

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

Alderwood Water and Wastewater District
Snohomish County

Audit Period
January 1, 2013 through December 31, 2013

Report No. 1012149

Issue Date
June 30, 2014



Washington State Auditor
Troy Kelley

Independence • Respect • Integrity



Washington State Auditor Troy Kelley

June 30, 2014

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Alderwood Water and Wastewater District's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Snohomish County
January 1, 2013 through December 31, 2013**

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Federal Summary

Alderwood Water and Wastewater District Snohomish County January 1, 2013 through December 31, 2013

The results of our audit of the Alderwood Water and Wastewater District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the District's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

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

**Alderwood Water and Wastewater District
Snohomish County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Alderwood Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 16, 2014. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

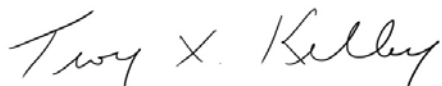
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

June 16, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

**Alderwood Water and Wastewater District
Snohomish County
January 1, 2013 through December 31, 2013**

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the Alderwood Water and Wastewater District, Snohomish County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

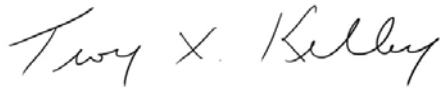
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 16, 2014

Independent Auditor's Report on Financial Statements

Alderwood Water and Wastewater District Snohomish County January 1, 2013 through December 31, 2013

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, Snohomish County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 11.

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

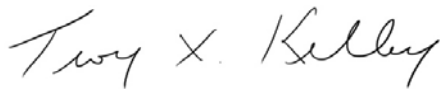
Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United

States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

June 16, 2014

Financial Section

**Alderwood Water and Wastewater District
Snohomish County
January 1, 2013 through December 31, 2013**

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Position – 2013 and 2012

Comparative Statement of Revenue, Expenses and Changes in Fund Net Position – 2013
and 2012

Comparative Statement of Cash Flows – 2013 and 2012

Notes to the Financial Statements – 2013 and 2012

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2013

Notes to Schedule of Expenditures of Federal Awards – 2013

Alderwood Water & Wastewater District
Management's Discussion and Analysis
Years ended December 31, 2013 and 2012

As Management of the Alderwood Water & Wastewater District (District), we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal years ending December 31, 2013 and December 31, 2012. Please read this in conjunction with the financial statements, including the notes to the financial statements, which follow.

Financial Highlights

- For the year ending December 31, 2013, the assets of the District exceeded its liabilities by \$404.2 million. Of this amount, referred to as net position, 22.6% or \$91.3 million is shown as unrestricted and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets (\$297.5 million or 73.6%) or restricted for debt service payments and reserves (\$15.4 million or 3.8%).
- As of the end of 2013, the District's total net position increased by \$8.8 million or 2.2% from the prior year. Net Position for the Water Fund increased \$5.6 million or 3.1% and the Net Position for the Wastewater Fund increased \$3.2 million or 1.5%.
- The District implemented Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes certain items that were previously reported as assets and liabilities as expenses in the period incurred. The cumulative impact of implementation of GASB 65 is a \$539,780 reduction of net position as of December 31, 2012- a result of recording expenses in the proper period for items previously recorded as unamortized bond issue cost.

Overview of the Financial Statements

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

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

The **Comparative Statement of Net Position** presents detailed information on all of the District's assets and liabilities, with the difference between total assets and total liabilities represented as net position. This statement reports all of the District's assets and liabilities at a precise date, in our case December 31. It is like taking a "financial photograph" of the District on the last day of the year. While it is interesting to know this information, it is more useful to compare it to what the District looked like at the same date of the prior year. To that end we have elected to present two years of financial statements, thus we call our statements

“comparative”. By looking at the two years together, a reader can see what changes have occurred in individual line items and begin to make a determination whether the changes, taken as a whole, indicate that the District’s financial position has improved or deteriorated.

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

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

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

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

Financial Position

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

Total Net Position (Dollars in Millions)

	Water			Wastewater			Total		
	Restated*			Restated*			Restated*		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Current and Other Assets	\$ 54.2	\$ 58.9	\$ 67.2	\$ 61.1	\$ 35.4	\$ 45.6	\$ 115.3	\$ 94.4	\$ 112.8
Capital Assets	170.6	163.7	156.0	234.1	232.5	218.9	404.7	396.2	374.9
Total Assets	224.8	222.6	223.2	295.3	267.9	264.5	520.1	490.5	487.7
Total deferred outflows of resources	-	-	-	0.04	0.07	-	0.04	0.07	-
Long-Term Liabilities	34.2	36.9	39.9	71.4	46.7	47.7	105.7	83.7	87.7
Other Liabilities	6.1	6.8	6.0	4.2	4.7	5.2	10.3	11.4	11.2
Total Liabilities	40.3	43.7	45.9	75.6	51.4	53.0	115.9	95.1	98.8
Total deferred inflows of resources	-	-	-	-	-	-	-	-	-
Invested in Capital Assets									
Net of Related Debt	134.7	125.2	114.6	162.9	185.0	170.2	297.5	310.2	284.8
Restricted	3.7	3.6	6.8	11.7	2.2	3.0	15.4	5.8	9.8
Unrestricted	46.2	50.2	55.9	45.1	29.3	38.4	91.3	79.4	94.3
Total Net Position	\$ 184.5	\$ 178.9	\$ 177.3	\$ 219.7	\$ 216.5	\$ 211.6	\$ 404.2	\$ 395.4	\$ 388.9

*2012 Restatement due to implementation of GASB Statement No. 65. Refer to Note 1 of the notes to the financial statements for additional information.

Analysis of changes in Total Net Position from 2012 (Restated)-2013:

For the twelve months ending December 31, 2013, the total net position of the District increased by \$8.8 million or 2.2% (\$395.4 million for 2012 vs. \$404.2 million for 2013). The amount of net position invested in capital assets, net of related debt was reduced by \$12.7 million (\$310.2 million for 2012 vs. \$297.5 million for 2013) or 4.3%. The amount of net position which is unrestricted was increased by \$11.9 million (\$79.4 million for 2012 vs. \$91.3 million for 2013) or 14.9%. Unrestricted net position is the amount which may be used to meet the District's ongoing obligations, including future capital investments. These changes to invested in capital assets and unrestricted net position are largely the result of the District continuing to invest current assets in capital projects during 2013. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

Analysis of changes in Total Net Position from 2011-2012 (Restated):

For the twelve months ending December 31, 2012, the total net position of the District increased by \$6.5 million or 1.7% (\$388.9 million for 2011 vs. \$395.4 million for 2012). The amount of net position invested in capital assets, net of related debt increased by \$25.4 million (\$284.8 million for 2011 vs. \$310.2 million for 2012) or 8.9%. The amount of net position which is unrestricted was reduced by \$14.9 million (\$94.3 million for 2011 vs. \$79.4 million for 2012) or 15.8%. Unrestricted net position is the amount which may be used to meet the District's ongoing obligations, including future capital investments. These changes in "invested in capital assets" and "unrestricted net position" are largely the result of investing current assets in capital projects during 2012. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

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

	Water			Wastewater			Total		
	Restated*			Restated*			Restated*		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Utility Revenue	\$ 29.6	\$ 31.0	\$ 27.5	\$ 36.5	\$ 34.5	\$ 31.8	\$ 66.2	\$ 65.5	\$ 59.3
Nonoperating Revenue	0.6	0.9	0.6	0.5	1.0	0.6	1.1	2.0	1.2
Total Revenues	30.2	31.9	28.1	37.0	35.5	32.4	67.2	67.5	60.5
Operation Expenses	16.3	19.2	16.0	26.5	24.2	22.9	42.8	43.4	38.9
Maintenance Expenses	4.9	4.9	3.4	2.0	1.9	1.7	6.9	6.8	5.1
Depreciation Expenses	4.9	5.0	5.5	7.9	6.8	6.9	12.8	11.8	12.5
Taxes	1.1	1.1	1.0	0.3	0.4	0.3	1.5	1.5	1.4
Total Operating Expenses	27.3	30.1	26.0	36.7	33.3	31.9	64.0	63.4	57.8
Nonoperating Expenses	1.6	3.3	1.7	2.2	1.7	5.7	3.9	5.0	7.4
Total Expenses	28.9	33.4	27.7	38.9	35.0	37.5	67.9	68.4	65.2
Inc. Before Cap. Contributions	1.3	(1.5)	0.4	(1.9)	0.5	(5.1)	(0.6)	(0.9)	(4.7)
Capital Contributions									
Contributed Systems	2.2	1.3	2.3	2.4	3.5	1.9	4.6	4.8	4.2
Other Capital Contributions	2.0	2.2	1.9	2.7	1.1	1.0	4.8	3.3	3.0
Change in Net Position	5.5	2.0	4.7	3.2	5.1	(2.2)	8.8	7.1	2.4
Beginning Net Position	178.9	177.3	172.6	216.5	211.6	213.8	395.4	388.9	386.4
Cummulative effect of a change in accounting principle	-	(0.3)	-	-	(0.2)	-	-	(0.5)	-
Ending Net Position	\$ 184.5	\$ 178.9	\$ 177.3	\$ 219.7	\$ 216.5	\$ 211.6	\$ 404.2	\$ 395.4	\$ 388.9

Analysis of changes in Revenues, Expenses, and Changes in Fund Net Position from 2012 (Restated)-2013:

Income or loss before Capital Contributions increased from 2012 to 2013 by \$0.3 million (\$0.9 million loss for 2012 vs. \$0.6 million loss for 2013). This was the result of a decrease in total revenue of \$0.3 million and a decrease in total expenses of \$0.5 million. In 2013 charges for other services, relating to the sale and contributions of water meters, was \$1.2 million. Nonoperating expenses decreased by \$1.1 million (\$5.0 million for 2012 vs. \$3.9 million for 2013) and operating expenses increased \$0.6 million (\$63.4 million for 2012 vs. \$64.0 million for 2013).

