Losses) on Capital Asset Disposition	2,607	(367,944)	97,812	(104,098)	(3,778)
Interest on Long-Term Debt	(1,035,103)	(934,466)	(1,091,695)	(1,198,474)	(1,374,126)
Total Nonoperating Revenues (Expenses)	1,343,558	266,778	(130,144)	(540,761)	(671,921)
 Income Before Capital Contributions	 1,991,721	 2,695,334	 3,404,613	 3,975,417	 2,554,339
Capital Contributions					
Contributed Systems	3,595,945	3,589,404	3,667,596	4,217,474	5,494,277
Other Capital Contributions	10,016,285	6,489,172	3,911,136	2,378,874	2,072,927
Total Capital Contributions	13,612,230	10,078,576	7,578,732	6,596,348	7,567,204
 CHANGE IN NET POSITION	 15,603,951	 12,773,910	 10,983,345	 10,571,764	 10,121,543
 TOTAL NET POSITION, January 1	 231,264,640	 218,740,242	 207,756,897	 197,185,133	 191,166,005
Cumulative effect of change in accounting principle	(7,329,758)	(246,488)	-	-	(4,102,415)
TOTAL NET POSITION, December 31	\$ 239,538,833	\$ 231,267,664	\$ 218,740,242	\$ 207,756,897	\$ 197,185,133
NET POSITION					
Net Investment in Capital Assets	177,177,164	167,161,959	158,644,771	152,822,147	143,398,780
Restricted	2,491,984	2,415,946	7,866,301	3,537,920	3,586,870
Unrestricted	59,869,685	61,686,735	52,229,170	51,396,830	50,199,482
 TOTAL NET POSITION	 \$ 239,538,833	 \$ 231,264,640	 \$ 218,740,242	 \$ 207,756,897	 \$ 197,185,133

ALDERWOOD WATER & WASTEWATER DISTRICT
Statement of revenues, expenses, and changes in net position
Water Fund
Last ten fiscal years

Schedule 1 - Water Fund

	Restated 2014	Restated 2013	2012	2011	2010
OPERATING REVENUE:					
Utility Revenue	\$ 32,485,509	\$ 28,452,790	\$ 29,939,114	\$ 27,511,872	\$ 26,513,466
Other Charges for Services	1,789,034	1,159,482	1,035,856		
Total Operating Revenue	<u>34,274,543</u>	<u>29,612,272</u>	<u>30,974,970</u>	<u>27,511,872</u>	<u>26,513,466</u>
OPERATING EXPENSES:					
General Operations	13,114,066	10,778,948	10,715,914	8,526,924	7,718,312
Purchased Water	12,093,029	10,449,389	13,353,668	10,827,434	10,396,280
Depreciation Expense	5,109,674	4,946,127	4,962,219	5,549,109	4,859,621
Taxes	1,185,266	1,147,328	1,086,234	1,048,023	994,060
Total Operating Expenses	<u>31,502,035</u>	<u>27,321,792</u>	<u>30,118,035</u>	<u>25,951,490</u>	<u>23,968,273</u>
Operating Income (Loss)	<u>2,772,508</u>	<u>2,290,480</u>	<u>856,935</u>	<u>1,560,382</u>	<u>2,545,192</u>
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	743,898	261,806	841,420	485,932	501,852
Rent	115,301	365,603	106,396	101,968	89,600
Other Capital Revenue					
Gains (Losses) on Capital Asset Disposition	(220,168)	(78,235)	(1,608,539)	14,117	-
Interest on Long-Term Debt	(1,450,374)	(1,532,797)	(1,667,006)	(1,742,817)	(1,681,306)
Total Nonoperating Revenues (Expenses)	<u>(811,343)</u>	<u>(983,623)</u>	<u>(2,327,729)</u>	<u>(1,140,800)</u>	<u>(1,089,854)</u>
Income Before Capital Contributions	<u>1,961,165</u>	<u>1,306,857</u>	<u>(1,470,794)</u>	<u>419,582</u>	<u>1,455,339</u>
Capital Contributions					
Contributed Systems	2,586,710	2,210,438	1,286,402	2,313,811	2,972,240
Other Capital Contributions	2,135,046	2,031,798	2,184,401	1,924,137	1,628,398
Total Capital Contributions	<u>4,721,756</u>	<u>4,242,236</u>	<u>3,470,803</u>	<u>4,237,948</u>	<u>4,600,638</u>
CHANGE IN NET POSITION	<u>6,682,921</u>	<u>5,549,093</u>	<u>2,000,009</u>	<u>4,657,530</u>	<u>6,055,976</u>
TOTAL NET POSITION, January 1	184,483,084	178,933,991	177,272,202	172,614,672	166,558,695
Cumulative effect of change in accounting principle			(338,220)		
TOTAL NET POSITION, December 31	<u>\$ 191,166,005</u>	<u>\$ 184,483,084</u>	<u>\$ 178,933,991</u>	<u>\$ 177,272,202</u>	<u>\$ 172,614,672</u>
NET POSITION					
Net Investment in Capital Assets	136,852,375	134,645,229	125,139,564	114,575,850	110,773,067
Restricted	3,498,878	3,675,393	3,630,794	6,761,571	11,067,661
Unrestricted	50,814,752	46,162,462	50,163,633	55,934,781	50,773,944
TOTAL NET POSITION	<u>\$ 191,166,005</u>	<u>\$ 184,483,084</u>	<u>\$ 178,933,991</u>	<u>\$ 177,272,202</u>	<u>\$ 172,614,672</u>

