



2018 Comprehensive Annual Financial Report

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2018 AND 2017



Transforming Our Community's Waterways for a Brighter Future

ALEXANDRIA, VA

ALEXANDRIA RENEW ENTERPRISES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2018

Prepared by the Finance Department

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**ALEXANDRIA RENEW ENTERPRISES
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2018**

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INTRODUCTORY SECTION

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**ALEXANDRIA RENEW ENTERPRISES
CHIEF EXECUTIVE OFFICER'S TRANSMITTAL LETTER**

Board of Directors
John Hill, Chair
Bruce Johnson, Vice Chair
William Dickinson, Sec'y-Treas
James Beall
Patricia Turner
Chief Executive Officer
Karen L. Pallansch, P.E., BCEE
General Counsel
McGuireWoods, LLP

January 15, 2019

To the Board of Directors of Alexandria Renew Enterprises and Our Customers and Stakeholders:

I am pleased to present the Alexandria Renew Enterprises (AlexRenew) **Comprehensive Annual Financial Report** (CAFR) for the fiscal year ended September 30, 2018 (FY2018). This report presents the financial position of AlexRenew and demonstrates compliance with applicable finance-related legal and contractual provisions. The report reflects the principle of full disclosure, allowing readers to gain maximum understanding of AlexRenew's financial position.

Moore Stephens Lovelace, an independent accounting and consulting services firm, along with the AlexRenew Finance Department, have prepared this report in accordance with generally accepted accounting principles (GAAP) as recommended by the Governmental Accounting Standards Board (GASB) and audited by a firm of independent certified public accountants retained by AlexRenew.

The accuracy of the data represented, as well as the completeness and fairness of the presentation, including all disclosures, is the responsibility of AlexRenew. To the best of our knowledge and belief, this report is accurate in all material respects and presents fairly the financial position and results of operations of AlexRenew.

ABOUT ALEXRENEW: A Current Profile of Alexandria's Water Utility of the Future

Established in 1952 by the Alexandria City Council, our chartered mission was and remains to clean wastewater and protect public health and the environment. We started operations in 1956 with a mandate to transform water. Since then, we have invested billions of dollars into critical clean water infrastructure. We currently own approximately \$971 million in total assets that includes three pump stations, two service chambers, four intercepting sewers, four combine sewer outfalls and our water resource recovery facility.

Today, AlexRenew cleans approximately 35 million gallons of dirty water daily on an urban facility that includes wastewater interception, pumping and treatment facilities designed for 54 million gallons per day. We employ approximately 100 environmental stewards that serve more than 300,000 customers in the City of Alexandria (City) and parts of Fairfax County (County) through separate contractual relationships.

AlexRenew is governed by an Alexandria City Council appointed five-member citizen Board of Directors (Board), and is a political subdivision of the Commonwealth of Virginia created under the Virginia Water and Waste Authorities Act. We are an independent, special-purpose government unit with administrative and financial independence from the City.

We have had no permit violations for 13 consecutive years having remained compliant with strict environmental limits for nutrients released back into Hunting Creek. Each year during this 13-year period, the National Association of Clean Water Agencies (NACWA) has presented AlexRenew with its Platinum Peak Performance Award for 100% compliance with its National Pollutant Discharge Elimination System (NPDES) permit requirements.

1800 Limerick Street, Alexandria, Virginia 22314 • 703-549-3381 • alexrenew.com

Alexandria's Water Transformers

AlexRenew also continues to maintain its top rating in environmental stewardship within the Commonwealth of Virginia; we were once again named an Extraordinary Environmental Enterprise in the Virginia Environmental Excellence Program (VEEP) by The Virginia Department of Environmental Quality (DEQ). In addition, in FY2018, we were named a VEEP Sustainability Partner, an annual recognition for organizations that make environmental sustainability part of their culture. This is the third year that AlexRenew has received this recognition.

We demonstrate our focus on environmental sustainability by renewing resources that help improve our environment. We reuse about 1.4 billion gallons of reclaimed water per year in our daily operations, and as a result, we mitigate burden on the City's potable water system and save almost \$3 million in drinking water expenses. In the process of cleaning dirty water in FY2018, we generate more than 100 million cubic feet of renewable methane gas – enough to offset our purchased energy by almost 25%. We also produce 5,500 dry tons of biosolids to help farmers replenish their soil.

LOCAL ECONOMY

The City has experienced a stable economy over the last decade, and this trend is expected to continue. As an inner suburb to Washington, DC, the City has been historically impacted in various ways due to fluctuations in federal spending. The City's unemployment rate – measured at 2.1% in September 2018 – remains below the national unemployment rate of 3.7% and Virginia unemployment rate of 2.9%.

The largest sectors of employment by total wages in the City are professional scientific and technical services, and public administration. The U.S. Patent and Trademark Office continues to expand and the National Science Foundation, with 3,100 high level jobs, completed its relocation to Alexandria in FY2017. Amazon's recent announcement that it will build part of its new second corporate headquarters in nearby National Landing may also impact employment in the City, particularly as it relates to the \$1 billion Virginia Tech Innovation Campus that is planned in the City in conjunction with the Amazon announcement.

City real estate values continue to grow as assessed real property increased 2.35% from FY2017 to FY2018. While the City's average office vacancy rate remain relatively high, it is well below neighboring Arlington County.

2040 VISION AND STRATEGIC OUTCOMES

We focus our work and align our budget to support our 2040 vision and the following strategic outcomes:

- **Operational Excellence**: Continually enhance water resource recovery procedures to provide exceptional quality products.
- **Public Engagement and Trust**: Engage our community to help them become informed consumers and supporters of clean water.
- **Watershed Partnerships**: Facilitate collaboration to collectively manage and improve water resources.
- **Adaptive Culture**: Establish an organization-wide commitment to exceptional outcomes through an enthusiasm for learning, adapting, and solving problems to achieve clean water.
- **Effective Financial Stewardship**: Manage our financial resources to create an efficient and resilient organization that contributes to the health of the local economy.

FY2018 ACHIEVEMENTS

RiverRenew Program to Remediate Alexandria's Combined Sewers and Improve Water Quality

Alexandria's combined sewer system dates back to the 1800s. In a combined sewer system, only one kind of pipe is designated for transporting both sewage and rainwater. When it's not raining, these pipes transport sewage for treatment at our water resource recovery facility. On rainy days, the capacity of the

combined sewer pipes is often exceeded. Instead of being transported and treated at AlexRenew, sewage mixed with rainwater overflows into Alexandria’s waterways via four discharge points, or “outfalls.”

Supported by a stakeholder group convened by the City of Alexandria, and in partnership with the City of Alexandria, AlexRenew now owns the combined sewer outfalls and leads the program to fix this problem by 2025. The program is called RiverRenew, and involves building a network of deep tunnels and sewers that will capture almost all of the combined sewer overflows and send them to our water resource recovery facility for treatment, improving the water quality in local waterways for generations to come.

