



2018

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

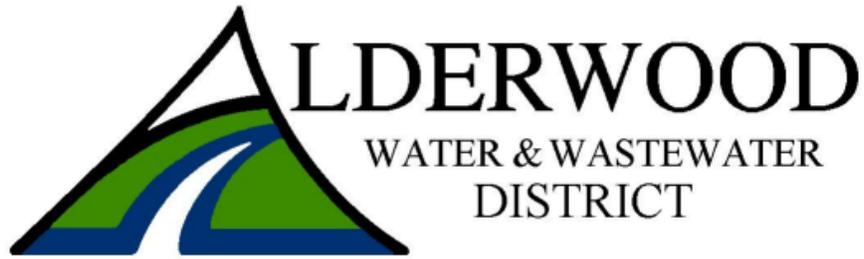
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Alderwood Water & Wastewater District  
Lynnwood, Washington

For the year ended December 31, 2018







**Lynnwood, Washington**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**For the year ended December 31, 2018**

Prepared by the:

**Alderwood Water & Wastewater District Finance Department**

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Cover Photo Courtesy of Chip Rountree



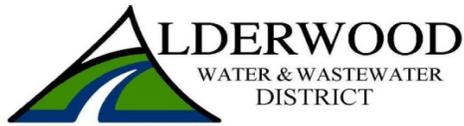
# ALDERWOOD WATER & WASTEWATER DISTRICT LYNNWOOD, WASHINGTON

## COMPREHENSIVE ANNUAL FINANCIAL REPORT For the year ended December 31, 2018

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June 25, 2019

To the Alderwood Water & Wastewater District Board of Commissioners:

We are pleased to transmit the Comprehensive Annual Financial Report (CAFR) for Alderwood Water & Wastewater District (District) for the fiscal year ended December 31, 2018. The financial statements are presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards, by the Washington State Auditor's Office (SAO).

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

An independent audit is performed annually by the SAO pursuant to Chapter 43.09.310 Revised Code of Washington (RCW). The audit for the fiscal year ended December 31, 2018 was conducted in June of 2019. It involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based on the results of these audit procedures, the auditor issued an unmodified ("clean") opinion. The auditor's report on our financial statements and related notes are included in the Financial Section of this report.

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

## **I. District profile**

The District is a special purpose district organized under RCW Chapter 57 to provide water and wastewater service to specific areas of south Snohomish County. Snohomish County is situated between northern Puget Sound to the west and the crest line of the North Cascade Range to the east. It shares its northern border with Skagit County and its southern border with King County. The District was formed by public election in 1931. As a public agency, it is governed by a five-member Board of Commissioners. Each Commissioner resides within the District service area and is elected by the District's registered voters to six-year terms.

The District has the largest service area for a water and wastewater district in the State of Washington, serving a population of over 250,000 retail and wholesale customers. The District service area is approximately 44 square miles, and includes unincorporated areas and portions of the cities of Bothell, Lynnwood, Mountlake Terrace, Mill Creek, Mukilteo, and Brier. The District is bordered on the north by the City of Everett and on the northwest by the City of Mukilteo, on the east by Cross Valley Water District and the Silver Lake Water and Sewer District.

### **A. The water system**

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

As of the end of 2018, the District served 54,281 retail accounts directly and roughly 33,400 accounts indirectly through wholesale agreements with the agencies listed above. Water consumption by the District's wholesale customers accounts for approximately 43% of the total average daily demand. Records indicate that over 93% of the District's accounts are residential and approximately 82% of water consumption within the retail service area is from residential accounts.

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

### **B. The wastewater system**

*Service area and customers.* In 1966, the District was authorized to provide wastewater service within the unincorporated area of its boundaries. Currently, the District serves these areas and portions of the Cities of Bothell, Lynnwood, Mukilteo, Mill Creek, and Brier. As of the end of 2018, the District served 41,554 retail wastewater accounts. In addition, the District provides wholesale wastewater transmission service for portions of the City of Brier and Silver Lake Water and Sewer District. Of all District retail wastewater accounts, approximately 97% are residential. These accounts contribute approximately 82% of the total revenue in the Wastewater Fund.

Treatment. Transmission and treatment of sewage is provided by three sources: (1) a contract with King County Department of Natural Resources and Parks (KCDNRP); (2) a contract with the City of Everett; and (3) the District's own treatment plant.

District Facilities. The District's renovated Picnic Point Wastewater Treatment Facility became fully operational in 2013. The expanded and state-of-the-art plant is capable of processing 6 million gallons a day ("mgd") and a maximum peak-hour flow of 13.2 mgd equivalent. The Picnic Point plant serves the northwest portion of the District and is located north of the City of Lynnwood with outfall into Puget Sound. In early 2019, the District will modify existing facilities to re-route wastewater flows in specific areas from KCDNRP facilities to the Picnic Point treatment plant.

The District currently has 11 active sanitary wastewater lift stations ranging in capacity from 100 gallons per minute to 2,500 gallons per minute. All stations have a back-up power supply. The District has approximately 478 miles of sanitary sewer mains and laterals for local collection and transmission to treatment facilities.

## **II. Economic conditions and outlook**

The District is located in Northwest Washington, north of the City of Seattle and south of the City of Everett, in southwest Snohomish County. The District's customers are predominantly residential, so the financial health of the residents living within the District, as opposed to those working within the District, has the most impact on the District's economic outlook. An indication that the local economy continues to grow is the consistent increase of median household income for Snohomish County residents. Continuing economic growth has catapulted Snohomish County's median household income over the last 5 years averaging 5.9% growth year over year. Based on projections published by the Office of Financial Management, the median household income stands at \$83,172 in 2018.

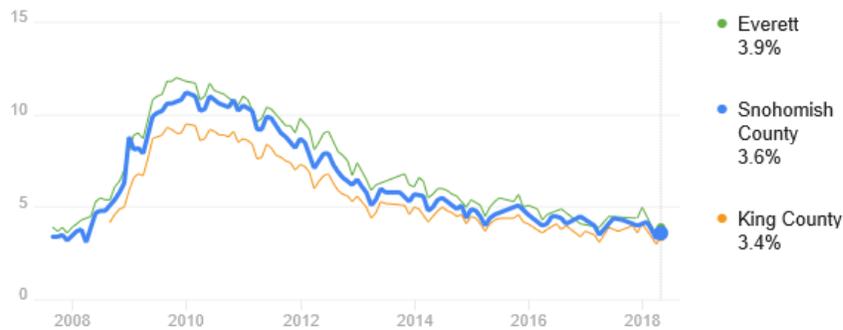
The largest sectors of employment in Snohomish County are aerospace, construction, and trade/transport/utility. Boeing, the aircraft manufacturing company, is by far the county's largest employer. With roughly 35,000 employees, it employs approximately 8.4% of the workforce in the County. The second largest employer is the Providence Regional Medical Center with roughly 4,900 employees.

According to the Washington State Employment Security Department, the December 2018 unemployment rate for Snohomish County stood at 3.6%. The only county in the State with a lower unemployment rate was King County, reporting 3.4%. By comparison, the State of Washington unemployment rate was 4.5% and the U.S. rate was 3.9%.

Employment in Snohomish County is strong, but many of the County's residents also work in the Seattle Metropolitan area, which is located in King County to the south. The American Community Survey estimated that, in 2011, 33% of Snohomish County's working residents commuted to King County for work. The overall economy in the state has been growing at a steady pace since peak unemployment rates were reported in January 2010, with Snohomish County at 11.2% unemployment and King County reporting 9.5%.

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

## Unemployment Rates by year – Snohomish and King Counties



The limitation on affordable and developable land in the Seattle Metropolitan area has historically driven growth in Snohomish County, in particular residential growth in the County's southern portion. Since 2016, the District has seen continued growth in development identifiable through the number of new services installed each year. Between 2011 and 2015 the District averaged 916 new services per year, and from 2016 to 2018 the District averaged 1,135 new services each year.

In addition, in 2018 over 20 miles of system main was added to the Districts infrastructure through developer extensions. Over the last 5 years this is the highest total miles of pipe installed. This is the result of continued development and growth in the service area.

### III. Long-term financial planning

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

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

The District does not receive any tax revenue and therefore relies solely on the water and wastewater service revenues received from the ratepayers and General Facility Charges (GFCs). Every three years, the District conducts a utility rate study and review of the GFCs, to ensure that the fees collected adequately and fairly recoup the cost to provide water and wastewater services. The District includes a contribution for capital in the rates for both water and wastewater. In 2011, the contribution from rates to capital was \$5 million. In 2012, that amount was increased to \$7 million, where it remained from 2013 to 2017. In 2018 an additional \$3 million was added to support increased capital improvement projects including building Lift Station 23, the D-1 transmission main project, and the membrane replacement project at the Picnic Point Treatment Plant.

The fiscal policies also established levels for operating and capital reserves. Through 2018, the District maintained an operating reserve equal to at least 90 days of annual operating expenses

for the water utility, and 60 days of annual operating expenses for the wastewater utility. The capital reserve for each utility is maintained at the greater of \$10 million or 2% of the original capital assets' value.

In 2018, the District adopted a 20-year Comprehensive Water Plan, as required by state law. Although not required by law, the District also adopted a 20-year Comprehensive Wastewater Plan. The fiscal policies commit the District to updating each plan every 6 years and maintaining a 6-year capital project schedule. These plans provide a summary of the capital improvement projects and the estimated costs for the period.

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

#### **IV. Major initiatives**

During 2018, the bulk of the Lift Station 23 build and the D-1 transmission main projects were completed. Lift Station 23 was commissioned in March of 2019 with the D-1 Transmission main project scheduled to close in mid 2019. The D-1 transmission main project will enable the District to provide better reliability, pressure management, and redundancy for users of the District's water. The District also completed the first phase of the membrane upgrade project at the Picnic Point Wastewater Treatment Facility. This project is scheduled over two summers and will be completed in the summer of 2019, successfully expanding the capacity and reliability of the treatment facility.