ALDERWOOD WATER & WASTEWATER DISTRICT
Statement of revenues, expenses, and changes in net position
Wastewater Fund
Last ten fiscal years

Schedule 2 - Wastewater Fund

	2019	Restated 2018	2017	Restated 2016	2015
OPERATING REVENUE:					
Utility Revenue	\$ 49,401,108	\$ 48,587,537	\$ 44,682,336	\$ 42,150,115	\$ 41,016,423
Other Charges for Services	253,281	215,815	303,703	-	-
Total Operating Revenue	49,654,389	48,803,352	44,986,039	42,150,115	41,016,423
OPERATING EXPENSES:					
General Operations	11,300,051	10,775,159	9,990,597	8,980,975	8,489,424
Purchased Wastewater Treatment	29,535,669	28,501,321	26,855,073	27,568,406	22,740,943
Depreciation Expense	10,401,668	10,060,358	9,697,136	9,383,804	9,221,508
Taxes	379,089	422,329	255,181	366,538	394,778
Total Operating Expenses	51,616,477	49,759,167	46,797,987	46,299,723	40,846,653
Operating Income (Loss)	(1,962,088)	(955,815)	(1,811,948)	(4,149,607)	169,770
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	1,802,703	1,502,174	995,998	857,189	731,861
Rent	-	-	-	-	-
Other Capital Revenue	26,811	12,720	29,733	843,026	1,176,026
Gains (Losses) on Capital Asset Disposition	(233,936)	(690,946)	43,796	(210,319)	-
Interest on Long-Term Debt	(2,656,391)	(2,702,829)	(2,765,407)	(2,790,392)	(2,812,449)
Total Nonoperating Revenues (Expenses)	(1,060,813)	(1,878,881)	(1,695,880)	(1,300,496)	(904,562)
Income Before Capital Contributions	(3,022,901)	(2,834,696)	(3,507,828)	(5,450,103)	(734,792)
Capital Contributions					
Contributed Systems	2,303,659	3,159,893	4,802,555	5,302,690	4,679,767
Other Capital Contributions	24,985,550	5,550,858	3,270,620	3,078,183	2,958,284
Total Capital Contributions	27,289,209	8,710,751	8,073,175	8,380,873	7,638,051
CHANGE IN NET POSITION	24,266,308	5,876,055	4,565,347	2,930,769	6,903,259
TOTAL NET POSITION, January 1	241,191,911	236,023,723	231,458,376	228,527,607	225,726,763
Cumulative effect of change in accounting principle	(7,518,544)	(707,867)	-	-	(4,102,415)
TOTAL NET POSITION, December 31	\$ 257,939,675	\$ 241,191,911	\$ 236,023,723	\$ 231,458,376	\$ 228,527,607
NET POSITION					
Net Investment in Capital Assets	216,189,119	197,189,194	180,053,007	175,970,433	171,954,652
Restricted	5,558,150	5,478,057	2,914,565	2,099,171	2,117,398
Unrestricted	36,192,406	38,524,660	53,056,151	53,388,771	54,455,556
TOTAL NET POSITION	\$ 257,939,675	\$ 241,191,911	\$ 236,023,723	\$ 231,458,375	\$ 228,527,607