National Association of Clean Water Agencies (NACWA) Excellence in Management Recognition

In FY2018, AlexRenew received a NACWA Excellence in Management Platinum award. This program honors member agencies that are implementing management practices that address the range of challenges identified in the Ten Attributes of Effectively Managed Water Sector utilities, including product quality, customer satisfaction, stakeholder understanding and support, and financial viability. AlexRenew is one of only 20 utilities to receive platinum recognition since the program’s inception.

Energy Master Plan Results

Transforming our community’s used water into clean water and reusable resources is an energy-intensive process. To become more energy efficient, we conducted an energy master plan study in 2006, and since then, we have implemented more than 15 improvements, including converting our campus exterior lamps to LED, resulting in an overall 17% annual reduction in energy consumption since 2008. We also generate energy through solar panels atop our LEED platinum-certified environmental center; the panels provide 49% of the energy used in our Environmental Center. Converting exterior lamps to LED has saved us 85% in energy costs for outdoor lighting.

Utilizing Deammonification to Use Less Air, Energy and Chemicals

Our mainstream anammox process, which started in 2016, is the first full-scale installation in the United States that implements shortcut nitrogen removal processes incorporating an innovative deammonification pathway in mainstream biological treatment. In FY2018, AlexRenew achieved, on average, over 50% savings in methanol use and 30% in aeration power use. We have also experienced improved treatment performance of 0.8 mg N/L reduction in effluent total nitrogen (TN).

ENGAGING WITH OUR COMMUNITY THROUGH PARTNERSHIPS

In FY2018, we worked with nearly 35 partners to organize, participate in or lead 25 events as a result of our passion for public service and community connections. Through family-oriented water-centric and environmental events, such as our annual Water Discovery Day, lobby water art events, event partnerships with the City of Alexandria Department of Recreation, Parks and Cultural Affairs, and our participation in the City’s annual Earth Day Celebration, we strengthen our community’s understanding of the importance of clean water and our connection with local waterways.

Nearly 5,000 guests visited our facilities in FY2018; these guests attended meetings hosted by community groups and water organizations in our Environmental Center, which features a suite of conference rooms available for public use. We also hosted approximately 50 tours for groups that included middle and high school students, adult learners, international water organizations, environmental groups, and members of civic associations.

WORKFORCE DEVELOPMENT INITIATIVES

Our skilled team of professionals includes twenty nine (29) licensed wastewater operators, four (4) professional engineers, nineteen (19) certified maintenance and reliability technicians, ten (10) licensed electricians, and twenty-four (24) American Safety Services Association certified flaggers. We also have certified professionals in our Human Resources, Purchasing, and Finance departments. We are creating

job opportunities and training the workforce of tomorrow through our apprentice program. This program allows apprentices to gain the education and experience necessary for success within the field of wastewater treatment. We have had 18 apprentices graduate from the program, and currently have three apprentices in training.

Last year, we hosted two Urban Alliance Foundation interns at AlexRenew because we believe that training the next generation is a smart investment. This internship program is the only year-long program for high school seniors in the City of Alexandria and includes formal training and mentoring among a cross function of our staff.

AWARDS AND RECOGNITIONS

The AlexRenew 2017 Comprehensive Annual Financial Report received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. This certificate is the highest form of recognition in governmental accounting and financial reporting provided by the GFOA. AlexRenew has been a recipient of this recognition each of the last nine years.

The National Association of Clean Water Agencies (NACWA) awarded AlexRenew with a National Environmental Achievement Award (NEAA) for our Four Mile Run Pump Station educational fence, which surrounds the station. The fence features ten “education stations” that engage visitors and passersby in what the pump station does, how we clean water, and water stewardship.

FINANCIAL DISCUSSION

Financial Condition

AlexRenew’s financial condition remained strong at year-end. We achieved each of our legal requirements, as prescribed by our master trust indenture and service agreements, and our policy targets while also maintaining sufficient liquidity and a responsible unrestricted net position.

We maintained appropriate fiscal and business discipline as we implemented our FY2018 operating and maintenance budget resulting in a moderate budget excess, strengthening our financial position. A marginal increase to our base charge supported necessary revenue stability and close expense control insured spending was targeted, responsible and in keeping with our revenue stewardship obligations.

Our capital budget included approximately \$4.3 million for improvements, replacements and repairs, and \$24.2 million for new or continuing larger-scale projects. Major projects funded included, among others, Process Optimization and related UV and Process Air Compressor Upgrades, Process Control System Upgrades and preliminary engineering work associated with the RiverRenew program.

During FY17, we closed a \$23.0 million tax-exempt bond issue through the Virginia Resources Authority. Proceeds from this transaction were used to repay a \$10.0 million line of credit and to fund \$13 million in various capital improvement needs. AlexRenew did not issue additional debt during FY2018. Our FY19 capital budget has been approved at approximately \$26.5 million and includes a funding component for the RiverRenew program. As we look forward to FY2019 and beyond, AlexRenew will continue to emphasize best practices and fiscal discipline to insure our financial resiliency and to sustain a strong financial position.

Investment Policy

AlexRenew manages the investment of its cash and other financial instruments in strict accordance with the Code of Virginia, other applicable laws and regulations, and our Board approved investment policy. We are focused, first and foremost on maintaining capital preservation and liquidity while achieving a market return on our financial resources.

Capital Assets

AlexRenew's capital assets are currently valued at nearly \$971 million. This is reflective of a significant capital program in recent years that will continue as we look forward to the implementation of the RiverRenew program, which is expected to include meaningful capital investment. As we build and manage our long-term capital improvement plan, we will again be particularly conscious of the implications for our customers and our own financial stability.

Budget and Internal Controls

The AlexRenew Board of Directors (Board) approves an annual operating and capital budget each September for the fiscal year period October 1 of the current year through September 30 of the following year. The budget is initially delivered to the Board in May providing for approximately four months of review, consideration and public input. This process includes formal public notices and a public hearing to insure our community receives full disclosure and has the opportunity to participate in developing the budget.

The AlexRenew Board does not have the authority to create "appropriations bills or ordinances," but approves the annual budget to ensure compliance with environmental regulations and its master trust indenture and service agreements, and to recover the organization's costs to deliver service.

AlexRenew has two major sources of revenue including wastewater treatment charges paid by City residential, commercial and industrial customers, and reimbursements from Fairfax County for certain operating, maintenance and capital costs. Under a formal service agreement, Fairfax County pays a percentage of operating expenses based upon flow volume into the AlexRenew treatment facility, makes a pre-determined annual deposit into our Improvement, Renewal and Replacement Fund and makes recurring contributions into our capital project fund in support of capital projects that benefit the County.

AlexRenew's annual operating and capital budget is a modified accrual basis document with revenues established based upon available resources. AlexRenew bills customers monthly for wastewater treatment based on water consumption at rates approved by the Board.