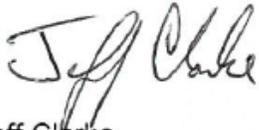
## V. Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2017. This was the sixth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, an agency must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully Submitted,



Jeff Clarke  
*General Manager*



Sridhar Krishnan  
*Finance Director*



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
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Presented to

**Alderwood Water & Wastewater District**  
**Washington**

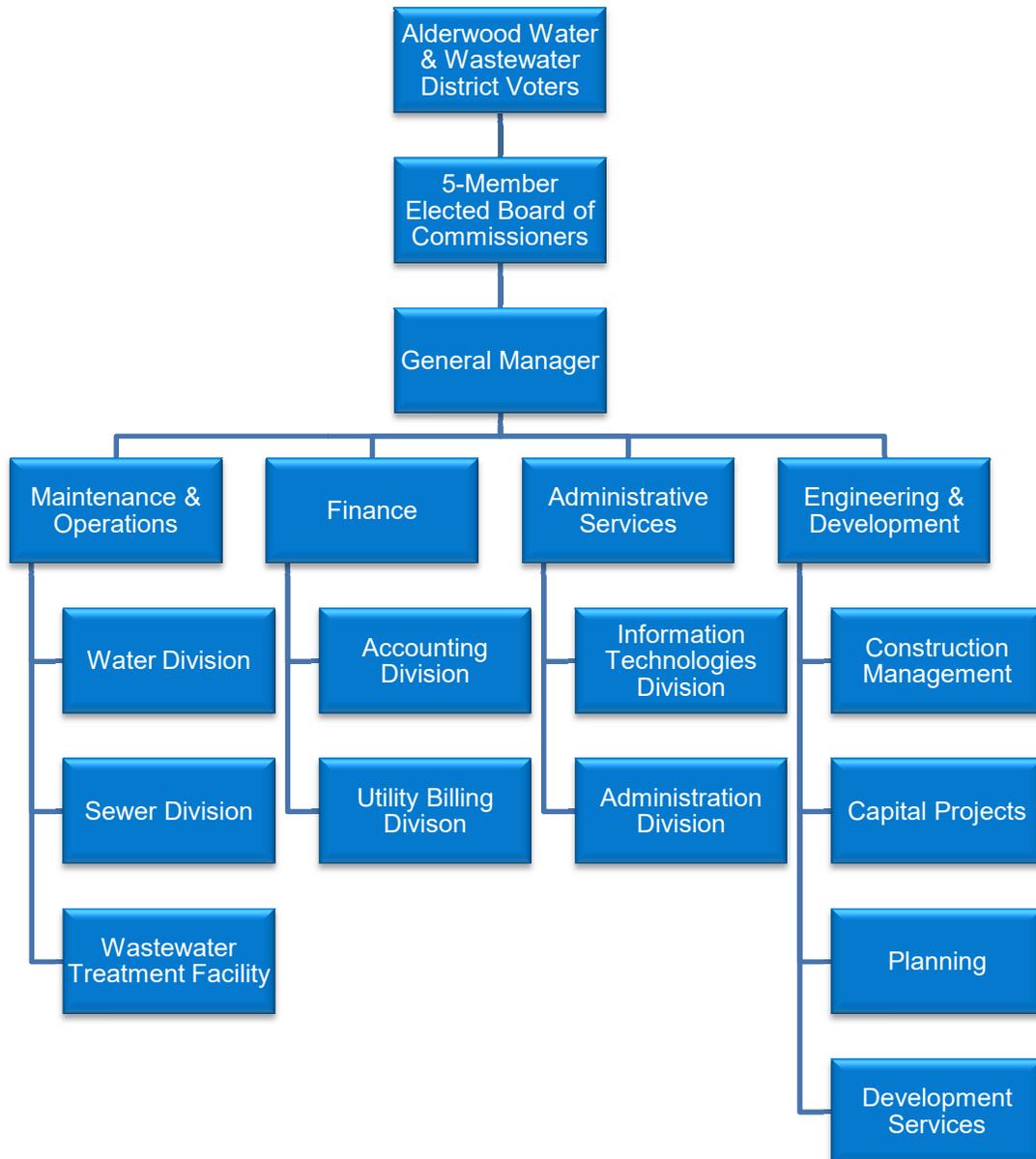
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2017**

*Christopher P. Morill*

Executive Director/CEO

**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Organizational Chart**  
**January 1, 2018 through December 31, 2018**



**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Snohomish County, Washington**  
**January 1, 2018 through December 31, 2018**

Directory of Officials

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Elected

		<u>Term</u>	<u>Expiration</u>
President/ Commissioner	Dean R. Lotz	4	December 31, 2019
Vice-President/ Commissioner	Larry D. Jones	6	December 31, 2023
Secretary/ Commissioner	Paul D. McIntyre	6	December 31, 2019
Commissioner	Donna Cross	6	December 31, 2021
Commissioner	Jack Broyles, Jr.	6	As of: June 11, 2018 December 31, 2019
Commissioner	Mike Dixon		Resigned: March 31, 2018

Appointed

General Manager	Jeff Clarke
Finance Director	Sridhar Krishnan
Director of Maintenance & Operations	Joe Bolam (until 05/03/2018) Dave Barnes (as of 09/24/2018)
Administrative Services Manager	Mike Pivec
Capital Projects Manager	Paul Richart, P.E.
Engineering & Development Director	John McClellan, P.E.
Attorney	Joseph P. Bennett Hendricks - Bennett, PLLC

Mailing Addresses

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

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

**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

June 25, 2019

Board of Commissioners  
Alderwood Water and Wastewater District  
Lynnwood, Washington

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Alderwood Water and Wastewater District, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express 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, 2018, 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 in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

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

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we will also issue our report dated June 25, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

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

Pat McCarthy

State Auditor

Olympia, WA

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## Management's Discussion and Analysis

As management of the District we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal year ending December 31, 2018. This should be read in conjunction with the financial statements, notes to the financial statements, and required supplementary information which follows this discussion.

### Financial Highlights

- For the year ending December 31, 2018, the assets and deferred outflows of the District exceeded its liabilities and deferred inflows by \$472.5 million. Of this amount, 21.2% or \$100.2 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, \$364.4 million or 77.1%, and restricted for debt service payments and reserves, \$7.9 million or 1.7%.
- As of the end of 2018, the District's total net position increased by \$18.6 million or 4.1% from the prior year.
- A 2016 rate study resulted in modest increases in water and wastewater charges, and significant changes to the structure of the District's wastewater rates for single-family residences. The Board of Commissioners adopted annual rate increases of 2% for water and 3.5% for wastewater, for each of the next three years, which become effective on January 1 of 2017, 2018, and 2019. Information regarding the District's water and wastewater rates are available on the District's website - [www.awwd.com](http://www.awwd.com).

### Overview of the Financial Statements

The District presents three basic financial statements:

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

The **Statement of Net Position** presents detailed information on all of the District's assets, liabilities, and deferred outflows/inflows of resources. The difference between the sum of total assets and deferred outflows of resources and the sum of total liabilities and deferred inflows of resources is represented as net position. This statement reports all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources as of December 31, 2018. It is like taking a "financial photograph" of the District on December 31, 2018.

The **Statement of Revenues, Expenses, and Changes in Net Position** presents twelve months worth of revenue and expenses beginning January 1, 2018 and ending December 31, 2018. This statement, in part, measures the success of the District's operations to collect enough revenue to pay for the costs of providing water and wastewater services. It also reports other non-operating revenue and expenses such as investment interest income, bond interest expense, and capital contributions.

The **Statement of Cash Flows** reports cash receipts and cash payments in several categories such as cash flows from operations, capital financing, and investing. In total these activities explain the changes that have occurred in the District's cash.

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

### **Other Information**

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

### **Financial Position**

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

### **Alderwood Water and Wastewater District's Net Position**

	2018	Restated 2017	Increase (Decrease)	% Change
Current and other assets	\$ 121,680,206	\$ 134,727,397	\$ (13,047,191)	(9.7)%
Capital assets, net	454,878,839	428,305,994	26,572,845	6.2%
Total assets	<u>576,559,045</u>	<u>563,033,391</u>	13,525,654	2.4%
Total deferred outflows of resources	<u>1,107,352</u>	<u>1,299,602</u>	(192,250)	(14.8)%
Current liabilities	11,558,858	15,329,581	(3,770,723)	(24.6)%
Long-term liabilities	91,546,407	93,890,070	(2,343,663)	(2.5)%
Total liabilities	<u>103,105,265</u>	<u>109,219,651</u>	(6,114,386)	(5.6)%
Total deferred inflows of resources	<u>2,104,581</u>	<u>1,303,732</u>	800,849	61.4%
Net investment in capital assets	364,351,153	337,743,424	26,607,729	7.9%
Restricted for debt service	7,894,003	10,780,866	(2,886,863)	(26.8)%
Unrestricted	100,211,395	105,285,320	(5,073,925)	(4.8)%
Total net position	<u>\$ 472,456,551</u>	<u>\$ 453,809,610</u>	\$ 18,646,941	4.1%

## Analysis of the Statement of Net Position

- Decrease of current assets of approximately \$13.0 million was due to a planned drawdown of cash for capital projects in 2018. The District has three large capital projects under construction: Lift Station 23, D-1 Water Transmission Main, and Picnic Point Wastewater Treatment Facility Membrane Replacements. Expenses for these projects totaled \$20.5 million in 2018.
- Capital assets consist of land; construction in progress, plant; distribution and collection systems; machinery and equipment; and accumulated depreciation. The \$25.6 million increase in net capital assets is primarily due to the increase in construction-in-progress, for the three projects stated above, and \$11.7 million in assets contributed by developers through system extensions.
- The 24.6% decrease in current liabilities was mostly due to the change in accounts payable. This difference was related to timing of board meetings and payment schedules. The first board meeting in 2018 was on January 2<sup>nd</sup> and had a voucher packet of \$4.0 million compared to the first board meeting in 2019, on January 7<sup>th</sup>, which only had a voucher packet of \$722,000.
- Changes in long-term liabilities included the scheduled reduction of debt due to annual principal payments and the additional \$5.3 million of draws on the State Revolving Fund loan for the D-1 Transmission Main project.
- The District's net position increased \$18.6 million from 2017 to 2018 as a direct result of the overall positive net change in 2018.

A common analysis tool to evaluate the overall financial health of the District is the quick ratio which compares non-restricted cash and cash equivalents, investments, and accounts receivable to current liabilities in order to assess the District's ability to meet obligations in the coming year. The District's quick ratio for 2018 is 9.84. Between 2013 and 2017 the District's quick ratio has averaged 8.77. While there are no set 'rules' regarding quick ratios, District management believes this is a very healthy ratio.

### **Alderwood Water and Wastewater changes in net position**

	2018	Restated 2017	Increase (Decrease)	% Change
Total operating revenue	\$ 88,760,417	\$ 82,437,982	\$ 6,322,435	7.7%
Interest and investment revenue	2,921,136	1,726,431	1,194,705	69.2%
Other nonoperating revenue	159,922	163,039	(3,117)	(1.9)%
<b>Total revenues</b>	<b>91,841,475</b>	<b>84,327,452</b>	<b>7,514,023</b>	<b>8.9%</b>
Total operating expenses	87,287,676	82,443,041	4,844,635	5.9%
Nonoperating expenses	4,696,185	4,669,849	26,336	0.6%
<b>Total expenses</b>	<b>91,983,861</b>	<b>87,112,890</b>	<b>4,870,971</b>	<b>5.6%</b>
Income before cap. contributions	(142,386)	(2,785,438)	2,643,052	(94.9)%
Capital contributions	18,789,327	17,379,775	1,409,552	8.1%
Change in net position	18,646,941	14,594,337	4,052,604	27.8%
Beginning net position	453,809,610	439,215,273	14,594,337	3.3%
Ending net position	\$ 472,456,551	\$ 453,809,610	\$ 18,646,941	4.1%

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

- Total operating revenue increased by 7.7% in 2018, this is due to a combination of rate increases and higher consumption from both retail and wholesale customers.
- Interest and investment revenue grew by nearly \$1.2 million due to increasing interest rates in 2018.
- \$3.0 million of the \$4.8 million increase in operating expenses is attributable to increased rates and consumption in both purchased water and purchased wastewater treatment. These two categories make up nearly 60% of all operating expenses, purchased water, \$16.5 million, and purchased wastewater treatment, \$28.5 million.
- Capital contributions are general facility charges (GFC) revenue and contributed systems which are assets installed by developers in order to provide service to new areas within the District. These assets are donated to the District once the new development is complete and approved by the District. In 2018 contributed systems included \$9.5 million in depreciable assets such as water and wastewater mains, manholes, and meter services over two inches in size. \$2.2 million in assets that are under the District's \$5,000 asset capitalization threshold were donated. Silver Lake Water and Sewer District (SLWSD) installed and donated a \$350,000 large master meter to the District to provide SLWSD another water connection for redundancy.

