

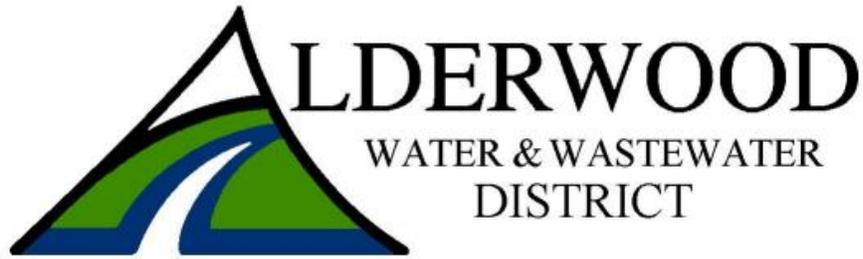


COMPREHENSIVE ANNUAL FINANCIAL REPORT

Alderwood Water & Wastewater District
Lynnwood, Washington

As of and For the Years Ended
December 31, 2017 and 2016





Lynnwood, Washington

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**As of and For the Years Ended
December 31, 2017 and 2016**

Prepared by the:

Alderwood Water & Wastewater District Finance Department

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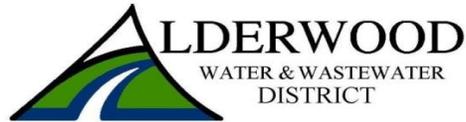
Cover Photo Courtesy of Sarith Chim Photography

**ALDERWOOD WATER & WASTEWATER DISTRICT
LYNNWOOD, WASHINGTON**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
As of and For the Years Ended
December 31, 2017 and 2016**

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July 31, 2018

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, 2017. 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, 2017 was conducted between June and July of 2018. 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 service area is the largest water and sewer 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 SW Snohomish County, the City of Brier, and portions of the Cities of Lynnwood, Bothell, Mukilteo and Mill Creek. The District provides wholesale water service to the Cities of Mountlake Terrace, Lynnwood, and Edmonds, Mukilteo Water & Wastewater District, Silver Lake Water and Sewer District as well as the Clearview Water Supply Agency.

As of the end of 2017, the District served 53,262 retail accounts directly and roughly 32,600 accounts indirectly through the wholesale agreement with the agencies listed above. Water consumption by the District's wholesale customers accounts for approximately 50 percent of the total average daily demand. Records indicate that over 93% of the District's accounts are residential and approximately 83% 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 2017, the District served 40,581 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. Approximately 13,000 properties within the District's wastewater service area have septic systems. As these septic systems fail with age, we expect many of these properties to connect to District wastewater service and we plan for that additional growth in wastewater flows.

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

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

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

The District currently has 11 active sanitary sewer lift stations ranging in capacity from 100 gallons per minute to 2,500 gallons per minute. All stations have a back-up power supply. The District has approximately 470 miles of sanitary sewer mains and laterals for local collection and transmission to treatment facilities.

II. ECONOMIC CONDITIONS AND OUTLOOK

The District is located in Northwest Washington, north of the City of Seattle and south of the City of Everett, in southwest Snohomish County. The District's customers are predominantly residential, so the financial health of the residents living within the District, as opposed to those working within the District, has the most impact on the District's economic outlook. An indication that the local economy continues to improve is the rebound of median household income for Snohomish County residents to pre-recession levels. Median income peaked in 2008 at \$64,289 and then declined in 2009 and 2010. After bottoming out at \$62,034, incomes have continued to grow since 2011. The continuing economic recovery has catapulted Snohomish County's median household income in the past three years, and it now stands at \$80,579 in 2017.

Another indication of the financial health of the District's customers is the number of water accounts locked for nonpayment. From 2008 to 2009, the District experienced a 52% increase in the number of locks for nonpayment - from 580 to 881. Subsequently, this number declined each year until reaching 259 in 2013. In 2014 and 2015, the number of locks increased slightly, before dropping to 231 in 2016. In 2017, there were 225 locks.

When an account stays delinquent for an extended period of time, the District files a lien against the property. Like locks for nonpayment, liens can be seen as a proxy for the economic health of the District's customers. In 2012, the District filed 143 property liens for delinquent accounts – a 36% decrease from the 225 liens filed in 2011 and the first year-over-year decrease since 2008. Since then, the number of annual lien filings has drastically fallen. There were only 9 lien filings in 2016, and only one filing in 2017.

The largest sectors of employment in Snohomish County are manufacturing, government and wholesale retail trade. In 2017, approximately 63,500 jobs or 16.2% of the county's total employment was in manufacturing (primarily aerospace). Boeing, the aircraft manufacturing company, is by far the county's largest employer. With roughly 34,500 employees, it employs

approximately 8.5% of the workforce in the County. The second largest employer is the Providence Regional Medical Center with roughly 4,800 employees.

According to the Washington State Employment Security Department, the December 2016 unemployment rate for Snohomish County stood at 4.0%. Only King County had a lower unemployment rate in the same month. By comparison, the State of Washington unemployment rate in the same month was at 4.9% and the U.S. rate was 4.1%.

Employment in Snohomish County is rebounding, but many of the County's residents work in the Seattle Metropolitan area, which is located in King County to the south. The American Community Survey estimated that, in 2011, 33% of Snohomish County's working residents commuted to King County for work. The December 2017 unemployment rate for King County was 3.6%, a slight uptick from the rate of 3.4% recorded in December 2016. Still, the District's customers are seeing the benefits of a strong regional economy.

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

	2010	2011	2012	2013	2014	2015	2016	2017
Side Sewer Permits	779	840	879	877	888	857	974	1,436
Water Meter Applications	846	968	955	842	992	892	1,070	1,467

Consistent with construction activity in Snohomish County and the local housing market, the pace of 2017 development is on par with levels from 2004 through 2008, when water meter applications averaged 1,439 and side sewer permits averaged 1,347 per year.

Financial projections in the District's 2018-2019 biennial budget assume modest growth in new service connections. The expectation is that the gradual rebound in the local economy will continue. As a result, the District continues to plan for adequate infrastructure to support future growth within our boundaries, while maintaining reasonable rates for our customers.

III. LONG-TERM FINANCIAL PLANNING

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

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

The District does not receive any tax revenue and therefore relies solely on the water and wastewater service revenues received from the ratepayers and General Facility Connection Charges (GFCs). Every three years, the District conducts a utility rate study and review of the GFC charges, to ensure that the fees collected adequately and fairly recoup the cost to provide water and wastewater services. The District includes a contribution for capital in the rates for both water and wastewater. In 2011, the contribution from rates to capital was \$2.5 million for each utility. In 2012, that amount was increased to \$3.5 million, where it remained from 2013 to 2017.

The fiscal policies also established levels for operating and capital reserves for both water and wastewater. Through 2017, 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.

Recognizing the importance of balancing long-range planning with ever-changing conditions, the District is undertaking a unique update of its water and wastewater Comprehensive plans. Instead of creating a stagnant document which is out of date before it is finally printed, the District is creating a model or plan that will frequently be updated with new information. The goal is to create a plan that can respond to changing circumstances, like those our communities faced during the last five years. The District began work on such a *living* plan in 2013. The draft Water Plan and Sewer Plans were submitted to the Washington State Department of Health and the Washington State Department of Ecology, respectively, in early 2017. Final approval came of the plans came in May 2018.

IV. MAJOR INITIATIVES

During 2017, the District completed the remainder of the Olympus Meadows Water Transmission Main project, including the installation of a section of the upcoming Eastside Transmission Main. The District also completed the design for the remaining sections of the Eastside transmission main and began construction. These water main projects will enable the District to provide better reliability, pressure management, and redundancy for users of the District's water. In 2017, substantial capital project work in AWWD's wastewater collection and treatment systems was also completed. The District began the design of a membrane replacement project at its Picnic Point Wastewater Treatment Facility. This project will expand the capacity and reliability of the treatment facility. The District also completed the design process and began construction on a new sewer lift station in Lynnwood. This lift station project also includes the upgrade and replacement of water and sewer mains downstream of the new station.

V. AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Alderwood Water & Wastewater District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2016. This was the fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully Submitted,



Jeff Clarke
General Manager



Sridhar Krishnan
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Alderwood Water & Wastewater
District, Washington**

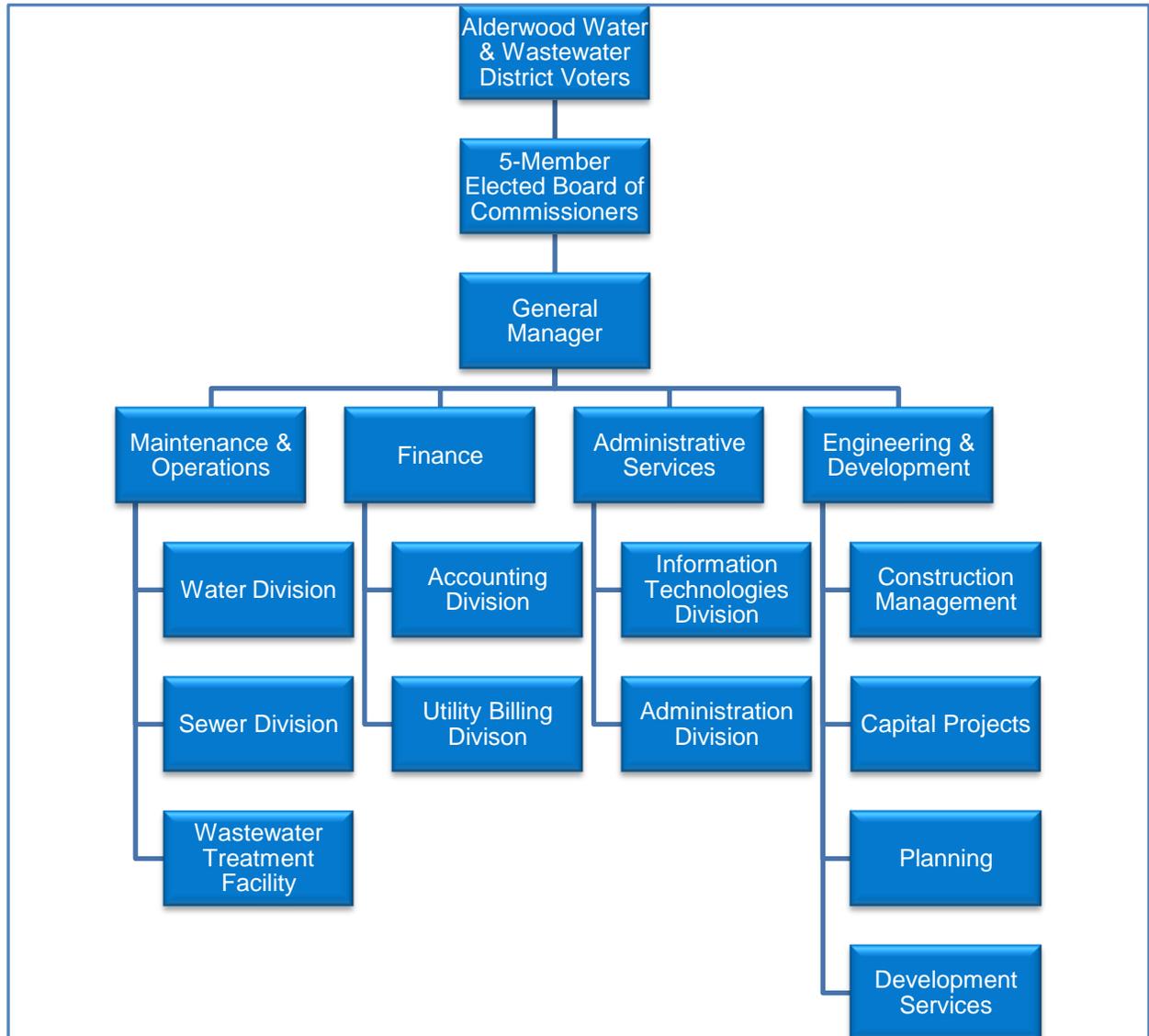
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morill

Executive Director/CEO

ALDERWOOD WATER & WASTEWATER DISTRICT
Organizational Chart
January 1, 2017 through December 31, 2017



ALDERWOOD WATER & WASTEWATER DISTRICT
Snohomish County, Washington
January 1, 2017 through December 31, 2017

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	Michael R. Dixon	6	December 31, 2023
Commissioner	Donna Cross	6	December 31, 2021

Appointed

General Manager	Jeff Clarke
Finance Director	Sridhar Krishnan
Director of Maintenance & Operations	Joe Bolam
Administrative Services Manager	Mike Pivec
Capital Projects Manager	Paul Richart
Engineering & Development Director	Duane Huskey, P.E. (until July, 2017) /John McClellan, P.E. (as of Nov, 2017)
Attorney	Joseph P. Bennett Hendricks - Bennett, PLLC

Mailing Addresses

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

July 31, 2018

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of each major fund of the Alderwood Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Alderwood Water and Wastewater District, as of December 31, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will also issue our report dated July 31, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,



Pat McCarthy

State Auditor

Olympia, WA

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ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

As Management of the Alderwood Water & Wastewater District (District), we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal years ending December 31, 2017 and December 31, 2016. Please read this in conjunction with the financial statements, including the notes to the financial statements, which follow.

