



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Alderwood Water and Wastewater District

For the period January 1, 2020 through December 31, 2020

Published November 4, 2021

Report No. 1029304



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

November 4, 2021

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

Report on Financial Statements

Please find attached our report on the Alderwood Water and Wastewater District's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

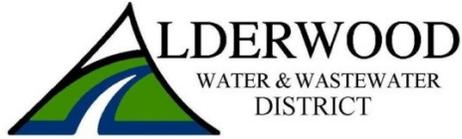
Pat McCarthy, State Auditor
Olympia, WA

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**Alderwood Water and Wastewater District
January 1, 2020 through December 31, 2020**

This schedule presents the status of findings reported in prior audit periods.

Audit Period: January 1, 2019 through December 31, 2019	Report Ref. No.: 49058	Finding Ref. No.: 2019-001
Finding Caption: The District did not have adequate controls over financial statement preparation in the prior period to detect and prevent misstatements.		
Background: While evaluating prior period recommendations, the District performed an in-depth review of its capital asset balances and identified errors that occurred when the assets were originally recorded and not identified by the controls in place at the time. The District reported a prior period adjustment to correct the over reported ending net position by about \$13.95 million.		
Status of Corrective Action: (check one) <input checked="" type="checkbox"/> Fully Corrected <input type="checkbox"/> Partially Corrected <input type="checkbox"/> Not Corrected <input type="checkbox"/> Finding is considered no longer valid		
Corrective Action Taken: <i>To avoid similar errors in the future, responsible individuals will be trained when there is a change in accounting policy or a construction project does not result in a District asset. It is important to note that these errors were self-identified and corrected by the District and were not detected as a result of current or prior SAO audit procedures.</i>		

INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Alderwood Water and Wastewater District January 1, 2020 through December 31, 2020

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

We have audited, 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, the financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 25, 2021.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy, State Auditor

Olympia, WA

October 25, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Alderwood Water and Wastewater District January 1, 2020 through December 31, 2020

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 10.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alderwood Water and Wastewater District, as of December 31, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, sweeping initial "P".

Pat McCarthy, State Auditor

Olympia, WA

October 25, 2021

FINANCIAL SECTION

Alderwood Water and Wastewater District January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2020

Statement of Revenues, Expenses and Changes in Net Position – 2020

Statement of Cash Flows – 2020

Notes to Financial Statements – 2020

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Proportionate Share of Net Pension Liability – PERS 1, PERS 2/3 – 2020

Schedule of Employer Contributions – PERS 1, PERS 2/3 – 2020

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

INTRODUCTION

Alderwood Water & Wastewater District (the District) was founded in 1931 and provides water and wastewater service to customers residing within the District boundaries.

The District has the largest service area for a water and wastewater district in the State of Washington, serving a population of over 250,000 retail and wholesale customers. The District service area is approximately 44 square miles and includes unincorporated areas and portions of the cities of Bothell, Lynnwood, Mountlake Terrace, Mill Creek, Mukilteo, and Brier.

Our mission is to provide clean, reliable water and wastewater services for a healthy community.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of management's discussion and analysis presents our review of the District's financial position as of December 31, 2020 and our financial performance for the year then ended. Please read these comments in conjunction with the financial statements, notes to the financial statements, and required supplementary information which follows this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include statement of net position, statement of revenues, expenses, and changes in fund net position, statement of cash flows, and notes to the financial statements.

The statement of net position presents total assets and deferred outflows of resources and total liabilities and deferred inflows of resources with the difference between the two totals reported as net position. This statement provides information about the nature and amounts of investments in resources (assets), consumption of resources that are applicable to future periods (deferred outflows), obligations to District creditors (liabilities) and the acquisition of resources that are applicable to a future reporting period (deferred inflows). It provides a basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in fund net position present the results of the District's business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, and to evaluate our profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

CONDENSED STATEMENTS OF NET POSITION AT DECEMBER 31

	2020	Restated 2019
Capital Assets	\$ 511,353,449	\$ 475,397,120
Other Assets	138,959,261	120,473,491
Total Assets	<u>650,312,710</u>	<u>595,870,611</u>
Deferred Outflows of Resources	<u>3,332,521</u>	<u>1,233,966</u>
Long-Term Liabilities	101,327,844	84,097,465
Other Liabilities	16,513,567	15,765,295
Total Liabilities	<u>117,841,411</u>	<u>99,862,760</u>
Deferred Inflows of Resources	<u>1,202,566</u>	<u>2,380,741</u>
Net Investment in Capital Assets	433,124,930	390,748,851
Restricted Amounts	5,442,475	7,432,500
Unrestricted Amounts	<u>96,033,849</u>	<u>96,679,725</u>
Total Net Position	<u><u>\$ 534,601,254</u></u>	<u><u>\$ 494,861,076</u></u>

ANALYSIS OF THE STATEMENT OF NET POSITION

- Increase in Other Assets mainly due to unspent bond proceeds.
- Capital assets consist of land; construction in progress; plant; distribution and collection systems; machinery and equipment; and accumulated depreciation. The \$34.5 million increase in net capital assets is primarily due to assets contributed by developers through system extensions in the amount of \$40 million less retirements of wastewater equipment retirements.
- Changes in long-term liabilities reflect the issuance of revenue and revenue refunding bonds during 2020.

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION FOR THE YEAR ENDED DECEMBER 31

	<u>2020</u>	<u>Restated 2019</u>
Water Charges for Services	\$ 39,939,177	\$ 39,152,298
Wastewater Charges for Services	52,653,440	49,401,108
Other Charges for Services	1,030,931	1,015,013
Total Operating Revenues	<u>93,623,548</u>	<u>89,568,419</u>
Personnel Services	16,927,113	16,526,776
Supplies and Services	12,005,359	12,625,673
Purchased Water	16,250,620	17,701,255
Purchased Wastewater	29,527,155	29,535,669
Depreciation	16,667,409	15,381,489
Taxes	1,921,240	1,728,914
Total Operating Expenses	<u>93,298,896</u>	<u>93,499,776</u>
Operating Income (Loss)	324,652	(3,931,357)
Nonoperating Revenues (Expenses):		
Investment Income	2,268,557	4,014,914
Interest on Assessments	1,814	-
Rental Income	248,558	136,923
Miscellaneous	337,671	53,731
Net Loss on Disposal of Assets	(4,977,489)	(231,329)
Interest and Amortization on Long-Term Debt	(3,285,567)	(3,691,494)
Bond Issuance Costs	(806,257)	-
Total Nonoperating Revenues (Expenses)	<u>(6,212,713)</u>	<u>282,745</u>
Loss Before Capital Contributions	(5,888,061)	(3,648,612)
Capital Contributions	<u>45,628,239</u>	<u>40,901,439</u>
Increase in Net Position	39,740,178	37,252,827
Net Position - Beginning of Year	497,478,508	472,456,551
Restatement - Prior Period Adjustment	<u>(2,617,432)</u>	<u>(14,848,302)</u>
Net position, January 1, as Restated	<u>494,861,076</u>	<u>457,608,249</u>
Net Position, December 31	<u>\$ 534,601,254</u>	<u>\$ 494,861,076</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

ANALYSIS OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

- Total revenue increased by 4.5% in 2020, this is due to rate increases.
- There was a 2.9% increase in operating expenses attributable to increased rates in both purchased water and purchased wastewater treatment.
- There was a 131.2% increase in nonoperating expenses mainly due to losses on the early retirement of wastewater treatment equipment.
- Capital contributions are general facility charges (GFC) revenues and developer-contributed assets. These assets are donated to the District once the new development is complete and approved by the District. In 2020, contributed systems included \$40 million in depreciable assets such as water and wastewater mains.