## Alderwood Water and Wastewater District's Capital Assets

	2018	Restated 2017	Increase (Decrease)	% Change
Land	\$ 1,049,891	\$ 1,049,891	\$ -	-
Construction-in-progress	21,206,547	10,716,669	10,489,878	97.9%
Total plant not depreciated	22,256,438	11,766,560	10,489,878	89.1%
Plant	167,750,540	168,382,220	(631,680)	(0.4)%
Distribution and collection systems	419,974,084	391,830,785	28,143,299	7.2%
Machinery and equipment	29,596,838	26,713,729	2,883,109	10.8%
Total plant being depreciated	617,321,462	586,926,734	30,394,728	5.2%
Less accumulated depreciation	(184,699,061)	(170,387,300)	(14,311,761)	8.4%
Total plant	\$ 454,878,839	\$ 428,305,994	\$ 26,572,845	6.2%

## Analysis of Changes in Capital Assets

Capital assets being depreciated increased \$30.4 million from 2017 to 2018. This was mostly made up of:

- \$28.1 net increase to distribution and collection systems. The majority of this is from:
  - \$9.8 million in developer contributions (see the breakdown in the Analysis of the Statement of Revenues, Expenses, & Change in Net Position).
  - Completion of several projects, consisting of the D-1 water transmission line, \$7.3 million, and the Shelby Road water and wastewater main replacement, \$9.7 million.
- Construction-in-progress increased \$10.5 million. This is the combination of completing projects in 2018 and significant work on the Lift Station 23 project, \$7.3 million and the Membrane Replacement Project, \$9.4 million.
- Additional information about asset depreciation and other construction-in-progress capital projects can be found in Notes 1, 3, and 4.

**Alderwood Water and Wastewater District's Long-term debt**

At the end of the current fiscal year, the District had total long term debt outstanding of \$89.7 million; the net decrease of \$76,047 is a result of normal principal payments and new draws on State Revolving Fund loans. The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. has assigned a rating of "Aa2". In April 2013, S&P affirmed its "AA+" rating for the District. Additional detailed information about the District's long-term debt can be found in Note 6 to the Financial Statements.

	<u>2018</u>	<u>2017</u>
Public Works Trust Fund Loans	\$ 4,136,504	\$ 4,884,506
State Revolving Fund Loans	14,412,233	9,615,280
Bond Obligations	71,175,000	75,300,000
<u>Total</u>	<u>\$ 89,723,737</u>	<u>\$ 89,799,786</u>

**Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

## ALDERWOOD WATER & WASTEWATER DISTRICT

Statement of Net Position

December 31, 2018

### ASSETS

#### Current Assets:

Cash and cash equivalents	\$ 19,061,741
Investments	78,896,410
Receivables, net	13,558,623
Interest receivable	389,208
Inventories	910,553
Prepaid items	576,112
Total current assets	<u>113,392,647</u>

#### Noncurrent Assets:

Restricted cash and cash equivalents	7,894,003
Deposits with fiscal agent/trustee	300,121
Assessments receivable	93,435
Capital Assets:	
Land	1,049,891
Construction-in-progress	21,206,547
Plant	167,750,540
Distribution and collection systems	419,974,084
Machinery and equipment	29,596,838
Less accumulated depreciation	<u>(184,699,061)</u>
Total noncurrent assets	<u>463,166,398</u>

Total assets	<u>576,559,045</u>
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### DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	1,107,352
Total deferred outflows of resources	<u>1,107,352</u>

### LIABILITIES

#### Current liabilities:

Accounts payable	3,476,010
Accrued wages and benefits	331,381
Compensated absences	369,832
Customer deposits	1,507,643
Bonds, notes, and loans payable	5,873,992
Total current liabilities	<u>11,558,858</u>

#### Noncurrent liabilities:

Bonds, notes, and loans payable	84,653,694
Compensated absences	1,109,494
Accrued interest	397,601
Net pension liability	5,385,618
Total noncurrent liabilities	<u>91,546,407</u>

Total liabilities	<u>103,105,265</u>
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### DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	2,104,581
Total deferred inflows of resources	<u>2,104,581</u>

### NET POSITION

Net investment in capital assets	364,351,153
Restricted for debt service	7,894,003
Unrestricted	100,211,395

Total net position	<u>\$ 472,456,551</u>
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**ALDERWOOD WATER & WASTEWATER DISTRICT**  
Statement of Revenues, Expenses, and Changes in Net Position  
For the year ended December 31, 2018

Operating revenues:	
Water charges for services	\$ 39,002,595
Wastewater charges for services	48,587,537
Other charges for services	1,170,285
Total operating revenues	88,760,417
Operating expenses:	
Personnel services	14,671,125
Supplies and services	10,629,676
Purchased water	16,504,199
Purchased wastewater	28,501,321
Depreciation	15,220,421
Taxes	1,760,934
Total operating expenses	87,287,676
Operating income (loss)	1,472,741
Nonoperating revenues (expenses):	
Investment earnings	2,921,136
Rental income	140,530
Miscellaneous revenue	19,392
Gain (loss) on disposition of asset	(1,058,890)
Interest expense	(3,637,295)
Total nonoperating revenues (expenses)	(1,615,127)
Income before capital contributions	(142,386)
Capital contributions - general facility charges	6,749,297
Capital contributions - developers	12,040,030
Change in net position	18,646,941
Net position-beginning	454,763,965
Prior period adjustment	(954,355)
Restated net position-beginning	453,809,610
Net position-ending	\$ 472,456,551

## ALDERWOOD WATER & WASTEWATER DISTRICT

### Statement of Cash Flows

For the year ended December 31, 2018

	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 84,625,208
Payments for purchased water	(16,504,199)
Payments for sewage treatment	(28,501,321)
Payments to suppliers and service providers	(16,774,188)
Payments to and for employees salaries and benefits	(15,544,292)
Other operating receipts (payments)	1,170,285
Net cash provided by (used for) operating activities	8,471,493
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(31,176,925)
Gain (loss) from sale of assets	20,303
Payments received on ULID assessments	34,983
Proceeds from capital debt	5,346,594
Principal paid on capital debt	(5,422,642)
Interest paid on capital debt	(3,406,892)
Capital contributions	6,749,297
Other capital related receipts (payments)	358,291
Net cash provided by (used for) capital and related financing activities	(27,496,991)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from sale of investments	38,985,003
Purchase of investments	(39,195,783)
Interest on investments	3,156,327
Net cash provided by investing activities	2,945,547
Net increase (decrease) in cash and cash equivalents	(16,079,950)
Cash and cash equivalents at beginning of year	43,035,694
Cash and cash equivalents at end of year	\$ 26,955,744
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>	
Operating income (loss)	\$ 1,472,741
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	15,220,421
Decrease (increase) in accounts receivable	(2,964,924)
Decrease (increase) in inventories	(97,001)
Decrease (increase) in prepaid items	(30,228)
Increase (decrease) in accounts payable	(4,256,349)
Increase (decrease) in employee benefits	(873,167)
Total adjustments	6,998,752
Net cash provided by (used for) operating activities	\$ 8,471,493
<b>Schedule of non-cash capital and related financing activities</b>	
Contributions of capital assets from developers	\$ 12,040,030
Increase (decrease) in fair value of investments	(387,241)
Amortization of bond premium	(172,247)

# ALDERWOOD WATER & WASTEWATER DISTRICT

Notes to the Financial Statements

December 31, 2018

## Note 1: Summary of significant accounting policies

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

### A. Reporting entity

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

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

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Capital asset purchases are capitalized and long-term liabilities are accounted for.

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

Unbilled utility service receivables are recorded at year-end.

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

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

#### 1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

#### 2. Investments

Investments are reported at fair value except for investments in the Washington State Local Government Investment Pool which are reported at amortized cost. The District is limited, by State law, to purchasing investments in U.S. Treasury and Agency Securities, Certificates of

Deposit with Washington State depositories that participate in the State Insurance Pool, bankers acceptances, the State Investment Pool, and in other investments authorized by law. District policy requires that all investments be purchased DVP (delivery vs. payment), which means cash payments for securities are made at the same time as, or after, the delivery of the security. Securities are held in safekeeping by a third-party custodian. Additional detailed information on investments can be found in Note 2.

### **3. Receivables, net**

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

### **4. Inventories and prepaid items**

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

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

### **5. Restricted cash and cash equivalents**

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

### **6. 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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

The costs for normal maintenance and repairs are not capitalized.

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

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

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

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

### **7. Deferred outflows/inflows of resources**

Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. Deferred inflows of resources represent an acquisition of net assets that is applicable to a future reporting period. The District records deferred outflows/inflows of resources related to their participation in Washington State pension programs.

### **8. Compensated absences**

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

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

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

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

### **9. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the

Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **D. Revenues and expenses**

### **1. Other charges for services**

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

## **Note 2: Deposits and Investments**

### **A. Cash on hand and deposits with financial institutions**

The District's bank deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). All deposits not covered by the FDIC are covered by the PDPC. Cash on hand at December 31, 2018 was \$3,200 and the bank balance was \$7,127,183 .

### **B. Investments**

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

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

Investments in the LGIP, a qualified external investment pool, are reported at amortized cost which approximates fair value. The LGIP is an unrated external investment pool. The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by the GASBS 79 for external investments pools that elect to measure, for financial reporting purposes, investments at amortized cost. The LGIP does not have any legally binding guarantees of share values. The LGIP does not impose liquidity fees or redemption gates on participant withdrawals. The Office of the State Treasurer prepares a stand-alone LGIP financial report. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at <http://www.tre.wa.gov>. As of December 31, 2018, the District held \$20,085,880 in LGIP investments.

All investments are subject to the following risks.

*Interest rate risk* is the risk that the District may face should interest rate variances affect the value of investments. As a means of limiting its exposure to fair value losses caused by a rise in interest rates, the District's policy limits investments in securities to those maturing no more

than five years from the date of purchase and limits the average weighted maturity for the portfolio to two years. The portfolio weighted maturity at year end was 1.905 years.

The Washington State Local Government Investment Pool is an unrated 2a7-like pool as defined by GASB 31, accordingly, participants' balances are not subject to interest rate risk as the weighted average maturity of the portfolio will not exceed 90 days.

The following schedule presents the investments and related maturities as of December 31, 2018:

Investment Type	Investment Maturities (in years)		
	Fair Value	Less than 1 year	1-5 year
U.S. Treasury Notes	\$ 14,953,110	\$ 14,953,110	\$ -
Government Sponsored Enterprises	63,943,300	21,876,627	42,066,673
<b>Total</b>	<b>\$ 78,896,410</b>	<b>\$ 36,829,737</b>	<b>\$ 42,066,673</b>

*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 a 2a7-like pool and is unrated.