AlexRenew's management establishes and maintains an internal accounting control structure that insures the utility's assets are safeguarded against loss, theft or misuse, and we maintain accurate and reliable financial records for the preparation of financial statements and representations made by AlexRenew. Our internal accounting control structure provides reasonable, but not absolute, assurance that we meet these objectives. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits derived from the controls. The evaluation of costs and benefits rests with AlexRenew.

CONCLUSION

Yount, Hyde & Barbour, P.C., an independent registered public accounting firm have audited AlexRenew's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of AlexRenew for the fiscal year ended September 30, 2018 are not materially misstated.

The independent auditors have rendered their opinion on AlexRenew's financial statements for the fiscal year ended September 30, 2018. The independent auditors' report is presented as the first component of the financial section of this report. Management's Discussion and Analysis (MD&A) follows the independent auditors' report, and provides a general overview and analysis of the accompanying financial statements. This letter of transmittal is prepared to complement the MD&A and should be read in conjunction with it.

Thank you to our staff, and in particular our finance team, and the professionals at Moore Stephens Lovelace whose hard work and dedication has made possible the preparation of this CAFR. Thank you

to our Board as well, for their vision, leadership and passion for our mission and the important work we do at AlexRenew.

Regards,



Karen Pallansch, P.E., BCEE, WEF Fellow
Chief Executive Officer
Alexandria Renew Enterprises

ALEXANDRIA RENEW ENTERPRISES
DIRECTORY OF PRINCIPAL OFFICIALS
September 30, 2018

BOARD OF DIRECTORS

John Hill - Chairman
Bruce Johnson - Vice Chairman
William Dickinson - Secretary/Treasurer
James Beall
Patricia Turner

Shahram Mohsenin, Fairfax County Representative

CHIEF EXECUTIVE OFFICER (CEO)

Karen L. Pallansch, P.E., BCEE

INDEPENDENT AUDITORS

Yount, Hyde & Barbour, P.C.

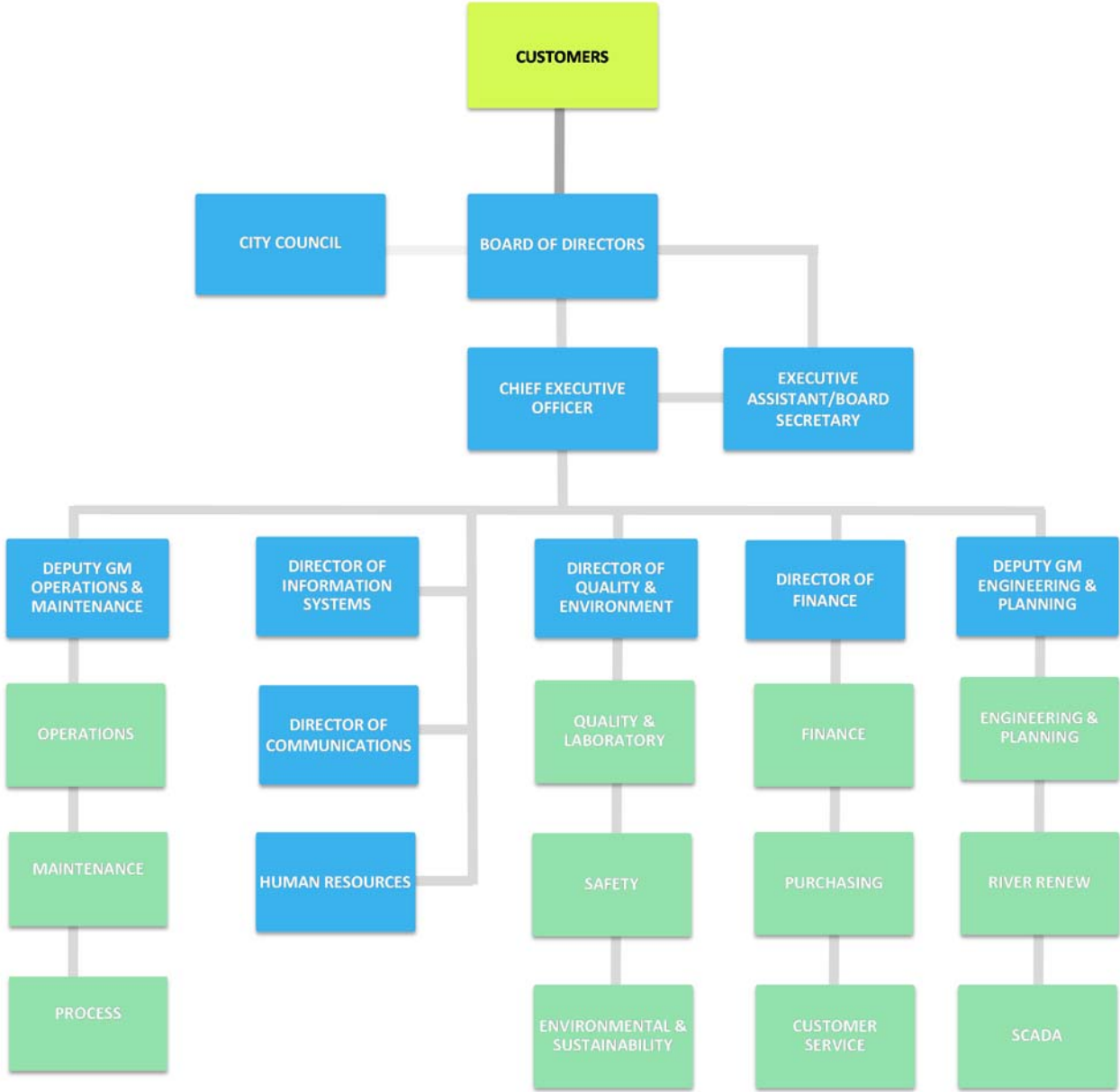
ALEXANDRIA RENEW ENTERPRISES

BOARD OF DIRECTORS



Pictured from top left to right: Chairman John Hill, Vice Chairman Bruce Johnson
Bottom Row from left to right: Mr. William Dickinson (Secretary/Treasurer), Mr. James Beall, and Ms. Patricia Turner

ORGANIZATIONAL CHART





Government Finance Officers Association

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

Presented to

**Alexandria Renew Enterprises
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

Christopher P. Morrill

Executive Director/CEO



FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Alexandria Renew Enterprises
Alexandria, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activity and the fiduciary fund of Alexandria Renew Enterprises, as of and for the year ended September 30, 2018, and related notes to the financial statements, which collectively comprise Alexandria Renew Enterprises' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Specifications for Audits of Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, 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 entity'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 entity'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.

Dedicated to Trust and Excellence.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the fiduciary fund of Alexandria Renew Enterprises, as of September 30, 2018, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Alexandria Renew Enterprises, as of and for the year ended September 30, 2017, were audited by other auditors, whose report, dated January 9, 2018, expressed an unmodified opinion on those statements.