ALDERWOOD WATER & WASTEWATER DISTRICT
Statement of revenues, expenses, and changes in net position
Wastewater Fund
Last ten fiscal years

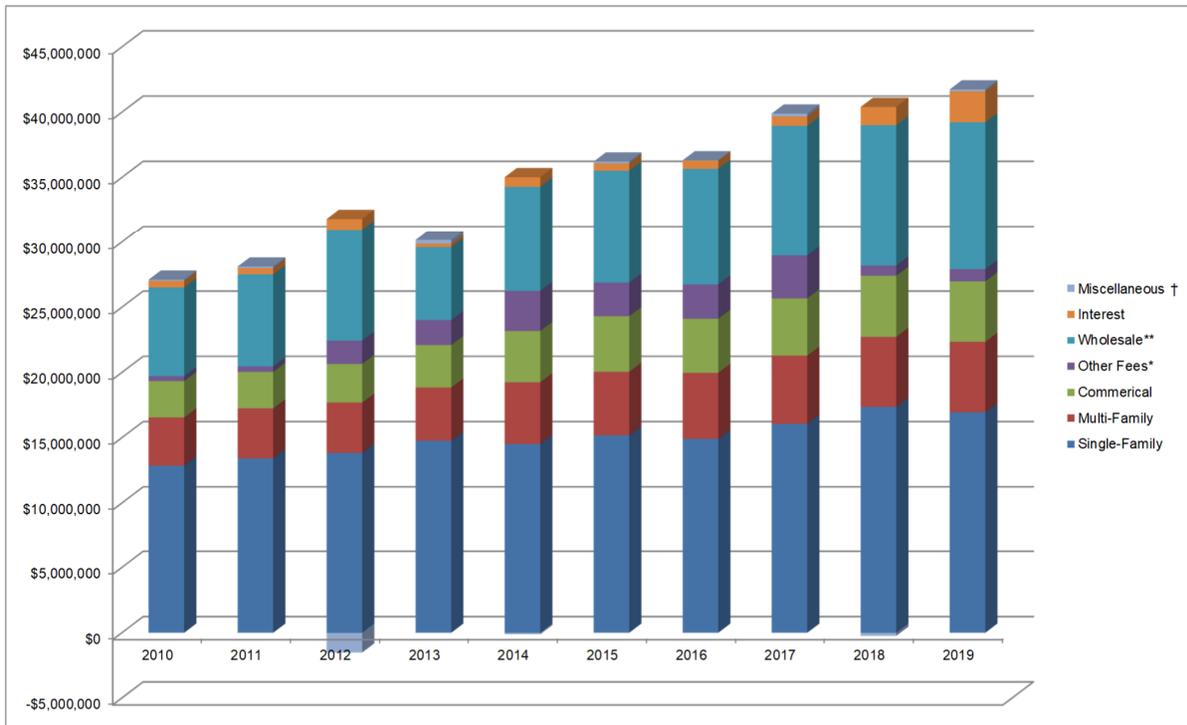
Schedule 2 - Wastewater Fund

	Restated 2014	Restated 2013	2012	2011	2010
OPERATING REVENUE:					
Utility Revenue	\$ 39,824,337	\$ 36,542,512	\$ 34,494,862	\$ 31,781,529	\$ 29,921,704
Other Charges for Services	-	-	-	-	-
Total Operating Revenue	<u>39,824,337</u>	<u>36,542,512</u>	<u>34,494,862</u>	<u>31,781,529</u>	<u>29,921,704</u>
OPERATING EXPENSES:					
General Operations	8,242,494	7,974,894	7,922,437	6,819,954	5,924,284
Purchased Wastewater Treatment	21,016,545	20,479,777	18,160,577	17,767,393	15,578,050
Depreciation Expense	9,026,778	7,875,086	6,814,451	6,941,288	3,720,224
Taxes	421,780	348,793	381,311	326,105	310,734
Total Operating Expenses	<u>38,707,597</u>	<u>36,678,550</u>	<u>33,278,776</u>	<u>31,854,740</u>	<u>25,533,292</u>
Operating Income (Loss)	<u>1,116,740</u>	<u>(136,038)</u>	<u>1,216,086</u>	<u>(73,211)</u>	<u>4,388,412</u>
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	957,134	461,564	1,038,170	633,918	654,319
Rent	-	-	-	-	-
Other Capital Revenue	-	-	-	-	-
Gains (Losses) on Capital Asset Disposition	(416,677)	(1,535)	149,556	(3,773,164)	-
Interest on Long-Term Debt	(2,848,006)	(2,245,479)	(1,873,180)	(1,897,680)	(1,576,034)
Total Nonoperating Revenues (Expenses)	<u>(2,307,549)</u>	<u>(1,785,450)</u>	<u>(685,454)</u>	<u>(5,036,926)</u>	<u>(921,715)</u>
Income Before Capital Contributions	<u>(1,190,809)</u>	<u>(1,921,488)</u>	<u>530,632</u>	<u>(5,110,137)</u>	<u>3,466,697</u>