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

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

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

Investment Type	Fair Value	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Notes	\$ 14,953,110	\$ 14,953,110	\$ -	\$ -
Government Sponsored Enterprises	63,943,300	-	63,943,300	-
<b>Total</b>	<b>\$ 78,896,410</b>	<b>\$ 14,953,110</b>	<b>\$ 63,943,300</b>	<b>\$ -</b>

### Note 3: Utility plant and depreciation

Capital asset activity for the year ended December 31, 2018 was as follows:

	Restated Balance December 31, 2017	Increases	Decreases	Balance December 31, 2018
Capital assets, not being depreciated:				
Land	\$ 1,049,891	\$ -	\$ -	\$ 1,049,891
Construction-in-progress	10,716,670	32,456,414	(21,966,537)	21,206,547
Total capital assets, not being depreciated	<u>11,766,561</u>	<u>32,456,414</u>	<u>(21,966,537)</u>	<u>22,256,438</u>
Capital assets, being depreciated:				
Plant	168,382,220	301,594	(933,274)	167,750,540
Distribution and collection systems	391,830,785	28,842,859	(699,560)	419,974,084
Machinery and equipment	26,713,729	3,238,305	(355,196)	29,596,838
Total capital assets, being depreciated	<u>586,926,734</u>	<u>32,382,758</u>	<u>(1,988,030)</u>	<u>617,321,461</u>
Less accumulated depreciation for:				
Plant	(46,681,501)	(6,371,703)	240,104	(52,813,100)
Distribution and collection systems	(109,841,500)	(7,241,074)	314,083	(116,768,492)
Machinery and equipment	(13,864,300)	(1,607,644)	354,474	(15,117,469)
Total accumulated depreciation	<u>(170,387,301)</u>	<u>(15,220,421)</u>	<u>908,661</u>	<u>(184,699,061)</u>
Total capital assets being depreciated, net	<u>416,539,433</u>	<u>17,162,337</u>	<u>(1,079,369)</u>	<u>432,622,401</u>
Capital assets, net	<u>\$ 428,305,994</u>	<u>\$ 49,618,751</u>	<u>\$ (23,045,906)</u>	<u>\$ 454,878,839</u>

#### Note 4: Significant Construction Commitments

The District had the following significant construction projects in progress as of December 31, 2018. Project budgets include District staff labor:

Project Name	Expended to Date	Remaining Budget
PPWWTF Membrane Upgrades	\$9,424,784	\$8,639,216
Lift Station 23	7,271,240	1,082,011
Reservoir #2 & #3 Coatings	282,459	4,365,526
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	404,059	4,012,453
Trans Mains 1 and 2 Air-Vac and Blowoff Replacement	157,128	4,199,718
35th Ave and 180th Capacity Upgrade	9,272	2,223,858
East Side Pressure Reduction - Phase 1	395,085	1,654,300
Water Main Looping	13,212	1,576,788
Reservoir 1 and 2 Sodium Hypochlorite System Upgrade	1,672	1,148,328
	<u>\$17,958,911</u>	<u>\$28,902,198</u>

#### Note 5: Pension plans

The following table represents the aggregate pension amounts for all plans subject to the requirements of the [GASB Statement 68, Accounting and Financial Reporting for Pensions](#) for the year 2018:

Aggregate Pension Amounts – All Plans	
Pension liabilities	\$5,385,618
Pension assets	\$0
Deferred outflows of resources	\$1,107,352
Deferred inflows of resources	\$2,104,581
Pension expense/expenditures	\$148,208

#### State Sponsored Pension Plans

Substantially all 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](http://www.drs.wa.gov).

## Public Employees' Retirement System (PERS)

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

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

### Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6%. 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 2018 were as follows:

<b>PERS Plan 1</b>		
<b>Actual Contribution Rates</b>	<b>Employer</b>	<b>Employee</b>
January - August 2018:		
PERS Plan 1	7.49%	6.00%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.70%</b>	<b>6.00%</b>
September - December 2018:		
PERS Plan 1	7.52%	6.00%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
<b>Total</b>	<b>12.83%</b>	<b>6.00%</b>

**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 five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members

who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 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 non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at 6% annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

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

### Contributions

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 Unfunded Actuarial 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. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2018 were as follows:

<b>PERS Plan 2/3</b>		
<b>Actual Contribution Rates</b>	<b>Employer 2/3</b>	<b>Employee 2</b>
January - August 2018:		
PERS Plan 2/3	7.49%	7.38%
PERS Plan 1 UAAL	5.03%	
Administrative Fee	0.18%	
Employee PERS Plan 3		varies
<b>Total</b>	<b>12.70%</b>	<b>7.38%</b>
September - December 2018:		
PERS Plan 2/3	7.52%	7.41%
PERS Plan 1 UAAL	5.13%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
<b>Total</b>	<b>12.83%</b>	<b>7.41%</b>

The District's actual PERS plan contributions were \$571,908 to PERS Plan 1 and \$802,909 to PERS Plan 2/3 for the year ended December 31, 2018.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2018 with a valuation date of June 30, 2017. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study* and the *2017 Economic Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2018. Plan liabilities were rolled forward from June 30, 2017, to June 30, 2018, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

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

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

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

- Lowered the valuation interest rate from 7.70% to 7.50%
- Lowered the assumed general salary growth from 3.75% to 3.50% for all systems.
- Lowered assumed inflation from 3.00% to 2.75% for all systems.

## Discount Rate

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

To determine that rate, an asset sufficiency test included an assumed 7.5% long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.4% future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1 and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.4% was used to determine the total liability.

## Long-Term Expected Rate of Return

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

## Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>% Long-Term Expected Real Rate of Return Arithmetic</b>
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
	<b>100%</b>	

### Sensitivity of the Net Pension Liability/(Asset)

The table below presents the District's proportionate share\* of the net pension liability calculated using the discount rate of 7.4%, 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	\$4,506,040	\$3,666,614	\$2,939,502
PERS 2/3	7,862,766	1,719,004	(3,318,195)

### Pension Plan Fiduciary Net Position

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

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

At June 30, 2018, the District reported a total pension liability of \$5,385,618 for its proportionate share of the net pension liabilities as follows:

	Liability (or Asset)
PERS 1	\$3,666,614
PERS 2/3	1,719,004

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

	Proportionate Share 6/30/17	Proportionate Share 6/30/18	Change in Proportion
PERS 1	0.085174%	0.082100%	(0.003074%)
PERS 2/3	0.102567%	0.100679%	(0.001888%)

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

The collective net pension liability (asset) was measured as of June 30, 2018, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2017, with update procedures used to roll forward the total pension liability to the measurement date.

## Pension Expense

For the year ended December 31, 2018, the District recognized pension expense as follows:

	Pension Expense
PERS 1	\$168,706
PERS 2/3	(20,498)
TOTAL	\$148,208

## Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PERS Plan 1	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$0	\$0
Net difference between projected and actual investment earnings on pension plan investments	0	(145,709)
Changes of assumptions	0	0
Changes in proportion and differences between contributions and proportionate share of contributions	0	0
Contributions subsequent to the measurement date	289,437	0
TOTAL	\$289,437	(\$145,709)

PERS Plan 2/3	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$210,705	(\$300,965)
Net difference between projected and actual investment earnings on pension plan investments	0	(1,054,861)
Changes of assumptions	20,109	(489,215)
Changes in proportion and differences between contributions and proportionate share of contributions	184,524	(113,831)
Contributions subsequent to the measurement date	402,577	0
TOTAL	\$817,915	(\$1,958,872)

<b>All Plans</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$210,705	(\$300,965)
Net difference between projected and actual investment earnings on pension plan investments	0	(1,200,570)
Changes of assumptions	20,109	(489,215)
Changes in proportion and differences between contributions and proportionate share of contributions	184,524	(113,831)
Contributions subsequent to the measurement date	692,014	0
<b>TOTAL</b>	<b>\$1,107,352</b>	<b>(\$2,104,581)</b>

Deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	<b>PERS Plan 1</b>
2019	\$6,375
2020	(31,853)
2021	(95,581)
2022	(24,650)
2023	0
Thereafter	0
<b>Total</b>	<b>(\$145,709)</b>

<b>Year ended December 31:</b>	<b>PERS Plan 2/3</b>
2019	(\$170,152)
2020	(335,929)
2021	(622,128)
2022	(215,553)
2023	(64,954)
Thereafter	(134,818)
<b>Total</b>	<b>(\$1,543,534)</b>

## Note 6: Long-term Liabilities

### Loans Payable

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

Public Works Trust Fund Loans	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2018
99-791-001 Water Reservoir No 1 Cover	1999	\$ 3,420,060	1.000%	2019	\$ 182,121
00-691-001 Water Low Pressure Area Improvements	2000	1,402,800	1.000%	2020	155,553
05-691-PRE-108 Wastewater Facility Upgrade	2005	1,000,000	0.500%	2025	368,421
05-691-PRE-126 Wastewater Facility Upgrade	2005	1,000,000	0.500%	2025	373,538
06-962-001 Wastewater Facility Upgrade	2006	7,000,000	0.500%	2026	3,056,871
					<u>\$ 4,136,504</u>

State Revolving Fund Loans	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2018
L0900006 Wastewater Facility Upgrade	2011	\$ 9,308,953	2.700%	2031	\$ 6,474,419
DM-12-952-098 Water Pump Station & High Tank Upgrade	2012	2,663,943	1.500%	2034	2,144,434
DM-13-952-125 660/520/340 Water Pressure Zones	2013	5,793,380	1.500%	2038	5,793,380
					<u>\$ 14,412,233</u>

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

In 2000, the District partially funded construction of improvements to the Northeast pressure zone with PWTF loans. Construction of a cover for Reservoir No. 1, which has a capacity of 28,000,000 gallons, was also funded in part by a PWTF loan during 1999. A total of \$9,000,000 in PWTF loans were used to fund construction of the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005. \$7,000,000 of these funds were used for pre-construction design and planning activities. Each of these loans will be repaid over a period not to exceed 20 years at the interest rates stated above.

The District was granted a State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction of the liquids facility as part of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$2,663,943 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. The District began paying back the loan in October 2015. Additionally, the District was granted a third SRF loan in 2013 for the D-1 Transmission Main Project. The final draw on the loan was completed in 2018, resulting in a total of \$5,793,380 million with the first payment beginning in 2019.

## Bonds

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

Bond Obligations	Original Issue	Original Borrowing	Interest Rates to Maturity	Maturity Date	Outstanding 12/31/2018
2009 State Revenue Bond	2009	\$ 23,885,000	3.000% - 4.000%	2018	\$ -
2010 State Revenue Bond - Series B	2010	49,325,000	4.200% - 5.500%	2029	48,365,000
2013 State Revenue Bond	2013	25,000,000	2.000% - 4.625%	2043	22,810,000
					<u>\$ 71,175,000</u>

The District issued revenue bonds in December 2009 in the amount of \$23,885,000 to provide for a current refunding of all of the District's outstanding revenue bonds, 1998, and Water and Sewer Revenue bonds, 1999. An arbitrage rebate calculation was completed in January of 2019 and no rebate liability exists from issuance through December 1, 2018. As of December 31, 2018 the 2009 revenue bond was paid in full.