FINANCIAL HIGHLIGHTS

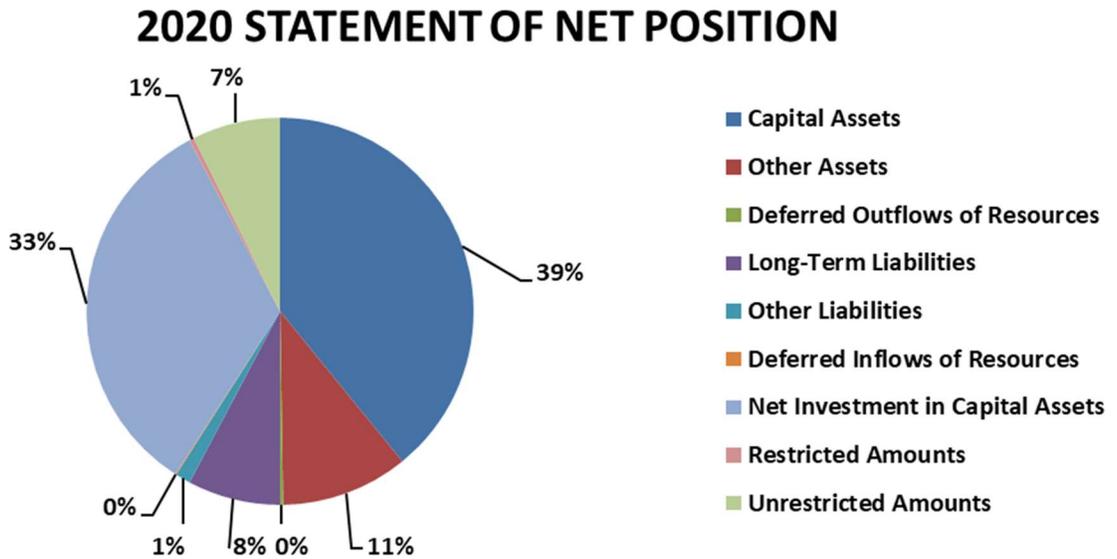
- For the year ending December 31, 2020, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$535 million. Of this amount, 18.0% or \$96 million is unrestricted net position and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets, \$433.1 million or 81.0%, and restricted for debt service payments and reserves, \$5.4 million or 1.0%.
- As of the end of 2020, the District's total net position increased by \$39.7 million or 8.0% from the prior year.

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

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.

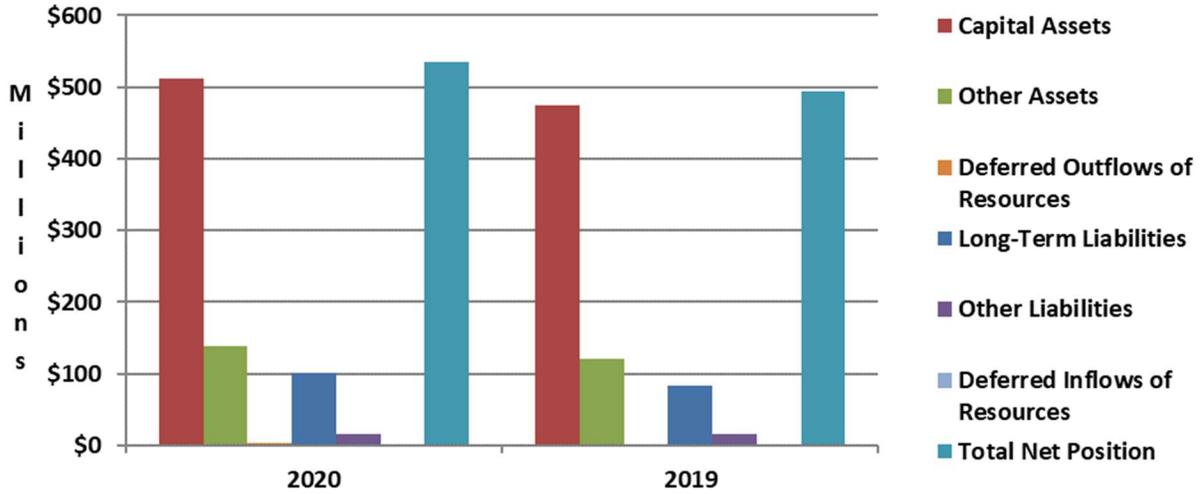
The following charts indicate the components of financial position:



**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

FINANCIAL POSITION (CONTINUED)

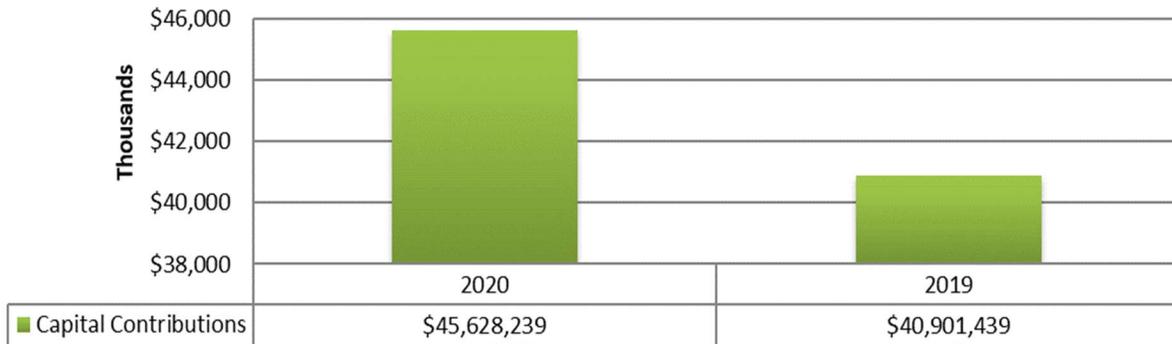
COMPARATIVE STATEMENT OF NET POSITION



CAPITAL CONTRIBUTIONS

The following chart indicates capital contributions over the last two years:

CAPITAL CONTRIBUTIONS



These contributions are a result of continuing growth in the number of District customers. They include donated systems totaling \$40,037,495 and \$35,001,835 for the years ended December 31, 2020 and 2019, respectively. The activity in capital contributions in 2020 and 2019 was consistent with the business climate, as construction activity remained robust during those years.