Capital contributions include 1) developer contributed systems, a non-cash transaction, and 2) customer payments of connection charges, a cash capital contribution, which are reported on the Statement of Revenues, Expenses, and Changes in Net Position. Developers contributed \$4.6 million in water and sewer mains and \$4.8 million in capital contribution (general facilities charges). This is a decrease in developer contributions of \$0.2 million or 4.1% (\$4.8 million for 2012 vs. \$4.6 million for 2013) and an increase in general facilities charges of \$1.5 million or 45% (\$3.3 million for 2012 vs. \$4.8 million for 2013).

Analysis of changes in Revenues, Expenses, and Changes in Fund Net Position from 2011-2012 (Restated):

Income or loss before Capital Contributions for 2012 increased from Income before Capital Contributions in 2011 by \$3.8 million (\$4.7 million loss for 2011 vs. \$0.9 million loss for 2012). This was the result of an increase in total revenue of \$7.0 million and a smaller increase in total expenses of \$3.2 million. Part of the increase in income was due to a change in how contributed and sold water meters are treated for accounting purposes. Prior to 2012, water meters contributed by developers and meters sold by the District were considered a capital system contribution and a capital asset. However, most individual contributed meters did not meet the District's capitalization threshold of \$5,000, so the contribution is now recognized as utility revenue and the meter is expensed during the current year. In 2012 charges for other services, relating to the sale and contributions of water meters, was \$1 million. Nonoperating expenses decreased by \$2.4 million (\$7.4 million for 2011 vs. \$5.0 million for 2012) and operating expenses increased \$5.6 million (\$57.8 million for 2011 vs. \$63.4 million for 2012). The primary reason for the decrease in nonoperating expenses is that the District recognized a \$3.8 million loss from disposition of capital assets in 2011 and only a \$1.5 million loss from disposition of capital assets in 2012. The loss on disposition of capital assets in 2012 was partly due to removing water meters from capital assets as part of an ongoing advanced metering infrastructure program.

Capital contributions include 1) developer contributed systems, a non-cash transaction, and 2) customer payments of connection charges, a cash capital contribution, which are reported on the Statement of Revenues, Expenses, and Changes in Net Position. Developers contributed \$4.8 million in water and sewer mains and \$3.3 million in capital contribution (general facilities charges). This is an increase in developer contributions of \$0.6 million or 14.3% (\$4.2 million for 2011 vs. \$4.8 million for 2012) and an increase in general facilities charges of \$0.3 million or 10% (\$3.0 million for 2011 vs. \$3.3 million for 2012).

Capital Assets (Dollars in Millions)

	Water			Wastewater			Total		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Land and Land Rights	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.8	\$ 0.8	\$ 0.8
Construction in Progress	5.5	16.5	11.9	10.4	57.6	45.3	15.9	74.2	57.2
Total Plant not depreciated	6.0	17.0	12.3	10.8	58.0	45.7	16.8	75.0	58.0
Miscellaneous Intangible Plant	1.3	1.3	1.3	1.0	1.0	1.0	2.4	2.4	2.4
Structures & Improvements	26.9	26.9	26.8	138.4	88.2	88.2	165.3	115.0	115.0
Mains, Meters, Hydrants	189.3	166.8	167.6	138.4	133.4	125.9	327.7	300.2	293.5
Computers, Equipment & Furniture	4.4	4.4	4.0	7.4	5.9	5.6	11.9	10.3	9.6
Total Plant being depreciated	222.0	199.4	199.7	285.3	228.5	220.7	507.2	427.9	420.5
Less Accumulated Depreciation	(57.3)	(52.7)	(56.1)	(61.9)	(54.1)	(47.5)	(119.3)	(106.8)	(103.6)
Total Utility Plant	\$ 170.6	\$ 163.7	\$ 155.9	\$ 234.1	\$ 232.5	\$ 218.9	\$ 404.7	\$ 396.2	\$ 374.9

Analysis of changes in Capital Assets from 2012-2013:

Total Plant being depreciated increased \$79.3 million (\$427.9 million for 2012 vs. \$507.2 million for 2013). The water fund increased depreciable assets by \$22.6 million (\$199.4 million for 2012 vs. \$222.0 million for 2013). The increase is primarily due to the \$19.0 million Highway 99 Distribution System Replacement project and \$1.6 million in other water main projects. The wastewater fund added \$56.8 million in depreciable assets or 24.8% (\$228.5 million for 2012 vs. \$285.3 million for 2013). The increase in wastewater assets is primarily due to the addition of the Picnic Point Solids and Operations Buildings, totaling \$47.9 million, and \$2.8 million for Lift Station #11 improvements.

Analysis of changes in Capital Assets from 2011-2012:

Total Plant being depreciated increased \$7.4 million (\$420.5 million for 2011 vs. \$427.9 million for 2012). The water fund reduced depreciable assets by \$0.3 million (\$199.7 million for 2011 vs. \$199.4 million for 2012). The primary reason for the reduction was a change in policy regarding the capitalization of small water service meters. In the past, the District capitalized water meters in bulk, however, most individual meters are far less than the \$5,000 capitalization threshold. While the District is in the process of upgrading water meters throughout the service area, water meters are being removed from capital assets but not replaced because they are under the capitalization threshold. The wastewater fund added \$7.8 million in depreciable assets or 3.5% (\$220.7 million for 2011 vs. \$228.5 million for 2012). The increase is primarily due to the addition of \$7.5 million in sewer mains.

Additional utility plant information can be found in Note 3 of the notes to the financial statements.

Long-Term Liabilities

At the end of the current fiscal year, the District had total long term debt outstanding of \$107,186,487; this is a net increase of \$21,224,781 due to issuance of 2013 Sewer Revenue Bonds and normal repayment. The District is rated by Standard and Poor's (S&P) as "AA+" and Moody's Investors Services Inc. has assigned a rating of "Aa2". In April 2013, S&P affirmed its "AA+" rating for the District. Additional detailed information about the District's long-term debt can be found in Note 5 of the notes to the financial statements.

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Net Position

December 31, 2013 and 2012

	2013		
	Water	Wastewater	
	Fund	Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 20,379,271	\$ 20,329,346	\$ 40,708,617
Investments	23,839,400	22,985,536	46,824,936
Receivables, net	3,590,456	5,284,433	8,874,889
Inventories	1,261,649	33,767	1,295,416
Prepayments	284,999	279,600	564,599
Other Current/Accrued Assets	90,592	111,242	201,834
TOTAL CURRENT ASSETS	49,446,367	49,023,924	98,470,291
Noncurrent Assets:			
Restricted cash/equivalents	1,303,421	3,020,415	4,323,836
Deposits with Fiscal Agents/Trustees	250,029	-	250,029
Restricted Investments	2,371,972	8,713,043	11,085,015
Unamortized Debt Discount/Expense	-	-	-
Assessments Receivable	-	406,824	406,824
Investment in Clearview Water Supply Agency	811,183	-	811,183
Capital Assets Not Being Depreciated:			
Land	460,838	314,243	775,081
Construction Works in Progress	5,544,294	10,386,451	15,930,745
Other Utility Plant	-	50,494	50,494
Capital Assets Being Depreciated:			
Plant	26,716,024	139,476,515	166,192,539
Distribution and collection systems	182,603,729	138,378,948	320,982,677
Machinery and equipment	12,637,471	7,429,393	20,066,864
Less accumulated depreciation	(57,328,175)	(61,942,978)	(119,271,153)
TOTAL NONCURRENT ASSETS	175,370,786	246,233,348	421,604,134
Deferred Outflows of Resources			
Deferred Debt Discount	-	43,949	43,949
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	224,817,153	295,301,221	520,118,374
LIABILITIES			
Current Liabilities:			
Accounts Payable	2,014,469	1,690,759	3,705,228
Other Current/Accrued Liabilities	786,427	462,540	1,248,967
Compensated Absences	103,975	103,975	207,950
Customer Deposits	278,720	333,519	612,239
Bonds, Notes and Loans Payable	2,959,897	1,568,881	4,528,778
TOTAL CURRENT LIABILITIES	6,143,488	4,159,674	10,303,162
Noncurrent Liabilities:			
Bonds, Notes and Loans Payable	33,728,962	70,615,399	104,344,361
Compensated Absences	311,925	311,925	623,850
Interest Accrued	149,694	490,317	640,011
TOTAL NONCURRENT LIABILITIES	34,190,581	71,417,641	105,608,222
Deferred Inflows of Resources			
Deferred Debt Premiums	-	-	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	40,334,069	75,577,315	115,911,384
NET POSITION			
Net Investment in Capital Assets	133,945,322	161,908,786	295,854,108
Restricted for debt service	3,675,393	11,733,458	15,408,851
Unrestricted	46,862,369	46,081,662	92,944,031
TOTAL NET POSITION	\$ 184,483,084	\$ 219,723,906	\$ 404,206,990