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

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

All bond debt is secured by the District revenues. Restricted net position as of December 31, 2018 is \$7,894,003. This represents debt service funds and reserve requirements as contained in the various bond indentures. Per bond resolutions, ULID assessments are dedicated to the payment of debt service.

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

Year	Principal	Interest
2019	\$ 5,841,727	\$ 3,747,221
2020	5,812,258	3,536,849
2021	5,897,548	3,377,943
2022	6,056,037	3,214,607
2023	6,229,962	2,837,340
2024-2028	32,922,451	10,150,814
2029-2033	13,160,981	3,935,686
2034-2038	7,092,773	2,385,303
2039-2043	6,710,000	958,763
	<u>\$89,723,737</u>	<u>\$34,144,526</u>

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

Changes in the District's long-term liabilities for the year ended December 31, 2018 are as follows:

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018	Due with one year
Public Works Trust Fund loans	\$ 4,884,505	\$ -	\$ (748,001)	\$ 4,136,504	\$ 748,000
State Revolving Fund loans	9,615,280	5,346,594	(549,641)	14,412,233	813,727
Bond obligations	75,300,000	-	(4,125,000)	71,175,000	4,280,000
Bond premium	976,197	-	(172,248)	803,949	32,265
Pension obligation	7,605,286	1,374,817	(3,594,485)	5,385,618	-
Compensated absences	1,091,586	1,574,499	(1,186,759)	1,479,326	369,832
	<u>\$99,472,854</u>	<u>\$ 8,295,910</u>	<u>\$(10,376,134)</u>	<u>\$97,392,630</u>	<u>\$ 6,243,824</u>

## Note 7: Risk Management

### Unemployment

The District is a reimbursable employer with the Washington State Employment Security Department, therefore it is self-insured for unemployment. Claims are processed by the State and paid by the District. Below is an analysis of claims activity for the two year period ended December 31, 2018:

	2017	2018
Liability - beginning	\$ 5,035	\$ 319
Claims incurred	17,378	4,429
Claim payments	(22,093)	(1,011)
Liability - ending	<u>\$ 319</u>	<u>\$ 3,738</u>

### Water and Sewer Risk Management Pool

The District is a member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 66 members. The Pool's fiscal year is November 1<sup>st</sup> through October 31<sup>st</sup>.

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

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

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

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as

follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood 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, 2019, written notice must be in possession of the Pool by April 30, 2019). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

#### **Note 8: Other Parties**

##### **Clearview Water Supply Agency**

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

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

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

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

**Note 9: Other Disclosures****Prior Period Adjustments**

During review of capital assets in January 2019, there were assets found that did not meet the District's capital asset threshold policy or were no longer in service as of January 1, 2018. These errors resulted in a reduction of net position of \$553,940. In addition, the District identified previous calculation errors of construction-in-progress that resulted in a reduction of net position of \$400,414. The total prior period adjustment recorded by the District was a \$954,355 reduction in net position.

**Required Supplementary Information**

**Alderwood Water & Wastewater District  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 1  
As of June 30, 2018  
Last Ten Fiscal Years\***

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

**Alderwood Water & Wastewater District  
Schedule of Employer Contributions  
PERS 1  
As of December 31, 2018  
Last Ten Years\***

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

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

**Required Supplementary Information**

**Alderwood Water & Wastewater District  
Schedule of Proportionate Share of the Net Pension Liability  
PERS 2/3  
As of June 30, 2018  
Last Ten Fiscal Years\***

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

**Alderwood Water & Wastewater District  
Schedule of Employer Contributions  
PERS 2/3  
As of December 31, 2018  
Last Ten Fiscal Years\***

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

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

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## **STATISTICAL SECTION**

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

### **FINANCIAL TRENDS**

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

### **REVENUE CAPACITY**

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

### **DEBT CAPACITY**

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

### **DEMOGRAPHIC AND ECONOMIC INFORMATION**

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

### **OPERATING INFORMATION**

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

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

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

**Schedule 1 - Water Fund**

	<b>2018</b>	<b>2017</b>	<b>Restated 2016</b>	<b>2015</b>	<b>Restated 2014</b>
<b>OPERATING REVENUE:</b>					
Utility Revenue	\$ 39,002,595	\$ 36,429,724	\$ 33,908,383	\$ 33,779,264	\$ 32,485,509
Other Charges for Services	\$ 954,470	2,750,087	1,748,396	1,735,863	1,789,034
<b>Total Operating Revenue</b>	<b>39,957,065</b>	<b>39,179,811</b>	<b>35,656,779</b>	<b>35,515,127</b>	<b>34,274,543</b>
<b>OPERATING EXPENSES:</b>					
General Operations	14,525,642	14,384,742	11,641,825	12,232,476	13,114,066
Purchased Water	16,504,199	14,802,677	13,072,224	13,636,490	12,093,029
Depreciation Expense	5,160,063	5,141,286	5,206,540	5,186,428	5,109,674
Taxes	1,338,605	1,316,350	1,220,013	1,233,473	1,185,266
<b>Total Operating Expenses</b>	<b>37,528,509</b>	<b>35,645,055</b>	<b>31,140,602</b>	<b>32,288,867</b>	<b>31,502,035</b>
 Operating Income (Loss)	 2,428,556	 3,534,757	 4,516,178	 3,226,260	 2,772,508
<b>NONOPERATING REVENUE (EXPENSES):</b>					
Interest and Investment Revenue	1,415,938	730,433	636,231	570,616	743,898
Rent	140,530	133,306	125,581	120,367	115,301
Other Capital Revenue	9,696	-	-	15,000	-
Gains (Losses) on Capital Asset Disposition	(367,944)	97,812	(104,098)	(3,778)	(220,168)
Interest on Long-Term Debt	(934,466)	(1,091,695)	(1,198,474)	(1,374,126)	(1,450,374)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>263,754</b>	<b>(130,144)</b>	<b>(540,761)</b>	<b>(671,921)</b>	<b>(811,343)</b>
 Income Before Capital Contributions	 2,692,310	 3,404,613	 3,975,417	 2,554,339	 1,961,165
<b>Capital Contributions</b>					
Contributed Systems	3,589,404	3,667,596	4,217,474	5,494,277	2,586,710
Other Capital Contributions	6,489,172	3,911,136	2,378,874	2,072,927	2,135,046
<b>Total Capital Contributions</b>	<b>10,078,576</b>	<b>7,578,732</b>	<b>6,596,348</b>	<b>7,567,204</b>	<b>4,721,756</b>
 <b>CHANGE IN NET POSITION</b>	 <b>12,770,886</b>	 <b>10,983,345</b>	 <b>10,571,764</b>	 <b>10,121,543</b>	 <b>6,682,921</b>
 <b>TOTAL NET POSITION, January 1</b>	 <b>218,740,242</b>	 <b>207,756,897</b>	 <b>197,185,133</b>	 <b>191,166,005</b>	 <b>184,483,084</b>
<b>Cumulative effect of change in accounting principle</b>	<b>(246,488)</b>	<b>-</b>	<b>-</b>	<b>(4,102,415)</b>	<b>-</b>
<b>TOTAL NET POSITION, December 31</b>	<b>\$ 231,264,640</b>	<b>\$ 218,740,242</b>	<b>\$ 207,756,897</b>	<b>\$ 197,185,133</b>	<b>\$ 191,166,005</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	167,161,959	158,644,771	152,822,147	143,398,780	136,852,375
Restricted	2,415,946	7,866,301	3,537,920	3,586,870	3,498,878
Unrestricted	61,686,735	52,229,170	51,396,830	50,199,482	50,814,752
 <b>TOTAL NET POSITION</b>	 <b>\$ 231,264,640</b>	 <b>\$ 218,740,242</b>	 <b>\$ 207,756,897</b>	 <b>\$ 197,185,133</b>	 <b>\$ 191,166,005</b>

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

<b>Schedule 1 - Water Fund</b>				
<b>Restated 2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
\$ 28,452,790	\$ 29,939,114	\$ 27,511,872	\$ 26,513,466	\$ 26,406,357
1,159,482	1,035,856			
<u>29,612,272</u>	<u>30,974,970</u>	<u>27,511,872</u>	<u>26,513,466</u>	<u>26,406,357</u>
10,778,948	10,715,914	8,526,924	7,718,312	7,686,922
10,449,389	13,353,668	10,827,434	10,396,280	12,927,074
4,946,127	4,962,219	5,549,109	4,859,621	4,328,722
1,147,328	1,086,234	1,048,023	994,060	956,184
<u>27,321,792</u>	<u>30,118,035</u>	<u>25,951,490</u>	<u>23,968,273</u>	<u>25,898,902</u>
2,290,480	856,935	1,560,382	2,545,192	507,455
261,806	841,420	485,932	501,852	410,143
365,603	106,396	101,968	89,600	76,907
(78,235)	(1,608,539)	14,117	-	(191,738)
<u>(1,532,797)</u>	<u>(1,667,006)</u>	<u>(1,742,817)</u>	<u>(1,681,306)</u>	<u>(1,272,629)</u>
<u>(983,623)</u>	<u>(2,327,729)</u>	<u>(1,140,800)</u>	<u>(1,089,854)</u>	<u>(977,317)</u>
<u>1,306,857</u>	<u>(1,470,794)</u>	<u>419,582</u>	<u>1,455,339</u>	<u>(469,862)</u>
2,210,438	1,286,402	2,313,811	2,972,240	1,651,122
2,031,798	2,184,401	1,924,137	1,628,398	1,871,035
<u>4,242,236</u>	<u>3,470,803</u>	<u>4,237,948</u>	<u>4,600,638</u>	<u>3,522,157</u>
5,549,093	2,000,009	4,657,530	6,055,976	3,052,295
178,933,991	177,272,202	172,614,672	166,558,695	163,506,400
	(338,220)			
<u>\$ 184,483,084</u>	<u>\$ 178,933,991</u>	<u>\$ 177,272,202</u>	<u>\$ 172,614,672</u>	<u>\$ 166,558,695</u>
134,645,229	125,139,564	114,575,850	110,773,067	124,620,893
3,675,393	3,630,794	6,761,571	11,067,661	5,444,785
46,162,462	50,163,633	55,934,781	50,773,944	36,493,017
<u>\$ 184,483,084</u>	<u>\$ 178,933,991</u>	<u>\$ 177,272,202</u>	<u>\$ 172,614,672</u>	<u>\$ 166,558,695</u>