Required Supplementary Information

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

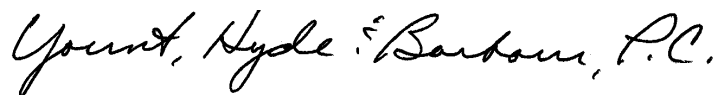
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Alexandria Renew Enterprises' basic financial statements. The Introductory and Statistical Sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019 on our consideration of Alexandria Renew Enterprises' 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 Alexandria Renew Enterprises' internal control over financial reporting and compliance.



Winchester, Virginia
January 4, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Alexandria Renew Enterprises Management's Discussion and Analysis

Alexandria Renew Enterprises presents the following review of its financial activities for the fiscal year ended September 30, 2018. Readers of these financial statements are encouraged to consider this information together with the accompanying financial statement notes to obtain a comprehensive view of the system's financial position and operating results for the fiscal year ended September 30, 2018.

Summary of Organization and Business

On May 15, 2012, the Board of Directors of the Alexandria Sanitation Authority approved an amendment to its bylaws to permit the use of "Alexandria Renew Enterprises" (AlexRenew) as the trade name of the organization. Throughout this document, the term "Authority" will be used in reference to the Alexandria Sanitation Authority, Alexandria Renew Enterprises or AlexRenew.

The Authority is a public body organized and created under the Virginia Water and Waste Authorities Act of the Code of Virginia of 1950, as amended. The Authority was created by the City Council of the City of Alexandria (City Council) in 1952 to "acquire, construct, improve, extend, operate and maintain a sewage disposal system".

Five citizen members appointed by the City Council to four-year staggered terms govern the Authority as its Board of Directors (Board).

In 1953, the Authority and neighboring Fairfax County (County) executed a service agreement by which the Authority would build a sewage treatment plant in which the County would purchase a reserved treatment capacity (Service Agreement). The Service Agreement further provides that the County will share in the cost of capital improvements to the sewage treatment system based on its reserved capacity and will also share in annual operating and maintenance expenses in proportion to the County's actual use as measured by the volume of sewage it contributed to the sewage treatment system. The Service Agreement was last amended and restated in October 1998. The major provisions relating to the County's reserved capacity (60%), payment of capital and upgrade costs, and calculation of its share of the payment of operating costs remained unchanged.

The Authority receives no financial support from the City of Alexandria (City) and has no taxing power. The revenues of the Authority are derived from wastewater treatment charges based on metered water consumption and meter size for Alexandria users, and payments from the County for its proportional share of operating expenses, replacement and renewal expense, and capital costs.

Audit Assurance

The unmodified (clean) opinion of our independent external auditors, Yount, Hyde & Barbour, P.C., is included in this report.

The financial section presents management's discussion and analysis of the Authority's financial condition and activities for the fiscal years ended September 30, 2018 (FY2018) and 2017 (FY2017). The FY2018 restatement is necessary to adjust the beginning balance of the Authority's OPEB liability and has a positive impact on the Authority's Net Position. This financial section information should be read in conjunction with the financial statements.

Financial Highlights

The following are key financial highlights for FY2018:

- The Authority treated 12.85 and 11.77 billion gallons of wastewater during FY2018 and FY2017, respectively. This represents a 9.18% year-over-year increase in wastewater treated. This increase in treated wastewater is primarily a result of more rainfall during the year which increased the flow due to wet weather impacts.
- The County contributed 6.67 and 5.94 billion gallons of wastewater flow to the Authority in FY2018 and FY2017, respectively, which accounted for approximately 51% of the wastewater treated at the Authority's facilities. This represents a 12.3% year-over-year increase and is within the County's allocation per the Service Agreement.

Alexandria Renew Enterprises Management's Discussion and Analysis (Continued)

Financial Highlights (Continued)

- The Authority experienced a marginal increase of 0.3% to 26,681 in number of accounts in FY2018 relative to FY2017.
- Wastewater treatment fee revenues are derived from two primary charges: a base charge and a volumetric charge. The base charge is a fixed rate that varies by customer served and the volumetric charge is a usage charge based on metered water sales. The volumetric charge approved by the Board for FY2018 was \$6.77 per 1,000 gallons of water and was the same as for FY2017. The FY2018 base charge approved by the Board of \$9.61 per month for residential customers represents an increase of 6.9% relative to FY2017. The base charge for commercial customers also increased from FY2017 to FY2018 and is based on meter size.
- Wastewater treatment charges of \$39.4 million were 0.07% lower in FY2018 compared to FY2017. Offsetting the base charge increase were decreases in temporary discharge fees and late fee charges.
- Debt service coverage, on an accrual basis was 1.91x and 1.97x for FY2018 and FY2017, respectively. This exceeded the 1.10x required by the Authority's Master Indenture of Trust (Indenture) and 1.50x established by the Board's Financial Policies.
- Total assets and deferred outflows of resources for FY2018 and FY2017 were \$833.1 million and \$822.7 million, respectively. Total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources (Net Position) in the amounts of \$698.7 million and \$676.4 million for FY2018 and FY2017, respectively. Of the total Net Position, \$38.9 million and \$24.3 million were unrestricted and available to support operations for FY2018 and FY2017, respectively. The increase in total assets is a result of the multiple improvement, replacement and construction projects for plant infrastructure and equipment and the acquisition of combined sewer outfalls (CSO) assets donated by the City.
- Capital assets net of depreciation and amortization increased \$6.0 million in FY2018 compared to a decrease of \$3.7 million in FY2017. The increase is primarily due to increased capital expenditures and the donated CSO assets received from the City.
- Payments from the County of \$10.6 million in FY2018 represented the County's share of operating costs based upon their proportional contribution to total plant flow. County payments were \$9.6 million in FY2017. This payment increase is the result of an increase of the amount of wastewater treated for the County in FY2018.
- Total operating expenses, excluding depreciation and amortization, for FY2018 increased 3.5% compared to FY2017. This increase in operating expenses, equal to \$0.8 million, was due primarily to increases in chemical costs of \$218,250, increases in utility costs of \$639,816, increase in Arlington sewage disposal costs of \$697,981 and an increase in operations maintenance cost of \$445,824. These increases were offset by decreases in personnel services costs of \$1,007,815 and decreases in general, administrative, customer service, and other expenses of \$462,674.

Required Financial Statements

The Authority's financial statements are prepared using generally accepted accounting principles for governmental units operated as a governmental enterprise. As a result, the financial statements of the Authority report financial information using enterprise accounting methods similar to those used by private sector companies. These statements offer current and long-term financial information about its activities.

Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)

The statements of net position include all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, and provides summary information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). The assets and liabilities are presented in a classified format, which lists current and other balances.

The statements of revenue, expenses, and changes in net position measures whether the Authority has successfully recovered its operating and non-operating costs through its wastewater treatment rates and other fees. The Authority's rates are determined via a rate modeling process that incorporates an array of factors focused on the cost of capture, conveyance, treatment and discharge of wastewater. The rate model is updated and evaluated annually, or as circumstances warrant, to ensure the Authority recovers its full cost of service.