Financial Highlights

- For the year ending December 31, 2017, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$454.7 million. Of this amount, referred to as net position, 23.1% or \$105.2 million is shown as unrestricted and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets (\$338.7 million or 74.5%) or restricted for debt service payments and reserves (\$10.8 million or 2.4%).
- As of the end of 2017, the District's total net position increased by \$15.4 million or 3.5% from the prior year. Net Position for the Water Fund increased \$10.9 million or 5.2% and the Net Position for the Wastewater Fund increased \$4.5 million or 2.0%.
- A 2016 rate study resulted in modest increases in water and sewer charges, and significant changes to the structure of the District's sewer rates for single-family residences. The Board of Commissioners adopted annual rate increases of 2% for water and 3.5% for wastewater, for each of the next three years, which become effective on January 1 of 2017, 2018, and 2019. Information regarding the rates is available on the District's website - www.awwd.com.
- In 2016, the Washington State Department of Revenue (DOR) began an audit of the District's sewer collection excise tax payments. The audit was completed in 2017. With DOR's approval, the District implemented a new methodology for estimating the proportion of lateral (collection) and interceptor (transmission) pipes in the sewer system annually. After recalculating the collection versus transmission/treatment pipe activity applying the new methodology to the 2013 through 2016 returns, the District received a refund of \$30,857.
- In 2018, the Board of Commissioners of the Clearview Water Supply Agency (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 and Sewer District. The CWSA Board's action was the result of discussions between representatives of the 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. As a result, the Alderwood Water & Wastewater District's Comparative Statement of Net Position as of December 31, 2017,

will not include the Investment in Clearview Water Supply Agency of \$811,183 under Noncurrent Assets.

Overview of the Financial Statements

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

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

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

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

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

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

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

Financial Position

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

Total Net Position (Dollars in Millions)

	Water			Wastewater			Total		
	Restated*			Restated*			Restated*		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Current and Other Assets	\$ 68.7	\$ 62.6	\$ 61.2	\$ 66.0	\$ 65.6	\$ 63.4	\$ 134.7	\$ 128.2	\$ 124.6
Capital Assets	183.8	181.6	175.5	245.5	243.3	241.2	429.3	424.9	416.7
Total Assets	252.5	244.2	236.7	311.5	308.9	304.6	564.0	553.1	541.3
Total Deferred Outflows of Resources	0.6	0.8	0.5	0.6	0.8	0.5	1.2	1.6	1.0
Long-Term Liabilities	25.8	30.3	33.3	68.1	71.0	72.1	93.9	101.3	105.4
Other Liabilities	8.0	6.8	6.1	7.3	7.1	3.8	15.3	13.9	9.9
Total Liabilities	33.8	37.1	39.4	75.4	78.1	75.9	109.2	115.2	115.3
Total Deferred Inflows of Resources	0.7	0.1	0.6	0.7	0.1	0.6	1.4	0.2	1.2
Net Investment in Capital Assets	158.6	152.8	143.4	180.1	176.0	172.0	338.7	328.8	315.4
Restricted	7.9	3.5	3.6	2.9	2.1	2.1	10.8	5.6	5.7
Unrestricted	52.2	51.4	50.2	53.1	53.4	54.5	105.3	104.8	104.7
Total Net Position	218.7	207.7	197.2	236.1	231.5	228.6	454.8	439.2	425.8

Analysis of changes in Total Net Position from 2016 (Restated) - 2017:

For the twelve months ending December 31, 2017, the total net position of the District increased by \$15.6 million or 3.6% (\$439.2 million for 2016 vs. \$454.8 million for 2017). The amount of net position invested in capital assets, net of related debt, was increased by \$9.9 million (\$328.8 million for 2016 vs. \$338.7 million for 2017) or 3.0%. The amount of net position, which is unrestricted, was increased by \$0.5 million (\$104.8 million for 2016 vs. \$105.3 million for 2017) or 0.5%. Unrestricted net position is the amount which may be used to meet the District's ongoing obligations, including future capital investments. These changes to net investment in capital assets, net of related debt, are largely the result of the District continuing to invest current assets in capital projects during 2017. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

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

For the twelve months ending December 31, 2016, the total net position of the District increased by \$13.4 million or 3.2% (\$425.8 million for 2015 vs. \$439.2 million for 2016). The amount of net position invested in capital assets, net of related debt, was increased by \$13.4 million (\$315.4 million for 2015 vs. \$328.8 million for 2016) or 4.3%. The amount of net position, which is unrestricted, was increased by \$0.1 million (\$104.7 million for 2015 vs. \$104.8 million for 2016) or 0.1%. Unrestricted net position is the amount which may be used to meet the District's ongoing obligations, including future capital investments. These changes to net investment in capital assets, net of related debt, are largely the result of the District continuing to invest current assets in capital projects during 2016. The District continues to invest in an aggressive

capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

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

	Water			Wastewater			Total		
	Restated*			Restated*			Restated*		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Utility Revenue	\$ 39.2	\$ 35.7	\$ 35.5	\$ 44.7	\$ 42.2	\$ 41.0	\$ 83.9	\$ 77.9	\$ 76.5
Interest and Investment Revenue	0.7	0.6	0.6	1.0	0.9	0.7	1.7	1.5	1.3
Other Nonoperating Revenue	0.1	0.1	0.1	-	0.8	1.2	0.1	0.9	1.3
Total Revenues	40.0	36.4	36.2	45.7	43.9	42.9	85.7	80.3	79.1
Operation Expenses	23.7	20.6	20.6	34.2	34.6	29.5	57.9	55.2	50.1
Maintenance Expenses	5.5	4.1	5.3	2.6	1.9	1.7	8.1	6.0	7.0
Depreciation Expenses	5.1	5.2	5.2	9.7	9.4	9.2	14.8	14.6	14.4
Taxes	1.3	1.2	1.2	0.3	0.4	0.4	1.6	1.6	1.6
Total Operating Expenses	35.6	31.1	32.3	46.8	46.3	40.8	82.4	77.4	73.1
Nonoperating Expenses	1.0	1.3	1.4	2.7	3.0	2.8	3.7	4.3	4.2
Total Expenses	36.6	32.4	33.7	49.5	49.3	43.6	86.1	81.7	77.3
Inc. Before Cap. Contributions	3.4	4.0	2.5	(3.8)	(5.4)	(0.7)	(0.4)	(1.4)	1.8
Capital Contributions									
Contributed Systems	3.6	4.2	5.5	4.7	5.3	4.7	8.3	9.5	10.2
Other Capital Contributions	3.9	2.3	2.1	3.6	3.1	3.0	7.5	5.4	5.1
Change in Net Position	10.9	10.5	10.1	4.5	3.0	7.0	15.4	13.5	17.1
Beginning Net Position	207.7	197.2	191.2	231.5	228.5	225.7	439.1	425.7	416.9
Cummulative effect of a change in accounting principle	-	-	(4.1)	-	-	(4.1)	-	-	(8.2)
Ending Net Position	\$ 218.6	\$ 207.7	\$ 197.2	\$ 236.0	\$ 231.5	\$ 228.6	\$ 454.5	\$ 439.2	\$ 425.8

Analysis of changes in Revenues, Expenses, and Changes in Fund Net Position from 2016 (Restated) - 2017:

Income or loss before Capital Contributions increased from 2016 to 2017 by \$1.0 million (\$1.4 million loss for 2016 vs. \$0.4 million loss for 2017). This was the result of an increase in total revenue of \$5.4 million and an increase in total expenses of \$4.4 million. Non-operating expenses decreased by \$0.6 million (\$4.3 million for 2016 vs. \$3.7 million for 2017) and operating expenses increased \$5.0 million (\$77.4 million for 2016 vs. \$82.4 million for 2017). The increases in 2017 revenue are primarily related to continued growth in the number of water and wastewater customers and increases in water and wastewater rates. Operating expenses in the water fund increased in 2017, driven in part by a sizeable increase in the unit cost of purchased water. In the wastewater fund, the increase in operating expenses is mostly driven by higher costs for purchased treatment.

Capital Contributions reported on the Statement of Revenues, Expenses, and Changes in Net Position include 1) Developer Contributed Systems, a non-cash transaction, and 2) Other Capital Contributions, which includes customer payments of connection charges, a cash capital contribution. In 2017, developers contributed \$8.3 million in water and sewer mains and \$7.5 million in capital contribution (general facilities charges). This is an decrease in developer contributions of \$1.2 million or 12.3% (\$9.5 million for 2016 vs. \$8.3 million for 2017) and an increase in general facilities charges of \$2.1 million or 39.1% (\$5.4 million for 2016 vs. \$7.5 million for 2017).

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

Income or loss before Capital Contributions decreased from 2015 to 2016 by \$3.2 million (\$1.8 million gain for 2015 vs. \$1.4 million loss for 2016). This was the result of an increase in total revenue of \$1.2 million and an increase in total expenses of \$4.4 million. Nonoperating expenses increased by \$0.1 million (\$4.2 million for 2015 vs. \$4.3 million for 2016) and operating expenses increased \$4.3 million (\$73.1 million for 2015 vs. \$77.4 million for 2016). The increases in 2016 revenue are primarily related to continued growth in the number of water and wastewater customers. Operating expenses in the water fund decreased slightly in 2016 as a return to normal summer weather brought a decrease in water purchases and the meter replacement program was no longer in progress. In the wastewater fund, the increase in operating expenses is mostly driven by higher costs for purchased treatment. Corrective payments for previously unreported customers further drove up the cost of purchased treatment.

Capital Contributions reported on the Statement of Revenues, Expenses, and Changes in Net Position include 1) Developer Contributed Systems, a non-cash transaction, and 2) Other Capital Contributions, which includes customer payments of connection charges, a cash capital contribution. In 2016, developers contributed \$9.5 million in water and sewer mains and \$5.4 million in capital contribution (general facilities charges). This is a decrease in developer contributions of \$0.7 million or 6.9% (\$10.2 million for 2015 vs. \$9.5 million for 2016) and an increase in general facilities charges of \$0.3 million or 5.9% (\$5.1 million for 2015 vs. \$5.4 million for 2016).

Capital Assets (Dollars in Millions)

	<u>Water</u>			<u>Wastewater</u>			<u>Total</u>		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Land and Land Rights	\$ 0.7	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.4	\$ 1.1	\$ 0.9	\$ 0.9
Construction in Progress	3.7	7.9	2.9	7.4	8.6	9.7	11.1	16.5	12.6
Total Plant not depreciated	4.4	8.4	3.4	7.8	9.0	10.1	12.2	17.4	13.5
Miscellaneous Intangible Plant	1.4	1.3	1.3	1.1	1.0	1.0	2.5	2.3	2.3
Structures & Improvements	27.1	27.0	27.2	143.8	143.7	139.5	170.9	170.7	166.7
Mains, Meters, Hydrants	222.1	210.9	205.6	187.8	174.9	159.0	409.9	385.8	364.6
Computers, Equipment & Furniture	5.3	5.6	5.2	3.7	3.8	11.4	9.0	9.4	16.6
Total Plant being depreciated	255.9	244.8	239.3	336.4	323.4	310.9	592.3	568.2	550.2
Less Accumulated Depreciation	(76.4)	(71.7)	(67.2)	(98.7)	(89.2)	(79.8)	(175.1)	(160.9)	(147.0)
Total Utility Plant	\$ 183.9	\$ 181.5	\$ 175.5	\$ 245.5	\$ 243.2	\$ 241.2	\$ 429.4	\$ 424.7	\$ 416.7

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

Analysis of changes in Capital Assets from 2016-2017:

Total Plant being depreciated increased \$24.1 million (\$568.2 million for 2016 vs. \$592.3 million for 2017), or 4.2%. The water fund added \$11.1 million in depreciable assets or 4.5% (\$244.8 million for 2016 vs. \$255.9 million for 2017). The increase in water assets is primarily due to the 196th St SE Transmission Main Project totaling \$6.6 million, developer contributions (water mains & hydrants) totaling \$3.4 million. The wastewater fund added \$13.0 million in depreciable assets or 4.0% (\$323.4 million for 2016 vs. \$336.4 million for 2017). The increase in wastewater assets is primarily due to developer contributions (sewer mains) totaling \$4.8 million; \$6.1 million spent on the Olympus Meadows Trunk Sewer Project; \$0.4 million on wastewater flow monitoring equipment.

Analysis of changes in Capital Assets from 2015-2016:

Total Plant being depreciated increased \$18.0 million (\$550.2 million for 2015 vs. \$568.2 million for 2016), or 3.3%. The water fund added \$5.5 million in depreciable assets or 2.3% (\$239.3 million for 2015 vs. \$244.8 million for 2016). The increase in water assets is primarily due to developer contributions (water mains & hydrants) totaling \$5.3 million; Elberta Road Water Main Replacement project of \$0.7 million; and the Sodium Hypochlorite System project of \$.5 million. The wastewater fund added \$12.5 million in depreciable assets or 4.0% (\$310.9 million for 2015 vs. \$323.5 million for 2016). The increase in wastewater assets is primarily due to developer contributions (sewer mains) totaling \$4.2 million; \$6.4 million in projects with interlocal partners and \$1.0 million in Picnic Point Wastewater Facility improvements.

Long-Term Liabilities

At the end of the current fiscal year, the District had total long term debt outstanding of \$89,799,784; the net decrease of \$5,146,390 is a result of normal repayment and new draws on State Revolving Fund loans. The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. has assigned a rating of "Aa2". In April 2013, S&P affirmed its "AA+" rating for the District. Additional detailed information about the District's long-term debt can be found in Note 5 to the Financial Statements.