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

**Schedule 2 - Wastewater Fund**

	<b>2018</b>	<b>2017</b>	<b>Restated 2016</b>	<b>2015</b>	<b>Restated 2014</b>
<b>OPERATING REVENUE:</b>					
Utility Revenue	\$ 48,587,537	\$ 44,682,336	\$ 42,150,115	\$ 41,016,423	\$ 39,824,337
Other Charges for Services	\$ 215,815	\$ 303,703	\$ -	\$ -	\$ -
<b>Total Operating Revenue</b>	<b>48,803,352</b>	<b>44,986,039</b>	<b>42,150,115</b>	<b>41,016,423</b>	<b>39,824,337</b>
<b>OPERATING EXPENSES:</b>					
General Operations	10,775,159	9,990,597	8,980,975	8,489,424	8,242,494
Purchased Wastewater Treatment	28,501,321	26,855,073	27,568,406	22,740,943	21,016,545
Depreciation Expense	10,060,358	9,697,136	9,383,804	9,221,508	9,026,778
Taxes	422,329	255,181	366,538	394,778	421,780
<b>Total Operating Expenses</b>	<b>49,759,167</b>	<b>46,797,987</b>	<b>46,299,723</b>	<b>40,846,653</b>	<b>38,707,597</b>
 Operating Income (Loss)	 (955,815)	 (1,811,948)	 (4,149,607)	 169,770	 1,116,740
<b>NONOPERATING REVENUE (EXPENSES):</b>					
Interest and Investment Revenue	1,505,198	995,998	857,189	731,861	957,134
Rent	-	-	-	-	-
Other Capital Revenue	9,696	29,733	843,026	1,176,026	-
Gains (Losses) on Capital Asset Disposition	(690,946)	43,796	(210,319)	-	(416,677)
Interest on Long-Term Debt	(2,702,829)	(2,765,407)	(2,790,392)	(2,812,449)	(2,848,006)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(1,878,881)</b>	<b>(1,695,880)</b>	<b>(1,300,496)</b>	<b>(904,562)</b>	<b>(2,307,549)</b>
 Income Before Capital Contributions	 (2,834,696)	 (3,507,828)	 (5,450,103)	 (734,792)	 (1,190,809)
<b>Capital Contributions</b>					
Contributed Systems	3,159,893	4,802,555	5,302,690	4,679,767	4,313,145
Other Capital Contributions	5,550,858	3,270,620	3,078,183	2,958,284	2,924,470
<b>Total Capital Contributions</b>	<b>8,710,751</b>	<b>8,073,175</b>	<b>8,380,873</b>	<b>7,638,051</b>	<b>7,237,615</b>
 <b>CHANGE IN NET POSITION</b>	 <b>5,876,055</b>	 <b>4,565,347</b>	 <b>2,930,769</b>	 <b>6,903,259</b>	 <b>6,046,806</b>
 <b>TOTAL NET POSITION, January 1</b>	 <b>236,023,723</b>	 <b>231,458,376</b>	 <b>228,527,607</b>	 <b>225,726,763</b>	 <b>219,679,957</b>
<b>Cumulative effect of change in accounting principle</b>	<b>(707,867)</b>	<b>-</b>	<b>-</b>	<b>(4,102,415)</b>	<b>-</b>
 <b>TOTAL NET POSITION, December 31</b>	 <b>\$ 241,191,911</b>	 <b>\$ 236,023,723</b>	 <b>\$ 231,458,376</b>	 <b>\$ 228,527,607</b>	 <b>\$ 225,726,763</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	197,189,194	180,053,007	175,970,433	171,954,652	170,869,471
Restricted	5,478,057	2,914,565	2,099,171	2,117,398	2,097,794
Unrestricted	38,524,660	53,056,151	53,388,771	54,455,556	52,759,498
 <b>TOTAL NET POSITION</b>	 <b>\$ 241,191,911</b>	 <b>\$ 236,023,723</b>	 <b>\$ 231,458,375</b>	 <b>\$ 228,527,607</b>	 <b>\$ 225,726,763</b>

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

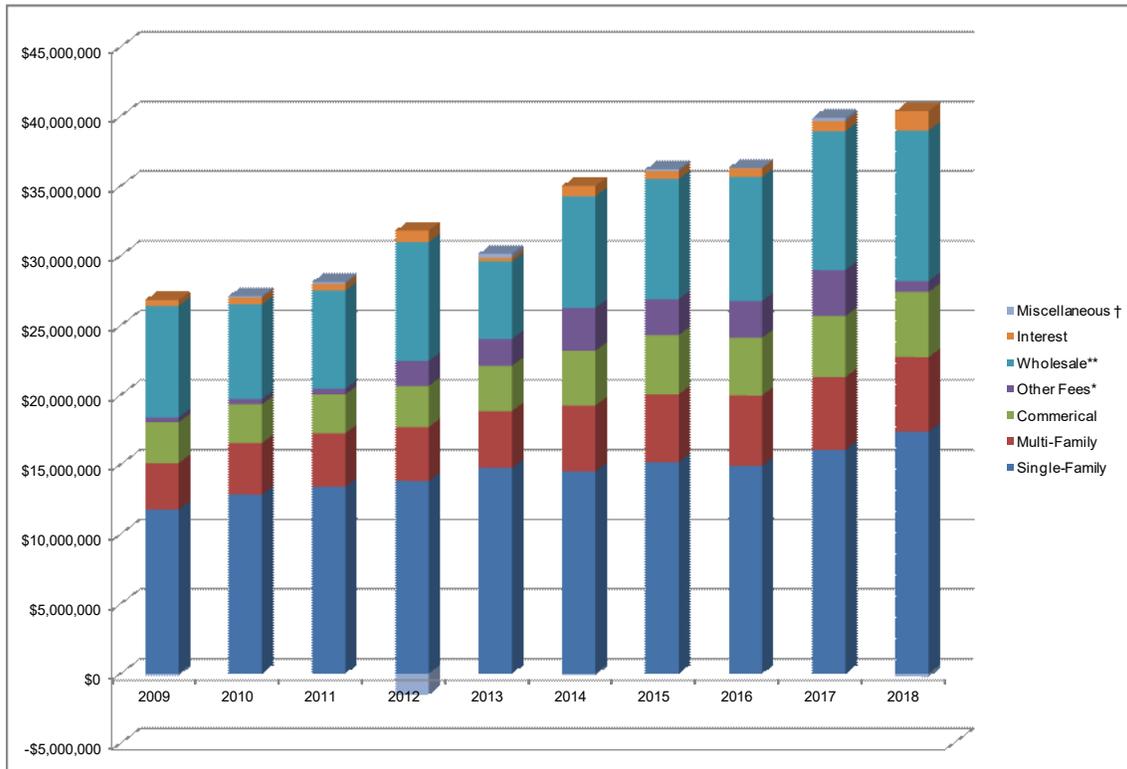
Schedule 2 - Wastewater Fund

Restated 2013	2012	2011	2010	2009
\$ 36,542,512	\$ 34,494,862	\$ 31,781,529	\$ 29,921,704	\$ 27,389,112
\$ -	\$ -	\$ -	\$ -	\$ -
<u>36,542,512</u>	<u>34,494,862</u>	<u>31,781,529</u>	<u>29,921,704</u>	<u>27,389,112</u>
7,974,894	7,922,437	6,819,954	5,924,284	6,151,239
20,479,777	18,160,577	17,767,393	15,578,050	15,417,404
7,875,086	6,814,451	6,941,288	3,720,224	3,399,810
348,793	381,311	326,105	310,734	246,990
<u>36,678,550</u>	<u>33,278,776</u>	<u>31,854,740</u>	<u>25,533,292</u>	<u>25,215,443</u>
(136,038)	1,216,086	(73,211)	4,388,412	2,173,669
461,564	1,038,170	633,918	654,319	511,669
-	-	-	-	-
(1,535)	149,556	(3,773,164)	-	2,774
(2,245,479)	(1,873,180)	(1,897,680)	(1,576,034)	(136,840)
<u>(1,785,450)</u>	<u>(685,454)</u>	<u>(5,036,926)</u>	<u>(921,715)</u>	<u>377,603</u>
<u>(1,921,488)</u>	<u>530,632</u>	<u>(5,110,137)</u>	<u>3,466,697</u>	<u>2,551,272</u>
2,388,722	3,491,271	1,854,280	3,201,852	1,461,770
2,744,135	1,110,454	1,042,335	629,776	1,049,438
<u>5,132,857</u>	<u>4,601,725</u>	<u>2,896,615</u>	<u>3,831,628</u>	<u>2,511,208</u>
<u>3,211,369</u>	<u>5,132,357</u>	<u>(2,213,522)</u>	<u>7,298,325</u>	<u>5,062,480</u>
216,512,537	211,581,740	213,795,262	206,496,937	201,434,458
(43,949)	(201,560)			
<u>\$ 219,679,957</u>	<u>\$ 216,512,537</u>	<u>\$ 211,581,740</u>	<u>\$ 213,795,262</u>	<u>\$ 206,496,938</u>
171,589,853	185,049,009	170,240,190	155,319,344	166,846,233
11,733,458	2,208,956	2,967,970	2,909,640	749,266
36,356,646	29,254,572	38,373,580	55,566,278	38,901,439
<u>\$ 219,679,957</u>	<u>\$ 216,512,537</u>	<u>\$ 211,581,740</u>	<u>\$ 213,795,262</u>	<u>\$ 206,496,938</u>

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

**Schedule 3 - Water Fund**

Fiscal Year	Charges for Water Services						Interest	Miscellaneous †	Total
	Single-Family	Multi-Family	Commerical	Other Fees*	Wholesale**				
2009	11,772,826	3,339,402	2,935,907	344,525	8,013,697		410,143	(114,831)	26,701,669
2010	12,860,535	3,689,461	2,789,304	378,544	6,795,622		501,852	89,600	27,104,918
2011	13,413,353	3,836,804	2,791,509	421,936	7,048,270		485,932	116,085	28,113,889
2012	13,834,461	3,858,420	2,962,007	1,789,030	8,531,051		841,420	(1,502,143)	30,314,246
2013	14,773,079	4,072,251	3,256,975	1,917,277	5,592,691		261,806	287,368	30,161,447
2014	14,520,016	4,726,351	3,930,593	3,075,251	8,022,333		743,898	(104,867)	34,913,574
2015	15,185,517	4,867,834	4,257,917	2,570,540	8,633,319		570,616	131,589	36,217,331
2016	14,908,980	5,057,984	4,145,240	2,632,861	8,911,714		636,231	21,483	36,314,493
2017	16,063,314	5,224,810	4,386,794	3,299,671	9,975,703		730,433	212,548	39,893,273
2018	17,359,116	5,365,122	4,684,493	780,425	10,813,440		1,399,757	(227,413)	40,174,939