Capital Contributions					
Contributed Systems	4,313,145	2,388,722	3,491,271	1,854,280	3,201,852
Other Capital Contributions	2,924,470	2,744,135	1,110,454	1,042,335	629,776
Total Capital Contributions	<u>7,237,615</u>	<u>5,132,857</u>	<u>4,601,725</u>	<u>2,896,615</u>	<u>3,831,628</u>
CHANGE IN NET POSITION	<u>6,046,806</u>	<u>3,211,369</u>	<u>5,132,357</u>	<u>(2,213,522)</u>	<u>7,298,325</u>
TOTAL NET POSITION, January 1	219,679,957	216,512,537	211,581,740	213,795,262	206,496,937
Cumulative effect of change in accounting principle	-	(43,949)	(201,560)	-	-
TOTAL NET POSITION, December 31	<u>\$ 225,726,763</u>	<u>\$ 219,679,957</u>	<u>\$ 216,512,537</u>	<u>\$ 211,581,740</u>	<u>\$ 213,795,262</u>
NET POSITION					
Net Investment in Capital Assets	170,869,471	171,589,853	185,049,009	170,240,190	155,319,344
Restricted	2,097,794	11,733,458	2,208,956	2,967,970	2,909,640
Unrestricted	52,759,498	36,356,646	29,254,572	38,373,580	55,566,278
TOTAL NET POSITION	<u>\$ 225,726,763</u>	<u>\$ 219,679,957</u>	<u>\$ 216,512,537</u>	<u>\$ 211,581,740</u>	<u>\$ 213,795,262</u>

ALDERWOOD WATER & WASTEWATER DISTRICT
Revenues 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 †	
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
2017	16,063,314	5,224,810	4,386,794	3,299,671	9,975,703	730,433	212,548	39,893,273
2018	17,359,116	5,365,122	4,684,493	780,425	10,813,440	1,399,757	(227,413)	40,174,939
2019	16,955,927	5,393,708	4,628,723	932,695	11,317,288	2,378,112	139,530	41,745,983



* "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.