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ALDERWOOD WATER & WASTEWATER DISTRICT

COMPARATIVE FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Net Position

As of December 31, 2017 and December 31, 2016

	2017		Total
	Water Fund	Wastewater Fund	
ASSETS			
Current Assets:			
Cash and Equivalents	\$ 15,371,117	\$ 16,883,711	\$ 32,254,828
Investments	39,794,572	39,278,299	79,072,871
Receivables, net	4,351,041	6,242,658	10,593,700
Inventories	773,808	39,744	813,551
Prepayments	275,966	269,918	545,884
Other Current/Accrued Assets	134,726	107,629	242,355
TOTAL CURRENT ASSETS	60,701,230	62,821,958	123,523,188
Noncurrent Assets:			
Restricted cash/equivalents	7,866,301	2,914,565	10,780,866
Deposits with Fiscal Agents/Trustees	156,057	144,000	300,057
Assessments Receivable	-	123,285	123,285
Investment in Clearview Water Supply Agency	-	-	-
Capital Assets Not Being Depreciated:			
Land	660,452	389,439	1,049,891
Construction Works in Progress	3,713,076	7,404,008	11,117,084
Capital Assets Being Depreciated:			
Plant	26,545,219	144,867,041	171,412,259
Distribution and collection systems	212,731,475	179,453,699	392,185,174
Machinery and equipment	16,578,743	12,005,480	28,584,223
Less accumulated depreciation	(76,432,502)	(98,655,783)	(175,088,285)
TOTAL NONCURRENT ASSETS	191,818,821	248,645,733	440,464,554
TOTAL ASSETS	\$ 252,520,050	\$ 311,467,692	\$ 563,987,742
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows Related to Pensions	649,801	649,801	1,299,603
LIABILITIES			
Current Liabilities:			
Accounts Payable	3,342,903	4,586,827	7,929,730
Other Current/Accrued Liabilities	124,041	246,181	370,222
Compensated Absences	136,448	136,448	272,896
Customer Deposits	686,972	633,839	1,320,811
Bonds, Notes and Loans Payable	3,717,395	1,718,526	5,435,920
TOTAL CURRENT LIABILITIES	8,007,758	7,321,821	15,329,579
Noncurrent Liabilities:			
Bonds, Notes and Loans Payable	21,434,297	63,692,352	85,126,649
Compensated Absences	409,345	409,345	818,690
Interest Accrued	123,701	215,744	339,445
Net Pension Liability	3,802,643	3,802,643	7,605,286
TOTAL NONCURRENT LIABILITIES	25,769,985	68,120,085	93,890,070
TOTAL LIABILITIES	\$ 33,777,743	\$ 75,441,906	\$ 109,219,649
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	651,866	651,866	1,303,732
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 34,429,610	\$ 76,093,772	\$ 110,523,381
NET POSITION			
Net Investment in Capital Assets	158,644,771	180,053,006	338,697,777
Restricted for debt service	7,866,301	2,914,565	10,780,866
Unrestricted	52,229,170	53,056,150	105,285,320
TOTAL NET POSITION	\$ 218,740,242	\$ 236,023,721	\$ 454,763,963

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

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Net Position

As of December 31, 2017 and December 31, 2016

Water Fund	Restated 2016 Wastewater Fund	Total
\$ 16,313,096	\$ 22,738,128	\$ 39,051,224
35,938,206	33,940,345	69,878,551
4,566,297	6,139,395	10,705,692
875,385	32,180	907,564
297,465	297,465	594,929
90,908	71,441	162,348
58,081,356	63,218,954	121,300,310
3,537,920	2,099,171	5,637,091
156,027	144,000	300,027
-	142,880	142,880
811,183	-	811,183
460,813	364,737	825,550
7,944,591	8,620,667	16,565,258
26,492,641	144,797,471	171,290,112
201,498,182	166,582,823	368,081,004
16,870,357	12,113,509	28,983,866
(71,687,264)	(89,171,327)	(160,858,592)
186,084,449	245,693,931	431,778,380
\$ 244,165,805	\$ 308,912,884	\$ 553,078,690
827,041	827,041	1,654,082
1,504,245	1,168,218	2,672,463
911,193	3,540,675	4,451,868
142,953	143,017	285,970
604,878	584,445	1,189,322
3,588,595	1,680,891	5,269,486
6,751,864	7,117,245	13,869,109
25,168,577	65,656,556	90,825,133
428,858	429,051	857,909
117,560	309,608	427,168
4,626,025	4,626,025	9,252,050
30,341,020	71,021,240	101,362,260
\$ 37,092,884	\$ 78,138,485	\$ 115,231,369
143,066	143,066	286,131
\$ 37,235,949	\$ 78,281,550	\$ 115,517,500
152,822,147	175,970,433	328,792,580
3,537,920	2,099,171	5,637,091
51,396,830	53,388,771	104,785,601
\$ 207,756,897	\$ 231,458,375	\$ 439,215,272

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statement of Revenue, Expenses & Changes in Fund Net Position
For the Years Ended December 31, 2017 and December 31, 2016

	2017		Total
	Water Fund	Wastewater Fund	
OPERATING REVENUE:			
Utility Revenue	\$ 36,429,724	\$ 44,682,336	\$ 81,112,060
Other Charges for Services	2,750,087	-	2,750,087
Total Operating Revenue	<u>39,179,811</u>	<u>44,682,336</u>	<u>83,862,147</u>
OPERATING EXPENSES:			
General Operations	8,865,726	7,367,508	16,233,234
Purchased Water/Wastewater	14,802,677	26,855,073	41,657,750
Maintenance Expense	5,519,016	2,623,089	8,142,104
Depreciation Expense	5,141,286	9,697,136	14,838,423
Taxes	1,316,350	255,181	1,571,531
Total Operating Expenses	<u>35,645,055</u>	<u>46,797,987</u>	<u>82,443,042</u>
OPERATING INCOME (LOSS)	<u>3,534,757</u>	<u>(2,115,651)</u>	<u>1,419,105</u>
NONOPERATING REVENUE (EXPENSES):			
Interest and Investment Revenue	730,433	995,998	1,726,431
Rent	133,306	-	133,306
Other Capital Revenue	-	29,733	29,733
Gains (Losses) on Capital Asset Disposition	97,812	43,796	141,608
Interest on Long-Term Debt	(1,091,695)	(2,765,407)	(3,857,102)
Total Nonoperating Revenues (Expenses)	<u>(130,144)</u>	<u>(1,695,880)</u>	<u>(1,826,024)</u>
Income Before Capital Contributions	<u>3,404,613</u>	<u>(3,811,532)</u>	<u>(406,919)</u>
Capital Contributions			
Contributed Systems	3,667,596	4,802,555	8,470,151
Other Capital Contributions	3,911,136	3,574,323	7,485,459
Total Capital Contributions	<u>7,578,732</u>	<u>8,376,878</u>	<u>15,955,610</u>
CHANGE IN NET POSITION	<u>10,983,345</u>	<u>4,565,346</u>	<u>15,548,691</u>
TOTAL NET POSITION, January 1	207,756,897	231,458,376	439,215,273
Cummulative effect of a change in accounting principle	\$ -	\$ -	-
TOTAL NET POSITION, December 31	<u>\$ 218,740,242</u>	<u>\$ 236,023,722</u>	<u>\$ 454,763,965</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Revenue, Expenses & Changes in Fund Net Position

For the Years Ended December 31, 2017 and December 31, 2016

Water Fund	Restated 2016 Wastewater Fund	Total
\$ 33,908,383	\$ 42,150,115	\$ 76,058,499
1,748,396	-	1,748,396
35,656,779	42,150,115	77,806,895
7,542,492	7,074,025	14,616,516
13,072,224	27,568,406	40,640,629
4,099,334	1,906,950	6,006,284
5,206,540	9,383,804	14,590,344
1,220,013	366,538	1,586,551
31,140,602	46,299,723	77,440,324
4,516,178	(4,149,607)	366,570
636,231	857,189	1,493,420
125,581	-	125,581
-	843,026	843,026
(104,098)	(210,319)	(314,417)
(1,198,474)	(2,790,392)	(3,988,867)
(540,761)	(1,300,496)	(1,841,257)
3,975,417	(5,450,103)	(1,474,686)
4,217,474	5,302,690	9,520,164
2,378,874	3,078,183	5,457,056
6,596,348	8,380,873	14,977,220
10,571,764	2,930,769	13,502,534
197,185,133	228,527,607	425,712,740
\$ -	\$ -	-
\$ 207,756,897	\$ 231,458,376	\$ 439,215,274

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017		
	Water Fund	Wastewater Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	36,507,624	44,579,072	\$ 81,086,696
Cash paid for purchased water	(16,084,255)	-	(16,084,255)
Cash paid to other municipalities for sewage treatment	-	(29,322,274)	(29,322,274)
Cash payments to suppliers for goods & services	(3,389,472)	(3,098,437)	(6,487,909)
Cash payments to employees for services	(4,994,676)	(4,435,630)	(9,430,306)
Cash payments of taxes	(1,215,982)	(257,968)	(1,473,950)
Other receipt (payments)	133,306	-	133,306
Net Cash Provided by Operating Activities	10,956,545	7,464,762	18,421,307
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(6,193,354)	(6,663,455)	(12,856,809)
Cash payments to employees for services	(395,211)	(391,719)	(786,930)
Principal received on ULID assessments	-	19,595	19,595
Interest received on ULID assessments	-	10,945	10,945
Principal paid on Bonds	(3,015,000)	(480,000)	(3,495,000)
Proceeds from WA DWSTF Loans	123,095	-	123,095
Decrease(Increase) from fiscal agent	(30)	-	(30)
Principal paid on WA State Revolving Fund Loan	-	(631,701)	(631,701)
Principal paid on PWTF Loan	(573,595)	(782,603)	(1,356,198)
Interest paid on bonds and loans	(1,085,555)	(2,859,270)	(3,944,825)
Capital contributed by developers	6,661,223	3,562,485	10,223,709
Cash received for Judgements & Settlements CIP	-	41,571	41,571
Increase(Decrease) from customer deposits & performance bonds	82,095	49,394	131,489
Net Cash Provided (Used) for Capital Financing Activities	(4,396,332)	(8,124,758)	(12,521,090)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and maturities of investments	17,017,956	8,242,848	25,260,804
Purchase of investments	(21,052,749)	(13,582,431)	(34,635,181)
Interest received on investments	860,982	960,556	1,821,539
Net Cash Provided (Used) by Investing Activities	(3,173,811)	(4,379,027)	(7,552,838)
NET INCREASE (DECREASE) IN CASH	3,386,402	(5,039,023)	(1,652,621)
Cash and Equivalents at Beginning of Year	19,851,017	24,837,299	44,688,316
Cash and Equivalents at End of Year (Note 7) *	\$ 23,237,419	\$ 19,798,276	\$ 43,035,694
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Operating Income	\$ 3,534,757	\$ (2,115,651)	\$ 1,419,105
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	5,141,286	9,697,136	14,838,423
Other receipts (payments)	811,183	-	811,183
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	307,436	128,381	435,817
Decrease (Increase) in materials and supplies	101,577	(7,564)	94,013
Decrease (Increase) in prepayments	21,499	27,547	49,046
Decrease (Increase) in accrued revenue	(92,276)	(231,645)	(323,921)
Increase (Decrease) in accounts payable	2,009,725	3,304,123	5,313,847
Increase (Decrease) in misc. current and long term liabilities	(878,642)	(3,337,565)	(4,216,207)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 10,956,545	\$ 7,464,762	\$ 18,421,307
* RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:			
Cash and Cash Equivalents	\$ 15,371,117	\$ 16,883,711	\$ 32,254,828
Restricted Funds	7,866,301	2,914,565	10,780,866
Total Cash and Cash Equivalents	\$ 23,237,418	\$ 19,798,276	\$ 43,035,694
NONCASH INVESTING, CAPITAL AND FINANCIAL ACTIVITIES:			
Contributions of capital assets from developers	1,082,590	3,404,048	\$ 4,486,638
Increase (Decrease) in fair value of investments	\$ (178,427)	\$ (1,630)	\$ (180,057)

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

		Restated 2016	
Water Fund	Wastewater Fund	Total	
\$ 34,851,995	\$ 41,728,747	\$ 76,580,742	
(13,558,406)	-	(13,558,406)	
-	(24,352,025)	(24,352,025)	
(4,756,578)	(4,858,473)	(9,615,051)	
(4,772,672)	(4,162,655)	(8,935,327)	
(1,271,984)	(380,561)	(1,652,545)	
125,581	-	125,581	
<u>10,617,936</u>	<u>7,975,033</u>	<u>18,592,969</u>	
(8,148,632)	(5,959,232)	(14,107,864)	
(375,982)	(375,982)	(751,964)	
-	35,261	35,261	
-	8,020	8,020	
(2,900,000)	(925,000)	(3,825,000)	
124,150	-	124,150	
94,051	(144,000)	(49,949)	
-	(407,158)	(407,158)	
(393,095)	(488,103)	(881,198)	
(1,346,133)	(2,798,388)	(4,144,521)	
2,378,874	3,078,082	5,456,956	
-	843,127	843,127	
111,098	75,883	186,981	
<u>(10,455,669)</u>	<u>(7,057,490)</u>	<u>(17,513,159)</u>	
8,402,309	8,187,899	16,590,208	
(34,998,765)	(32,476,372)	(67,475,137)	
539,564	801,446	1,341,010	
<u>(26,056,892)</u>	<u>(23,487,027)</u>	<u>(49,543,919)</u>	
<u>(25,894,624)</u>	<u>(22,569,484)</u>	<u>(48,464,108)</u>	
45,745,641	47,406,783	93,152,424	
<u>\$ 19,851,017</u>	<u>\$ 24,837,299</u>	<u>\$ 44,688,316</u>	
\$ 4,516,178	\$ (4,149,607)	\$ 366,570	
5,206,540	9,383,804	14,590,344	
125,581		125,581	
(841,299)	(317,408)	(1,158,707)	
30,356	1,306	31,662	
67,759	58,519	126,278	
36,514	(103,960)	(67,446)	
-	(20,571)	(20,571)	
1,476,308	3,122,951	4,599,259	
<u>\$ 10,617,936</u>	<u>\$ 7,975,034</u>	<u>\$ 18,592,970</u>	
\$ 16,313,096	\$ 22,738,128	\$ 39,051,224	
3,537,920	2,099,171	5,637,091	
<u>\$ 19,851,017</u>	<u>\$ 24,837,299</u>	<u>\$ 44,688,316</u>	
\$ 4,217,474	\$ 5,302,690	\$ 9,520,164	
\$ 80,143	\$ 600,588	\$ 680,731	

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Alderwood Water & Wastewater District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

Reporting Entity

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

Unbilled utility service receivables are recorded at year-end.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments, (including restricted assets) with maturity of three months or less when purchased, to be cash equivalents. Cash and Cash Equivalents include currency on hand, Washington State Public Deposit Protection Commission (PDPC) member bank deposits, and investments in the Washington State Local Government Investment Pool (LGIP). In accordance with GASB, District funds in the LGIP are stated at amortized cost and all other investments are stated at fair value. Additional information is available in Note 2.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., mains, valves, hydrants, and similar items), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

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

Funds

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Restricted Funds

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Assets and liabilities shown as current in the accompanying *Comparative Statement of Net Position* exclude current maturities on revenues bonds and accrued interest thereon because debt service funds are provided for their payment.