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

CAPITAL ASSETS

	2020	Restated 2019	Increase (Decrease)	% Change
Land	\$ 5,594,790	\$ 1,041,092	\$ 4,553,698	437.4%
Construction in Progress	7,474,910	27,272,593	(19,797,683)	-72.6%
Total Assets Not Being Depreciated	<u>13,069,700</u>	<u>28,313,685</u>	<u>(15,243,985)</u>	-53.8%
Plant	189,595,056	170,170,895	19,424,161	11.4%
Distribution and Collection Systems	476,130,681	435,131,129	40,999,552	9.4%
Machinery and Equipment	32,554,295	28,636,797	3,917,498	13.7%
Total Assets Being Depreciated	<u>698,280,032</u>	<u>633,938,821</u>	<u>64,341,211</u>	10.1%
Less Accumulated Depreciation	<u>(199,996,283)</u>	<u>(186,855,386)</u>	<u>(13,140,897)</u>	7.0%
Total Capital Assets	<u>\$ 511,353,449</u>	<u>\$ 475,397,120</u>	<u>\$ 35,956,329</u>	7.6%

ANALYSIS OF CHANGES IN CAPITAL ASSETS

Capital assets being depreciated increased \$64.3 million from 2019 to 2020. This was mostly made up of:

- \$41 million net increase to distribution and collection systems. The majority of this is from developer contributions.
- Construction-in-progress decreased \$19.7 million. This is mainly due to the completion of the Membrane Replacement Project at the Wastewater Treatment Facility with costs totaling \$15 million.
- Additional information about asset depreciation and other construction-in-progress capital projects can be found in Notes 1, 4, and 5.
- During a review of construction in progress, District accounting staff discovered that eight of the projects would not result in assets for the District. These costs were removed from construction in progress and a prior period adjustment was made in the amount of \$2.6 million.

**ALDERWOOD WATER & WASTEWATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

LONG-TERM DEBT

At the end of the current fiscal year, the District had total long-term debt outstanding of \$91.5 million; the net increase of \$7.6 million is a result of new borrowings in excess of principal payments made in 2020.

The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. (Moody's) has assigned a rating of "Aa2". In October 2020, S&P affirmed its "AA+" rating for the District and Moody's affirmed its "Aa2" rating. Additional detailed information about the District's long-term debt can be found in Note 6 to the financial statements.

	2020	2019
Public Works Trust Fund Loans	\$ 2,822,624	\$ 3,388,503
State Revolving Fund Loans	12,697,198	13,593,082
Revenue Bonds	76,005,000	66,895,000
Total	\$ 91,524,822	\$ 83,876,585

See notes 4, 5, 6, and 7 in the financial statements for detail activity on capital assets and long-term debt.

On November 12, 2020, the District issued \$74,200,000 of Water and Sewer Revenue and Revenue Refunding Bonds, Series 2020A (\$51,060,000) and Series 2020B (\$23,140,000). Of the \$74,200,000 issued, \$51,060,000 of the bonds were used to refund \$44,605,000 of outstanding 2010 bonds and \$23,140,000 of the bonds were used to advance refund \$19,940,000 of outstanding 2013 bonds. See Note 8 in the financial statements for more details.

ADDITIONAL COMMENTS

The District is dependent on the City of Everett for wholesale water and other governments for treatment of a portion of the wastewater collected by the District. The cost for this product and service charged to the District continues to increase. The District intends to adjust rates to compensate for increases in its direct costs.

REQUESTS FOR INFORMATION

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2020**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS

Unrestricted:

Cash and Cash Equivalents	\$ 19,282,358
Investments	36,641,643
Receivables, Net	14,170,837
Capacity Charge Receivable - Current Portion	184,641
Interest Receivable	326,721
Inventory	886,795
Prepaid Expenses	766,547
Total Unrestricted	<u>72,259,542</u>

Restricted:

Cash Equivalents	972,236
Interest Receivable	65,028
Assessments Receivable - Current Portion	32,772
Total Restricted	<u>1,070,036</u>

Total Current Assets 73,329,578

NONCURRENT ASSETS

Unrestricted:

Investments	38,112,313
Capacity Charge Receivable, Less Current Portion	867,619
Deposits with Fiscal Agent/Trustee	300,207
	<u>39,280,139</u>

Restricted:

Investments	26,323,214
Assessments Receivable, Less Current Portion	26,330
Total Restricted	<u>26,349,544</u>

Capital Assets Not Being Depreciated:

Land	5,594,790
Construction in Progress	7,474,910

Capital Assets Being Depreciated:

Plant	189,595,056
Distribution and Collection Systems	476,130,681
Machinery and Equipment	32,554,295
Less: Accumulated Depreciation	<u>(199,996,283)</u>
Net Capital Assets	<u>511,353,449</u>

Total Noncurrent Assets 576,983,132

Total Assets 650,312,710

DEFERRED OUTFLOWS OF RESOURCES

Deferred Loss on Refunding of Debt	1,862,279
Deferred Outflows Related to Pensions	1,470,242
Total Deferred Outflows of Resources	<u>3,332,521</u>

Total Assets and Deferred Outflows of Resources \$ 653,645,231

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2020**

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION**

CURRENT LIABILITIES

Payable from Unrestricted Assets:	
Accounts Payable	\$ 6,970,203
Accrued Salaries and Benefits	547,560
Compensated Absences	411,876
Customer Deposits	2,402,763
Accrued Interest	478,591
Long-Term Debt - Current Maturities	5,641,384
Total Payable from Unrestricted Assets	16,452,377
Payable from Restricted Assets:	
Accounts Payable	61,190
Total Payable from Restricted Assets	61,190
Total Current Liabilities	16,513,567

NONCURRENT LIABILITIES

Long-Term Debt, Net of Current Maturities	95,794,184
Compensated Absences	1,235,630
Net Pension Liability	4,298,030
Total Noncurrent Liabilities	101,327,844
Total Liabilities	117,841,411

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows Related to Pensions	1,202,566
Total Liabilities and Deferred Inflows of Resources	119,043,977

NET POSITION

Net Investment in Capital Assets	433,124,930
Restricted for Debt Service	5,442,475
Unrestricted	96,033,849
Total Net Position	534,601,254
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 653,645,231

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2020**

OPERATING REVENUES

Water Charges for Services	\$ 39,939,177
Wastewater Charges for Services	52,653,440
Other Charges for Services	1,030,931
Total Operating Revenues	<u>93,623,548</u>

OPERATING EXPENSES

Personnel Services	16,927,113
Supplies and Services	12,005,359
Purchased Water	16,250,620
Purchased Wastewater	29,527,155
Depreciation	16,667,409
Taxes	1,921,240
Total Operating Expenses	<u>93,298,896</u>

OPERATING INCOME

324,652

NONOPERATING REVENUES (EXPENSES)

Investment Income	2,268,557
Interest on Assessments	1,814
Rental Income	248,558
Miscellaneous	337,671
Net Loss on Disposal of Assets	(4,977,489)
Interest and Amortization on Long-Term Debt	(3,285,567)
Bond Issuance Costs	(806,257)
Total Nonoperating Revenues (Expenses)	<u>(6,212,713)</u>

LOSS BEFORE CAPITAL CONTRIBUTIONS

(5,888,061)

Capital Contributions - General Facility Charges	5,590,744
Capital Contributions - Developers	<u>40,037,495</u>

CHANGE IN NET POSITION

39,740,178

Net Position - Beginning of Year	497,478,508
Restatement - Prior Period Adjustment	(2,617,432)
Net position, January 1, as Restated	<u>494,861,076</u>