The statements of cash flows provides information about the Authority's cash receipts and cash payments during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities, and the total change in cash during the reporting period.

In 2014, the Authority established an Other Post-Employment Benefits (OPEB) Trust Fund to fund its OPEB. It was established within the Virginia Pooled OPEB Trust Fund (Trust Fund), sponsored by the Virginia Municipal League and the Virginia Association of Counties. The Trust Fund is an investment permitted for participating municipal employers to accumulate assets to pay future OPEB benefits to retirees and their beneficiaries. The financial statements include the Statements of Fiduciary Net Position and the statements of changes in fiduciary net position for FY2018 and FY2017.

The Notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The Notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)

Financial Analysis:

The following comparative condensed financial statements and other selected information provide key financial data and indicators for management, evaluation and comparison.

The following table reflects the Authority's net position at September 30, 2018, 2017 and 2016:

Condensed Statements of Net Position
(in Millions of Dollars)

| | <u>2018</u> | <u>2017(*)</u> | <u>\$ Change</u> | <u>% Change</u> | <u>2016(*)</u> |
|----------------------------------|-----------------|-----------------|------------------|------------------|-----------------|
| Current assets | \$ 44.84 | \$ 20.20 | \$ 24.64 | 122.0 % | \$ 23.34 |
| Restricted assets | 12.06 | 33.10 | (21.04) | (63.6) % | 16.87 |
| Investments | 20.58 | 18.70 | 1.88 | 10.1 % | 18.31 |
| Capital Assets, net | <u>753.73</u> | <u>747.72</u> | <u>6.01</u> | <u>0.80 %</u> | <u>751.42</u> |
| Total Assets | <u>831.21</u> | <u>819.72</u> | <u>11.49</u> | <u>1.4 %</u> | <u>809.94</u> |
| Deferred Outflows | <u>1.92</u> | <u>3.01</u> | <u>(1.09)</u> | <u>(36.21) %</u> | <u>2.19</u> |
| Current liabilities | 19.85 | 18.40 | 1.45 | 7.9 % | 34.86 |
| Long-term liabilities | <u>112.80</u> | <u>127.03</u> | <u>(14.23)</u> | <u>(11.20) %</u> | <u>111.33</u> |
| Total Liabilities | <u>132.65</u> | <u>145.43</u> | <u>(12.78)</u> | <u>(8.8) %</u> | <u>146.19</u> |
| Deferred Inflows | <u>1.83</u> | <u>0.88</u> | <u>0.95</u> | <u>107.95 %</u> | <u>1.86</u> |
| Net Investment in capital assets | 638.35 | 622.45 | 15.90 | 2.6 % | 630.74 |
| Restricted | 21.36 | 29.71 | (8.35) | (28.1) % | 13.65 |
| Unrestricted | <u>38.94</u> | <u>24.26</u> | <u>14.68</u> | <u>60.5 %</u> | <u>19.69</u> |
| Total Net Position | <u>\$698.65</u> | <u>\$676.42</u> | <u>\$ 22.23</u> | <u>3.3 %</u> | <u>\$664.08</u> |

(*) Balances for 2017 and 2016 have not been restated for adjustments to beginning net position in 2018 due to the implementation of GASB Statement No. 75.

**Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)**

Financial Analysis (Continued)

The following table reflects the Authority's comparative revenues, expenses, and changes in net position at September 30, 2018, 2017 and 2016:

**Condensed Statements of Revenues, Expenses and Changes in Net Position
(in Millions of Dollars)**

| | <u>2018</u> | <u>2017(*)</u> | <u>\$ Change</u> | <u>% Change</u> | <u>2016(*)</u> |
|--|------------------|------------------|------------------|-----------------|------------------|
| Revenues | | | | | |
| Program revenues: | | | | | |
| Wastewater Treatment Fees & Miscellaneous | \$ 39.39 | \$ 39.52 | (0.13) | (0.30) % | \$ 38.16 |
| Fairfax County Wastewater Fees | 10.61 | 9.58 | 1.03 | 10.80 % | 9.06 |
| General revenues: | | | | | |
| Investment Income | 0.30 | 0.30 | -- | -- % | 0.46 |
| Total Revenues | <u>50.30</u> | <u>49.40</u> | <u>0.90</u> | <u>1.80 %</u> | <u>47.68</u> |
| Program expenses | | | | | |
| Depreciation and Amortization expenses | 19.47 | 18.61 | 0.86 | 4.60 % | 11.74 |
| Other Operating Expenses | 23.46 | 22.67 | 0.79 | 3.50 % | 22.77 |
| Non-operating Expenses | 4.57 | 4.90 | (0.33) | (6.70) % | 3.80 |
| Total Expenses | <u>47.50</u> | <u>46.18</u> | <u>1.32</u> | <u>2.90 %</u> | <u>38.31</u> |
| Changes in Net Position before Capital Contributions | 2.80 | 3.22 | (0.42) | (13.00) % | 9.37 |
| Capital Contributions | <u>18.64</u> | <u>9.12</u> | <u>9.52</u> | <u>104.40 %</u> | <u>26.67</u> |
| Changes in Net Position | 21.44 | 12.34 | 9.10 | 73.7 % | 36.04 |
| Net Position: | | | | | |
| Beginning, original | 676.42 | 664.08 | 12.34 | 1.90 % | 628.04 |
| Change in accounting principle (*) | 0.79 | -- | 0.79 | 100 % | -- |
| Beginning, restated | <u>677.21</u> | <u>664.08</u> | <u>13.13</u> | <u>0.02 %</u> | <u>628.04</u> |
| Ending | <u>\$ 698.65</u> | <u>\$ 676.42</u> | <u>\$ 22.23</u> | <u>0.03 %</u> | <u>\$ 664.08</u> |

(*) Balances for 2017 and 2016 have not been restated for adjustments to beginning net position in 2018 due to the implementation of GASB Statement No. 75.

**Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)**

Financial Analysis (Continued)

The following table summarizes other selected information of the Authority at September 30, 2018, 2017 and 2016:

| | 2018 | 2017 | Difference | % Change | 2016 |
|--|-----------|-----------|------------|----------|-----------|
| Selected data: | | | | | |
| Employees at year end | 83 | 100 | (17) | (17) % | 100 |
| Alexandria accounts | 26,681 | 26,611 | 70 | 0 % | 26,440 |
| Wastewater treated (millions of gallons) | 12,849 | 11,769 | 1,080 | 9 % | 12,334 |
| Portion contributed by | | | | | |
| Fairfax County (millions of gallons) | 6,670 | 5,941 | 729 | 12 % | 5,960 |
| Percentage contributed by | | | | | |
| Fairfax County | 51.91 % | 50.48 % | 1.43 % | 2.83 % | 48.32 % |
| Rates, Residential Customers: | | | | | |
| Charge per 1000 gallons of | | | | | |
| water consumption | \$ 6.77 | \$ 6.77 | \$ - | 0 % | \$ 6.77 |
| Base Charge | 9.61 | 8.99 | 0.62 | 6.9 % | 8.38 |
| Average residential customer bill (based on 4,000 gallon per month water usage): | | | | | |
| Per year | \$ 440.28 | \$ 432.84 | \$ 7.44 | 1.72 % | \$ 425.52 |
| Per quarter | 110.07 | 108.21 | 1.86 | 1.72 % | 106.38 |
| Per month | 36.69 | 36.07 | 0.62 | 1.72 % | 35.46 |
| Rates, Commercial Customers: | | | | | |
| Charge per 1000 gallons of | | | | | |
| water consumption | \$ 6.77 | \$ 6.77 | \$ - | 0 % | \$ 6.77 |
| Base Charge | | | | | |
| Water Meter Size | | | | | |
| 5/8" | \$ 28.83 | \$ 26.98 | 1.85 | 6.86 % | \$ 25.15 |
| 3/4" | 28.83 | 26.98 | 1.85 | 6.86 % | 25.15 |
| 1" | 72.07 | 67.45 | 4.62 | 6.85 % | 62.87 |
| 1-1/2" | 144.16 | 134.90 | 9.26 | 6.86 % | 125.75 |
| 2" | 230.65 | 215.84 | 14.81 | 6.86 % | 201.20 |
| 3" | 432.47 | 404.70 | 27.77 | 6.86 % | 377.25 |
| 4" | 720.77 | 674.50 | 46.27 | 6.86 % | 628.74 |
| 6" | 1,441.56 | 1,349.00 | 92.56 | 6.86 % | 1,257.50 |
| 8" | 2,306.50 | 2,158.40 | 148.10 | 6.86 % | 2,012.25 |

Alexandria Renew Enterprises Management's Discussion and Analysis (Continued)

General Trends and Significant Events

The Authority's service area within the City can be referred to as mature. The City is over 250 years old and for the most part is built-out. While there are several tracts of undeveloped land, the flows from these parcels, when developed, will not meaningfully increase the Authority's wastewater treatment charge revenue. This is particularly true given the trend for water conservation and sustainability efforts within the community.

The number of City accounts increased by 70 or 0.3% in FY2018 when compared to FY2017. The current number of accounts 26,681 represents a 3.1% increase for the 10-year period beginning FY2008 to present.

Previously, the number of the accounts increased in FY2017 by 171, a 0.6% increase over FY2016.

Financial Condition

The Authority's financial condition remained strong at fiscal year-end with adequate liquid assets and a reasonable level of unrestricted net position. The current financial condition, operating and capital plans to meet future water quality requirements are well balanced and under control.

Total assets and deferred outflows of resources grew \$10.4 million or 1.3% and \$10.6 million or 1.3% during FY2018 and FY2017, respectively. Net Position increased by \$21.4 million in FY2018, with a substantial portion of the change resulting in an increase in unrestricted assets. Additional information on the Authority's unrestricted assets can be found in Notes 2 and 3 of the Notes to financial statements.

In FY2017, Net Position increased by \$12.3 million, representing an increase in both restricted and unrestricted assets.

Results of Operations

Revenues: The Authority's revenues from operations fall into two main categories: 1) wastewater treatment and base charges to customers in the City which are based on metered water consumption and 2) County operating expense charges for wastewater treatment for its share of operating expenses based upon metered flow to the plant. Revenues increased by \$0.90 million or 1.8% over last year primarily due to increased contributions from Fairfax County for the apportionment of the operating expenses, net of depreciation.

Capital contributions: The County pays 60% of the cost of joint capital improvements to our water resource recovery facility based upon the Service Agreement with the Authority. These payments are recorded as non-operating revenues in the statements of revenues, expenses and changes in net position.

Capital contributions also include capital grants provided to the Authority by the Commonwealth of Virginia, Department of Environmental Quality.

Total capital contributions were \$18.6 million and \$9.1 million in FY2018 and FY2017, respectively, including \$11.4 million in FY2018 of donated CSO Assets received from City as well as contributions from the County.

Expenses:

FY2018-FY2017 comparison: Total operating expenses for FY2018, excluding depreciation and amortization, increased by \$0.7 million or 3.5% relative to FY2017. Increases in chemicals, utilities, sludge disposal and operations maintenance were offset by decreases in personnel services and a significant decrease in general administrative customer service and other expenses. Pension related adjustments contributed to the decrease in personnel services in FY2018. Due to these adjustments, FY2018 personnel costs were reduced by \$1.2 million as compared to a smaller reduction in FY2017.

Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)

Results of Operations (Continued)

FY2017-FY2016 comparison: Total operating expenses for FY2017, excluding depreciation and amortization, decreased by \$100,249 or 0.4% relative to FY2016. Among operating expenses, personnel services costs including salaries, retirement and benefits increased \$796,090 or 7.31%. Adjustments related to Pension is the primary reason personnel services costs increased in FY2017; such costs were reduced due to Pension adjustments by \$471,486 in FY2017 as compared to a greater reduction in FY2016 of \$721,406. Customer billing expense remained relatively flat. Decreases in Arlington sewage disposal and chemical expenses offset increases in personnel, utilities, and maintenance expenses. General, administrative, customer service and other expenses were significantly less than prior years.

Capital Assets

The Authority maintains investments in a broad range of capital assets, which includes land, buildings, sanitary sewer intercepting lines and force mains, pumping stations, a water resource recovery facility, machinery and equipment, computers and vehicles. The Authority also owns capacity rights at the Arlington County Water Pollution Control Facility (Arlington). Pursuant to service agreement between the City of Alexandria, the Authority and Arlington County, the Authority pays 8.5% of the cost of capital improvements at the Arlington County Wastewater Pollution Control Facility (WPCF). Additional information on the Authority's capital assets can be found in Notes 1 and 4 of the Notes to financial statements.

The Authority maintains its equipment annually on a prioritized basis through a committed improvements, renewals and replacements fund. Under the Service Agreement, the County invests a percentage of total facility assets into this fund for adequate reinvestment to insure continuing compliance with regulations.

The Authority finances its capital assets through rates and charges, the County capital contributions, interim financing instruments, long term debt and, when available, capital grants.

Debt Administration:

The Authority had \$116.4 million in long-term debt outstanding at September 30, 2018, including \$10.3 million considered short-term.. Principal payments totaled \$9.8 million during FY2018. During FY2018, the Authority did not issue new bonds and long-term debt decreased during the fiscal year by \$10.2 million.