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

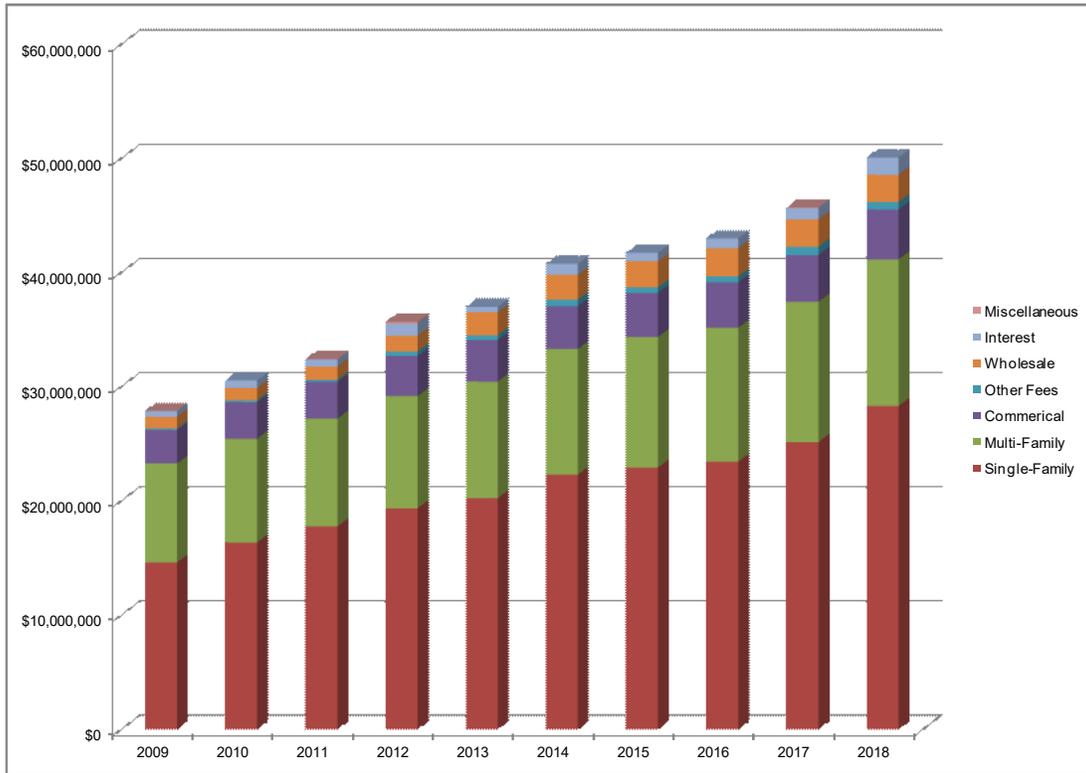
\*\* In 2013, revenues from the sale of water to the Clearview Water Supply Agency were not recognized as wholesale revenue. Thus, a significant drop in wholesale revenue can be seen in those years. In 2015, the District returned to its original method of recognizing this inflow as wholesale revenue.

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

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

**Schedule 4 - Wastewater Fund**

Fiscal Year	Charges for Wastewater Services						Interest	Miscellaneous	Total
	Single-Family	Multi-Family	Commerical	Other Fees	Wholesale				
2009	14,623,323	8,676,285	2,928,814	132,155	1,028,535		511,669	2,774	27,903,555
2010	16,382,166	9,084,821	3,199,981	170,765	1,083,970		654,319	-	30,576,023
2011	17,786,705	9,438,980	3,215,132	174,941	1,165,771		633,918	-	32,415,447
2012	19,370,587	9,827,123	3,507,393	403,863	1,385,676		1,038,170	149,556	35,682,368
2013	20,264,819	10,202,271	3,632,070	429,678	2,013,674		461,564	-	37,004,076
2014	22,319,289	11,011,951	3,744,053	571,747	2,177,297		957,134	-	40,781,471
2015	22,940,913	11,438,839	3,862,963	488,670	2,285,038		731,861	-	41,748,284
2016	23,455,957	11,723,185	3,985,496	509,798	2,475,679		857,189	-	43,007,304
2017	25,163,685	12,296,695	4,092,685	724,050	2,405,221		995,998	31,444	45,709,778
2018	28,327,436	12,838,002	4,373,040	645,424	2,403,635		1,505,198		50,092,735



**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Connections by Type of Service Classification**  
**Last ten fiscal years**

**Schedule 5**

**Water Accounts**

Fiscal Year	Single-Family	Multi-Family	Single-Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Irrigation	Fire Protection	Total	Increase/Decrease Prior Yr.
2009	40,240	2,300	1,038	300	69	18	869	695	45,529	
2010	41,031	2,299	1,050	305	68	21	884	719	46,377	1.9%
2011	41,898	2,304	1,058	315	68	20	907	754	47,324	2.0%
2012	42,662	2,335	1,073	312	68	19	939	786	48,194	1.8%
2013	43,405	2,337	1,082	317	66	19	963	811	49,000	1.7%
2014	44,205	2,386	1,088	319	66	19	992	875	49,950	1.9%
2015	44,983	2,396	1,097	315	66	20	1,023	890	50,790	1.7%
2016	45,862	2,435	1,116	315	66	20	1,056	947	51,817	2.0%
2017	47,240	2,437	1,119	322	66	20	1,091	967	53,262	2.8%
2018	48,199	2,443	1,123	321	65	19	1,135	976	54,281	1.9%

**Wastewater Accounts**

Fiscal Year	Single-Family	Multi-Family	Single Commercial	Multi-Commercial	Mobile Home & R.V. Parks	Hotel/Motel	Total	Increase/Decrease Prior Yr.
2009	29,783	2,121	795	269	57	18	33,043	
2010	30,595	2,122	802	274	56	20	33,869	2.5%
2011	31,479	2,126	811	285	56	20	34,777	2.7%
2012	32,269	2,157	827	285	56	19	35,613	2.4%
2013	33,055	2,166	834	289	54	19	36,417	2.3%
2014	33,866	2,218	845	291	54	19	37,293	2.4%
2015	34,710	2,230	846	289	54	20	38,149	2.3%
2016	35,658	2,275	862	290	54	20	39,159	2.6%
2017	37,056	2,284	868	298	55	20	40,581	3.6%
2018	38,084	2,294	874	298	55	19	41,624	2.6%

ALDERWOOD WATER & WASTEWATER DISTRICT  
Water and Wastewater Utility Rates  
Last ten fiscal years

**Schedule 6**

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

**Water Service**

Fiscal Year	Bi-Monthly Base Rate	Example Water Bill Amounts		
		Total Charges for 10ccf	Total Charges for 20ccf	Total Charges for 40 ccf
2009	22.78	40.08	57.38	91.98
2010	25.96	46.21	66.46	106.96
2011	27.26	48.61	69.96	112.66
2012	27.26	48.61	69.96	112.66
2013	27.26	48.61	69.96	112.66
2014	29.90	44.30	71.30	129.30
2015	29.90	44.30	71.30	129.30
2016	29.90	44.30	71.30	129.30
2017	30.50	44.96	72.12	136.52
2018	31.11	45.87	73.23	138.33

**Notes:**

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

**Wastewater Service**

Fiscal Year	Bi-Monthly Base Rate	Example Wastewater Bill Amounts		
		Total Charges for 10ccf	Total Charges for 20ccf	Total Charges for 40 ccf
2009	84.73	84.73	84.73	84.73
2010	92.06	92.06	92.06	92.06
2011	97.34	97.34	97.34	97.34
2012	102.92	102.92	102.92	102.92
2013	102.92	102.92	102.92	102.92
2014	108.00	108.00	115.50	145.50
2015	108.00	108.00	115.50	145.50
2016	108.00	108.00	115.50	145.50
2017	n/a	117.00	117.00	142.00
2018	n/a	125.33	152.11	152.11

**Notes:**

- In years 2007 - 2013, a flat fee was charged with no volume charge component.
- In years 2014 - 2016, 15 ccf of water is included in a base charge. Above 15 ccf, volume charges used.
- Starting in 2017, the District moved to a tiered flat-fee rate structure for Single-Family Wastewater. Customers fall into one of three usage tiers, based on billed water use: 0-4 ccf, 5-18 ccf, 19ccf+. The charge for each category is \$90, \$117, \$142, respectively (billed bi-monthly). Winter averaging is also employed.

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

**Schedule 7**

**Water Fund**

	2018		2009				
	Ratepayer	Total Amount Billed for Water	Percent of Fund Retail Revenue	Ratepayer	Total Amount Billed for Water	Percent of Fund Retail Revenue	
1	Harbour Pointe Golf Course	\$ 115,224	0.4%	1	ERP Operating LP	\$ 104,715	0.6%
2	The Renaissance	110,202	0.4%	2	The Renaissance	80,809	0.4%
3	Griffis North Creek	108,798	0.4%	3	Keelers Corner	76,595	0.4%
4	Floral Hills LOC 0270	107,694	0.4%	4	KW Mill Creek Prop Mgr LLC	71,400	0.4%
5	GS Randemoor LLC	105,174	0.4%	5	Archstone Communities	68,612	0.4%
6	Keelers Corner	101,643	0.4%	6	Harbour Pointe Golf Course	68,265	0.4%
7	BRE Properties Inc	100,742	0.4%	7	BRE Properties Inc	66,562	0.4%
8	BRE Silver MF WA LLC	89,371	0.3%	8	Mukilteo School District #6	63,288	0.4%
9	FRG Grove LLC & JSP Grove LLC	88,424	0.3%	9	Avalon Bay Communities #494800	63,145	0.3%
10	Fairfield Crystal Cove LLC	87,516	0.3%	10	Crystal Cove Apartments	61,224	0.3%
TOTAL		\$ 1,014,787	3.70%	TOTAL		\$ 724,613	4.00%

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

**Schedule 8**

**Wastewater Fund**

		2018		2018				2009		2009	
Ratepayer		Total Amount	Percent of Fund	Retail Revenue		Ratepayer		Total Amount	Percent of Fund	Retail Revenue	
		Billed for Wastewater						Billed for Wastewater			
1	BRE Silver MF WA LLC	\$ 241,373	0.5%			1	ERP Operating LP	\$ 247,272	0.9%		
2	Griffis North Creek	236,900	0.5%			2	Archstone Communities	188,894	0.7%		
3	GS Brandemoor LLC	231,017	0.5%			3	KW Mill Creek Prop Mgr LLC	186,730	0.7%		
4	The Renaissance	220,087	0.5%			4	The Renaissance	174,947	0.7%		
5	Keelers Corner	200,838	0.4%			5	Keelers Corner	167,488	0.6%		
6	Fairfield Crystal Cove LLC	198,618	0.4%			6	Avalon Bay Communities #494800	165,902	0.6%		
7	FRG Grove LLC & JSP Grove LLC	190,937	0.4%			7	Crystal Cove Apartments	157,761	0.6%		
8	ERP Operating LP	185,470	0.4%			8	Millwood Estates	133,711	0.5%		
9	Millwood Estates	181,944	0.4%			9	Wandering Creek	128,071	0.5%		
10	Vintage At Urban Center LLC	178,321	0.4%			10	Avalon Bay Communities Inc	125,924	0.5%		
TOTAL		\$ 2,065,504	4.40%			TOTAL		\$ 1,676,700	6.30%		

ALDERWOOD WATER & WASTEWATER DISTRICT  
 Outstanding debt by type  
 Last ten fiscal years