NET POSITION - END OF YEAR

\$ 534,601,254

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$92,866,137
Cash Paid to Vendors	(58,210,018)
Cash Paid to and for Employees and Commissioners	(19,350,912)
Net Cash Provided by Operating Activities	15,305,207
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Contributions	5,590,744
Interest Received on Assessments	1,814
Collections on ULID Assessments	8,268
Proceeds from Sale of Assets	122,426
Proceeds from Issuance of Debt	23,059,915
Payment to Escrow Account to Refund Bonds, Net of Amount Representing Interest	(8,141,686)
Principal Paid on Debt	(2,006,763)
Interest Paid on Long-Term Debt	(1,972,876)
Expenditures for Plant in Service and Construction	(17,115,489)
Other Capital Related Receipts	586,199
Net Cash Provided by Capital and Related Financing Activities	132,552
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	35,704,502
Purchase of Investments	(49,718,420)
Interest Received on Investments	2,223,884
Net Cash Used by Investing Activities	(11,790,034)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	
	3,647,725
Cash and Cash Equivalents - Beginning of Year	16,606,869
CASH AND CASH EQUIVALENTS - END OF YEAR	\$20,254,594

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 324,652
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	16,667,409
(Increase) Decrease in Assets and Deferred	
Outflows of Resources:	
Receivables, Net	(711,785)
Inventory	63,313
Prepaid Expenses	(36,503)
Capacity Charge Receivable	(102,717)
Deferred Outflows Related to Pensions	(236,276)
Increase (Decrease) in Liabilities and Deferred	
Inflows of Resources:	
Accounts Payable and Deposits	162,442
Accrued Salaries and Compensated Absences	320,503
Net Pension Liability	32,344
Deferred Inflows Related to Pensions	(1,178,175)
Net Cash Provided by Operating Activities	\$15,305,207

**SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NONCASH
FINANCING AND INVESTING ACTIVITIES**

Utility Plant Donations Received	\$40,037,495
Increase in Fair Value of Investments	\$ 138,653
Revenue Refunding Bonds Issued in Exchange for Deposit to Refunding Escrow, Interest to the Refunding Date, and Bond Issue Costs	\$61,160,851

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES

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

Description of Business, Nature of Operations, and Reporting Entity

Alderwood Water and Wastewater District (the District), a municipal corporation organized under the laws of the state of Washington, was incorporated in 1931 and created for the purpose of constructing, maintaining, and operating water and wastewater systems within its boundaries. The District is governed by an elected five-member board and has no component units.

Basis of Presentation and Accounting

These financial statements are prepared utilizing the economic resources measurement focus and full accrual basis of accounting. All activities of the District are accounted for within a single proprietary (enterprise) fund.

Newly Implemented Accounting Standard

The District implemented GASB 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* which improves the consistency in the information that is disclosed in the notes related to debt, including direct borrowings and direct placements. The implementation of this standard had no impact on the statement of net position or net income and had a minimal impact in the debt related footnotes.

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value except for investments in the Washington State Local Government Investment Pool which are reported at amortized cost and classified as cash equivalents. Additional detailed information on investments can be found in Note 2.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables, Net

The District utilizes the allowance method of accounting for doubtful accounts. Uncollectible accounts are written off to expense; however, few accounts are uncollectible because of the lien, foreclosure, and water shutoff rights provided by RCW 57.08.081. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

Unbilled utility service receivables totaling \$8,421,832 were recorded and are reflected in Receivables, Net at year-end.

Inventory and Prepaid Expenses

Inventory consists of material and supplies available for future use and is stated at the lower of cost, using the first in first out (FIFO) method or net realizable value. The cost of inventory is recorded as expense when consumed, rather than when purchased.

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

Capacity Charge Receivables

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., mains, valves, and similar items), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded using a unit cost method.

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

The costs for normal maintenance and repairs are not capitalized.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

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

<u>Capital Asset Classes</u>	<u>Useful Life</u>
Building	40 - 50 Years
Building Improvements	25 Years
Vehicles	7 Years
Equipment	3 - 10 Years
Reservoirs	75 Years
Water Pipes	75 Years
Wastewater Pipes	50 Years

Additional detailed information on capital assets can be found in Note 4.

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.

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 outflows of resources consist of losses on refunding of debt, contributions to pension plans subsequent to the June 30 measurement date and the District's proportionate share of deferred outflows related to those plans. The deferred loss on refunding of debt results from a difference in the carrying value of refunded debt and its reacquisition price. Losses on refunding of debt are amortized by the interest method over the life of the refunded or refunding debt, whichever is shorter. Pension plan contributions subsequent to the measurement date are recognized as a reduction of the net pension liability in the following year.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

Deferred outflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred outflows related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of the District's proportionate share of deferred inflows related to pension plans. Deferred inflows of resources related to pensions for the net difference between projected and actual earnings on plan investments are amortized over a closed five-year period. The remaining deferred inflows of resources related to pensions are amortized over the average expected service lives of all employees provided with pensions through each plan.

Compensated Absences

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

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

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

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

Long-Term Debt

Long-term debt is reported net of premiums and discounts. Premiums and discounts on long-term debt are amortized by the interest method over the period the related debt is outstanding.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, and capital-related deferred outflows of resources reduced by the outstanding balances of any capital-related borrowings and deferred inflows of resources. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of assets restricted by external creditors (such as through debt covenants), grantors, contributors or others reduced by related liabilities and deferred inflows of resources.

Unrestricted Net Position – This component of net position consists of all net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net resources are available based on management’s discretion.

Revenues and Expenses

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principle ongoing operations. The principal operating revenues of the District are charges to customers for water and wastewater services. Operating expenses for the District include the cost of water from the wholesale provider, wastewater treatment costs, administrative services, operating and maintenance costs, depreciation on capital assets and taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Other Charges for Services

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

Capital Contributions

ULID assessments and contributions in aid of construction from property owners are recorded as capital contribution revenue.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 1: DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS, AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

Cash on hand at December 31, 2020 was \$3,200 and the bank balance was \$4,485,204.

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the District would not be able to recover deposits. The District's 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.

Investments

All surplus cash is invested in accordance with an investment policy approved by the District's Board of Commissioners. State law defines eligible investments to only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.250, and 43.84.080).

The District is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Municipal Debt Obligations, Corporate Notes, Commercial Paper, Certificates of Deposit with qualified public depositories within statutory limits as promulgated by the Washington State PDPC at the time of investment, Bankers Acceptances, Local Government Investment Pool managed by the Washington State Treasurer's office, and in other investments authorized by law.

The State of Washington Local Government Investment Pool is the only government-sponsored Pool approved for investment of funds.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

Investments Measured at Amortized Cost

Local Government Investment Pool	<u>\$ 15,766,190</u>
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Investments in Local Government Investment Pool

The District is a participant in the Local Government Investment Pool (LGIP). The LGIP was authorized by Chapter 294, Laws of 1986, and is managed and operated by the Washington Office of the State Treasurer (OST). The State Finance Committee is the administrator of the statute that created the pool and adopts rules. The OST is responsible for establishing the investment policy for the LGIP. The policy is reviewed annually, and proposed changes are reviewed by the LGIP advisory committee.