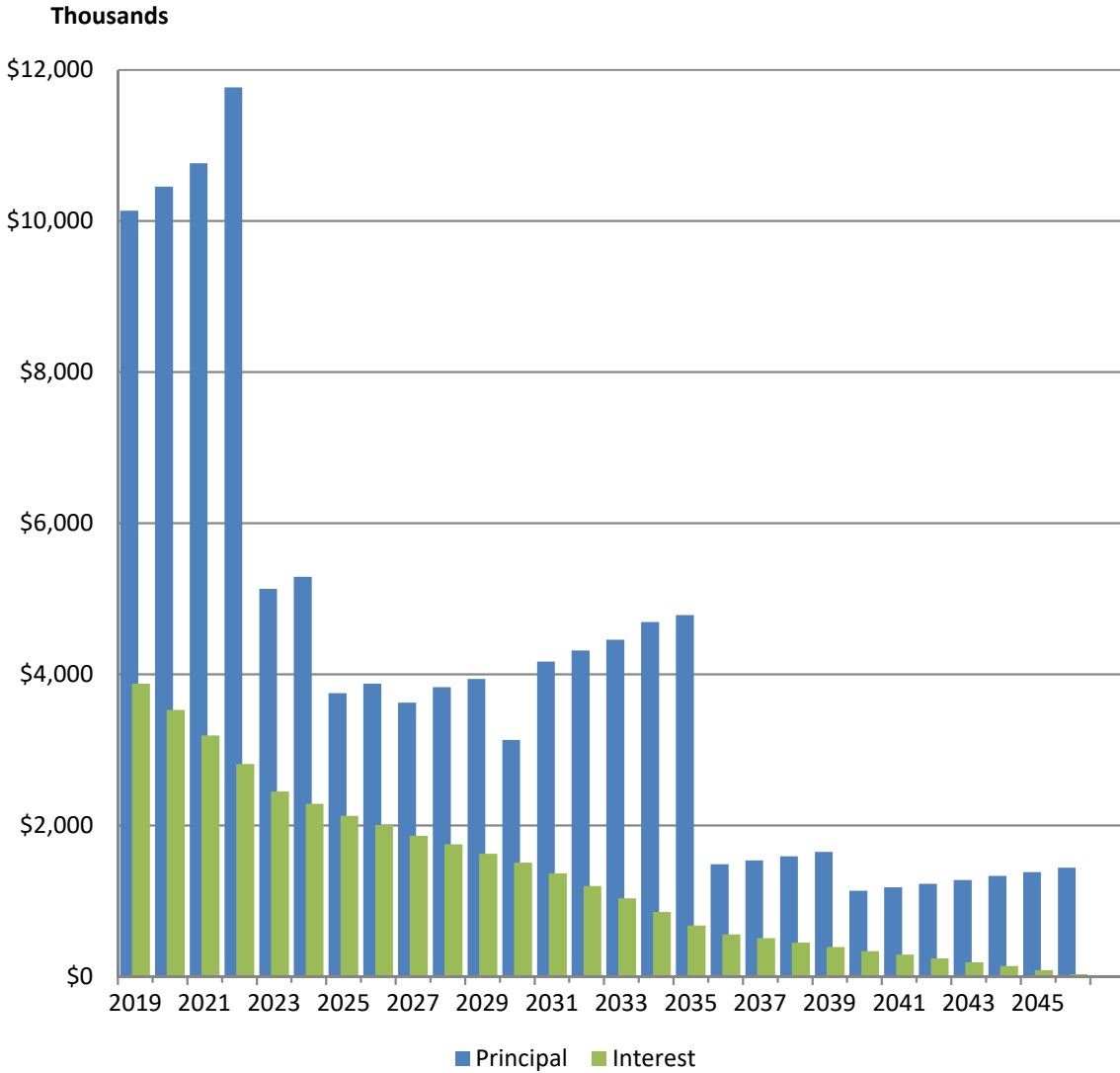
The Authority had \$126.3 million in long-term debt outstanding at September 30, 2017 including \$9.9 million considered short-term. Principal payments totaled \$9.5 million during FY2017. During FY2017, the Authority issued new bonds totaling \$23 million. Long term debt increased during the fiscal year by \$14.2 million.

The Authority's financial strength, ability to pay current debt service (principal and interest), and future borrowing capability is demonstrated, in part, by its debt service coverage which is currently a strong 1.91x. Our Indenture requires the Authority to establish, fix, charge and collect rates, fees and other charges for operating and maintenance so that in each fiscal year net revenues are not less than 1.1x total debt service for the fiscal year. The Board's financial policies require the Authority to maintain a minimum debt service coverage of 1.50x total debt service for the fiscal year.

**Alexandria Renew Enterprises
Management’s Discussion and Analysis (Continued)**

Results of Operations, (Continued)

The graph below presents principal and interest payments due each year until the revenue bonds mature in 2046.



**Alexandria Renew Enterprises
Management’s Discussion and Analysis (Continued)**

Results of Operations (Continued)

The following table calculates the performance relative to the Rate Covenant for FY2018, FY2017 and FY2016:
(in millions)

| | <u>2018</u> | <u>2017</u> | <u>% Change</u> | <u>2016</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| Unrestricted Operating Revenue | \$ 50.00 | \$ 49.10 | 1.83 % | \$ 47.22 |
| Total Operating Expenses (Less Depreciation and Replacements) | <u>23.46</u> | <u>22.67</u> | <u>3.48 %</u> | <u>22.70</u> |
| Net Revenue | <u>\$ 26.54</u> | <u>\$ 26.43</u> | <u>0.42 %</u> | <u>\$ 24.52</u> |
| Annual Debt Service | <u>\$ 13.91</u> | <u>\$ 13.44</u> | <u>3.54 %</u> | <u>\$ 13.12</u> |
| Revenue Covenant ¹ | <u>1.91</u> | <u>1.97</u> | <u>(3.02) %</u> | <u>1.87</u> |

¹ ≥ 1.10x per Indenture and 1.50x per Board Policy

Additional information on the Authority’s debt can be found in Note 5 to the Financial Statements.

Budget Information

The Authority’s budget is a modified accrual basis document with revenues established based upon available resources. The Authority bills customers monthly for wastewater treatment based on the class of customer served and the corresponding amount of water consumption metered at the customer’s premise at rates approved by its Board.

The Authority’s budget includes sources/revenues for new debt issues that for accounting purposes are not shown as revenues but are included on the statement of net position to comply with GAAP. Likewise, capital project spending and debt service principal payments are treated as capital outlays (expenditures) for budget purposes but are included as assets and liabilities in the statement of net position for GAAP compliance purposes. The Authority’s budget expense classifications are in several cases different than the financial statement presentation as is the case for personnel services, business support and professional services.

**Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)**

Budget Information, (Continued)

Certain expenditures for construction have been estimated net of contractual retainage not paid by contract terms until projects are complete. In some cases, AlexRenew has issued debt for its share of construction cost (net of County share) through the Virginia Resources Authority (VRA).

The following Statement of Consolidated Enterprise Budget is presented to compare FY2018 operations to budget estimate.