Receivables

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

Inventories

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

Investments

Investments are stated at fair value on the *Comparative Statement of Net Position*. Changes in value, as measured by the underlying fair value as reported by the third-party custodian are recorded and presented in the *Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position* as Interest and Investment Revenue. 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). Securities are held in safekeeping by a third-party custodian. In accordance with GASB, District funds in the LGIP are stated at amortized cost and all other investments are stated at fair value. Additional detailed information on investments can be found in Note 2.

Deferred Outflows/Inflows of Resources

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Compensated Absences

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

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

Sick leave may accumulate indefinitely and is payable in part upon separation, retirement or death. For non-represented staff, and represented staff hired after January 1, 2014, upon voluntary separation, the employee will receive 25% of the accrued and unused sick leave after 10 years of service or 50% after 20 years of service. For represented staff hired before this date, the employee will receive 50% of the accrued and unused sick leave after 10 years of service. Upon death of an employee, his/her beneficiary will receive 50% of the accrued and unused sick leave. Annually an employee may sell back to the District accrued sick leave in excess of 384 hours at 50% of the current hourly rate.

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

As of December 31, 2017, the recorded liability for accrued payroll, unpaid vacation leave and sick leave benefits included \$272,896 in current liabilities and \$818,690 in noncurrent liabilities. As of December 31, 2016, the recorded liability for these accruals included \$285,970 in current liabilities and \$857,909 in noncurrent liabilities.

Debt:

Rebatable Arbitrage

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the District to rebate excess arbitrage earnings from bond proceeds to the federal government. The District elects the revenue reduction method whereby the arbitrage rebate is recorded as a reduction of interest revenue. The District contracts with a firm to independently calculate its arbitrage rebate liability. The District has no reportable arbitrage liability as of December 31, 2017.

Construction Financing:

Wastewater Facilities - City of Everett

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Pensions

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

Change in Accounting Policy - Deposits and Investments

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

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

Cash, Deposits and Investments Not Measured at Fair Value

Cash on Hand	\$	3,200
FDIC Insured or PFCP Bank Deposits	\$	5,101,132
Total	\$	5,104,332

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 2 – DEPOSITS AND INVESTMENTS - continued

Investments

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

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

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>.

Investments Measured at Amortized Cost

As of December 31, 2017 Alderwood Water & Wastewater District held the following investments at amortized cost:

Washington State Local Government Investment Pool	38,283,680
Total	\$ 38,283,680

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. The District's investment policy applies the prudent person standard; Investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. The Washington State Local Government Investment Pool is a 2a7-like pool and is unrated. The credit ratings on securities held by Alderwood Water & Wastewater District on December 31, 2017 are listed below:

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 2 – DEPOSITS AND INVESTMENTS - continued

Investment Type	Ratings		Fair Value
	Moody's	S&P	
U.S Treasury Notes	Aaa	AA+	\$ 34,896,715
Government Sponsored Enterprises			
Federal National Mortgage Association	Aaa	AA+	\$ 17,886,382
Federal Home Loan Bank	Aaa	AA+	\$ 5,973,363
Federal Farm Credit Bank	Aaa	AA+	\$ 4,922,460
Federal Home Loan Mortgage Corporation	Aaa	AA+	\$ 15,393,951
Total			\$ 79,072,871

Custodial Credit Risk

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

Concentration of Credit Risk

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 2 – DEPOSITS AND INVESTMENTS - continued

Deposits and Investments	Fair Value	Cost Based Measured	Percent of Total
U.S Treasury Notes	\$ 34,896,715.00		28.5%
Government Sponsored Enterprises			
Federal National Mortgage Association	\$ 17,886,382.00		14.6%
Federal Home Loan Bank	\$ 5,973,363.00		4.9%
Federal Farm Credit Bank	\$ 4,922,460.00		4.0%
Federal Home Loan Mortgage Corporation	\$ 15,393,951.00		12.6%
FDIC Insured or PFCP Bank Deposits		\$ 5,101,132.05	4.2%
Washington State Local Government Investment Pool		\$ 38,283,680.49	31.3%
Total	\$ 79,072,871.00	\$ 43,384,812.54	
Tota Cash, Deposits and Investments		\$ 122,457,683.54	100.00%

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to 2 years. The portfolio weighted maturity at year end was 1.228 years.

The Washington State Local Government Investment Pool is an unrated 2a-7 like pool as defined by GASB 31, accordingly participants balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days. The Average Days to Maturity on December 31, 2017 was 30 days.

The following schedule presents the investments and related maturities as of December 31, 2017.

Investment Type	Fair Value	Maturity (in years)	
		Less than 1 year	1-5 year
US Treasury	\$ 34,896,715	\$ 14,956,250	\$ 19,940,465
Government Sponsored Enterprise (GSE's)	\$ 44,176,156	\$ 14,441,306	\$ 29,734,850
	\$ 79,072,871	\$ 29,397,556	\$ 49,675,315

Fair Value Hierarchy

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 2 – DEPOSITS AND INVESTMENTS - continued

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

Investment Type	Fair Value as of 12/31/17	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Treasury	\$ 34,896,715	\$ 34,896,715		
Government Sponsored Enterprise (GSE's)	\$ 44,176,156		\$ 44,176,156	
	\$ 79,072,871	\$ 34,896,715	\$ 44,176,156	\$ -

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 - UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2017 is as follows:

	Beginning Balance 1/1/2017	Increase	Decrease	Ending Balance 12/31/2017
Water				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 460,813	\$ 199,640	\$ -	\$ 660,452
Construction in Progress	7,944,591	3,662,718	7,894,233	3,713,076
Total Utility Plant not being depreciated	8,405,404	3,862,357	7,894,233	4,373,528
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,346,745	30,180	-	1,376,925
Structures & Improvements	27,038,630	26,657	4,259	27,061,028
Wells & Supply Mains	653,889	4,603,162	-	5,257,051
Pumping Equipment	11,281,201	-	-	11,281,201
Water Treatment Equipment	16,494	-	-	16,494
Reservoirs & Standpipes	16,020,700	-	4,475	16,016,226
Mains	164,162,942	15,459,949	9,570,971	170,051,920
Meters, Meter Installations & Hydrants	18,767,916	1,382,765	637,137	19,513,545
Computers, Office Equipment & Furniture	1,199,275	27,790	49,266	1,177,799
Transportation Equipment	2,179,889	49,454	243,408	1,985,935
Other General Plant Equipment	2,193,499	30,934	107,119	2,117,314
Total Utility Plant being depreciated	244,861,179	21,610,891	10,616,634	255,855,436
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(1,341,779)	-	8,073	(1,349,852)
Structures & Improvements	(11,338,106)	4,259	1,045,900	(12,379,746)
Wells & Supply Mains	(370,547)	-	35,843	(406,390)
Pumping Equipment	(4,428,815)	-	556,725	(4,985,539)
Water Treatment Equipment	(16,494)	-	-	(16,494)
Reservoirs & Standpipes	(4,331,907)	4,475	323,087	(4,650,519)
Mains	(36,371,740)	15,307	2,269,743	(38,626,176)
Meters, Meter Installations & Hydrants	(9,151,548)	-	616,171	(9,767,719)
Computers, Office Equipment & Furniture	(1,072,945)	21,475	73,315	(1,124,784)
Transportation Equipment	(1,665,161)	241,389	107,608	(1,531,380)
Other General Plant Equipment	(1,598,224)	107,119	102,798	(1,593,904)
Total Accumulated Depreciation	(71,687,264)	394,024	5,139,262	(76,432,502)
Total Utility Plant being depreciated, net	173,173,915	22,004,915	15,755,896	179,422,934
Total Utility Plant, Net	\$ 181,579,319	\$ 25,867,272	\$ 23,650,129	\$ 183,796,462

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 - UTILITY PLANT AND DEPRECIATION – continued

Utility Plant activity for the year ended December 31, 2017 is as follows:

	Beginning Balance 1/1/2017	Increase	Decrease	Ending Balance 12/31/2017
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 364,737	\$ 75,196	\$ 50,494	\$ 389,439
Construction in Progress	8,620,667	7,061,703	8,278,362	7,404,008
Total Utility Plant not being depreciated	8,985,404	7,136,899	8,328,856	7,793,447
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,049,174	67,097	-	1,116,271
Structures & Improvements	143,748,297	2,473	-	143,750,770
Mains	166,582,823	25,857,900	12,987,025	179,453,699
Pumping Equipment	7,741,120	21,145	21,145	7,741,120
Sew age Treatment Equipment	562,623	22,776	-	585,399
Computers, Office Equipment & Furniture	938,083	27,790	33,504	932,369
Transportation Equipment	1,805,366	49,454	195,683	1,659,137
Other General Plant Equipment	1,066,317	22,838	1,700	1,087,455
Total Utility Plant being depreciated	323,493,803	26,071,474	13,239,058	336,326,220
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(1,044,207)	-	17,192	(1,061,399)
Structures & Improvements	(29,705,760)	-	5,440,062	(35,145,821)
Mains	(52,413,515)	11,668	3,564,375	(55,966,221)
Pumping Equipment	(2,757,470)	-	415,428	(3,172,899)
Sew age Treatment Equipment	(213,332)	-	48,703	(262,034)
Computers, Office Equipment & Furniture	(816,831)	5,714	63,150	(874,267)
Transportation Equipment	(1,399,724)	193,664	96,654	(1,302,714)
Other General Plant Equipment	(820,489)	1,700	51,638	(870,427)
Total Accumulated Depreciation	(89,171,327)	212,747	9,697,202	(98,655,783)
Total Utility Plant being depreciated, net	234,322,476	26,284,221	22,936,260	237,670,437
Total Utility Plant, Net	\$ 243,307,880	\$ 33,421,119	\$ 31,265,116	\$ 245,463,884

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 - UTILITY PLANT AND DEPRECIATION – continued

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 3 - UTILITY PLANT AND DEPRECIATION – continued

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress as of December 31, 2017 is composed of the following:

Water Fund	Project Number	Project Authorization	Expended Through 12/31/17	Future Funds Committed at 12/31/17
Shelby Road Water Main Replacement	W1605	\$ 4,137,140	\$ 1,007,516	\$ 3,129,624
660/520/340 Water Pressure Zones	W1102	15,628,361	1,574,152	14,054,209
Reservoir #2 & #3 Coatings	W1401	4,637,994	220,590	4,417,404
Reservoir 1 and Meter Vault Rehabilitation	W1610	995,320	59,701	935,619
Community Transit Swift BRT II SR 527/128th	W1607	326,906	56,010	270,896
Trans Mains 1 and 2 Air-Vac and Blowoff Repl.	W1609	4,150,850	146,239	4,004,611
All Other Projects		2,520,634	648,867	1,871,767
Total - Water Fund		\$ 32,397,205	\$ 3,713,076	\$ 28,684,129
Wastewater Fund				
PPWWTF Membrane Upgrades	S1707	\$ 21,801,000	\$ 197,889	\$ 21,603,111
Picnic Point Flow Distribution	S1210	6,598,164	3,977,967	2,620,197
PPWWTF Closeout	S1401	1,487,338	1,047,161	440,177
Picnic Point WWTF Fieldbus	S1502	1,113,364	327,433	785,931
Generator Improvements	J1201 S	123,943	27,042	96,901
Wigen Road Water & Sewer Replacement	S1608	550,500	10,564	539,936
All Other Projects		3,205,278	1,815,951	1,389,327
Total - Wastewater Fund		\$ 34,879,587	\$ 7,404,008	\$ 27,475,579

Note: Project Authorizations do not include District staff labor

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 4 - CONSTRUCTION IN PROGRESS – continued

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

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

Note: Project Authorizations do not include District staff labor.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 - LONG-TERM LIABILITIES

Loans Payable

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

<u>Water Fund</u>							
Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2017	Outstanding 12/31/2016	Interest Rate
99-791-001	Reservoir No 1 Cover	6/7/1999	7/1/2019	\$ 3,420,060	\$ 364,242	\$ 546,363	1%
00-691-001	Low Pressure Area Improvements	5/15/2000	7/1/2020	1,402,800	233,330	311,106	1%
<u>Water Fund</u>							
State Revolving Fund	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2017	Outstanding 12/31/2016	Interest Rate
DM12-952-098	Pump Station and High Tank Upgrade	8/15/2012	10/1/2036	\$ 5,262,090	\$ 2,264,352	\$ 2,397,549	1.5%
DM13-952-125	660/520/340 Water Pressure Zones	9/3/2013	10/1/2042	6,531,000	446,786	323,691	1.5%
<u>Wastewater Fund</u>							
Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2017	Outstanding 12/31/2016	Interest Rate
05-691-PRE-108	Wastewater Facility Upgrade	4/26/2005	7/1/2025	\$ 1,000,000	\$ 421,053	\$ 473,684	0.5%
05-691-PRE-126	Wastewater Facility Upgrade	8/15/2005	7/1/2025	1,000,000	426,901	480,263	0.5%
06-962-001	Wastewater Facility Upgrade	4/17/2006	7/1/2026	7,000,000	3,438,980	3,821,089	0.5%
<u>Wastewater Fund</u>							
State Revolving Fund	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2017	Outstanding 12/31/2016	Interest Rate
L0900006	Wastewater Facility Upgrade	2/11/2011	2/11/2031	\$ 9,308,953	\$ 6,904,142	\$ 7,322,430	2.7%

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

The District was granted a State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction of the liquids facility as part of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$5,262,090 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the 660/520/340 Water Pressure Zones Project for \$10,403,000. The scope for this loan was amended in 2017, with a new total loan amount of \$6,531,000. The District requested

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 - LONG-TERM LIABILITIES – continued

draws of \$123,095 on this loan during 2017. The SRF loans are to be repaid over a period not to exceed 24 years at the interest rate stated above.