Investment in the LGIP is stated at share price, which is equal to amortized cost, and approximates fair value. The LGIP was not rated by a nationally recognized statistical rating organization (NRSRO). The LGIP is invested in a manner that meets the maturity, quality, diversity, and liquidity requirements of Governmental Accounting Standards Board Statement 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share value. 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, or online at www.tre.wa.gov.

As of December 31, 2020, the District held \$15,766,190 in LGIP investments which includes unspent bond proceeds of \$971,236.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

Investments Measured at Fair Value

The District measures and reports investments at fair value using the valuation input hierarchy established by accounting principles generally accepted in the United States of America, as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes assets and liabilities valued at quoted prices adjusted for legal or contractual restrictions specific to the assets or liabilities.

Level 3: Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the District's own assumptions about the assumptions market participants would use in pricing the asset or liability.

As of December 31, 2020, the District had the following investments measured at fair value on a recurring basis:

Investment Type	Fair Value	Fair Value Measurement Using		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Notes	\$ 25,287,505	\$ 25,287,505	\$ -	\$ -
Government Sponsored Enterprises	75,186,353	-	75,186,353	-
Municipal Bonds	603,312	-	603,312	-
Total	\$ 101,077,170	\$ 25,287,505	\$ 75,789,665	\$ -

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

All investments are subject to the following risks:

Interest Rate Risk

Interest rate risk is the risk that the District may face should interest rate variances affect the value of investments. As a means of limiting its exposure to fair value losses caused by a rise in interest rates, the District's policy limits investments in securities to those maturing no more than five years from the date of purchase and limits the average weighted maturity for the portfolio to two years. The portfolio weighted average maturity as of December 31, 2020 was 1.23 years.

The following schedule presents the investments and related maturities as of December 31, 2020:

Investment Type	Investment Maturities (in Years)		
	Fair Value	Less than 1	1 to 5
U.S. Treasury Notes	\$ 25,287,505	\$ 10,196,092	\$ 15,091,413
Government Sponsored Enterprises	75,186,353	26,445,551	48,740,802
Municipal Bonds	603,312	-	603,312
Total	\$ 101,077,170	\$ 36,641,643	\$ 64,435,527

Credit Risk

Credit risk is the chance that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy applies the prudent person standard; investments will be made with judgment and care, under circumstances then prevailing, which a person of prudence, discretion and intelligence would use in the management of their own affairs, not for speculation, but for investment purposes. All of the District's investments are held in organizations with a Moody's rating of Aaa, excluding investments with The Washington State Local Government Investment Pool which is unrated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's Investment Policy requires that all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by the District, an independent third-party financial institution, or the District's designated depository. DVP means that cash payments for securities are made at the same time as, or after, the delivery of the security. 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 2: DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The District's policy for concentration of credit risk is as follows:

Issuer Type	Percent of Total Portfolio Maximum	Per Issuer Constraints Maximum
U.S. Treasury Obligations	100%	None
U.S. Agency Primary Securities	100%	35%
U.S. Agency Secondary Securities	10%	5%
Supranational Agency Notes	10%	5%
Municipal Bonds	30%	5%
Corporate Notes	25% *	3% AA- or 2% A- *
Commercial Paper	25% *	3% AA- or 2% A- *
Certificates of Deposit	20%	10%
Bank Time Deposits/Savings	20%	10%
Banker's Acceptance	20%	5%
Local Government Investment Pool	100%	None

* Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

Investments in any one issuer that represent 5% or more of total investments are as follows:

Federal National Mortgage Association	\$ 7,671,143
Federal Home Loan Bank	8,769,103
Federal Farm Credit Bank	26,397,156
Federal Home Loan Mortgage Corporation	32,348,951

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 3: RESTRICTED ASSETS

In accordance with the bond resolutions and other agreements, restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses. Restricted assets at December 31, 2020 are as follows:

	Cash Equivalents	Investments	Interest Receivable	Assessment Receivable	Total
Current Restricted Assets:					
Revenue Bond Fund	\$ -	\$ -	\$ -	\$ 32,772	\$ 32,772
Revenue Bond Reserve Fund	-	-	23,514	-	23,514
Unspent Bond Proceeds	972,236	-	41,514	-	1,013,750
	<u>972,236</u>	<u>-</u>	<u>65,028</u>	<u>32,772</u>	<u>1,070,036</u>
Noncurrent Restricted Assets:					
Revenue Bond Fund		-	-	26,330	26,330
Revenue Bond Reserve Fund		5,380,011	-	-	5,380,011
Unspent Bond Proceeds	-	20,943,203	-	-	20,943,203
Total	<u>\$ 972,236</u>	<u>\$ 26,323,214</u>	<u>\$ 65,028</u>	<u>\$ 59,102</u>	<u>\$ 27,419,580</u>

Terms of the revenue bond issues require the District to establish and maintain principal and interest and reserve accounts. The principal and interest account accumulates funds for payment of bonds; principal and interest, and the reserve account is to provide security for bond holders. Per bond resolutions, ULID assessments are dedicated to the payment of debt service. The reserve account is to provide security for bond holders. The amount to be reserved is the lesser of the maximum annual debt service, 125% of average annual debt service or 10% of the proceeds of the bonds. The required reserve at December 31, 2020 was \$5,380,011 and was fully funded.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance - Beginning of Year	Increase	Decrease	Balance - End of Year
Capital Assets Not Being Depreciated:				
Land	\$ 1,041,092	\$ 4,553,698	\$ -	\$ 5,594,790
Construction in Progress	28,725,102	20,508,606	(41,758,798)	7,474,910
Total	<u>29,766,194</u>	<u>25,062,304</u>	<u>(41,758,798)</u>	<u>13,069,700</u>
Capital Assets Being Depreciated:				
Plant	170,170,895	26,857,300	(7,433,139)	189,595,056
Distribution and Collection Systems	435,131,129	41,105,946	(106,394)	476,130,681
Machinery and Equipment	28,636,797	5,004,391	(1,086,893)	32,554,295
Total	<u>633,938,821</u>	<u>72,967,637</u>	<u>(8,626,426)</u>	<u>698,280,032</u>
Accumulated Depreciation:				
Plant	(58,344,325)	(7,130,744)	2,855,802	(62,619,267)
Distribution and Collection Systems	(113,311,188)	(7,864,030)	27,387	(121,147,831)
Machinery and Equipment	(15,199,873)	(1,672,635)	643,323	(16,229,185)
Total	<u>(186,855,386)</u>	<u>(16,667,409)</u>	<u>3,526,512</u>	<u>(199,996,283)</u>
Net Capital Assets	<u>\$ 476,849,629</u>	<u>\$ 81,362,532</u>	<u>\$ (46,858,712)</u>	<u>\$ 511,353,449</u>

In 2019, the District recorded three City of Everett projects and five additional projects as construction in progress in error. This change in accounting resulted in a prior period adjustment to net position and beginning capital asset balances in the amount of \$(2,617,432).

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5: SIGNIFICANT CONSTRUCTION COMMITMENTS

The District is obligated under various contracts for construction in progress in the combined amount of \$3,469,325 of which \$2,505,973 has been expended as of December 31, 2020.