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

ALDERWOOD WATER & WASTEWATER DISTRICT

Comparative Statement of Net Position

December 31, 2013 and 2012

		Restated 2012	
Water	Wastewater		Total
Fund	Fund		
\$ 27,864,048	\$ 7,732,881	\$	35,596,929
21,306,266	19,717,110		41,023,376
3,629,761	4,769,945		8,399,706
1,184,662	35,450		1,220,112
329,072	323,458		652,530
64,634	124,360		188,994
<u>54,378,443</u>	<u>32,703,204</u>		<u>87,081,647</u>
1,234,571	669,814		1,904,385
100,007	-		100,007
2,396,223	1,539,142		3,935,365
-	-		-
-	478,385		478,385
811,183	-		811,183
460,838	314,243		775,081
16,546,958	57,636,072		74,183,030
-	50,494		50,494
26,716,024	89,235,293		115,951,317
160,041,835	133,394,687		293,436,522
12,614,809	5,904,252		18,519,061
(52,690,343)	(54,074,883)		(106,765,226)
<u>168,232,105</u>	<u>235,147,499</u>		<u>403,379,604</u>
-	65,924		65,924
<u>222,610,548</u>	<u>267,916,627</u>		<u>490,527,175</u>
3,413,019	2,831,772		6,244,791
163,603	141,606		305,209
89,331	89,299		178,630
205,081	386,511		591,592
2,899,897	1,213,615		4,113,512
<u>6,770,931</u>	<u>4,662,803</u>		<u>11,433,734</u>
36,490,548	46,226,363		82,716,911
267,993	267,896		535,889
147,085	247,028		394,113
<u>36,905,626</u>	<u>46,741,287</u>		<u>83,646,913</u>
-	-		-
<u>43,676,557</u>	<u>51,404,090</u>		<u>95,080,647</u>
124,299,676	185,020,180		309,319,856
3,630,794	2,208,956		5,839,750
51,003,521	29,283,401		80,286,922
<u>\$ 178,933,991</u>	<u>\$ 216,512,537</u>	<u>\$</u>	<u>395,446,528</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statement of Revenue, Expenses & Changes in Fund Net Position
For the Years Ended December 31, 2013 and 2012

	2013		
	Water Fund	Wastewater Fund	Total
OPERATING REVENUE:			
Utility Revenue	\$ 28,452,790	\$ 36,542,512	\$ 64,995,302
Other Charges for Services	1,159,482	-	1,159,482
Total Operating Revenue	29,612,272	36,542,512	66,154,784
OPERATING EXPENSES:			
General Operations	5,884,039	5,986,676	11,870,715
Purchased Water/Wastewater	10,449,389	20,479,777	30,929,166
Maintenance Expense	4,894,909	1,988,218	6,883,127
Depreciation Expense	4,946,127	7,875,086	12,821,213
Taxes	1,147,328	348,793	1,496,121
Total Operating Expenses	27,321,792	36,678,550	64,000,342
OPERATING INCOME (LOSS)	2,290,480	(136,038)	2,154,442
NONOPERATING REVENUE(EXPENSES):			
Interest and Investment Revenue	261,806	461,564	723,370
Rent	365,603	-	365,603
Gains (Losses) on Capital Asset Disposition	(78,235)	(1,535)	(79,770)
Interest on Long-Term Debt	(1,672,778)	(2,068,075)	(3,740,853)
Amortization Debt Discount Expense/Premium	139,981	(177,404)	(37,423)
Total Nonoperating Revenues (Expenses)	(983,623)	(1,785,450)	(2,769,073)
Income Before Capital Contributions	1,306,857	(1,921,488)	(614,631)
Capital Contributions			
Contributed Systems	2,210,438	2,388,722	4,599,160
Other Capital Contributions	2,031,798	2,744,135	4,775,933
Total Capital Contributions	4,242,236	5,132,857	9,375,093
CHANGE IN NET POSITION	5,549,093	3,211,369	8,760,462
TOTAL NET POSITION, January 1	178,933,991	216,512,537	395,446,528
Cummulative effect of a change in accounting principle			
TOTAL NET POSITION, December 31	\$ 184,483,084	\$ 219,723,906	\$ 404,206,990

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statement of Revenue, Expenses & Changes in Fund Net Position
For the Years Ended December 31, 2013 and 2012

	Restated 2012	
Water Fund	Wastewater Fund	Total
\$ 29,939,114	\$ 34,494,862	\$ 64,433,976
1,035,856	-	1,035,856
<u>30,974,970</u>	<u>34,494,862</u>	<u>65,469,832</u>
5,846,120	6,004,836	11,850,956
13,353,668	18,160,577	31,514,245
4,869,794	1,917,601	6,787,395
4,962,219	6,814,451	11,776,670
1,086,234	381,311	1,467,545
<u>30,118,035</u>	<u>33,278,776</u>	<u>63,396,811</u>
<u>856,935</u>	<u>1,216,086</u>	<u>2,073,021</u>
841,420	1,038,170	1,879,590
106,396	-	106,396
(1,608,539)	149,556	(1,458,983)
(1,741,731)	(1,841,697)	(3,583,428)
74,725	(31,483)	43,242
<u>(2,327,729)</u>	<u>(685,454)</u>	<u>(3,013,183)</u>
<u>(1,470,794)</u>	<u>530,632</u>	<u>(940,162)</u>
1,286,402	3,491,271	4,777,673
2,184,401	1,110,454	3,294,855
<u>3,470,803</u>	<u>4,601,725</u>	<u>8,072,528</u>
<u>2,000,009</u>	<u>5,132,357</u>	<u>7,132,366</u>
177,272,202	211,581,740	388,853,942
\$ (338,220)	\$ (201,560)	(539,780)
<u>\$ 178,933,991</u>	<u>\$ 216,512,537</u>	<u>\$ 395,446,528</u>

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	2013		
	Water Fund	Wastewater Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 29,651,577	\$ 36,028,025	\$ 65,679,602
Cash paid for purchased water	(11,130,906)	-	(11,130,906)
Cash paid to other municipalities for sewage treatment	-	(20,592,535)	(20,592,535)
Cash payments to suppliers for goods & services	(6,532,237)	(3,726,181)	(10,258,418)
Cash payments to employees for services	(3,809,392)	(3,645,462)	(7,454,854)
Cash payments of taxes	(1,126,776)	(341,154)	(1,467,930)
Net Cash Provided by Operating Activities	7,052,266	7,722,693	14,774,959
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(9,884,850)	(7,929,294)	(17,814,144)
Cash payments to employees for services	(402,440)	(402,437)	(804,877)
Principal received on ULID assessments	-	71,561	71,561
Interest received on ULID assessments	-	25,702	25,702
Proceeds from Bonds	-	25,915,237	25,915,237
Proceeds paid on issuance of Bonds	-	(113,250)	(113,250)
Principal paid on Bonds	(2,640,000)	(350,000)	(2,990,000)
Proceeds from WA DWSTF Loan	338,292	-	338,292
Cash deposited with fiscal agent	(150,022)	-	(150,022)
Principal paid on WA State Revolving Fund Loan	-	(375,512)	(375,512)
Principal paid on PWTF Loan	(259,897)	(488,103)	(748,000)
Interest paid on bonds and loans	(1,670,169)	(1,824,786)	(3,494,955)
Capital contributed by developers	2,031,798	2,744,135	4,775,933
Proceeds from sale of equipment / real estate	-	-	-
Cash received on rental of real estate	365,603	-	365,603
Increase(Decrease) from customer deposits & performance bonds	73,639	(52,993)	20,646
Net Cash Provided (Used) for Capital Financing Activities	(12,198,046)	17,220,260	5,022,214
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and maturities of investments	5,036,740	12,282,777	17,319,517
Purchase of investments	(7,978,955)	(22,829,714)	(30,808,669)
Interest received on investments	672,068	551,050	1,223,118
Net Cash Provided (Used) by Investing Activities	(2,270,147)	(9,995,887)	(12,266,034)
NET INCREASE (DECREASE) IN CASH	(7,415,927)	14,947,066	7,531,139
Cash and Equivalents at Beginning of Year	29,098,619	8,402,695	37,501,314
Cash and Equivalents at End of Year (Note 7) *	\$ 21,682,692	\$ 23,349,761	\$ 45,032,453
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Operating Income	\$ 2,290,480	\$ (136,038)	\$ 2,154,442
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,946,127	7,875,086	12,821,213
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	280,650	(317,049)	(36,399)
Decrease (Increase) in materials and supplies	50,953	1,683	52,636
Decrease (Increase) in prepayments	44,073	43,858	87,931
Decrease (Increase) in accrued revenue	(241,345)	(192,615)	(433,960)
Increase (Decrease) in accounts payable	(997,187)	68,130	(929,057)
Increase (Decrease) in misc. current and long term liabilities	678,515	379,638	1,058,153
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,052,266	\$ 7,722,693	\$ 14,774,959
* RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:			
Cash and Cash Equivalents	\$ 20,379,271	\$ 20,329,346	\$ 40,708,617
Restricted Funds	1,303,421	3,020,415	4,323,836
Total Cash and Cash Equivalents	\$ 21,682,692	\$ 23,349,761	\$ 45,032,453
NONCASH INVESTING, CAPITAL AND FINANCIAL ACTIVITIES:			
Contributions of capital assets from developers	\$ 2,210,438	\$ 2,388,722	\$ 4,599,160
Increase(decrease) in fair market value of investments	\$ (433,333)	\$ (104,611)	\$ (537,944)