Bonds

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

<u>Water Obligations</u>				Water Fund Portion		
Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Original Issue	Outstanding 12/31/2017	Outstanding 12/31/2016
2009 Water/Sewer Revenue	3% - 4%	11/3/2009	12/1/2018	23,885,000	3,140,000	6,155,000
2010 Water/Sewer Revenue	4.2% - 5.55%	2/9/2010	12/1/2029	18,743,500	18,563,000	18,743,500
Total Bonds Outstanding					<u>\$ 21,703,000</u>	<u>\$ 24,898,500</u>

<u>Wastewater Obligations</u>				Wastewater Fund Portion		
Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Original Issue	Outstanding 12/31/2017	Outstanding 12/31/2016
2010 Water/Sewer Revenue	4.2% - 5.55%	2/9/2010	12/1/2029	30,581,500	30,287,000	30,581,500
2013 Water/Sewer Revenue	2% - 4.625%	10/9/2013	12/1/2043	25,000,000	23,310,000	23,790,000
Total Bonds Outstanding					<u>\$ 53,597,000</u>	<u>\$ 54,371,500</u>

The District issued Water and Sewer Revenue bonds in December 2009 in the amount of \$23,885,000 to provide for a current refunding of all of the District's outstanding Water and Sewer Revenue bonds, 1998, and Water and Sewer Revenue bonds, 1999. An arbitrage rebate calculation was completed in January of 2018 and no rebate liability exists from issuance through December 1, 2017.

In February 2010 the District issued \$53 million in new Water and Sewer Revenue bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. Series A of the 2010 issuance consists of \$3,675,000 in bonds issued as tax-exempt. Series B was issued as Build America Bonds – direct payment. The District has contracted with the Bank of New York, Mellon, the current fiscal agent, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all of the Series B bond proceeds have been fully drawn and expended. The Series A bonds qualify for the small issuer exemption from arbitrage rebate because the amount of tax exempt debt issued in 2010 was less than \$5 million. An arbitrage rebate calculation for the Series B Bonds was completed in January of 2018 and no rebate liability exists from issuance through December 1, 2017. The Series A bonds were retired in 2016.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 5 - LONG-TERM LIABILITIES – continued

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

All Long-Term Liabilities

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

Water Fund Long-Term Liabilities

Year	Principal	Interest	Total Debt
			Service
2018	3,717,394	1,092,758	4,810,153
2019	1,841,216	961,430	2,802,647
2020	1,701,185	895,105	2,596,290
2021	1,667,403	824,388	2,491,790
2022	1,711,401	752,433	2,463,835
2023-2027	9,331,145	2,547,337	11,878,481
2028-2032	4,627,310	386,501	5,013,811
2033-2037	389,016	13,490	402,505
2038-2042	25,639	385	26,023
2043-2047	-	-	-
	<u>\$ 25,011,709</u>	<u>\$ 7,473,827</u>	<u>\$ 32,485,536</u>

Wastewater Fund Long-Term Liabilities

Year	Principal	Interest	Total
2018	1,718,526	2,752,360	4,470,886
2019	3,780,773	2,705,393	6,486,166
2020	3,886,041	2,564,643	6,450,684
2021	3,999,739	2,412,182	6,411,921
2022	4,108,776	2,254,602	6,363,378
2023-2027	21,828,867	8,700,858	30,529,725
2028-2032	12,455,353	4,167,560	16,622,914
2033-2037	5,130,000	2,542,500	7,672,500
2038-2042	6,415,000	1,255,456	7,670,456
2043-2047	1,465,000	67,756	1,532,756
	<u>\$ 64,788,075</u>	<u>\$ 29,423,310</u>	<u>\$ 94,211,386</u>

All bond debt is secured by the total of all District revenues. Water Restricted Assets as of December 31, 2017 and December 31, 2016 are \$7,866,301 and \$3,537,920, respectively. Wastewater Restricted Assets as of December 31, 2017 and December 31, 2016 are \$2,914,565 and \$2,099,171, respectively. These represent debt service funds and reserve requirements as contained in the various bond indentures. Per bond resolutions, ULID assessments are dedicated to the payment of debt service.

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

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 long-term liabilities as of December 31, 2017

Description	Beginning Balance 1/1/2017	Additions	Reductions	Ending Balance 12/31/2017	Amounts Due Within One Year
<u>WATER FUND</u>					
Compensated Absences	571,810	\$ 575,681	\$ 601,699	545,793	136,448
Net Pension Liability (See Note 6)	4,626,025	\$ 3,802,643	\$ 4,626,025	3,802,643	-
PWTF Loan 99-791-001	546,363		182,121	364,242	182,121
PWTF Loan 00-691-001	311,106		77,776	233,330	77,776
SRF Loan DM12-952-098	2,397,549		133,197	2,264,352	133,197
SRF Loan DM13-952-125	323,691	123,095		446,786	-
	<u>\$ 8,776,544</u>	<u>\$ 4,501,419</u>	<u>\$ 5,620,818</u>	<u>\$ 7,657,146</u>	<u>\$ 529,542</u>
<u>WASTEWATER FUND</u>					
Compensated Absences	572,068	575,424	601,699	545,793	136,448
Net Pension Liability (See Note 6)	4,626,025	\$ 3,802,643	4,626,025	3,802,643	-
PWTF Loan 05-691-PRE-108	473,684		52,632	421,052	52,632
PWTF Loan 05-691-PRE-126	480,263		53,362	426,901	53,362
PWTF Loan 06-962-001	3,821,089		382,109	3,438,980	382,109
SRF Loan L0900006	7,322,430		418,288	6,904,142	429,723
	<u>\$ 17,295,559</u>	<u>\$ 4,378,066</u>	<u>\$ 6,134,115</u>	<u>\$ 15,539,511</u>	<u>\$ 1,054,274</u>
<u>COMBINED WATER / WASTEWATER UTILITY</u>					
2009 Revenue Bond	6,155,000		3,015,000	3,140,000	3,140,000
2010 Series B Bond	49,325,000		475,000	48,850,000	485,000
2013 Water/Sewer Revenue Bonds	23,790,000		480,000	23,310,000	500,000
	<u>\$ 79,270,000</u>	<u>\$ -</u>	<u>\$ 3,970,000</u>	<u>\$ 75,300,000</u>	<u>\$ 4,125,000</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

Description	Beginning Balance 1/1/2016	Additions	Reductions	Ending Balance 12/31/2016	Amounts Due Within One Year
WATER FUND					
Compensated Absences	\$ 531,935	\$ 563,559	\$ 523,684	\$ 571,810	\$ 142,953
Net Pension Liability (See Note 6)	\$ 3,988,008	\$ 4,626,025	\$ 3,988,008	\$ 4,626,025	-
PWTF Loan	728,483	-	182,121	546,363	182,121
PWTF Loan	388,883	-	77,777	311,106	77,777
WA State Revolving Fund Loan	2,530,746	-	133,197	2,397,549	133,197
WA State Revolving Fund Loan	199,541	124,150	-	323,691	-
	<u>\$ 8,367,596</u>	<u>\$ 5,313,734</u>	<u>\$ 4,904,787</u>	<u>\$ 8,776,544</u>	<u>\$ 536,048</u>
WASTEWATER FUND					
Compensated Absences	\$ 532,193	\$ 563,559	\$ 523,684	\$ 572,068	\$ 143,017
Net Pension Liability (See Note 6)	\$ 3,988,008	\$ 4,626,025	\$ 3,988,008	\$ 4,626,025	-
PWTF Loan	526,316	-	52,632	473,684	52,632
PWTF Loan	533,626	-	53,363	480,263	53,363
PWTF Loan	4,203,198	-	382,109	3,821,089	382,109
WA State Revolving Fund Loan	7,729,587	-	407,158	7,322,430	418,288
	<u>\$ 17,512,928</u>	<u>\$ 5,189,584</u>	<u>\$ 5,406,953</u>	<u>\$ 17,295,559</u>	<u>\$ 1,049,409</u>
COMBINED WATER / WASTEWATER UTILITY					
2009 Revenue Bond	\$ 9,055,000	-	\$ 2,900,000	\$ 6,155,000	\$ 3,015,000
2010 Series A Bond	460,000	-	460,000	-	-
2010 Series B Bond	49,325,000	-	-	49,325,000	475,000
2013 Sewer Revenue Bond	24,255,000	-	465,000	23,790,000	480,000
	<u>\$ 83,095,000</u>	<u>\$ -</u>	<u>\$ 3,825,000</u>	<u>\$ 79,270,000</u>	<u>\$ 3,970,000</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2017:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$7,605,286
Pension assets	\$0
Deferred outflows of resources	\$1,299,603
Deferred inflows of resources	\$1,303,733
Pension expense/expenditures	\$971,599

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS-continued

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 2017 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January - June 2017:		
PERS Plan 1	6.23%	6.00%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Total	11.18%	6.00%
July - December 2017:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Total	12.70%	6.00%

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

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

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

PERS Plan 2/3 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS-continued

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 2017 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – June 2017:		
PERS Plan 2/3	6.23%	6.12%
PERS Plan 1 UAAL	4.77%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
Total	11.18%	6.12%
July – December 2017:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0,18%	
Employee PERS Plan 3		Varies
Total	12.70%	7.38%

* For employees participating in JBM, the contribution rate was 15.30% for January – June 2017 and 18.45% for July - December 2017.

The District's actual PERS plan contributions were \$519,497 to PERS Plan 1 and \$686,573 to PERS Plan 2/3 for the year ended December 31, 2017.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS-continued

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2017 with a valuation date of June 30, 2016. 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 *2015 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2016 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2017. Plan liabilities were rolled forward from June 30, 2016, to June 30, 2017, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

There were changes in methods and assumptions since the last valuation.

- For all plans except LEOFF Plan 1, how terminated and vested member benefits are valued was corrected.
- How the basic minimum COLA in PERS Plan 1 is valued for legal order payees was improved.
- For all plans, the average expected remaining service lives calculation was revised.

Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS-continued

component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. 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, 2017, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	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 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
PERS 1	\$4,923,408	\$4,041,573	\$3,277,714
PERS 2/3	9,601,016	3,563,713	(1,382,961)

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS-continued

Pension Plan Fiduciary Net Position

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

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

At June 30, 2017, the District reported a total pension liability of \$7,605,286 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$4,041,573
PERS 2/3	3,563,713

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

	Proportionate Share 6/30/16	Proportionate Share 6/30/17	Change in Proportion
PERS 1	0.081201%	0.085174%	0.003973%
PERS 2/3	0.097145%	0.102567%	0.005422%

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

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2017. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2017, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2017, the state of Washington contributed 39.35 percent of LEOFF 2 employer contributions pursuant to [RCW 41.26.725](#) and all other employers contributed the remaining 60.65 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2017, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2016, with update procedures used to roll forward the total pension liability to the measurement date.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

For the year ended December 31, 2017, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$453,152
PERS 2/3	518,448
TOTAL	\$971,599

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0.00	\$0
Net difference between projected and actual investment earnings on pension plan investments	\$0.00	(\$150,820)
Changes of assumptions	\$0.00	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$0.00	\$0
Contributions subsequent to the measurement date	\$265,651	\$0
TOTAL	\$265,651	(\$150,820)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$361,088	(\$117,204)
Net difference between projected and actual investment earnings on pension plan investments	\$0.00	(\$950,000)
Changes of assumptions	\$37,853	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$257,793	(\$85,708)
Contributions subsequent to the measurement date	\$377,217	\$0
TOTAL	\$1,033,952	(\$1,152,913)

All Plans	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$361,088	(\$117,204)
Net difference between projected and actual investment earnings on pension plan investments	\$0.00	(\$1,100,820)
Changes of assumptions	\$37,853	\$0
Changes in proportion and differences between contributions and proportionate share of contributions	\$257,793	(\$85,708)
Contributions subsequent to the measurement date	\$642,868	\$0
TOTAL	\$1,299,603	(\$1,303,732)

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 6 - PENSION PLANS-continued

Deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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
2018	(\$101,945)
2019	\$32,186
2020	(\$7,473)
2021	(\$73,588)
2022	\$0
Thereafter	\$0

Year ended December 31:	PERS Plan 2/3
2018	(\$344,214)
2019	\$110,455
2020	(\$58,705)
2021	(\$350,416)
2022	\$63,783
Thereafter	\$82,918

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 7 - STATEMENT OF CASH FLOWS

Cash and Equivalent balances are as follows:

	<u>Water Fund</u>		<u>Wastewater Fund</u>	
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Cash	\$ 2,655,818	\$ 143,548	\$ 2,096,196	\$ 1,195,400
Investment in LGIP	20,581,600	19,707,469	17,702,080	23,641,899
Cash and Equivalents	<u>\$ 23,237,418</u>	<u>\$ 19,851,017</u>	<u>\$ 19,798,276</u>	<u>\$ 24,837,299</u>

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

NOTE 8 - RISK MANAGEMENT

The Alderwood Water and Wastewater District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool's fiscal year is November 1st through October 31st.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 8 - RISK MANAGEMENT continued

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$1,000,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$5,000,000 dedicated to Sammamish Plateau, and \$5,000,000 dedicated to Cascade Water Alliance)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$100,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000-\$25,000	\$25,000	\$10,000,000
Liability:			
Commercial General Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	\$200,000	\$10,000,000
Employment Practices	\$1,000 - \$25,000	\$200,000	\$10,000,000
Other:			
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 8 - RISK MANAGEMENT continued

claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2017, written notice must be in possession of the Pool by April 30, 2017). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services and Adjusters Northwest.