**Schedule 9**

Fiscal Year	Revenue Bonds	Public Works Trust Fund & State Revolving Fund Loans	Total Outstanding Debt	Per Account*	Percentage of Personal Income
2009	23,885,000	10,496,631	34,381,631	491.30	1.25%
2010	74,190,000	17,884,677	92,074,677	1,298.03	3.30%
2011	71,360,000	18,681,457	90,041,457	1,251.22	3.03%
2012	68,450,000	17,511,708	85,961,708	1,126.08	2.63%
2013	90,460,000	16,726,487	107,186,487	1,343.49	3.13%
2014	87,065,000	17,758,410	104,823,410	1,292.84	2.88%
2015	83,095,000	16,840,381	99,935,381	1,224.26	2.48%
2016	79,270,000	15,676,175	94,946,175	1,146.18	2.24%
2017	75,300,000	11,953,679	87,253,679	1,015.64	1.92%
2018	71,175,000	17,300,273	88,475,273	1,008.69	1.85%

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

ALDERWOOD WATER & WASTEWATER DISTRICT  
Debt service coverage  
Last ten fiscal years

**Schedule 10**

Fiscal Year	Change in Net Position	Adjustments to (from) Change in Net Position				Available for Debt Service	Debt Service**	Debt Service Coverage Ratio
		Depreciation	Interest Expense	Debt Discount Amortization	Contributed Capital Systems			
2009	8,114,775	7,728,532	1,381,166	28,303	(3,112,892)	14,139,884	1,826,995	7.74
2010	13,354,301	8,579,845	3,300,055	(42,715)	(6,174,091)	19,017,395	5,811,217	3.27
2011	2,444,008	12,490,397	3,683,739	(43,242)	(4,168,091)	14,406,811	6,146,373	2.34
2012	7,132,366	11,776,670	3,583,428	(43,242)	(5,057,019)	17,392,203	6,756,259	2.57
2013	8,760,462	12,821,213	3,778,276	(37,423)	(4,599,160)	20,723,368	7,608,467	2.72
2014	12,729,727	14,136,452	4,477,987	179,607	(6,899,855)	24,623,918	9,138,844	2.69
2015	17,024,802	14,407,936	4,186,575	127,507	(10,174,044)	25,572,776	9,626,695	2.66
2016	13,502,534	14,590,344	3,988,867	178,993	(9,520,164)	22,740,574	9,257,877	2.46
2017	15,548,692	14,838,422	3,857,102	172,247	(8,470,151)	25,946,312	9,427,723	2.75
2018	18,646,941	15,220,421	3,637,295	172,242	(6,749,297)	30,927,602	8,829,534	3.50

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

\*\* Debt Service includes all bonds and outstanding loans (Public Works Trust Fund and State Revolving Fund), but excludes Build America Bonds interest payments from the Federal Government of \$698,365, \$860,998, \$860,998, \$792,549, \$798,576, \$800,298, \$802,020, \$802,881, and \$801,449 in 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, and 2018 respectively.

ALDERWOOD WATER & WASTEWATER DISTRICT  
 Snohomish County selected demographics  
 Last ten fiscal years

**Schedule 11**

Fiscal Year	Total County Population	Total Unincorporated County Population	District Accounts Served*	Total County Median Household Income	Total County Per Capita Personal Income	Total County Unemployment Rate
2008	696,600	324,320	69,386	64,289	41,073	7.4%
2009	704,300	328,285	69,981	63,297	39,302	10.9%
2010	713,335	302,292	70,934	62,034	39,375	10.2%
2011	717,000	304,435	71,963	62,687	41,336	8.2%
2012	722,900	308,445	76,337	64,033	42,818	6.1%
2013	730,500	312,500	79,782	64,391	42,916	5.3%
2014	741,000	320,335	81,080	68,637	44,967	4.4%
2015	757,600	330,260	81,629	75,292	49,327	4.7%
2016	772,860	338,595	82,837	77,985	51,091	3.9%
2017	789,400	349,800	85,910	80,579	52,791	4.0%
2018	805,120	357,555	87,713	83,172	54,489	3.6%

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

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

ALDERWOOD WATER & WASTEWATER DISTRICT  
 Snohomish County principal private employers  
 Current and ten fiscal years ago

**Schedule 12**

Employer	Product/Service	2018			2008*		
		Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Boeing	Aircraft Manufacturing	1	35,000	8.4%	1	35,000	9.9%
Providence Regional Medical Center	Medical Services	2	4,906	1.2%	2	3,220	0.9%
Everett Clinic	Medical Services	3	2,871	0.7%	8	1,400	0.4%
Premera Blue Cross	Health Insurer	4	2,200	0.5%	3	3,200	0.9%
Albertson's / Safeway (21 locations)	Retail - Grocery	5	2,177	0.5%	-	-	-
Philips Medical Systems	Ultrasound Technology	6	2,000	0.5%	5	1,600	0.5%
Swedish Medical Center - Edmonds	Health Care	7	1,850	0.4%	-	-	-
Walmart	Retail - Grocery	9	1,342	0.3%	-	-	-
Fred Meyer / QFC (18 locations)	Retail - Grocery	9	1,350	0.3%	-	-	-
Fluke Corp. (Danaher)	Electronic Testing Equipment	10	1,200	-	10	1,000	0.3%
Aviation Technical Services	Aircraft Repair & Maintenance	-	-	-	7	1,400	0.4%
Crane Aerospace & Electronics	Aerospace Electronics	-	-	-	-	-	-
McDonald's	Restaurant	-	-	-	-	-	-
Seattle Genetics	Biotechnology	-	-	-	-	-	-
<b>Total</b>			<b>54,896</b>	<b>12.9%</b>		<b>46,820</b>	<b>13.2%</b>
Total County Employment (Private + Public)			415,777		353,595		

**Source:** Information on principal employers provided by Economic Alliance of Snohomish County.

Total county employment provided by Washington State Employment Security Department.

\*2009 Employment data was not available.

ALDERWOOD WATER & WASTEWATER DISTRICT  
 Snohomish County principal public employers  
 Last ten fiscal years

**Schedule 13**

Employer	2018			2008*		
	Rank	Number of Employees	Percentage of Total County Employment	Rank	Number of Employees	Percentage of Total County Employment
Edmonds School District	1	3,616	0.9%	5	1,400	0.4%
The Tulalip Tribes	2	3,500	0.8%	-	-	-
Washington State (includes colleges and Monroe Correctional Complex)	3	3,000	0.7%	2	3,000	0.8%
Naval Station Everett	4	2,987	0.7%	1	6,000	1.7%
Snohomish County Government	5	2,759	0.7%	3	2,700	0.8%
Everett School District	6	2,443	0.6%	4	1,770	0.5%
U.S. Federal Government	7	2,100	0.5%	-	-	-
Mukilteo School District	8	2,020	0.5%	-	-	-
Edmonds Community College	9	1,635	0.4%	-	-	-
Marysville School District	10	1,341	0.3%	6	1,270	0.4%
City of Everett	-	-	-	8	1,200	0.3%
Snohomish School District	-	-	-			
Snohomish County PUD	-	-	-	10	900	0.3%
<b>Total</b>		<b>25,401</b>	<b>5.2%</b>		<b>16,840</b>	<b>4.8%</b>
Total County Employment (Private + Public)		415,777			353,595	

**Source:** Information on principal employers provided by Economic Alliance of Snohomish County.

Total county employment provided by Washington State Employment Security Department.

\*2009 Employment data was not available.

ALDERWOOD WATER & WASTEWATER DISTRICT  
 Meter applications and side sewer inspections  
 Last ten fiscal years

**Schedule 14**

<b>Side Sewer Inspections</b>	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total Side Sewers Inspected	1,202	1,436	974	857	888	877	879	840	779	601
Increase/Decrease from Prior Year	-16%	47%	14%	-3%	1%	0%	5%	8%	30%	

<b>Water Meter Applications by size</b>	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
5/8 x 3/4"	442	993	816	783	774	726	836	879	767	693
3/4" x 3/4"	16	138	46	25	19	17	19	14	9	0
1"	379	299	105	43	98	34	39	29	25	23
1 1/2"	7	6	12	10	15	9	13	11	12	11
2"	21	24	63	25	68	48	42	21	13	9
3"	0	0	3	0	0	1	0	1	4	3
4"	1	3	16	2	12	3	3	5	4	7
6"	1	4	8	4	3	3	1	5	12	3
8"	2	0	1	0	3	1	2	2	0	3
10"	0	0	0	0	0	0	0	1	0	0
Total	869	1,467	1,070	892	992	842	955	968	846	752
Increase/Decrease from Prior Year	-41%	37%	20%	-10%	18%	-12%	-1%	14%	13%	

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

ALDERWOOD WATER & WASTEWATER DISTRICT  
 District employees by function  
 Last ten fiscal years

**Schedule 15**

Fiscal Year	Commissioners	Administrative Services	Engineering & Development Services	Capital Improvements	Finance	Maintenance & Operations	Total
2009	5	9	17	-	13	66	110
2010	5	9	18	-	13	65	110
2011	5	9	19	-	13	69	115
2012	5	9	12	7	13	65	111
2013	5	9	12	7	14	72	119
2014	5	11	12	9	13	79	129
2015	5	10	22	-	13	73	123
2016	5	12	22	-	14	84	137
2017	5	12	22	-	14	85	138
2018	5	15	26	0	13	85	144

**Notes:**

Commissioners are part-time elected positions.

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

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

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

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

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

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

ALDERWOOD WATER & WASTEWATER DISTRICT  
Water Operations Characteristics  
Last ten fiscal years

**Schedule 16**

Year	Average Day Demand (mgd)	Maximum Day Demand (mgd)	Date of Maximum Day Demand (mgd)	Maximum Day Peaking Factor	Total Water Purchases (MG)
2009	28.0	51.5	July 30	1.84	8,646.6
2010	25.7	44.4	July 26	1.73	7,739.4
2011	25.5	39.8	September 11	1.56	7,628.0
2012	26.8	40.8	August 17	1.52	8,069.5
2013	27.5	44.6	August 7	1.62	8,377.5
2014	27.2	46.6	July 12	1.71	8,404.6
2015	27.9	51.4	July 7	1.84	8,951.1
2016	26.6	44.0	August 19	1.65	8,917.8
2017	27.7	49.7	August 11	1.79	9,209.9
2018	27.6	47.4	July 14	1.71	9,218.2
<b>Average</b>	27.0	46.0	August 1	1.7	8,516.3

*mgd = million gallons per day*

*MG = million gallons*

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

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

ALDERWOOD WATER & WASTEWATER DISTRICT  
 Operating and Capital Indicators  
 Last ten fiscal years

**Schedule 17**

<b>WATER</b>	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Miles of Water Lines	677	673	665	657	649	642	630	626	618	613
Number of Reservoirs	8	8	8	8	8	8	8	8	8	8
Total Storage Capacity (mg)	96.5	96.5	96.5	96.5	96.5	96.5	96.5	96.5	96.5	96.5
Number of Pump Stations	3	3	3	3	3	3	3	3	3	3
Number of Pressure Reduction Valves	5	5	5	5	5	5	4	4	4	4
Total Water Purchases (mg)	9,218	9,210	8,918	8,951	8,405	8,378	8,070	7,628	7,739	8,647

<b>WASTEWATER</b>	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Miles of Wastewater Lines	480	474	466	459	451	444	439	436	431	426
Number of Lift Stations	12	12	12	12	10	13	12	12	12	12
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (mgd)	4	4	4	4	4	4	3	3	3	3
Total Wastewater Treated (mg)	783	813	956	799	800	796	815	781	792	745