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

ALDERWOOD WATER & WASTEWATER DISTRICT
Comparative Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	Restated 2012	
<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
\$ 30,950,599	\$ 34,349,299	\$ 65,299,898
(12,853,171)	-	(12,853,171)
-	(18,166,551)	(18,166,551)
(6,645,410)	(4,477,358)	(11,122,768)
(4,054,879)	(3,345,258)	(7,400,137)
<u>(1,104,192)</u>	<u>(382,085)</u>	<u>(1,486,277)</u>
6,292,947	7,978,047	14,270,994
(12,458,280)	(16,915,910)	(29,374,190)
(327,583)	(267,132)	(594,715)
-	166,461	166,461
-	38,561	38,561
-	-	-
(2,555,000)	(355,000)	(2,910,000)
-	-	-
(100,007)	-	(100,007)
-	(421,752)	(421,752)
(259,897)	(488,103)	(748,000)
(1,749,418)	(1,788,086)	(3,537,504)
2,184,401	1,110,454	3,294,855
-	-	-
106,396	-	106,396
(28,954)	(26,294)	(55,248)
<u>(15,188,342)</u>	<u>(18,946,801)</u>	<u>(34,135,143)</u>
41,160,519	21,477,944	62,638,463
(46,673,739)	(24,981,424)	(71,655,163)
592,891	913,222	1,506,113
<u>(4,920,329)</u>	<u>(2,590,258)</u>	<u>(7,510,587)</u>
<u>(13,815,724)</u>	<u>(13,559,012)</u>	<u>(27,374,736)</u>
42,914,343	21,961,707	64,876,050
<u>\$ 29,098,619</u>	<u>\$ 8,402,695</u>	<u>\$ 37,501,314</u>
\$ 856,935	\$ 1,216,086	\$ 2,073,021
4,962,219	6,814,451	11,776,670
(32,277)	34,977	2,700
(497,336)	(9,024)	(506,360)
(51,031)	(55,635)	(106,666)
7,906	(175,854)	(167,948)
872,354	(4,139)	868,215
174,177	157,185	331,362
<u>\$ 6,292,947</u>	<u>\$ 7,978,047</u>	<u>\$ 14,270,994</u>
\$ 27,864,048	\$ 7,732,881	\$ 35,596,929
1,234,571	669,814	1,904,385
<u>\$ 29,098,619</u>	<u>\$ 8,402,695</u>	<u>\$ 37,501,314</u>
\$ 1,286,402	\$ 3,491,271	\$ 4,777,673
\$ 126,847	\$ (146,126)	\$ (19,279)

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

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alderwood Water and Wastewater District (District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. Private-sector standards of accounting and financial reporting are also followed to the extent that those standards were issued prior to December 1, 1989, and do not conflict with those of the Governmental Accounting Standards Board (GASB). This is consistent with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which codifies those same standards and is effective for periods beginning after December 15, 2011. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. Reporting Entity

Alderwood Water and Wastewater District is a municipal corporation governed by an elected five member Board of Commissioners. As required by GAAP, management has considered all potential component units in defining the reporting entity. The Alderwood Water and Wastewater District has no component units.

b. Basis of Accounting and Presentation

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

(1) Uniform System of Accounts for Class A Water Utilities

(2) National Association of Regulatory Utility Commissioners

The District uses the flow of economic resources measurement focus and the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

The District distinguishes operating revenues and expenses from nonoperating ones. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a district's principle ongoing operation. The principle 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 our wholesale provider, wastewater treatment costs, administrative services, operating and maintenance costs, depreciation on capital assets and taxes. All revenues and expenses meeting this definition are reported as operating revenues and expenses.

Unbilled utility service receivables are recorded at year-end.

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

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

c. Cash and Cash Equivalents

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

d. Utility Plant and Depreciation

The District defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses when incurred.

Utility plant in service and other capital assets are recorded at cost. Where historical cost is not known, assets are recorded at estimated fair market value on the date of recognition. Donations by developers and customers are recorded at the contract price, donor cost, or appraised value.

The original cost of operating property retired, or otherwise disposed of, or the sale of a significant operating unit or system, is removed from the utility plant accounts. Accumulated depreciation is charged with the accumulated depreciation related to the property sold, and the net gain or loss on disposition is credited or charged to income.

Depreciation is computed on the straight-line method with useful lives of 3 to 75 years. Initial depreciation on direct capital purchases is recorded in the year purchased as a full year or one-half year depending on date of purchase.

Preliminary costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects ultimately constructed are transferred to utility plant. Charges that relate to abandoned projects are expensed.

Capital Asset Depreciation-Useful Lives

<u>Asset</u>	<u>Years</u>
Building	40-50
Building Improvements	25
Vehicles	7
Equipment	3-10
Reservoirs	75
Water pipes	75
Sewer pipes	50

Additional detailed information on utility plant and depreciation can be found in Note 3.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

e. Restricted Funds

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

f. Receivables

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

g. Inventories

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

h. Investments

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

i. 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. The District has reclassified issuance costs and recognized it as a deferred outflow instead of amortizing it over the life of the debt.

j. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records the unpaid portion of compensated leave as an expense and liability 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 up to a maximum of 80 hours for non-represented and 40 hours for represented of the accrued but unused vacation benefits with certain restrictions.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Sick leave may accumulate indefinitely and is payable upon separation, retirement or death. For represented staff hired after January 1, 2014, upon retirement, the employee will receive 25% of the accrued and unused sick leave. For all other represented staff upon retirement, the employee will receive 50% of the accrued and unused sick leave. For non-represented staff 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. 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 employees. Sick leave benefit amounts for represented employees that may retire within three years are accrued. Sick leave benefit amounts for non-represented employees are accrued for employees with 10 or more years of service.

As of December 31, 2013, the recorded liability for accrued payroll, unpaid vacation leave and sick leave benefits included \$207,950 in current liabilities and \$623,850 in noncurrent liabilities. As of December 31, 2012, the recorded liability for these accruals included \$178,630 in current liabilities and \$535,889 in noncurrent liabilities.

k. Debt:

(1) Rebatable Arbitrage

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the District to rebate excess arbitrage earnings from bond proceeds to the federal government. The District elects the revenue reduction method whereby the arbitrage rebate is recorded as a reduction of interest revenue. The District contracts with a firm to independently calculate its arbitrage rebate liability. The District has no reportable arbitrage liability as of December 31, 2013.

l. Construction Financing:

(1) Wastewater Facilities - City of Everett

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

m. Change in Accounting Policy

The District implemented Government Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities (GASB 65). This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes certain items that were previously reported as assets and liabilities as expenses in the period incurred. The cumulative impact of implementation of GASB 65 resulted in a \$539,780 reduction of net position as of December 31, 2012 as a result of recording expenses in the proper period items previously recorded as unamortized bond issue costs.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

a. Deposits

The District's deposits are held in qualified bank depositories meeting the requirements set forth by the Washington Public Deposit Protection Commission (PDPC). Under the Washington State Public Deposit Protection Act, banks and thrifts holding public funds must pledge securities as collateral for those public deposits that exceed the insurance levels of the Federal Depositary Insurance Commission (FDIC). The PDPC approves and monitors banks and thrifts that are authorized by the Commission.

Custodial credit risk is the risk that in the event of a bank or financial institution failure, the government's deposits or collateralized securities may not be returned to it. The District's deposits are entirely insured by the FDIC or collateralized with pledged securities held pursuant to the Washington State Public Deposit Protection Act.