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

NOTE 9 – CLEARVIEW WATER SUPPLY AGENCY

During 2004, the District negotiated a 50 year supply contract for water with the Clearview Water Supply Agency (CWSA). CWSA is a municipal corporation formed by Alderwood Water & Wastewater District, Silver Lake Water and Sewer District, and Cross Valley Water District. A three member board with each member district providing a representative governs 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. Alderwood Water & Wastewater 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 Alderwood Water & Wastewater District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all 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. 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

NOTE 10 – OTHER DISCLOSURES

The Clearview Water Supply Agency (CWSA) is not a joint venture - In 2018, the Board of Commissioners of the Clearview Water Supply Agency (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 and Sewer District. The CWSA Board's action was the result of discussions between representatives of the 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. As a result, the Alderwood Water & Wastewater District's Comparative Statement of Net Position as of December 31, 2017, will not include the Investment in Clearview Water Supply Agency of \$811,183 under Noncurrent Assets and the Comparative Statement of Cash Flows includes it to reconcile the operating income to net cash provided by operating activities

Corrective Payments to Sewage Treatment Agencies - In 2016, the District made corrective payments to the two agencies that receive and treat District sewage flows. These one-time payments totaling \$3,313,703 were accrued as 2016 expenses.

Commissioner Resignation – As of March 31, 2018 Michael R. Dixon resigned as commissioner (position #3). Jack Broyles, Jr. was appointed to the position on June 11, 2018.

Restatements:

Comparative Statement of Net Position

Other Current/Accrued Liabilities, Total Current Liabilities, the Unrestricted portion of Net Position, and the Net Position for 2016 were restated because the December 2016 Purchased Water expense in the amount of \$795,396 had been accrued twice. The condensed table for Total Net Position in the Management Discussion and Analysis (MD&A) section was also restated as result of this correction.

Comparative Statement of Revenue, Expenses & Changes in Fund Net Position

Purchased Water/Wastewater for 2016 was restated because the December 2016 Purchased Water expense in the amount of \$795,396 had been accrued twice. The condensed table for Revenues, Expenses and Changes in Fund Net Position in the Management Discussion and Analysis (MD&A) section was also restated as a result of this correction.

**ALDERWOOD WATER & WASTEWATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (RSI) – STATE SPONSORED PLANS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**Alderwood Water & Wastewater District
Schedule of Proportionate Share of the Net Pension Liability
PERS 1
As of June 30, 2017
Last Ten Fiscal Years***

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.085174%	0.081201%	0.083423%
Employer's proportionate share of the net pension liability	\$4,041,573	\$4,360,876	\$4,363,799
Employers covered employee payroll**	\$9,983,247	\$9,383,256	\$9,264,779
Employer's proportionate share of the net pension liability as a percentage of covered payroll	40.48%	46.48%	47.10%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%

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

** Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

**Alderwood Water & Wastewater District
Schedule of Employer Contributions
PERS 1
As of December 31, 2017
Last Ten Years***

	2017	2016	2015
Statutorily or contractually required contributions	\$ 519,497	\$ 475,623	\$ 423,748
Contributions in relation to the statutorily or contractually required contributions*	\$ (519,497)	\$ (475,623)	\$ (423,748)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll**	\$10,278,440	\$9,604,515	9,366,709
Contributions as a percentage of covered payroll	5.05%	4.95%	4.52%

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

** Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

**ALDERWOOD WATER & WASTEWATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (RSI) – STATE SPONSORED PLANS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

Required Supplementary Information (RSI) - State Sponsored Plans

**Alderwood Water & Wastewater District
Schedule of Proportionate Share of the Net Pension Liability
PERS 2/3
As of June 30, 2017
Last Ten Fiscal Years***

	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.102567%	0.097145%	0.101096%
Employer's proportionate share of the net pension liability	\$ 3,563,713	\$ 4,891,174	\$3,612,218
Covered payroll**	\$ 9,696,517	\$ 9,103,079	\$8,991,768
Employer's proportionate share of the net pension liability as a percentage of covered payroll	36.75%	53.73%	40.17%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%

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

** Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

**Alderwood Water & Wastewater District
Schedule of Employer Contributions
PERS 2/3
As of December 31, 2017
Last Ten Fiscal Years***

	2017	2016	2015
Statutorily or contractually required contributions	\$ 686,573	\$ 580,842	\$509,457
Contributions in relation to the statutorily or contractually required contributions***	\$(686,573)	\$(580,842)	\$(509,457)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll**	\$10,035,870	\$9,323,549	\$9,089,093
Contributions as a percentage of covered payroll	6.84%	6.23%	5.61%

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

** Covered payroll is the payroll on which contributions to a pension plan are based (GASB 82, par. 5)

*** Contributions are actual employer contributions to the plan. For PERS 1 this includes the portion of PERS 2/3 and PSERS 2 contributions that fund the PERS 1 UAAL. Contributions do not include employer-paid member contributions (GASB 82, Par. 8)

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STATISTICAL SECTION

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

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC AND ECONOMIC INFORMATION

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

OPERATING INFORMATION

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

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

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

Schedule 1 - Water Fund

	2017	Restated 2016	2015	2014	Restated 2013
OPERATING REVENUE:					
Utility Revenue	\$ 36,429,724	\$ 33,908,383	\$ 33,779,264	\$ 32,485,509	\$ 28,452,790
Other Charges for Services	2,750,087	1,748,396	1,735,863	1,789,034	1,159,482
Total Operating Revenue	<u>39,179,811</u>	<u>35,656,779</u>	<u>35,515,127</u>	<u>34,274,543</u>	<u>29,612,272</u>
OPERATING EXPENSES:					
General Operations	8,865,726	7,542,492	6,939,123	6,336,233	5,884,039
Purchased Water	14,802,677	13,072,224	13,636,490	12,093,029	10,449,389
Maintenance Expense	5,519,016	4,099,334	5,293,353	6,777,833	4,894,909
Depreciation Expense	5,141,286	5,206,540	5,186,428	5,109,674	4,946,127
Taxes	1,316,350	1,220,013	1,233,473	1,185,266	1,147,328
Total Operating Expenses	<u>35,645,055</u>	<u>31,140,602</u>	<u>32,288,867</u>	<u>31,502,035</u>	<u>27,321,792</u>
Operating Income (Loss)	<u>3,534,757</u>	<u>4,516,178</u>	<u>3,226,260</u>	<u>2,772,508</u>	<u>2,290,480</u>
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	730,433	636,231	570,616	743,898	261,806
Rent	133,306	125,581	120,367	115,301	365,603
Other Capital Revenue	-	-	15,000		
Gains (Losses) on Capital Asset Disposition	97,812	(104,098)	(3,778)	(220,168)	(78,235)
Interest on Long-Term Debt	(1,091,695)	(1,198,474)	(1,374,126)	(1,450,374)	(1,532,797)
Total Nonoperating Revenues (Expenses)	<u>(130,144)</u>	<u>(540,761)</u>	<u>(671,921)</u>	<u>(811,343)</u>	<u>(983,623)</u>
Income Before Capital Contributions	<u>3,404,613</u>	<u>3,975,417</u>	<u>2,554,339</u>	<u>1,961,165</u>	<u>1,306,857</u>
Capital Contributions					
Contributed Systems	3,667,596	4,217,474	5,494,277	2,586,710	2,210,438
Other Capital Contributions	3,911,136	2,378,874	2,072,927	2,135,046	2,031,798
Total Capital Contributions	<u>7,578,732</u>	<u>6,596,348</u>	<u>7,567,204</u>	<u>4,721,756</u>	<u>4,242,236</u>
CHANGE IN NET POSITION	<u>10,983,345</u>	<u>10,571,764</u>	<u>10,121,543</u>	<u>6,682,921</u>	<u>5,549,093</u>
TOTAL NET POSITION, January 1	207,756,897	197,185,133	191,166,005	184,483,084	178,933,991
Cumulative effect of change in accounting principle	-	-	(4,102,415)		
TOTAL NET POSITION, December 31	<u>\$ 218,740,242</u>	<u>\$ 207,756,897</u>	<u>\$ 197,185,133</u>	<u>\$ 191,166,005</u>	<u>\$ 184,483,084</u>
NET POSITION					
Net Investment in Capital Assets	158,644,771	152,822,147	143,398,780	136,852,375	134,645,229
Restricted	7,866,301	3,537,920	3,586,870	3,498,878	3,675,393
Unrestricted	52,229,170	51,396,830	50,199,482	50,814,752	46,162,462
TOTAL NET POSITION	<u>\$ 218,740,242</u>	<u>\$ 207,756,897</u>	<u>\$ 197,185,133</u>	<u>\$ 191,166,005</u>	<u>\$ 184,483,084</u>

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

Schedule 1 - Water Fund

Restated 2012	2011	2010	2009	2008
\$ 29,939,114	\$ 27,511,872	\$ 26,513,466	\$ 26,406,357	\$ 22,273,075
1,035,856				
30,974,970	27,511,872	26,513,466	26,406,357	22,273,075
5,846,120	5,160,796	5,535,150	5,850,551	5,402,634
13,353,668	10,827,434	10,396,280	12,927,074	10,040,330
4,869,794	3,366,128	2,183,162	1,836,371	1,939,898
4,962,219	5,549,109	4,859,621	4,328,722	4,082,226
1,086,234	1,048,023	994,060	956,184	842,102
30,118,035	25,951,490	23,968,273	25,898,902	22,307,190
856,935	1,560,382	2,545,192	507,455	(34,115)
841,420	485,932	501,852	410,143	1,288,715
106,396	101,968	89,600	76,907	274,499
(1,608,539)	14,117	-	(191,738)	21,050
(1,667,006)	(1,742,817)	(1,681,306)	(1,272,629)	(1,321,939)
(2,327,729)	(1,140,800)	(1,089,854)	(977,317)	262,325
(1,470,794)	419,582	1,455,339	(469,862)	228,210
1,286,402	2,313,811	2,972,240	1,651,122	4,717,391
2,184,401	1,924,137	1,628,398	1,871,035	2,210,774
3,470,803	4,237,948	4,600,638	3,522,157	6,928,165
2,000,009	4,657,530	6,055,976	3,052,295	7,156,375
177,272,202	172,614,672	166,558,695	163,506,400	156,350,024
(338,220)				
\$ 178,933,991	\$ 177,272,202	\$ 172,614,672	\$ 166,558,695	\$ 163,506,399
125,139,564	114,575,850	110,773,067	124,620,893	119,731,805
3,630,794	6,761,571	11,067,661	5,444,785	4,970,497
50,163,633	55,934,781	50,773,944	36,493,017	38,804,097
\$ 178,933,991	\$ 177,272,202	\$ 172,614,672	\$ 166,558,695	\$ 163,506,399

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

Schedule 2 - Wastewater Fund

	2017	2016	Restated 2015	2014	Restated 2013
OPERATING REVENUE:					
Utility Revenue	\$ 44,682,336	\$ 42,150,115	\$ 41,016,423	\$ 39,824,337	\$ 36,542,512
Total Operating Revenue	44,682,336	42,150,115	41,016,423	39,824,337	36,542,512
OPERATING EXPENSES:					
General Operations	7,367,508	7,074,025	6,792,952	6,313,635	5,986,676
Purchased Wastewater Treatment	26,855,073	27,568,406	22,740,943	21,016,545	20,479,777
Maintenance Expense	2,623,089	1,906,950	1,696,472	1,928,859	1,988,218
Depreciation Expense	9,697,136	9,383,804	9,221,508	9,026,778	7,875,086
Taxes	255,181	366,538	394,778	421,780	348,793
Total Operating Expenses	46,797,987	46,299,723	40,846,653	38,707,597	36,678,550
Operating Income (Loss)	(2,115,651)	(4,149,607)	169,770	1,116,740	(136,038)
NONOPERATING REVENUE (EXPENSES):					
Interest and Investment Revenue	995,998	857,189	731,861	957,134	461,564
Rent	-	-	-	-	-
Other Capital Revenue	29,733	843,026	1,176,026	-	-
Gains (Losses) on Capital Asset Disposition	43,796	(210,319)	-	(416,677)	(1,535)
Interest on Long-Term Debt	(2,765,407)	(2,790,392)	(2,812,449)	(2,848,006)	(2,245,479)
Total Nonoperating Revenues (Expenses)	(1,695,880)	(1,300,496)	(904,562)	(2,307,549)	(1,785,450)
Income Before Capital Contributions	(3,811,531)	(5,450,103)	(734,792)	(1,190,809)	(1,921,488)
Capital Contributions					
Contributed Systems	4,802,555	5,302,690	4,679,767	4,313,145	2,388,722
Other Capital Contributions	3,574,323	3,078,183	2,958,284	2,924,470	2,744,135
Total Capital Contributions	8,376,878	8,380,873	7,638,051	7,237,615	5,132,857
CHANGE IN NET POSITION	4,565,347	2,930,769	6,903,259	6,046,806	3,211,369
TOTAL NET POSITION, January 1	231,458,376	228,527,607	225,726,763	219,679,957	216,512,537
Cumulative effect of change in accounting principle	-	-	(4,102,415)	-	(43,949)
TOTAL NET POSITION, December 31	\$ 236,023,723	\$ 231,458,376	\$ 228,527,607	\$ 225,726,763	\$ 219,679,957
NET POSITION					
Net Investment in Capital Assets	180,053,006	175,970,433	171,954,652	170,869,471	171,589,853
Restricted	2,914,565	2,099,171	2,117,398	2,097,794	11,733,458
Unrestricted	53,056,150	53,388,771	54,455,556	52,759,498	36,356,646
TOTAL NET POSITION	\$ 236,023,721	\$ 231,458,375	\$ 228,527,607	\$ 225,726,763	\$ 219,679,957