The District had the following significant construction projects in progress as of December 31, 2020. Project budgets include District staff labor:

Project Name	Expended to Date	Remaining Budget
PPWWTF Equalization Basin	\$ 107,231	\$ 12,020,844
Lift Station 16, 17, 18 Upgrade & Update	49,405	8,487,000
164th St SW Transmission Main Connection	974,416	8,214,000
Queensborough Sewer Rehab Project (NC-35(A))	241,750	4,664,000
180th Snohomish County Phase 2	208,595	3,152,280
2020 Sewer Relining Program	25,683	2,583,783
Harbor Point Exposed Pipe	24,247	2,314,500
Snohomish County North Creek Trail Phase 1	36,232	1,924,804
Valve Vaults, Air Vacs & Blowoff Upgrades on Transmission	156,633	1,818,000
PPWWTF 2021/2022 Improvements	94,492	1,147,000
	<u>\$ 1,918,684</u>	<u>\$ 46,326,211</u>

NOTE 6: LONG-TERM DEBT

Long-term debt outstanding at December 31, 2020 consisted of revenue and refunding bonds and direct borrowings as follows:

Description	
Revenue and Refunding Bonds:	
<i>2013 Revenue Bonds</i>	
\$25,000,000 issued in October 3, 2013 for construction, due serially through the year 2023, with interest payable semi-annually at 5.0 annual percentage rate.	\$ 1,805,000
<i>2020 Revenue and Refunding Bonds - Series A</i>	
\$51,060,000 issued November 12, 2020 for construction and refunding, due serially through the year 2039, with interest payable semi-annually at 2.00 to 5.00 annual percentage rate.	51,060,000
<i>2020 Refunding Bonds - Series B</i>	
\$23,140,000 issued November 12, 2020 for refunding, due serially through the year 2043, with interest payable semi-annually at 1.00 to 2.85 annual percentage rate.	<u>23,140,000</u>
Total Revenue and Refunding Bonds	<u>76,005,000</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6: LONG-TERM DEBT (CONTINUED)

Description	
Direct Borrowings:	
All issued for utility construction and secured by the revenue of the system.	
<i>Public Works Trust Fund Loans</i>	
<i>05-691-PRE-108 Wastewater Facility Upgrade</i>	
\$1,000,000 loan: Payable \$52,632 annually through the year 2025, plus interest at 0.5 annual percentage rate.	\$ 263,158
<i>05-691-PRE-126 Wastewater Facility Upgrade</i>	
\$1,000,000 loan: Payable \$53,363 annually through the year 2025, plus interest at 0.5 annual percentage rate.	266,813
<i>06-962-001 Wastewater Facility Upgrade</i>	
\$7,000,000 loan: Payable \$382,109 annually through the year 2026, plus interest at 0.5 annual percentage rate.	2,292,653
<i>Drinking Water State Revolving Fund Loans</i>	
<i>L0900006 Wastewater Facility Upgrade</i>	
\$9,308,953 loan: Payable \$614,289 semi-annually through February 2031, including interest at 2.7 annual percentage rate.	5,579,412
<i>DM-12-952-098 Water Pump Station & High Tank Upgrade</i>	
\$2,663,943 loan: Payable \$134,027 annually through the year 2034, including interest at 1.5 annual percentage rate.	1,876,379
<i>DM-13-952-125 660/520/340 Water Pressure Zones</i>	
\$5,858,044 loan: Payable \$308,318 annually through the year 2038, plus interest at 1.5 annual percentage rate.	5,241,407
	15,519,822
Total Long-Term Debt	91,524,822
Less: Current Maturities	(5,641,384)
Add: Unamortized Bond (Discounts) Premiums	9,910,746
Total	\$95,794,184

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6: LONG-TERM DEBT (CONTINUED)

Direct Borrowings

The State of Washington has a low-cost financing program that allows public entities to borrow funds to finance public works projects. This program is administered by the State of Washington Public Works Trust Fund (PWTF) Board. The State Revolving Fund program administered by the State of Washington also provides lower-cost financing to public projects that meet certain requirements.

In 2000, the District partially funded construction of improvements to the Northeast pressure zone with a PWTF loan. The final payment of this loan was made in 2020. A total of \$9,000,000 in PWTF loans were used to fund construction of the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005. \$7,000,000 of these funds were used for pre-construction design and planning activities. Each of these loans will be repaid over a period not to exceed 20 years at the interest rates stated above.

The District was granted a State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction of the liquid's facility as part of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$2,663,943 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the D-1 Transmission Main Project. The final draw on the loan was completed in 2018, resulting in a total of \$5,858,044 with the first payment beginning in 2019.

Revenue and Refunding Bonds

In February 2010, the District issued \$53 million in new Water and Sewer Revenue bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. These bonds were issued as Build America Bonds – direct payment and were split into Series A and Series B. Series A totaled \$3.675 million and has been paid in full. The District has contracted with the Bank of New York, Mellon, the current fiscal agent, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all the 2010 bond proceeds were fully drawn and expended.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6: LONG-TERM DEBT (CONTINUED)

Revenue and Refunding Bonds (Continued)

In November 2020, the District issued \$74.2 million in new Water and Sewer Revenue bonds to provide for a current refunding of the 2010 Revenue Bonds – Series B and a partial refunding of the 2013 Revenue Bonds. The proceeds will finance several capital projects including the Sewer Relining Program, the Picnic Point Wastewater Treatment Facility Equalization Basin, the Queensborough Sewer Rehabilitation and Upgrades to Lift Stations 16, 17 and 18. See Note 8 for refunding results.

Long-term debt service requirements to maturity are as follows:

Year Ending December 31,	Revenue and Refunding Bonds		Notes from Direct Borrowings		Total
	Principal	Interest	Principal	Interest	
2021	\$ 4,245,000	\$ 3,013,661	\$ 1,396,384	\$ 269,233	\$ 8,924,278
2022	4,580,000	2,664,255	1,409,122	247,420	8,900,797
2023	4,800,000	2,445,855	1,422,207	225,259	8,893,321
2024	5,030,000	2,216,655	1,435,650	202,740	8,885,045
2025	5,240,000	2,002,555	1,449,460	179,854	8,871,869
2026-2030	25,355,000	6,372,675	5,409,634	559,157	37,696,466
2031-2035	11,350,000	2,713,895	2,380,729	139,837	16,584,461
2036-2040	11,360,000	1,327,055	616,636	13,874	13,317,565
2041-2043	4,045,000	230,588	-	-	4,275,588
Total	\$ 76,005,000	\$ 22,987,194	\$ 15,519,822	\$ 1,837,374	\$ 116,349,390

All bond debt is secured by the District revenues. See Note 3 for restricted investment totals for debt service as of December 31, 2020. 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.