As of December 31, 2013, and December 31, 2012, the District had the following deposits and investments:

	Water Fund 12/31/2013	Wastewater Fund 12/31/2013	Total 12/31/2013
Deposits:	\$ 268,075	\$ 13,643,658	\$ 13,911,733
Government Sponsored Enterprises:			
Current Assets-Investments	23,839,400	22,985,536	46,824,935
Restricted Funds	2,371,972	8,713,043	11,085,014
Total Government Sponsored Enterprise Investments	26,211,371	31,698,578	57,909,949
Investment in Local Government Investment Pool:			
Current Assets-Cash and Equivalents	20,111,197	6,685,689	26,796,886
Restricted Funds	1,303,421	3,020,415	4,323,836
Total Investment in LGIP and Umpqua Bank	21,414,618	9,706,104	31,120,722
Total Deposits, Securities and Investment Pool	<u>\$ 47,894,064</u>	<u>\$ 55,048,340</u>	<u>\$ 102,942,404</u>

	Water Fund 12/31/2012	Wastewater Fund 12/31/2012	Total 12/31/2012
Deposits:	\$ 1,857,663	\$ 1,939,848	\$ 3,797,511
Government Sponsored Enterprises:			
Current Assets-Investments	21,306,266	19,717,110	41,023,376
Restricted Funds	2,396,223	1,539,143	3,935,366
Total Government Sponsored Enterprise Investments	23,702,489	21,256,253	44,958,742
Investment in Local Government Investment Pool:			
Current Assets-Cash and Equivalents	26,006,384	5,793,033	31,799,417
Restricted Funds	1,234,571	669,814	1,904,385
Total Investment in Local Government Investment Pool	27,240,955	6,462,847	33,703,802
Total Deposits, Securities and Investment Pool	<u>\$ 52,801,107</u>	<u>\$ 29,658,948</u>	<u>\$ 82,460,055</u>

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

b. Investments

Investments for the District are managed by the Director of Finance in accordance with the District's Investment Policy which incorporates the Eligible Investments for Public Funds, as authorized by the Washington State Treasurer and set forth in the Revised Code of Washington (RCW). The District's investment objectives are preservation of principal, liquidity, hold to maturity and yield in relation to the policy's risk constraints. While the District's investment policy allows for a range of investment vehicles, outside of investments in the Washington State Local Government Investment Pool (LGIP) and deposits in Umpqua Bank Public Funds Money Market, the District is currently only trading in Government Sponsored Enterprise bonds, which carry the confirmed guarantee of the U.S. Government. As of yearend, these investments were rated as AA+ by Standard & Poor's. These ratings allow investors to measure credit risk, which is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

The LGIP is managed in a manner generally consistent with Security and Exchange Commission (SEC) regulated Rule 2a-7 money market funds. Rule 2a-7 funds are limited to high quality obligations with limited maximum and average maturities, the effect of which is to minimize both market and credit risk. The portfolio is made up of high-quality, highly liquid securities, and its relatively short average maturity reduces the pool's price sensitivity to market interest rate fluctuations. The LGIP maintains a weighted average maturity of 60 days or less and a weighted average life of 120 days or less. Investments are either fully insured or held by the LGIP's third party custody provider in the name of the LGIP. The LGIP's annual financial statements are audited by an independent Certified Public Accounting firm.

Custodial credit risk related to investments is the risk that in the event of a financial institution failure, the government's deposits or collateralized securities may not be returned it. The District's investments are held in the District's name by a third-party custodian.

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Investments with longer maturities may be more at risk to changes in fair value because of changes in market interest rates. The District's policy is to hold investments to maturity and has no expectation of having to sell any of its investments prior to maturity. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows distribution of the District's investments by maturity or earliest call date:

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 2 - DEPOSITS AND INVESTMENTS - continued

December 31, 2013

<u>Investment Type</u>	<u>Fair Value</u>	<u>12 Months or less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>
Local Government Investment Pool & Umpqua Bank	\$ 31,120,722	\$ 31,120,722	\$ -	\$ -
Federal National Mortgage Association	19,978,403	8,327,543	4,192,812	7,458,048
Federal Farm Credit Bank	1,999,231	999,359	999,872	
Federal Home Loan Bank	8,670,893	3,490,629	1,018,208	4,162,056
Federal Home Loan Mortgage Corporation	26,268,116	14,349,854	5,974,975	5,943,287
FICO Strip CPN-1	993,307			993,307
Total Investments	<u>\$ 89,030,671</u>	<u>\$ 58,288,106</u>	<u>\$ 12,185,867</u>	<u>\$ 18,556,698</u>
Maximum Investment by Maturity		65%	14%	21%

December 31, 2012

<u>Investment Type</u>	<u>Fair Value</u>	<u>12 Months or less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>
Local Government Investment Pool	\$ 33,703,802	\$ 33,703,802	\$ -	\$ -
Federal National Mortgage Association	23,041,427	8,955,744	9,499,099	4,586,584
Federal Home Loan Bank	5,702,411	1,015,080	2,548,417	2,138,914
Federal Home Loan Mortgage Corporation	16,214,903	4,044,870	6,118,077	6,051,956
Total Investments	<u>\$ 78,662,543</u>	<u>\$ 47,719,496</u>	<u>\$ 18,165,593</u>	<u>\$ 12,777,454</u>
Maximum Investment by Maturity		61%	23%	16%

Investments are stated at fair value. As of December 31, 2013 and 2012 the amount of total decrease in fair value was \$831,704 and \$293,760, respectively. The District does not separately disclose realized gains and losses on the maturity or disposition of securities.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 3 - UTILITY PLANT AND DEPRECIATION

Utility Plant activity for the year ended December 31, 2013 is as follows:

	Beginning Balance 1/1/2013	Increase	Decrease	Ending Balance 12/31/2013
Water				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 460,838	\$ -	\$ -	\$ 460,838
Construction in Progress	16,546,958	28,718,031	39,720,695	5,544,294
Total Utility Plant not being depreciated	17,007,796	28,718,031	39,720,695	6,005,132
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,339,289	-	-	1,339,289
Structures & Improvements	26,853,148	14,583	14,583	26,853,148
Wells & Supply Mains	653,889	-	-	653,889
Pumping Equipment	8,183,199	-	-	8,183,199
Sewer Treatment Equipment	16,494	-	-	16,494
Reservoirs & Standpipes	15,719,906	-	-	15,719,906
Mains	125,692,217	41,448,929	19,398,644	147,742,502
Meters, Meter Installations & Hydrants	16,499,411	511,609	-	17,011,020
Computers, Office Equipment & Furniture	1,053,585	28,027	5,366	1,076,246
Transportation Equipment	1,792,782	33,971	33,971	1,792,782
Other General Plant Equipment	1,568,752	3,245	3,245	1,568,752
Total Utility Plant being depreciated	199,372,669	42,040,365	19,455,809	221,957,225
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(891,631)	151,580	151,580	(891,631)
Structures & Improvements	(7,661,616)	-	142,421	(7,804,037)
Wells & Supply Mains	(350,836)	-	57,861	(408,697)
Pumping Equipment	(2,429,348)	-	1,081,849	(3,511,197)
Sewer Treatment Equipment	(16,494)	-	31,431	(47,925)
Reservoirs & Standpipes	(3,149,179)	-	73,528	(3,222,707)
Mains	(28,632,574)	310,586	2,135,052	(30,457,040)
Meters, Meter Installations & Hydrants	(6,381,787)	-	881,712	(7,263,500)
Computers, Office Equipment & Furniture	(632,539)	-	323,251	(955,790)
Transportation Equipment	(1,310,859)	-	9,701	(1,320,561)
Other General Plant Equipment	(1,233,480)	-	211,611	(1,445,092)
Total Accumulated Depreciation	(52,690,343)	462,166	5,099,998	(57,328,175)
Total Utility Plant being depreciated, net	146,682,326	42,502,531	24,555,807	164,629,050
Total Utility Plant, Net	\$ 163,690,122	\$ 71,220,562	\$ 64,276,502	\$ 170,634,182

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2013 is as follows:

	Beginning Balance 1/1/2013	Increase	Decrease	Ending Balance 12/31/2013
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 364,737	\$ -	\$ -	\$ 364,737
Construction in Progress	57,636,072	56,572,576	103,822,197	10,386,451
Total Utility Plant not being depreciated	58,000,809	56,572,576	103,822,197	10,751,188
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,041,716	-	-	1,041,716
Structures & Improvements	88,193,576	99,058,779	48,817,556	138,434,798
Mains	133,394,689	4,992,786	8,526	138,378,950
Pumping Equipment	2,669,341	1,437,065	-	4,106,406
Sewage Treatment Equipment	191,842	23,697	-	215,539
Computers, Office Equipment & Furniture	746,240	33,940	5,366	774,814
Transportation Equipment	1,410,537	70,380	34,575	1,446,342
Other General Plant Equipment	886,292	3,245	3,245	886,292
Total Utility Plant being depreciated	228,534,233	105,619,892	48,869,268	285,284,857
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(672,258)	-	165,304	(837,562)
Structures & Improvements	(9,376,671)	-	4,357,395	(13,734,066)
Mains	(40,556,035)	7,076	2,732,695	(43,281,654)
Pumping Equipment	(1,258,588)	-	336,036	(1,594,624)
Sewage Treatment Equipment	(79,523)	-	21,563	(101,086)
Computer Equipment	(460,190)	-	94,107	(554,297)
Transportation Equipment	(1,004,812)	-	117,216	(1,122,028)
Other General Plant Equipment	(666,805)	-	50,855	(717,660)
Total Accumulated Depreciation	(54,074,882)	7,076	7,875,172	(61,942,977)
Total Utility Plant being depreciated, net	174,459,351	105,626,968	56,744,439	223,341,880
Total Utility Plant, Net	\$ 232,460,160	\$ 162,199,544	\$ 160,566,636	\$ 234,093,068