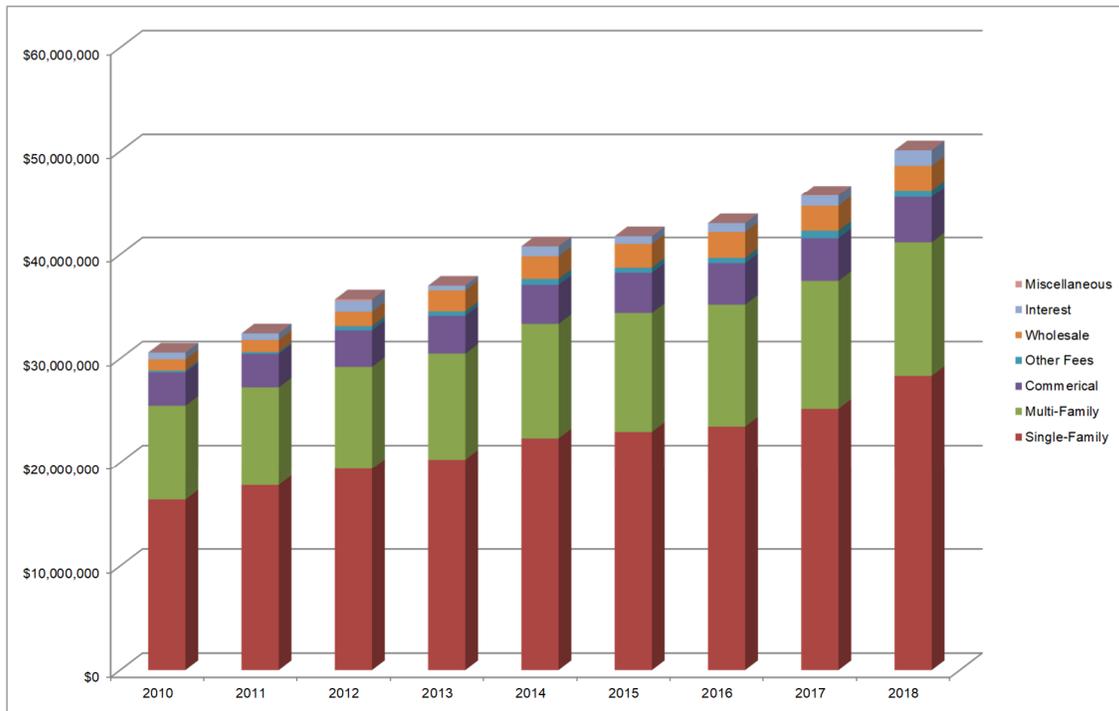
** In 2013, revenues from the sale of water to the Clearview Water Supply Agency were not recognized as wholesale revenue. Thus, a significant drop in wholesale revenue can be seen in those years. In 2015, the District returned to its original method of recognizing this inflow as wholesale revenue.

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Revenues by source – Wastewater fund
Last ten fiscal years

Schedule 4 - Wastewater Fund

Fiscal Year	Charges for Wastewater Services							Total
	Single-Family	Multi-Family	Commerical	Other Fees	Wholesale	Interest	Miscellaneous	
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
2017	25,163,685	12,296,695	4,092,685	724,050	2,405,221	995,998	31,444	45,709,778
2018	28,327,436	12,838,002	4,373,040	645,424	2,403,635	1,505,198	-	50,092,735
2019	28,523,872	13,236,791	4,464,292	660,319	2,515,835	1,898,552	(233,936)	51,065,725