Arbitrage

The Tax Reform Act of 1986 requires the District to rebate the earnings on the investment of bond proceeds, in excess of their yield, to the federal government. Because positive arbitrage can be offset against negative arbitrage, the rebated amount fluctuates each year and may or may not be owing at the payment intervals. The District has no arbitrage liability at this time.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 7: CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended December 31, 2020 were as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Amounts Due Within One Year
Direct Borrowings:					
Public Works Trust					
Fund Loans	\$ 3,388,503	\$ -	\$ (565,879)	\$ 2,822,624	\$ 488,103
State Revolving Fund Loans	13,593,082	-	(895,884)	12,697,198	908,281
Revenue and Refunding Bonds	66,895,000	74,200,000	(65,090,000)	76,005,000	4,245,000
Bond Premium	771,684	10,020,766	(881,704)	9,910,746	-
Net Pension Liability	4,265,686	1,565,998	(1,533,654)	4,298,030	-
Compensated Absences	1,456,718	977,247	(786,458)	1,647,507	411,877
	<u>\$ 90,370,673</u>	<u>\$ 86,764,011</u>	<u>\$ (69,753,578)</u>	<u>\$ 107,381,105</u>	<u>\$ 6,053,261</u>

NOTE 8: REFUNDED BONDS

On November 12, 2020, the District issued \$74,200,000 of Water and Sewer Revenue and Revenue Refunding Bonds, Series 2020A (\$51,060,000) and Series 2020B (\$23,140,000). Of the \$74,200,000 issued, \$51,060,000 of the bonds with interest rates of 2.00% to 5.00% were used to provide a current refunding for \$44,605,000 of outstanding 2010 Series B Bonds interest rates of 4.60 to 5.55%. The net proceeds of refunding bonds and District payments to escrow, totaling \$45,620,989 including \$1,015,989 representing accrued interest to the refunding date, were used to purchase U.S. government securities and to provide the beginning escrow balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds in this fund at December 31, 2020 is \$-0-.

Of the \$74,200,000 issued, \$23,140,000 of the bonds with interest rates of 1.00% to 2.85% were used to advance refund \$19,940,000 of outstanding 2013 Water and Sewer Revenue Bonds with interest rates of 3.00% to 4.625%. The net proceeds of refunding bonds and District payments to escrow, totaling \$22,875,291 including \$391,514 representing accrued interest to the refunding date, were used to purchase U.S. government securities and to provide the beginning escrow balance. The cash and securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be extinguished and the liability for those bonds is not included in the accompanying financial statements. The principal amount of refunded bonds in this fund at December 31, 2020 is \$19,940,000.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 8: REFUNDED BONDS (CONTINUED)

Although the advance refunding resulted in an accounting loss of \$1,878,466 (which will be amortized over the shorter of the life of the refunded or refunding bonds), the District in effect reduced its aggregate debt service payments by \$11,001,310 through December 1, 2043, and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$7,816,130 from both refunds.

NOTE 9: PENSION PLAN

The following table represents the aggregate pension amounts for all plans as of and for the year ended December 31, 2020:

Aggregate Pension Amounts – All Plans	
Pension Liabilities	\$4,298,030
Deferred Outflows of Resources	\$1,470,281
Deferred Inflows of Resources	\$1,202,565
Pension Expense	\$ 239,663

State Sponsored Pension Plans

Substantially all of the District's 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

PERS Plan 1 - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% 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 5 years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and nonduty 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 5 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%. 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%. 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 2020 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January – August 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	6.00%
September – December 2020:		
PERS Plan 1	7.92%	6.00%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Total	12.97%	6.00%

PERS Plan 2/3 - provides retirement, disability, and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1% 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 5 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.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

PERS Plan 2/3 (Continued)

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 3% 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 5% for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and nonduty disability payments, a cost-of-living allowance (based on the CPI), capped at 3% 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 5 years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after 5 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% and escalate to 15% with a choice of 6 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 unfunded actuarially accrued liability (UAAL) and an administrative expense that is currently set at 0.18%. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Contributions (Continued)

The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January – August 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.86%	7.41%
September – December 2020:		
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

The District's actual PERS plan contributions were \$641,303 to PERS Plan 1 and \$980,505 to PERS Plan 2/3 for the year ended December 31, 2020. PERS Plan 1 contributions include \$26,790 for excess compensation.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2020 with a valuation date of June 30, 2019. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2013-2018 Experience Study* and the *2019 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2020. Plan liabilities were rolled forward from June 30, 2019, to June 30, 2020, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Mortality rates were developed using the Society of Actuaries' Pub. H-2020 mortality rates, which vary by member status, as the base table. The OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

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

- OSA updated its demographic assumptions based on the results of its latest demographic experience study. See OSA's 2013-2018 Demographic Experience Study at leg.wa.gov/osa.
- OSA updated the Early Retirement Factors and Joint-and-Survivor factors used in its model to match the ones implemented by DRS on October 1, 2020. These factors are used to value benefits for members who elect to retire early and for survivors of members that die prior to retirement.
- The valuation includes liabilities and assets for Plan 3 members purchasing Total Allocation Portfolio annuities when determining contribution rates and funded status.
- OSA changed its method of updating certain data items that change annually, including the public safety duty-related death lump sum and Washington state average wage. OSA set these values at 2018 and will project them into the future using assumptions until the next Demographic Experience Study in 2025. See leg.wa.gov/osa for more information on this method change.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.4 percent.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4 percent was used to determine the total liability.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.4% 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 (CMA's) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future 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, 2020, are summarized in the table below. The inflation component used to create the table is 2.2% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	20%	2.20%
Tangible Assets	7%	5.10%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	100%	

Sensitivity of the Net Pension Liability

The table below presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.4%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.4%) or 1-percentage point higher (8.4%) than the current rate.

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PERS 1	\$3,720,572	\$2,970,526	\$2,316,251
PERS 2/3	8,260,088	1,327,504	(4,381,482)

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.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

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

At December 31, 2020, the District reported a total pension liability of \$4,298,030 for its proportionate share of the net pension liabilities as follows (measured as of June 30, 2020):

	Liability (or Asset)
PERS 1	\$2,970,526
PERS 2/3	<u>1,327,504</u>
Total	<u>\$4,298,030</u>

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

	Proportionate Share 6/30/19	Proportionate Share 6/30/20	Change in Proportion
PERS 1	0.084818%	0.084138%	0.000680%
PERS 2/3	0.103376	0.103797	(0.000421)

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*.

The collective net pension liability (asset) was measured as of June 30, 2020, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2019, with update procedures used to roll forward the total pension liability to the measurement date.