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2012 is as follows:

	Beginning Balance 1/1/2012	Increase	Decrease	Ending Balance 12/31/2012
Water				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 460,838	\$ -	\$ -	\$ 460,838
Construction in Progress	11,874,397	13,194,936	8,522,374	16,546,958
Total Utility Plant not being depreciated	12,335,235	13,194,936	8,522,374	17,007,796
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,339,289	-	-	1,339,289
Structures & Improvements	26,823,290	29,858	-	26,853,148
Wells & Supply Mains	653,889	-	-	653,889
Pumping Equipment	3,336,904	4,846,295	-	8,183,199
Water Treatment Equipment	16,494	-	-	16,494
Reservoirs & Standpipes	15,719,906	-	-	15,719,906
Mains	122,014,481	3,733,845	56,109	125,692,217
Meters, Meter Installations & Hydrants	25,834,313	581,245	9,916,148	16,499,411
Computers, Office Equipment & Furniture	657,505	400,115	4,035	1,053,585
Transportation Equipment	1,736,459	56,323	-	1,792,782
Other General Plant Equipment	1,607,760	-	39,008	1,568,752
Total Utility Plant being depreciated	199,740,288	9,647,682	10,015,300	199,372,669
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(741,842)	-	149,789	(891,631)
Structures & Improvements	(6,604,987)	-	1,056,629	(7,661,616)
Wells & Supply Mains	(345,898)	-	4,938	(350,836)
Pumping Equipment	(2,118,242)	-	311,106	(2,429,348)
Water Treatment Equipment	(16,494)	-	-	(16,494)
Reservoirs & Standpipes	(2,833,418)	-	315,761	(3,149,179)
Mains	(27,002,744)	34,378	1,664,208	(28,632,574)
Meters, Meter Installations & Hydrants	(13,603,499)	8,506,641	1,284,929	(6,381,787)
Computers, Office Equipment & Furniture	(522,007)	8,525	119,057	(632,539)
Transportation Equipment	(1,154,722)	-	156,137	(1,310,859)
Other General Plant Equipment	(1,190,365)	39,008	82,123	(1,233,480)
Total Accumulated Depreciation	(56,134,218)	8,588,552	5,144,677	(52,690,343)
Total Utility Plant being depreciated, net	143,606,070	18,236,233	15,159,977	146,682,326
Total Utility Plant, Net	\$ 155,941,305	\$ 31,431,169	\$ 23,682,352	\$ 163,690,122

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2012 is as follows:

	Beginning Balance 1/1/2012	Increase	Decrease	Ending Balance 12/31/2012
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	\$ 364,737	\$ -	\$ -	\$ 364,737
Construction in Progress	45,287,806	17,504,623	5,156,356	57,636,072
Total Utility Plant not being depreciated	45,652,543	17,504,623	5,156,356	58,000,809
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	1,041,716	-	-	1,041,716
Structures & Improvements	88,164,895	28,681	-	88,193,576
Mains	125,908,277	7,486,412	-	133,394,689
Pumping Equipment	2,669,341	-	-	2,669,341
Sewage Treatment Equipment	98,886	92,956	-	191,842
Computers, Office Equipment & Furniture	500,785	249,490	4,035	746,240
Transportation Equipment	1,407,483	3,054	-	1,410,537
Other General Plant Equipment	932,627	-	46,335	886,292
Total Utility Plant being depreciated	220,724,010	7,860,592	50,370	228,534,232
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(494,493)	-	177,765	(672,258)
Structures & Improvements	(6,011,367)	-	3,365,304	(9,376,671)
Mains	(37,903,604)	-	2,652,431	(40,556,035)
Pumping Equipment	(948,135)	-	310,453	(1,258,588)
Sewage Treatment Equipment	(214,762)	162,063	26,824	(79,523)
Computer Equipment	(364,076)	4,035	100,149	(460,190)
Transportation Equipment	(884,866)	-	119,946	(1,004,812)
Other General Plant Equipment	(639,055)	46,335	74,085	(666,805)
Total Accumulated Depreciation	(47,460,358)	212,433	6,826,958	(54,074,883)
Total Utility Plant being depreciated, net	173,263,652	8,073,026	6,877,328	174,459,349
Total Utility Plant, Net	\$ 218,916,195	\$ 25,577,648	\$ 12,033,685	\$ 232,460,159

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress as of December 31, 2013 is composed of the following:

Water Fund	Project Number	Project Authorization	Expended Through at 12/31/13	Future Funds Committed at 12/31/13
Fencing at M&O and Canyon Park Tanks	J1202 W	\$ 236,118	\$ 2,618	\$ 233,500
City of Bothell SR 527 Widening (240th to 228th)	W0708	293,640	116,501	177,139
Sno. Co. 52nd Avenue W (148th to 168th)	W0804	539,930	348,918	191,012
I-5 Crossing - Transmission Main (164th Vicinity) WM-10	W0806	2,991,966	420,760	2,571,206
Sno. Co. North Road (SR 524 to 164th St SE)	W0913	1,302,121	121,661	1,180,460
196th St SE & 13th Dr SE 660 Zone Water Transmission Main	W1002	7,535,702	802,033	6,733,669
Brier Water Main Looping 232nd St SW & 236th St SW	W1018	552,603	261,527	291,076
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	W1102	11,718,025	1,044,372	10,673,653
Pump Station 2 & High Tank Pump Station Upgrade	W1107	4,273,108	474,184	3,798,924
Pump Station 2 Project	W1107 B	-	1,082,976	
724 Zone Capacity Improvements	W1107 D	382,000	-	382,000
All Other Projects		461,449	868,746	
Total		\$ 30,286,662	\$ 5,544,294	\$ 26,232,641

Wastewater Fund	Project Number	Project Authorization	Expended Through at 12/31/13	Future Funds Committed at 12/31/13
Fencing at M&O and Canyon Park Tanks	J1202 S	\$ 236,121	\$ 2,621	\$ 233,500
Eliminate LS-7	S0601	3,137,514	876,240	2,261,274
I-5/164th Martha Gateway Sewer Improvement (Walmart)	S0702	6,095,514	1,397,361	4,698,153
Olympus Meadows Trunk Sewer Improvement Project	S1004	4,937,549	669,144	4,268,405
Everett WO 2971/2993 WPCF Upgrade Capacity Expansion	S1007	1,524,972	1,524,972	
Everett WO 3313 - Lift Station 24	S1008	1,905,244	2,734,050	
Everett WO 3515 Lift Station 24 Forcemain Replacement	S1207	205,155	450,629	
Everett WO UP3534 Lift Stn #24 Force Main Repl-Silver Way	S1303	588,263	1,292,139	
Lift Station #2 Elimination	S1013	653,166	55,078	598,088
Lift Station 5 Capacity Upgrade	S1015	1,670,083	442,634	1,227,449
Lift Station 5 Capacity Upgrade	S1015A	320,347	2,176	318,171
Harvest Road Sewer Replacement (NC-23A & B)	S1102	1,070,328	48,669	1,021,659
Lift Station 19 Upgrades	S1201	285,708	82,215	203,493
Lift Station 6 Upgrade & Modifications	S1203	439,253	67,542	371,711
Swamp Creek Interceptor Ext and LS 21 Abandonment	S1209	2,076,665	185,135	1,891,530
Picnic Point Flow Distribution	S1210	2,551,745	8,442	2,543,303
Picnic Point Sewer Rehabilitation	S1305	4,000,000	197,232	3,802,768
All Other Projects		477,560	350,170	127,390
Total		\$ 32,175,187	\$ 10,386,451	\$ 23,566,892

Note: Project Authorizations do not include District staff labor.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 4 - CONSTRUCTION IN PROGRESS-continued

Construction in progress as of December 31, 2012 is composed of the following:

Water Fund	Project Number	Project Authorization	Expended Through at 12/31/12	Future Funds Committed at 12/31/12
HWY 99 Distribution System D10/11 148th to 116th	W0502	\$ 18,690,170	\$ 12,599,085	\$ 6,091,085
Sno. Co. 52nd Avenue W (148th to 168th)	W0804	539,930	18,930	521,000
I-5 Crossing - Trans Main (164th Vicinity) WM-10 (Ref. S7-2007)	W0806	6,165,479	365,992	5,799,487
Sno. Co. 49th Ave SE (236th Pl to 228th SE)	W0911	624,494	624,494	
Sno. Co. North Road (SR 524 to 164th St SE)	W0913	1,279,621	97,221	1,182,400
196th ST SE & 13th Dr SE 660 Zone Water Transmission Main (Ref. S4-2010)	W1002	7,535,702	694,624	6,841,078
Mountlake Terrace Supply Main Relocation at 44th	W1017	817,597	243,083	574,514
Brier Water Main Looping 232nd St SW & 236th St SW	W1018	822,203	48,203	774,000
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	W1102	11,718,025	589,839	11,128,186
Pump Station 2 & High Tank Pump Station Upgrade	W1107	2,647,294	567,930	2,079,364
Pump Station 2 (75%)	W1107B	1,929,212	107,588	1,821,624
All Other Projects		1,011,167	589,969	421,198
Total		\$ 53,780,894	\$ 16,546,958	\$ 37,233,936