ALDERWOOD WATER & WASTEWATER DISTRICT
Connections by Type of Service Classification
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.
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%
2017	47,240	2,437	1,119	322	66	20	1,091	967	53,262	2.8%
2018	48,199	2,443	1,123	321	65	19	1,135	976	54,281	1.9%
2019	49,032	2,467	1,130	315	65	19	1,166	1,002	55,196	1.7%

Wastewater Accounts

Fiscal Year	Single-Family	Multi-Family	Single Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Total	Increase/Decrease Prior Yr.
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%
2017	37,056	2,284	868	298	55	20	40,581	3.6%
2018	38,084	2,294	874	298	55	19	41,624	2.6%
2019	39,015	2,320	879	293	55	19	42,581	2.3%

ALDERWOOD WATER & WASTEWATER DISTRICT
Water and Wastewater Utility Rates
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
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
2017	30.50	44.96	72.12	136.52
2018	31.11	45.87	73.23	138.33
2019	31.73	46.79	75.07	142.07

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 - 2019, 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
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
2017	n/a	117.00	117.00	142.00
2018	n/a	125.33	152.11	152.11
2019	n/a	125.33	152.11	152.11

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.
- Starting in 2017, the District moved to a tiered flat-fee rate structure for Single-Family Wastewater. Customers fall into one of three usage tiers, based on billed water use: 0-4 ccf, 5-18 ccf, 19ccf+. The charge for each category is \$90, \$117, \$142, respectively (billed bi-monthly). Winter averaging is also employed.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Ten largest customers by revenue – Water fund
 Current and ten fiscal years ago

Schedule 7

Water Fund

		2019		2019		2009*		2009	
Ratepayer		Total Amount Billed for Water	Percent of Fund Retail Revenue	Ratepayer		Total Amount Billed for Water	Percent of Fund Retail Revenue	Ratepayer	
1	The Renaissance	\$ 109,536	0.4%	1	ERP Operating LP	\$ 104,715	0.6%		
2	Harbour Pointe Golf Course	107,197	0.4%	2	The Renaissance	80,809	0.4%		
3	GS Brandemoor LLC	104,447	0.4%	3	Keelers Corner	76,595	0.4%		
4	Griffis North Creek	103,249	0.4%	4	KW Mill Creek Prop Mgr LLC	71,400	0.4%		
5	Keelers Corner	99,661	0.4%	5	Archstone Communities	68,612	0.4%		
6	FRG Grove LLC & JSP Grove LLC	92,113	0.3%	6	Harbour Pointe Golf Course	68,265	0.4%		
7	BRE Properties Inc	86,035	0.3%	7	BRE Properties Inc	66,562	0.4%		
8	ERP Operating LP	85,616	0.3%	8	Mukilteo School District #6	63,288	0.4%		
9	South Everett Apartments	82,492	0.3%	9	Avalon Bay Communities #494800	63,145	0.3%		
10	SP RGA On The Green LP	80,147	0.3%	10	Crystal Cove Apartments	61,224	0.3%		
TOTAL		\$ 950,494	3.50%	TOTAL		\$ 724,613	4.00%		

Total 2019 Retail Water Revenue \$ 26,978,359
 *2010 Data was not available.

Total 2009 Retail Water Revenue \$ 18,048,135

ALDERWOOD WATER & WASTEWATER DISTRICT
 Ten largest customers by revenue – Wastewater fund
 Current and ten fiscal years ago