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

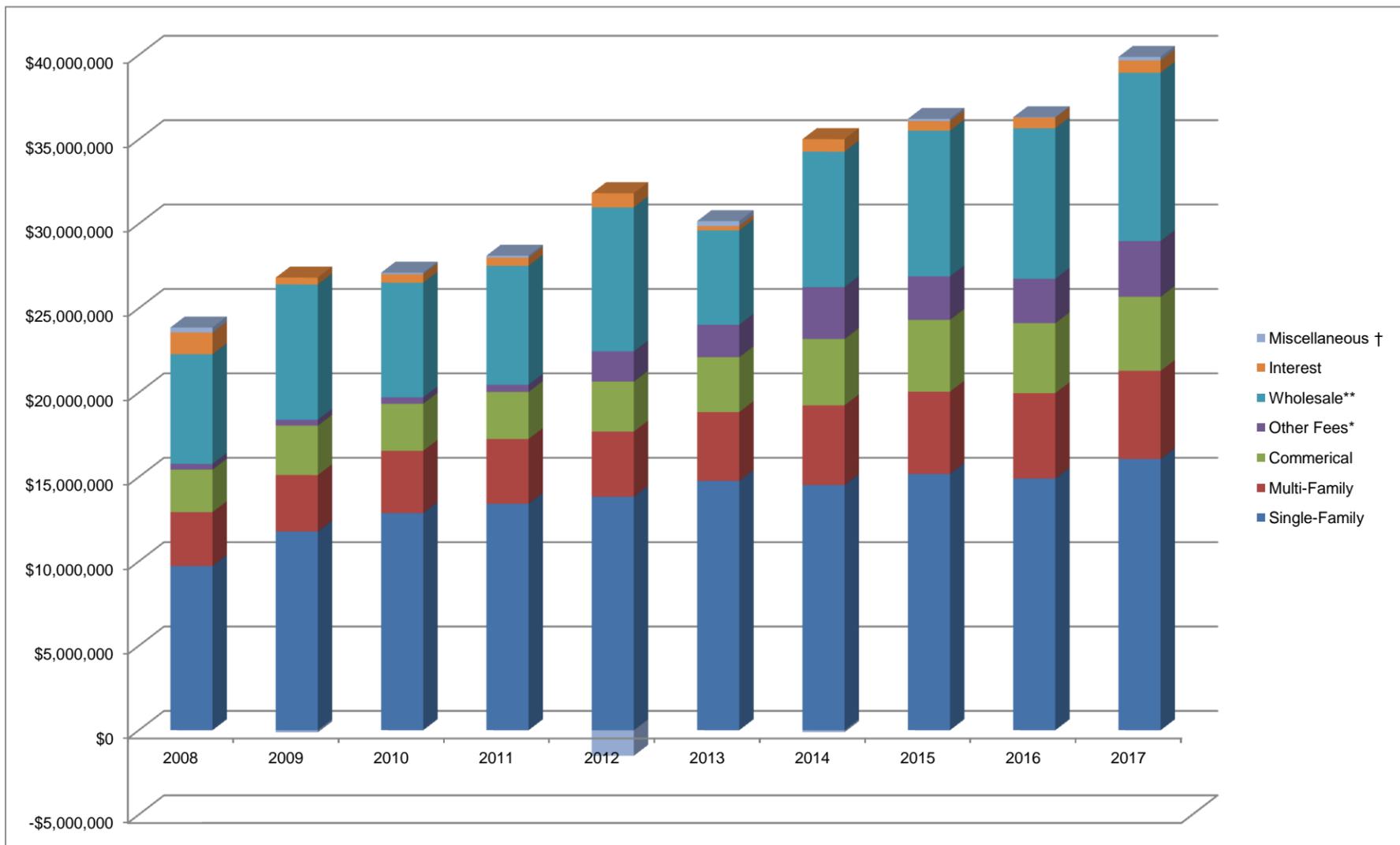
Schedule 2 - Wastewater Fund

Restated 2012	2011	2010	2009	2008
\$ 34,494,862	\$ 31,781,529	\$ 29,921,704	\$ 27,389,112	\$ 25,847,905
34,494,862	31,781,529	29,921,704	27,389,112	25,847,905
6,004,836	5,128,819	4,524,846	4,593,349	4,484,209
18,160,577	17,767,393	15,578,050	15,417,404	13,287,674
1,917,601	1,691,135	1,399,438	1,557,890	1,413,838
6,814,451	6,941,288	3,720,224	3,399,810	3,061,553
381,311	326,105	310,734	246,990	274,196
33,278,776	31,854,740	25,533,292	25,215,443	22,521,470
1,216,086	(73,211)	4,388,412	2,173,669	3,326,435
1,038,170	633,918	654,319	511,669	2,070,590
-	-	-	-	-
149,556	(3,773,164)	-	2,774	12,310
(1,873,180)	(1,897,680)	(1,576,034)	(136,840)	(148,397)
(685,454)	(5,036,926)	(921,715)	377,603	1,934,503
530,632	(5,110,137)	3,466,697	2,551,272	5,260,938
3,491,271	1,854,280	3,201,852	1,461,770	7,831,599
1,110,454	1,042,335	629,776	1,049,438	1,580,335
4,601,725	2,896,615	3,831,628	2,511,208	9,411,934
5,132,357	(2,213,522)	7,298,325	5,062,480	14,672,872
211,581,740 (201,560)	213,795,262	206,496,937	201,434,458	186,761,586
\$ 216,512,537	\$ 211,581,740	\$ 213,795,262	\$ 206,496,938	\$ 201,434,458
185,049,009	170,240,190	155,319,344	166,846,233	129,564,397
2,208,956	2,967,970	2,909,640	749,266	3,079,287
29,254,572	38,373,580	55,566,278	38,901,439	68,790,774
\$ 216,512,537	\$ 211,581,740	\$ 213,795,262	\$ 206,496,938	\$ 201,434,458

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

Schedule 3 - Water Fund

Fiscal Year	Charges for Water Services							Total
	Single-Family	Multi-Family	Commerical	Other Fees*	Wholesale**	Interest	Miscellaneous †	
2008	9,730,140	3,185,300	2,522,309	342,059	6,493,267	1,288,715	295,549	23,857,339
2009	11,772,826	3,339,402	2,935,907	344,525	8,013,697	410,143	(114,831)	26,701,669
2010	12,860,535	3,689,461	2,789,304	378,544	6,795,622	501,852	89,600	27,104,918
2011	13,413,353	3,836,804	2,791,509	421,936	7,048,270	485,932	116,085	28,113,889
2012	13,834,461	3,858,420	2,962,007	1,789,030	8,531,051	841,420	(1,502,143)	30,314,246
2013	14,773,079	4,072,251	3,256,975	1,917,277	5,592,691	261,806	287,368	30,161,447
2014	14,520,016	4,726,351	3,930,593	3,075,251	8,022,333	743,898	(104,867)	34,913,574
2015	15,185,517	4,867,834	4,257,917	2,570,540	8,633,319	570,616	131,589	36,217,331
2016	14,908,980	5,057,984	4,145,240	2,632,861	8,911,714	636,231	21,483	36,314,493
2017	16,063,314	5,224,810	4,386,794	3,299,671	9,975,703	730,433	212,548	39,893,273



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

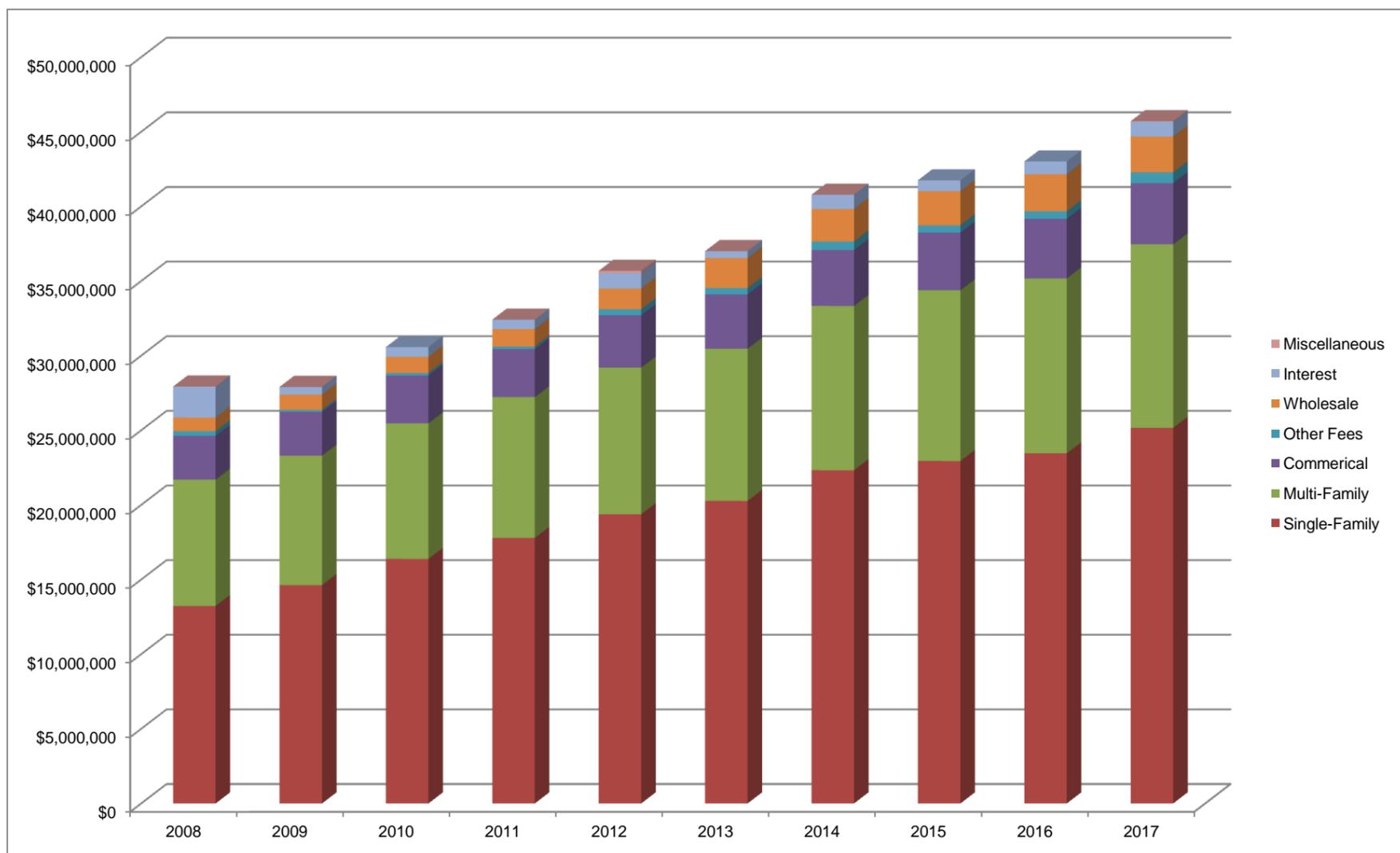
** In 2013, revenues from the sale of water to the Clearview Water Supply Agency were not recognized as wholesale revenue. Thus, a significant drop in wholesale revenue can be seen in those years. In 2015, the District returned to its original method of recognizing this inflow as wholesale revenue.

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

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

Schedule 4 - Wastewater Fund

Fiscal Year	Charges for Wastewater Services							Total
	Single-Family	Multi-Family	Commerical	Other Fees	Wholesale	Interest	Miscellaneous	
2008	13,221,270	8,474,036	2,930,084	316,412	906,101	2,070,590	12,310	27,930,805
2009	14,623,323	8,676,285	2,928,814	132,155	1,028,535	511,669	2,774	27,903,555
2010	16,382,166	9,084,821	3,199,981	170,765	1,083,970	654,319	-	30,576,023
2011	17,786,705	9,438,980	3,215,132	174,941	1,165,771	633,918	-	32,415,447
2012	19,370,587	9,827,123	3,507,393	403,863	1,385,676	1,038,170	149,556	35,682,368
2013	20,264,819	10,202,271	3,632,070	429,678	2,013,674	461,564	-	37,004,076
2014	22,319,289	11,011,951	3,744,053	571,747	2,177,297	957,134	-	40,781,471
2015	22,940,913	11,438,839	3,862,963	488,670	2,285,038	731,861	-	41,748,284
2016	23,455,957	11,723,185	3,985,496	509,798	2,475,679	857,189	-	43,007,304
2017	25,163,685	12,296,695	4,092,685	724,050	2,405,221	995,998	31,444	45,709,778



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

Schedule 5

Water Accounts

Fiscal Year	Single-Family	Multi-Family	Single-Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Irrigation	Fire Protection	Total	Increase/Decrease Prior Yr.
2008	39,725	2,299	1,035	301	69	18	848	676	44,971	
2009	40,240	2,300	1,038	300	69	18	869	695	45,529	1.2%
2010	41,031	2,299	1,050	305	68	21	884	719	46,377	1.9%
2011	41,898	2,304	1,058	315	68	20	907	754	47,324	2.0%
2012	42,662	2,335	1,073	312	68	19	939	786	48,194	1.8%
2013	43,405	2,337	1,082	317	66	19	963	811	49,000	1.7%
2014	44,205	2,386	1,088	319	66	19	992	875	49,950	1.9%
2015	44,983	2,396	1,097	315	66	20	1,023	890	50,790	1.7%
2016	45,862	2,435	1,116	315	66	20	1,056	947	51,817	2.0%
2017	47,240	2,437	1,119	322	66	20	1,091	967	53,262	2.8%