Wastewater Fund				
Picnic Point Wastewater Treatment Plant	S0101	\$ 49,890,441	\$ 46,460,441	\$ 3,430,000
Lift Station Assessment	S0501	4,195,689	3,661,888	533,801
Reference only for Billing Tracking Evaluation of SC Ext. Ph 1-C under AWD 409-05	S0601	2,688,314	811,814	1,876,500
I-5/164th Martha Lake Gateway Sewer Improvement (WalMart) Ref. S4-2001	S0702	6,100,064	1,242,772	4,857,292
Olympus Meadows Trunk Sewer Improvement (Reference AWD 520-10)	S1004	3,737,549	548,549	3,189,000
Everett WO 2971/2993-WPCF Upgrade Capacity Expansion (reference only)	S1007	1,524,972	1,524,972	
Everett WO 3313-Lift Station #24 (reference only)	S1008	660,532	1,002,399	
Everett WO UP3359-Expansion Phase B (reference only)	S1010	304,770	307,961	
Lift Station #2 Elimination (SC-5A)	S1013	411,666	17,666	394,000
Lift Station 5 Capacity Upgrade (PP-12A)	S1015	1,842,661	135,535	1,707,126
Harvest Sewer	S1102	1,070,328	40,328	1,030,000
Lift Station 19 upgrades	S1201	269,200	10,449	258,751
Lift Station 6 Upgrade & modifications	S1203	446,422	25,081	421,341
Everett WO 3515 Lift Station 24 Forcemain Replacement	S1207	282,780	282,780	
Swamp Creek Interceptor Extension and LS21 Abandonment	S1209	1,945,665	665	1,945,000
Everett WO 3534 Lift Station 24 Forcemain Repl Silverway	S1303		1,208,931	1,000,000
All Other Projects		402,012	353,840	
Total		\$ 75,773,065	\$ 57,636,072	\$ 20,642,811

Note: Project Authorizations do not include District staff labor.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES

a. Loans Payable

- (1) 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 which meet certain requirements. The District's Long-Term Loans Payable is composed of the following loans:

Water Fund

Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2013	Outstanding 12/31/2012	Interest Rate
99-791-001	Reservoir No 1 Cover	6/7/1999	7/1/2019	\$ 3,420,060	\$ 1,092,725	\$ 1,274,846	1%
00-691-001	NE Low Pressure Area Improvements	5/15/2000	7/1/2020	1,402,800	544,436	622,212	1%

Water Fund

State Revolving Fund	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2013	Outstanding 12/31/2012	Interest Rate
DM12-952-098	Pump Station 2 and High Tank Upgrade	8/15/2012	10/1/2036	\$ 5,262,090	\$ 338,292	\$ -	1.5%

Wastewater Fund

Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2013	Outstanding 12/31/2012	Interest Rate
05-691-PRE-108	Picnic Point Wastewater Facility Upgrade	4/26/2005	7/1/2025	\$ 1,000,000	\$ 631,579	\$ 684,210	0.5%
05-691-PRE-126	Picnic Point Wastewater Facility Upgrade	8/15/2005	7/1/2025	1,000,000	640,351	693,713	0.5%
06-962-001	Picnic Point Wastewater Facility Upgrade	4/17/2006	7/1/2026	7,000,000	4,967,416	5,349,525	0.5%

Wastewater Fund

State Revolving Fund	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2013	Outstanding 12/31/2012	Interest Rate
L0900006	Picnic Point Wastewater Facility Upgrade	2/11/2011	2/11/2031	\$ 9,308,953	\$ 8,511,689	\$ 8,887,200	2.7%

In 2000, the District in part funded construction of improvements to the North East pressure zone with PWTF loans. Construction of a cover for Reservoir No. 1 with a capacity of 28 million gallons was also funded in part by a PWTF loan during 1999. A total of \$9 million in PWTF loans were used to fund construction and (\$7 million) pre-construction design and planning activities for the Picnic Point Wastewater Facility upgrade and improvement project beginning in 2005. 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 State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction on the liquids facility of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$5,262,090 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. During 2013, the District requested draws totaling \$338,292. The SRF loans are to be repaid over a period not to exceed 24 years at the interest rate stated above.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES - continued

b. Bonds

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

Water Obligations				Water Fund Portion		
Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Original Issue	Outstanding 12/31/2013	Outstanding 12/31/2012
2009 Water / Sewer Revenue	3% - 4%	11/3/2009	12/1/2018	23,885,000	15,270,000	17,910,000
2010 Series B Bond	4.2% - 5.55%	2/9/2010	12/1/2029	18,743,500	18,743,500	18,743,500
Total Bonds Outstanding					<u>\$ 34,013,500</u>	<u>\$ 36,653,500</u>

Wastewater Obligations				Wastewater Fund Portion		
Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Original Issue	Outstanding 12/31/2013	Outstanding 12/31/2012
2010 Series A Bond	2% - 2.65%	2/9/2010	12/1/2016	3,675,000	865,000	1,215,000
2010 Series B Bond	4.2% - 5.55%	2/9/2010	12/1/2029	30,581,500	30,581,500	30,581,500
2013 Revenue Bonds	2% - 4.625%	10/9/2013	12/1/2043	25,000,000	25,000,000	-
Total Bonds Outstanding					<u>\$ 56,446,500</u>	<u>\$ 31,796,500</u>

The District issued Water and Sewer Revenue bonds in December, 2009 in the amount of \$23,885,000 to provide for a current refunding of all of the District's outstanding Water and Sewer Revenue bonds, 1998, and Water and Sewer Revenue bonds, 1999. An arbitrage rebate calculation was completed in January of 2013 and no rebate liability exists from issuance through November, 3, 2012.

In February, 2010 the District issued \$53 million in new Water and Sewer Revenue Bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. Series A consist of \$3,675,000 in bonds issued as tax-exempt. Series B was issued as Build America Bonds – direct payment. The District has contracted with the current fiscal agent the Bank of New York, Mellon, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all of the Series B bond proceeds have fully drawn and expended. The Series A bonds qualify for the small issuer exception from arbitrage rebate because the amount of tax exempt debt issued in 2010 was less than \$5 million. An arbitrage rebate calculation for the Series Bonds was completed in June of 2013 and no rebate liability exists from issuance through February, 2013.

In October 2013, the District issued \$25,000,000 in revenue bonds to finance upcoming sewer capital improvement projects. These bonds will mature in December 2043. The District will begin paying debt service on the 2013 sewer bonds in 2014.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES - continued

c. All Long-Term Liabilities

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

Water Fund Long-Term Obligations

Year	Principal	Interest	Total Debt
			Service
2014	2,959,897	1,561,970	4,521,867
2015	3,774,898	1,451,371	5,226,269
2016	3,159,898	1,308,172	4,468,070
2017-2021	11,790,969	4,820,149	16,611,118
2022-2026	8,291,600	2,834,290	11,125,890
2027-2031	5,673,400	629,591	6,302,991
2032-2036	-	-	-
2037-2041	-	-	-
2042-2046	-	-	-
	<u>\$ 35,650,662</u>	<u>\$ 12,605,543</u>	<u>\$ 48,256,205</u>

Wastewater Fund Long-Term Liabilities

Year	Principal	Interest	Total Debt
			Service
2014	1,568,881	3,048,097	4,616,978
2015	1,339,427	2,864,325	4,203,752
2016	1,820,262	2,837,400	4,657,662
2017-2021	15,065,970	13,232,381	28,298,351
2022-2026	21,675,767	9,583,773	31,259,541
2027-2031	15,822,230	4,902,271	20,724,501
2032-2036	4,905,000	2,763,225	7,668,225
2037-2041	6,135,000	1,539,200	7,674,200
2042-2046	2,865,000	200,263	3,065,263
	<u>\$ 71,197,536</u>	<u>\$ 40,970,935</u>	<u>\$ 112,168,471</u>

- (1) All bond debt is secured by the total of all District revenues. Water Restricted Assets as of December 31, 2013 and December 31, 2012 are \$3,675,392 and \$3,630,794, respectively. Wastewater Restricted Assets as of December 31, 2013 and December 31, 2012 are \$11,733,458 and \$2,208,956, respectively. These represent debt service funds and reserve requirements as contained in the various bond indentures. Per bond resolutions, ULID assessments are dedicated to the payment of debt service.
- (2) There are a number of limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 5 - LONG-TERM LIABILITIES - continued

Changes in long-term liabilities as of December 31, 2013:

Description	Beginning Balance 1/1/2013	Additions	Reductions	Ending Balance 12/31/2013	Amounts Due Within One Year
<u>WATER FUND</u>					
Compensated Absences	\$ 357,324	\$ 73,189	\$ 14,613	\$ 415,900	\$ 103,975
PWTF Loan	\$ 1,274,846	\$ -	\$ 182,121	\$ 1,092,725	\$ 182,121
PWTF Loan	\$ 622,211	\$ -	\$ 77,777	\$ 544,434	\$ 77,777
WA State Revolving Fund Loan	\$ -	\$ 338,292	\$ -	\$ 338,292	\$ -
	<u>\$ 2,254,381</u>	<u>\$ 411,481</u>	<u>\$ 274,511</u>	<u>\$ 2,391,351</u>	<u>\$ 363,873</u>
<u>WASTEWATER FUND</u>					
Compensated Absences	\$ 357,195	\$ 73,189	\$ 14,484	\$ 415,900	\$ 103,975
PWTF Loan	\$ 684,208	\$ -	\$ 52,632	\$ 631,576	\$ 52,632
PWTF Loan	\$ 693,712	\$ -	\$ 53,363	\$ 640,349	\$ 53,363
PWTF Loan	\$ 5,349,525	\$ -	\$ 382,109	\$ 4,967,416	\$ 382,109
WA State Revolving Fund Loan	\$ 8,887,201	\$ -	\$ 375,512	\$ 8,511,689	\$ 385,778
	<u>\$ 15,971,841</u>	<u>\$ 73,189</u>	<u>\$ 878,100</u>	<u>\$ 15,166,930</u>	<u>\$ 977,857</u>
<u>COMBINED WATER / WASTEWATER UTILITY</u>					
2009 Revenue Bond	\$ 17,910,000	\$ -	\$ 2,640,000	\$ 15,270,000	\$ 2,700,000
Series A Bond	\$ 1,215,000	\$ -	\$ 350,000	\$ 865,000	\$ 405,000
Series B Bond	\$ 49,325,000	\$ -	\$ -	\$ 49,325,000	\$ -
2013 Sewer Revenue Bond	\$ -	\$ 25,000,000	\$ -	\$ 25,000,000	\$ 290,000
	<u>\$ 68,450,000</u>	<u>\$ 25,000,000</u>	<u>\$ 2,990,000</u>	<u>\$ 90,460,000</u>	<u>\$ 3,395,000</u>

Changes in long-term liabilities as of December 31, 2012:

Description	Beginning Balance 1/1/2012	Additions	Reductions	Ending Balance 12/31/2012	Amounts Due Within One Year
<u>WATER FUND</u>					
Compensated Absences	\$ 343,647	\$ 20,339	\$ 6,662	\$ 357,324	\$ 89,331
PWTF Loan	\$ 1,456,967	\$ -	\$ 182,121	\$ 1,274,846	\$ 182,121
PWTF Loan	\$ 699,988	\$ -	\$ 77,777	\$ 622,211	\$ 77,777
	<u>\$ 2,500,602</u>	<u>\$ 20,339</u>	<u>\$ 266,560</u>	<u>\$ 2,254,381</u>	<u>\$ 349,229</u>
<u>WASTEWATER FUND</u>					
Compensated Absences	\$ 340,729	\$ 20,210	\$ 3,744	\$ 357,195	\$ 89,299
PWTF Loan	\$ 736,840	\$ -	\$ 52,632	\$ 684,208	\$ 52,632
PWTF Loan	\$ 747,075	\$ -	\$ 53,363	\$ 693,712	\$ 53,363
PWTF Loan	\$ 5,731,634	\$ -	\$ 382,109	\$ 5,349,525	\$ 382,109
WA State Revolving Fund Loan	\$ 9,308,953	\$ -	\$ 421,752	\$ 8,887,201	\$ 375,512
	<u>\$ 16,865,231</u>	<u>\$ 20,210</u>	<u>\$ 913,600</u>	<u>\$ 15,971,841</u>	<u>\$ 952,915</u>
<u>COMBINED WATER / WASTEWATER UTILITY</u>					
2009 Revenue Bond	\$ 20,465,000	\$ -	\$ 2,555,000	\$ 17,910,000	\$ 2,640,000
Series A Bond	\$ 1,570,000	\$ -	\$ 355,000	\$ 1,215,000	\$ 350,000
Series B Bond	\$ 49,325,000	\$ -	\$ -	\$ 49,325,000	\$ -
	<u>\$ 71,360,000</u>	<u>\$ -</u>	<u>\$ 2,910,000</u>	<u>\$ 68,450,000</u>	<u>\$ 2,990,000</u>

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 6 - PENSION PLANS

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. 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 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 6 - PENSION PLANS - continued

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 6 - PENSION PLANS - continued

PERS Plan 2 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 reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS 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 twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 6 - PENSION PLANS - continued

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option. PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 6 - PENSION PLANS - continued

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$23,278	\$627,889	\$49,996
2012	\$65,087	\$497,817	\$35,945
2011	\$29,769	\$407,509	\$32,222

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 7 - STATEMENT OF CASH FLOWS

Cash and Equivalent balances are as follows:

	Water Fund		Wastewater Fund	
	12/31/2013	12/31/2012	12/31/2013	12/31/2012
Cash	\$ 264,876	\$ 1,854,464	\$ 13,643,657	\$ 1,939,847
Investment in Local Government Investment Pool	21,414,618	27,240,955	9,706,104	6,462,847
Cash and Equivalents	<u>\$ 21,679,493</u>	<u>\$ 29,095,419</u>	<u>\$ 23,349,761</u>	<u>\$ 8,402,694</u>

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

NOTE 8 - RISK MANAGEMENT

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

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

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 8 - RISK MANAGEMENT - continued

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Contents	\$1,000 - \$10,000	\$25,000	\$1,000,000,000
Flood	See (A) below	\$25,000	\$50,000,000
Earthquake	See (B) below	\$25,000	\$75,000,000
Terrorism	\$1,000 - \$10,000	\$25,000	\$100,000,000
Boiler & Machinery	\$1,000 - \$10,000	\$25,000 - \$350,000	\$100,000,000
Auto - Physical Damage	\$25,000	\$200,000	\$10,000,000
Liability:			
Comprehensive General Liability	\$1,000 - \$10,000 (C)	\$200,000	\$10,000,000
Auto Liability	\$1,000 - \$10,000	\$200,000	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$10,000	\$200,000	\$10,000,000
Employment Practices/Benefits	\$1,000 - \$10,000	\$200,000	\$10,000,000
Crime	\$1,000 - \$10,000	\$25,000	\$2,000,000
Terrorism	\$1,000 - \$10,000	\$200,000	\$100,000,000
Identity Fraud	\$0	\$25,000	\$0
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. If the stated deductible is a flat dollar amount, the deductible will apply on a per occurrence basis, unless otherwise states. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Cyber liability has a 10% coinsurance for Public Relations Consultancy and Credit File Monitoring. Cyber liability retention is \$50,000 per occurrence for each insured/member with TIV up to \$500,000,000 at the time of loss. \$100,000 per occurrence for each insured/member with TIV greater than \$500,000,000 at the time of loss. 8 hour waiting period for first party claims.			

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. 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).

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, 2014, written notice must be in the Pool possession by April 30, 2014). 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.

ALDERWOOD WATER & WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2013 and 2012

NOTE 8 - RISK MANAGEMENT - continued

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.

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.

The amount of settlements for claims filed with the Pool did not exceed insurance coverage for the past four years 2010, 2011, 2012, 2013.

NOTE 9 – CLEARVIEW WATER SUPPLY AGENCY (Joint Venture)

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

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

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

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

NOTE 10 – OTHER DISCLOSURES

Subsequent events – In February 2013 District crews doing a video inspection of a sewer main discovered multiple holes that needed immediate repair. Soil and rocks were washing into the main through these holes, presenting risks to District facilities and to the road above. An emergency replacement was done on that section of sewer main. In addition, plans to replace a longer section of the main were accelerated, and work was contracted out. Work is expected to be completed in July 2014 at a total cost of \$4.0 million

MCAG No. 2303

ALDERWOOD WATER & WASTEWATER DISTRICT, WASHINGTON

Schedule 16

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2013

1	2	3	4	5			6
Federal Agency Name / Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Foot- note Ref
				From Pass- Through Awards	From Direct Awards	Total	
Environmental Protection Agency / Washington State Department of Commerce	Capitalization Grants for Drinking Water State Revolving Fund	66.468	DM12-952-098	1,290,740	-	1,290,740	

CFDA 66.468 Sub Total 1,290,740

Grand Total 1,290,740

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this Schedule

ALDERWOOD WATER & WASTEWATER DISTRICT, WASHINGTON

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2013

Note 1 - Basis of Accounting

This schedule is prepared on the same basis of accounting as the District's financial statements. The District uses the accrual basis of accounting.

Note 2 - Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the District's portion, are more than shown.

Note 4 - Federal Loans

The District was approved by the EPA and the PWB to receive a loan totaling \$5,262,090 to improve its drinking water system. The amount listed includes loan proceeds used during the year.

The current year loan is also reported on the District's Schedule of Liabilities.



ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Director of Performance and State Audit
Director of Local Audit
Deputy Director of State Audit
Deputy Director of Local Audit
Deputy Director of Local Audit
Deputy Director of Performance Audit
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Deputy Director of Communications
Local Government Liaison
Public Records Officer
Main number
Toll-free Citizen Hotline

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Doug Cochran
Chuck Pfeil, CPA
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