Schedule 8

Wastewater Fund

		2019		2009*		
Ratepayer		Total Amount Billed for Wastewater	Percent of Fund Retail Revenue	Total Amount Billed for Wastewater Percent of Fund Retail Revenue		
1	Griffis North Creek	\$ 249,356	0.5%	1	ERP Operating LP \$ 247,272 0.9%	
2	GS Brandemoor LLC	233,409	0.5%	2	Archstone Communities 188,894 0.7%	
3	The Renaissance	228,571	0.5%	3	KW Mill Creek Prop Mgr LLC 186,730 0.7%	
4	Keelers Corner	208,585	0.5%	4	The Renaissance 174,947 0.7%	
5	FRG Grove LLC & JSP Grove LLC	205,162	0.4%	5	Keelers Corner 167,488 0.6%	
6	ERP Operating LP	187,569	0.4%	6	Avalon Bay Communities #494800 165,902 0.6%	
7	South Everett Apartments	187,493	0.4%	7	Crystal Cove Apartments 157,761 0.6%	
8	Vintage At Urban Center LLC	177,647	0.4%	8	Millwood Estates 133,711 0.5%	
9	Gleiberman Properties Inc	175,882	0.4%	9	Wandering Creek 128,071 0.5%	
10	Avalon Bay Communities #494800	171,861	0.4%	10	Avalon Bay Communities Inc 125,924 0.5%	
TOTAL		\$ 2,025,535	4.40%	TOTAL		\$ 1,676,700 6.30%

Total 2017 Retail Sewer Revenue \$ 46,224,955

Total 2008 Retail Sewer Revenue \$ 26,228,422

*2010 Data was not available.

ALDERWOOD WATER & WASTEWATER DISTRICT
 Outstanding debt by type
 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
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%
2017	75,300,000	11,953,679	87,253,679	1,015.64	1.90%
2018	71,175,000	18,548,737	89,723,737	1,022.92	1.86%
2019	66,895,000	16,981,585	83,876,585	943.50	1.68%

** 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
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/Premium Amortization	Contributed Capital Systems			
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	3,778,276	(37,423)	(4,599,160)	20,723,368	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	4,186,575	127,507	(10,174,044)	25,572,776	9,626,695	2.66
2016	13,502,534	14,590,344	3,988,867	178,993	(9,520,164)	22,740,574	9,257,877	2.46
2017	15,548,692	14,838,422	3,857,102	172,247	(8,470,151)	25,946,312	9,427,723	2.75
2018	18,649,965	15,220,421	3,637,295	172,247	(6,749,297)	30,930,631	8,829,534	3.50
2019	39,870,259	15,381,489	3,691,494	32,266	(5,899,604)	53,075,904	8,793,378	6.04

**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, \$802,020, \$802,881, \$801,449, and \$795,569 in 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, and 2019 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
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%
2017	789,400	349,800	85,910	81,799	53,590	4.0%
2018	805,120	357,555	87,713	83,771	54,882	3.6%
2019	818,700	365,480	88,899	85,758	56,184	2.4%

* *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	2019			2010		
		Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Boeing	Aircraft Manufacturing	1	35,000	8.1%	1	32,000	9.2%
Providence Regional Medical Center	Medical Services	2	4,906	1.1%	2	3,200	0.9%
Everett Clinic	Medical Services	3	2,871	0.7%	5	1,700	0.5%
Premiera Blue Cross	Health Insurer	4	2,200	0.5%	2	3,200	0.9%
Albertson's / Safeway (21 locations)	Retail - Grocery	5	2,177	0.5%	-	-	-
Philips Medical Systems	Ultrasound Technology	6	2,000	0.5%	5	1,700	0.5%
Swedish Medical Center - Edmonds	Health Care	7	1,850	0.4%	7	1,500	-
Walmart	Retail - Grocery	9	1,342	0.3%	-	-	-
Fred Meyer / QFC (18 locations)	Retail - Grocery	9	1,350	0.3%	-	-	-
Fluke Corp. (Danaher)	Electronic Testing Equipment	10	1,200	-	10	1,200	0.3%
Aviation Technical Services	Aircraft Repair & Maintenance	-	-	-	9	1,300	0.4%
Verizon Northwest	Wireless Communications	-	-	-	7	1,500	0.4%
Tulalip Tribes Enterprises	Real estate, retail, gaming	-	-	-	4	3,150	0.9%
Total			54,896	12.5%		50,450	14.0%
Total County Employment (Private + Public)			430,470		349,640		