Wastewater Accounts

Fiscal Year	Single-Family	Multi-Family	Single Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Total	Increase/Decrease Prior Yr.
2008	29,187	2,120	786	268	57	18	32,436	
2009	29,783	2,121	795	269	57	18	33,043	1.9%
2010	30,595	2,122	802	274	56	20	33,869	2.5%
2011	31,479	2,126	811	285	56	20	34,777	2.7%
2012	32,269	2,157	827	285	56	19	35,613	2.4%
2013	33,055	2,166	834	289	54	19	36,417	2.3%
2014	33,866	2,218	845	291	54	19	37,293	2.4%
2015	34,710	2,230	846	289	54	20	38,149	2.3%
2016	35,658	2,275	862	290	54	20	39,159	2.6%
2017	37,056	2,284	868	298	55	20	40,581	3.6%

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

Schedule 6

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

Water Service

Fiscal Year	Bi-Monthly Base Rate	Example Water Bill Amounts		
		Total Charges for 10ccf	Total Charges for 20ccf	Total Charges for 40 ccf
2008	20.70	35.45	50.20	79.70
2009	22.78	40.08	57.38	91.98
2010	25.96	46.21	66.46	106.96
2011	27.26	48.61	69.96	112.66
2012	27.26	48.61	69.96	112.66
2013	27.26	48.61	69.96	112.66
2014	29.90	44.30	71.30	129.30
2015	29.90	44.30	71.30	129.30
2016	29.90	44.30	71.30	129.30
2017	30.50	44.96	72.12	136.52

Notes:

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

Wastewater Service

Fiscal Year	Bi-Monthly Base Rate	Example Wastewater Bill Amounts		
		Total Charges for 10ccf	Total Charges for 20ccf	Total Charges for 40 ccf
2008	79.88	79.88	79.88	79.88
2009	84.73	84.73	84.73	84.73
2010	92.06	92.06	92.06	92.06
2011	97.34	97.34	97.34	97.34
2012	102.92	102.92	102.92	102.92
2013	102.92	102.92	102.92	102.92
2014	108.00	108.00	115.50	145.50
2015	108.00	108.00	115.50	145.50
2016	108.00	108.00	115.50	145.50
2017	n/a	117.00	117.00	142.00

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

		2017		2017		2008		2008	
Ratepayer		Total Amount	Percent of Fund	Ratepayer		Total Amount	Percent of Fund	Ratepayer	
		Billed for Water	Retail Revenue			Billed for Water	Retail Revenue		
1	Harbour Pointe Golf Course	\$ 122,699	0.5%	1	ERP Operating LP	\$ 101,778	0.7%		
2	Griffis North Creek	104,806	0.4%	2	The Renaissance	84,858	0.5%		
3	GS Brandemoor LLC	103,166	0.4%	3	Keelers Corner	73,219	0.5%		
4	The Renaissance	102,461	0.4%	4	KW Mill Creek Prop Mgr LLC	68,379	0.4%		
5	Keelers Corner	99,571	0.4%	5	Archstone Communities	64,516	0.4%		
6	BRE Properties Inc	93,026	0.4%	6	BRE Properties Inc	61,112	0.4%		
7	Fairfield Crystal Cove LLC	88,328	0.3%	7	Avalon Bay Communities #494800	60,548	0.4%		
8	ERP Operating LP	86,114	0.3%	8	Steelwave Bothell OFC Owner	55,556	0.4%		
9	Steelwave Bothell OFC Owner	86,052	0.3%	9	Crystal Cove Apartments	55,099	0.4%		
10	GS Mill at Mill Creek	85,440	0.3%	10	Mukilteo School District #6	51,300	0.3%		
TOTAL		\$ 971,662	3.70%	TOTAL		\$ 676,365	4.40%		

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

Schedule 8

Wastewater Fund

		2017		2017		2008		2008	
Ratepayer		Total Amount	Percent of Fund	Ratepayer		Total Amount	Percent of Fund	Ratepayer	
		Billed for Wastewater	Retail Revenue			Billed for Wastewater	Retail Revenue		
1	Griffis North Creek	\$ 228,321	0.5%	1	ERP Operating LP	\$ 249,258	1.0%		
2	GS Mill at Mill Creek	226,734	0.5%	2	Archstone Communities	186,680	0.8%		
3	GS Brandemoor LLC	221,386	0.5%	3	KW Mill Creek Prop Mgr LLC	184,673	0.7%		
4	The Renaissance	203,719	0.5%	4	The Renaissance	184,025	0.7%		
5	Keelers Corner	199,981	0.5%	5	Avalon Bay Communities #494800	165,163	0.7%		
6	Fairfield Crystal Cove LLC	196,596	0.5%	6	Keelers Corner	163,094	0.7%		
7	FRG Grove LLC & JSP Grove LLC	184,109	0.4%	7	Crystal Cove Apartments	139,137	0.6%		
8	ERP Operating LP	177,746	0.4%	8	Millwood Estates	124,363	0.5%		
9	Vintage at Urban Center LLC	166,268	0.4%	9	Avalon Bay Communities Inc	124,093	0.5%		
10	Tivalli Apartments	165,752	0.4%	10	Wandering Creek	123,280	0.5%		
TOTAL		\$ 1,970,613	4.60%	TOTAL		\$ 1,643,766	6.70%		

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

Schedule 9

Fiscal Year	Revenue Bonds	Public Works Trust Fund & State Revolving Fund Loans	Total Outstanding Debt	Per Account*	Percentage of Personal Income
2008	30,830,000	11,222,757	42,052,757	606.07	1.48%
2009	23,885,000	10,496,631	34,381,631	491.30	1.25%
2010	74,190,000	17,884,677	92,074,677	1,298.03	3.30%
2011	71,360,000	18,681,457	90,041,457	1,251.22	3.03%
2012	68,450,000	17,511,708	85,961,708	1,126.08	2.63%
2013	90,460,000	16,726,487	107,186,487	1,343.49	3.13%
2014	87,065,000	17,758,410	104,823,410	1,292.84	2.88%
2015	83,095,000	16,840,381	99,935,381	1,224.26	2.48%
2016	79,270,000	15,676,175	94,946,175	1,146.18	2.24%
2017	75,300,000	11,853,680	87,153,680	1,014.47	1.92%

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

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

Schedule 10

Fiscal Year	Change in Net Position	Adjustments to (from) Change in Net Position				Available for Debt Service	Debt Service**	Debt Service Coverage Ratio
		Depreciation	Interest Expense	Debt Discount Amortization	Contributed Capital Systems			
2008	21,829,247	7,143,779	1,425,794	44,543	(12,548,990)	17,894,373	4,263,979	4.20
2009	8,114,775	7,728,532	1,381,166	28,303	(3,112,892)	14,139,884	1,826,995	7.74
2010	13,354,301	8,579,845	3,300,055	(42,715)	(6,174,091)	19,017,395	5,811,217	3.27
2011	2,444,008	12,490,397	3,683,739	(43,242)	(4,168,091)	14,406,811	6,146,373	2.34
2012	7,132,366	11,776,670	3,583,428	(43,242)	(5,057,019)	17,392,203	6,756,259	2.57
2013	8,760,462	12,821,213	3,778,276	(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	9,292,826	2.79

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

** Debt Service includes all bonds and outstanding loans (Public Works Trust Fund and State Revolving Fund), but excludes Build America Bonds interest payments from the Federal Government of \$698,365, \$860,998, \$860,998, \$792,549, \$798,576, \$800,298, \$802,020, and \$802,881 in 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017 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
2008	696,600	324,320	69,386	64,289	41,073	7.4%
2009	704,300	328,285	69,981	63,297	39,302	10.9%
2010	713,335	302,292	70,934	62,034	39,375	10.2%
2011	717,000	304,435	71,963	62,687	41,336	8.2%
2012	722,900	308,445	76,337	64,033	42,818	6.1%
2013	730,500	312,500	79,782	64,391	42,916	5.3%
2014	741,000	320,335	81,080	68,637	44,967	4.4%
2015	757,600	330,260	81,629	75,292	49,327	4.7%
2016	772,860	338,595	82,837	77,985	51,091	3.9%
2017	789,400	349,800	85,910	80,579	52,791	4.0%

* 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	2017			2008		
		Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Boeing	Aircraft Manufacturing	1	34,500	8.5%	1	35,000	9.9%
Providence Regional Medical Center	Medical Services	2	4,775	1.2%	2	3,220	0.9%
Premera Blue Cross	Health Insurer	3	2,600	0.6%	3	3,200	0.9%
Walmart	Retail - Grocery	4	2,312	0.6%	-	-	-
Everett Clinic	Medical Services	5	2,255	0.6%	8	1,400	0.4%
Philips Medical Systems	Ultrasound Technology	6	2,000	0.5%	5	1,600	0.5%
Swedish Medical Center - Edmonds	Health Care	7	1,850	0.5%	-	-	-
Albertson's / Safeway (21 locations)	Retail - Grocery	8	1,500	0.4%	-	-	-
Fred Meyer / QFC (18 locations)	Retail - Grocery	9	1,350	0.3%	-	-	-
Fluke Corp. (Danaher)	Electronic Testing Equipment	10	1,200	-	10	1,000	0.3%
Rinker Materials Northwest	Construction Materials	-	-	-	9	1,200	0.3%
Verizon Northwest	Telecommunications	-	-	-	6	1,500	0.4%
Zumiez	Apparel	-	-	-	4	2,400	0.7%
Aviation Technical Services	Aircraft Repair & Maintenance	-	-	-	7	1,400	0.4%
Total			54,342	13.0%		51,920	14.7%
	Total County Employment (Private + Public)		407,257			353,595	

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

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

Schedule 13

Employer	2017			2008		
	Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
The Tulalip Tribes	1	3,200	0.8%	-	-	-
Naval Station Everett	2	2,987	0.7%	1	6,000	1.7%
Washington State (includes colleges)	3	2,950	0.7%	2	3,000	0.8%
Snohomish County Government	4	2,617	0.6%	3	2,700	0.8%
Edmonds School District	5	2,605	0.6%	5	1,400	0.4%
Everett School District	6	2,195	0.5%	4	1,770	0.5%
U.S. Federal Government	7	2,000	0.5%	-	-	-
Mukilteo School District	8	1,755	0.4%	-	-	-
Edmonds Community College	9	1,516	0.4%	-	-	-
Marysville School District	10	1,341	0.3%	6	1,270	0.4%
City of Everett	-	-	-	8	1,200	0.3%
Monroe Correctional Complex	-	-	-	7	1,250	0.4%
Stevens Healthcare	-	-	-	9	1,200	0.3%
Snohomish County PUD	-	-	-	10	900	0.3%
Total		19,966	4.9%		20,690	5.9%
Total County Employment (Private + Public)		407,257			353,595	

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

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

Schedule 14

Side Sewer Applications	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total Side Sewers Inspected	1,436	974	857	888	877	879	840	779	601	892
Increase/Decrease from Prior Year	47%	14%	-3%	1%	0%	5%	8%	30%	-33%	

Water Meter Applications by size	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
5/8 x 3/4"	993	816	783	774	726	836	879	767	693	773
3/4" x 3/4"	138	46	25	19	17	19	14	9	0	0
1"	299	105	43	98	34	39	29	25	23	30
1 1/2"	6	12	10	15	9	13	11	12	11	18
2"	24	63	25	68	48	42	21	13	9	27
3"	0	3	0	0	1	0	1	4	3	0
4"	3	16	2	12	3	3	5	4	7	8
6"	4	8	4	3	3	1	5	12	3	3
8"	0	1	0	3	1	2	2	0	3	0
10"	0	0	0	0	0	0	1	0	0	0
Total	1,467	1,070	892	992	842	955	968	846	752	859
Increase/Decrease from Prior Year	37%	20%	-10%	18%	-12%	-1%	14%	13%	-12%	

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

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

Schedule 15

Fiscal Year	Commissioners	Administrative Services	Engineering & Development Services	Capital Improvements	Finance	Maintenance & Operations	Total
2008	5	9	20	-	13	64	111
2009	5	9	17	-	13	66	110
2010	5	9	18	-	13	65	110
2011	5	9	19	-	13	69	115
2012	5	9	12	7	13	65	111
2013	5	9	12	7	14	72	119
2014	5	11	12	9	13	79	129
2015	5	10	22	-	13	73	123
2016	5	12	22	-	14	84	137
2017	5	12	22	-	14	85	138

Notes:

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 Service

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)
2008	26.4	47.8	July 16	1.81	8,163.9
2009	28.0	51.5	July 30	1.84	8,646.6
2010	25.7	44.4	July 26	1.73	7,739.4
2011	25.5	39.8	September 11	1.56	7,628.0
2012	26.8	40.8	August 17	1.52	8,069.5
2013	27.5	44.6	August 7	1.62	8,377.5
2014	27.2	46.6	July 12	1.71	8,404.6
2015	27.9	51.4	July 7	1.84	8,951.1
2016	26.6	44.0	August 19	1.65	8,917.8
2017	27.7	49.7	August 11	1.79	9,209.9
Average	26.9	46.1	July 31	1.7	8,410.8

mgd = million gallons per day
 MG = million gallons

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

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

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

Schedule 17

WATER	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Miles of Water Lines	673	665	657	649	642	630	626	618	613	609
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	4	4	4	4	4
Total Water Purchases (mg)	9,199	8,918	8,951	8,405	8,378	8,070	7,628	7,739	8,647	8,164
WASTEWATER	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Miles of Wastewater Lines	474	466	459	451	444	439	436	431	426	422
Number of Lift Stations	12	12	12	10	13	12	12	12	12	12
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (mgd)	4	4	4	4	4	3	3	3	3	3
Total Wastewater Treated (mg)	813	956	799	800	796	815	781	792	745	748