Pension Expense

For the year ended December 31, 2020, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$120,416
PERS 2/3	<u>119,247</u>
Total	<u>\$239,663</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

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

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 1		
Differences Between Expected and Actual Experience	\$ -	\$ -
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	(16,539)
Changes of Assumptions	-	-
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of		
Contributions	-	-
Contributions Subsequent to the Measurement Date	304,973	-
Total	<u>\$304,973</u>	<u>\$(16,539)</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS Plan 2/3		
Differences Between Expected and Actual Experience	\$ 475,227	\$ (166,368)
Net Difference Between Projected and Actual		
Investment Earnings on Pension Plan Investments	-	(67,418)
Changes of Assumptions	18,907	(906,800)
Changes in Proportion and Differences Between		
Contributions and Proportionate Share of		
Contributions	178,455	(45,440)
Contributions Subsequent to the Measurement Date	492,719	-
Total	<u>\$1,165,308</u>	<u>\$(1,186,026)</u>
Total All Plans	<u>\$1,470,281</u>	<u>\$(1,202,565)</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 9: PENSION PLAN (CONTINUED)

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

Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

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

Year Ending December 31,	PERS Plan 1	PERS Plan 2/3
2021	\$(75,053)	\$(515,703)
2022	(2,361)	(96,536)
2023	22,901	58,726
2024	37,974	132,360
2025	-	(35,949)
Thereafter	-	(56,335)
Total	<u>\$(16,539)</u>	<u>\$(513,437)</u>

NOTE 10: DEFERRED COMPENSATION PLANS

The District offers its employees two deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plans assets are with Great West Life & Annuity Insurance Company and International City/County Managers Association Retirement Trust. The plans, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Effective January 1, 2020, the District will match 100% of eligible employee deferrals up to 3.5% of the participating employees' salaries. Employee deferrals totaled \$685,249 in 2020. District matching contributions totaled \$360,533 in 2020.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 11: RISK MANAGEMENT

Unemployment

The District is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the District. Below is an analysis of claims activity for the two-year period ended December 31, 2020:

	2019	2020
Liability - Beginning of Year	\$ 3,738	\$ 4,372
Claims Incurred	17,182	7,269
Claim Payments	(16,548)	(11,641)
Liability - End of Year	\$ 4,372	\$ -

Water and Sewer Risk Management Pool

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self- insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool’s fiscal year is November 1st through October 31st.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 11: RISK MANAGEMENT (CONTINUED)

Water and Sewer Risk Management Pool

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	\$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$50,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, \$10,000,000 dedicated to Sammamish Plateau)
Terrorism	\$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler & Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$25,000	\$25,000	Replacement Value Coverage
Liability:			
Commercial General Liability	\$25,000	\$300,000, subject to \$150,000 Corridor Deductible	\$15,000,000
Auto Liability	\$25,000	Same as above	\$15,000,000
Public Officials Errors and Omissions	\$25,000	Same as above	\$15,000,000
Employment Practices	\$25,000	Same as above	\$15,000,000
Other:			
Cyber Liability	\$5,000	N/A	\$2,000,000
Deadly Weapon/ Active Shooter	\$10,000	N/A	\$500,000
Public Officials Bonds	Various	N/A	Various
Crime	\$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 11: RISK MANAGEMENT (CONTINUED)

Water and Sewer Risk Management Pool

- 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 \$5,000 and where applicable the dollar amount of the business interruption loss during the policy's required eight hour waiting period.

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

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, 2021, written notice must be in possession of the Pool by April 30, 2021). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with various independent public adjusters.

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

In the past three years (2020, 2019, and 2018), there have been no claims, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 12: OTHER PARTIES

Clearview Water Supply Agency

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

CWSA purchases all of its water from the District at the District's cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all expenses based on metered water use and an agreed upon expense allocation formula. In order to ensure that revenues are sufficient to meet the expenses, monthly charges to the three members are equal to the monthly expenses.

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

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

Wholesale Customers

The District has interlocal agreements to sell wholesale water to the cities of Edmonds, Lynnwood, Mountlake Terrace, the Mukilteo Water & Wastewater District, and the Silver Lake Water & Sewer District. A portion of each payment from the wholesale customers is set aside by the District in a wholesale rate stabilization fund that can be used to mitigate future rate increases. This liability is currently at \$676,261.

**ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 13: LEASES

The District purchased five buildings in 2020 and leases space in the buildings not currently needed (excess capacity) by the District for its principal operations. Lease income is classified as nonoperating revenue. There are ten tenants with leases expiring on various dates through January 2025. Future rental income due to the District under noncancellable leases is as follows:

Year Ending December 31,	Amount
2021	\$ 300,075
2022	121,754
2023	124,439
2024	74,402
2025	1,581
	<u>\$ 622,251</u>

The cost and carrying amount of the leased assets as of December 31, 2020, are as follow:

Asset:	
Land	\$ 4,553,698
Buildings	3,448,239
Less: Accumulated Depreciation	<u>(34,743)</u>
Net Carrying Value	<u>\$ 7,967,194</u>

NOTE 14: PRIOR PERIOD ADJUSTMENT

Eight projects capitalized in construction in progress were identified as property of the City of Everett and five additional projects did not result in capital assets for the District. The effect of this error for the year ended December 31, 2019 was a decrease in the change of net position of \$2,617,432 as a result of an increase in operating expense of \$2,617,432. The cumulative impact of removing these projects from construction in progress at December 31, 2019 resulted in a \$2,617,432 reduction net position as of January 1, 2020.

**ALDERWOOD WATER & WASTEWATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30 (MEASUREMENT DATE)
LAST TEN FISCAL YEARS***

PERS 1

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.084138 %	\$ 2,970,526	\$ 12,350,697	24.05 %	68.64 %
2019	0.084818	3,261,553	11,503,864	28.35	67.12
2018	0.082100	3,666,614	10,611,754	34.55	63.22
2017	0.085174	4,041,573	9,983,247	40.48	61.24
2016	0.081201	4,360,876	9,383,256	46.48	57.03
2015	0.083423	4,363,799	9,264,779	47.10	59.10

Notes to Schedule:

* Information is presented only for those years for which information is available.

PERS 2/3

Year	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset)	Employer's Covered Payroll	Net Pension Liability (Asset) as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.103797 %	\$ 1,327,504	\$ 12,085,071	10.98 %	97.22 %
2019	0.103376	1,004,133	11,235,764	8.94	97.77
2018	0.100679	1,719,004	10,404,020	16.52	95.77
2017	0.102567	3,563,713	9,696,517	36.75	90.97
2016	0.097145	4,891,174	9,103,079	53.73	85.82
2015	0.101096	3,612,218	8,991,768	40.17	89.20

Notes to Schedule:

* Information is presented only for those years for which information is available.

**ALDERWOOD WATER & WASTEWATER DISTRICT
SCHEDULES OF EMPLOYER CONTRIBUTIONS
DECEMBER 31 (EMPLOYER REPORTING DATE)
LAST TEN FISCAL YEARS***

PERS 1

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2020	\$ 641,303	\$ (641,303)	\$ -	\$ 12,545,930	5.11 %
2019	618,986	(618,986)	-	12,074,280	5.13
2018	571,908	(571,908)	-	10,945,922	5.22
2017	519,497	(519,497)	-	10,278,440	5.05
2016	475,623	(475,623)	-	9,604,515	4.95
2015	423,748	(423,748)	-	9,366,709	4.52

Notes to Schedule:

1. Plan 1 contributions in 2020 include \$26,790 for excess compensation.

* Information is presented only for those years for which information is available.

PERS 2/3

Year	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percent of Covered Payroll
2020	\$ 980,505	\$ (980,505)	\$ -	\$ 12,380,118	7.92 %
2019	910,158	(910,158)	-	11,800,249	7.71
2018	802,909	(802,909)	-	10,706,558	7.50
2017	686,573	(686,573)	-	10,035,870	6.84
2016	580,842	(580,842)	-	9,323,549	6.23
2015	509,457	(509,457)	-	9,089,093	5.61

Notes to Schedule:

* Information is presented only for those years for which information is available.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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