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
 Last ten fiscal years

Schedule 13

Employer	2019			2009		
	Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Edmonds School District	1	3,616	0.8%	4	2,000	0.6%
The Tulalip Tribes	2	3,500	0.8%	-	-	-
Washington State (includes colleges and M	3	3,000	0.7%	1	6,000	1.7%
Naval Station Everett	4	2,900	0.7%	1	6,000	1.7%
Snohomish County Government	5	2,759	0.6%	3	2,500	0.7%
Everett School District	6	2,443	0.6%	5	1,900	0.5%
U.S. Federal Government	7	2,100	0.5%	-	-	-
Mukilteo School District	8	2,020	0.5%	-	-	-
Edmonds Community College	9	1,635	0.4%	-	-	-
Marysville School District	10	1,341	0.3%	6	1,200	0.3%
City of Everett	-	-	-	6	1,200	0.3%
Monroe Correctional Complex	-	-	-	8	1,000	-
Snohomish County PUD	-	-	-	9	950	0.3%
Community Transit	-	-	-	10	650	-
Total		25,314	5.9%		23,400	6.2%
Total County Employment (Private + Public)		430,470			349,640	

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
 Meter applications and side sewer inspections
 Last ten fiscal years

Schedule 14

Side Sewer Inspections	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Side Sewers Inspected	1,058	1,202	1,436	974	857	888	877	879	840	779
Increase/Decrease from Prior Year	-12%	-16%	47%	14%	-3%	1%	0%	5%	8%	30%

Water Meter Applications by size	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
5/8 x 3/4"	476	442	993	816	783	774	726	836	879	767
3/4" x 3/4"	255	16	138	46	25	19	17	19	14	9
1"	255	379	299	105	43	98	34	39	29	25
1 1/2"	13	7	6	12	10	15	9	13	11	12
2"	15	21	24	63	25	68	48	42	21	13
3"	0	0	0	3	0	0	1	0	1	4
4"	13	1	3	16	2	12	3	3	5	4
6"	8	1	4	8	4	3	3	1	5	12
8"	4	2	0	1	0	3	1	2	2	0
10"	0	0	0	0	0	0	0	0	1	0
Total	1,039	869	1,467	1,070	892	992	842	955	968	846
Increase/Decrease from Prior Year	20%	-41%	37%	20%	-10%	18%	-12%	-1%	14%	13%

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

Fiscal Year	Commissioners	Office of Executive	Administrative Services	Engineering & Development Services	Capital Improvements	Administration, Technology, and Finance	Finance	Maintenance & Operations	Total
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
2017	5	-	12	22	-	-	14	85	138
2018	5	-	15	26	-	-	13	85	144
2019*	5	6	-	29	-	22	-	92	154

Notes:

*In 2019, the District dissolved two departments and replaced them with two different departments. Administrative Services and Finance were reorganized into the Office of the Executive, and Administration, Technology, and Finance. Commissioners are part-time elected positions.

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

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

Previously (E&D) was called Planning & Development Services (PDS). This change occurred in 2017.

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)
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
2017	27.7	49.7	August 11	1.79	9,209.9
2018	27.6	47.4	July 14	1.72	9,218.2
2019	26.8	42.5	July 1	1.58	8,979.1
Average	27.0	45.7	July 31	1.7	8,558.3

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
 Water Operations Characteristics
 Last ten fiscal years

Schedule 17

WATER	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Miles of Water Lines	684	677	673	665	657	649	642	630	626	618
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	5	5	5	4	4	4
Total Water Purchases (mg)	8,979	9,218	9,210	8,918	8,951	8,405	8,378	8,070	7,628	7,739

WASTEWATER	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Miles of Wastewater Lines	490	480	474	466	459	451	444	439	436	431
Number of Lift Stations	12	12	12	12	12	10	13	12	12	12
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (mgd)	6	4	4	4	4	4	4	3	3	3
Total Wastewater Treated (mg)	845	783	813	956	799	800	796	815	781	792