CONDENSED ENTERPRISE BUDGET FY 2018

| | FY 2018 Budgetary Basis Actual | FY 2018 Final Budget | Variance | Variance (%) |
|--|---|---------------------------------|------------------------|---------------------|
| <u>Revenues and Other Sources:</u> | | | | |
| Wastewater Treatment Charges | \$ 39,365,116 | \$ 39,000,500 | \$ 364,616 | 0.93% |
| Fairfax County: | | | | |
| Operating | 10,609,068 | 11,074,212 | (465,144) | -4.20% |
| IR&R | 3,084,852 | 3,084,856 | (4) | 0.00% |
| Total | \$ 53,059,036 | \$ 53,159,568 | \$ (100,532) | -0.19% |
| <u>Expenditures</u> | | | | |
| Organizational Competency | 11,632,499 | 14,219,660 | (2,587,161) | -18.19% |
| Operational Excellence | 5,795,188 | 5,435,700 | 359,488 | 6.61% |
| New Ideas & Innovations | 104,169 | 637,500 | (533,331) | -83.66% |
| Community Benefit | 1,560,409 | 1,785,000 | (224,591) | -12.58% |
| Revenue Stewardship | 1,452,175 | 1,994,050 | (541,875) | -27.17% |
| Watershed Partnerships | 2,623,835 | 3,158,000 | (534,165) | -16.91% |
| Operating Budget Sub-Total | 23,168,275 | 27,229,910 | (4,061,635) | -14.92% |
| Alex-only Improvement, Renewal & Replacement | 165,730 | 350,000 | (184,270) | -52.65% |
| Joint Improvement, Renewal & Replacement | 2,174,089 | 4,000,000 | (1,825,911) | -45.65% |
| Alex-only Capital Projects | 604,178 | 2,035,000 | (1,430,822) | -70.31% |
| Joint Capital Projects | 11,877,682 | 22,236,000 | (10,358,318) | -46.58% |
| Total | \$ 37,989,954 | \$ 55,850,910 | \$ (17,860,956) | -31.98% |
| <u>Nonoperating Revenues (Expenditures)</u> | | | | |
| Investment Income | 300,954 | 210,000 | 90,954 | 43.31% |
| Debt Principal Payments | (9,813,228) | (9,799,018) | (14,210) | 0.15% |
| Debt Interest Expense | (4,044,192) | (4,763,780) | 719,588 | -15.11% |
| Proceeds from Debt | - | 10,000,000 | (10,000,000) | -100.00% |
| Fairfax County Contributions | 3,881,738 | 11,775,000 | (7,893,262) | -67.03% |
| Total | \$ (9,674,728) | \$ 7,422,202 | \$ (17,096,930) | -230.35% |
| Excess of Revenues | \$ 5,394,354 | \$ 4,730,860 | \$ 663,494 | 14.02% |

Alexandria Renew Enterprises
Management's Discussion and Analysis (Continued)

Final Comments

FY2018 continued a trend of strong financial performance by the Authority and its ability to maintain adequate liquidity and financial flexibility, ensure appropriate reserves are maintained, and meet its capital spending requirements.

Contacting the Authority's Financial Management:

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Authority's financial position and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact the Alexandria Renew Enterprises, 1800 Limerick St. Alexandria, Virginia 22314, call 703.549.3381, or visit us on the web at www.alexrenew.com.

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BASIC FINANCIAL STATEMENTS

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ALEXANDRIA RENEW ENTERPRISES
STATEMENTS OF NET POSITION
September 30, 2018 and 2017

| | 2018 | 2017 |
|---|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents (Note 2): | | |
| Unrestricted | \$ 25,920,498 | \$ 14,229,375 |
| Restricted | 17,877,933 | 25,152,321 |
| Accounts receivable, net (Note 3) | 4,324,217 | 4,222,199 |
| Due from other governments (Note 3) | 363,767 | 934,505 |
| Prepaid expenses | 448,056 | 550,070 |
| Inventory | 229,367 | 255,022 |
| Investments (Note 2): | | |
| Unrestricted | 20,575,971 | 18,737,275 |
| Restricted | 7,741,797 | 7,911,562 |
| Total current assets | 77,481,606 | 71,992,329 |
| Non-current assets | | |
| Capital assets, net of depreciation and amortization (Note 4) | 753,725,875 | 747,728,427 |
| Total non-current assets | 753,725,875 | 747,728,427 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Pension related deferred outflows (Note 6) | 915,440 | 1,952,988 |
| Deferred charge on refunding | 1,008,727 | 1,056,762 |
| Total deferred outflows of resources | 1,924,167 | 3,009,750 |
| Total assets and deferred outflows of resources | \$ 833,131,648 | \$ 822,730,506 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| Current liabilities | | |
| Accounts payable and accrued expenses (Note 3) | \$ 3,699,596 | \$ 2,980,501 |
| Due to City of Alexandria | 848,057 | 764,646 |
| Due to other governments (Note 3) | - | 515,088 |
| Accrued paid time off | 770,974 | 860,409 |
| Current maturities of long-term debt (Note 5) | 10,273,667 | 9,939,844 |
| Payable from restricted assets | | |
| Accounts payable and accrued expenses (Note 3) | 3,191,709 | 2,297,153 |
| Accrued interest payable | 1,070,651 | 1,043,190 |
| Total current liabilities | 19,854,654 | 18,400,831 |
| Long-term liabilities | | |
| Accrued paid time off, less current portion | 256,991 | 286,803 |
| Other post employment benefits (Note 7) | 677,476 | 1,950,513 |
| Net pension liability (Note 6) | 5,753,235 | 8,399,790 |
| Long-term debt (Note 5) | 106,112,098 | 116,390,671 |
| Total long-term liabilities | 112,799,800 | 127,027,777 |
| Total liabilities | 132,654,454 | 145,428,608 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Pension related deferred inflows (Note 6) | 1,413,568 | 881,910 |
| Other post employment benefits related deferred inflows (Note 7) | 415,066 | - |
| Total deferred inflows of resources | 1,828,634 | 881,910 |
| Total liabilities and deferred inflows of resources | \$ 134,483,088 | \$ 146,310,518 |
| NET POSITION | | |
| Net investment in capital assets | 638,348,836 | 622,454,674 |
| Restricted: | | |
| Operating | 1,488,086 | 2,571,829 |
| Parity debt service | 1,055,672 | 1,020,493 |
| Improvement, renewal & replacement | 15,208,222 | 12,145,083 |
| Capital projects | 3,605,390 | 13,967,668 |
| Unrestricted | 38,942,354 | 24,260,241 |
| Total net position | 698,648,560 | 676,419,988 |
| Total liabilities, deferred inflows of resources, and net position | \$ 833,131,648 | \$ 822,730,506 |

The Notes to Financial Statements are an integral part of these statements.

ALEXANDRIA RENEW ENTERPRISES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Wastewater treatment fees | \$ 39,365,116 | \$ 39,394,596 |
| Fairfax County wastewater fees | 10,609,068 | 9,576,560 |
| Miscellaneous | 16,630 | 127,186 |
| | <u>49,990,814</u> | <u>49,098,342</u> |
| OPERATING EXPENSES | | |
| Personnel services | 10,599,487 | 11,607,302 |
| Utilities | 3,415,322 | 2,775,506 |
| Chemicals | 1,305,182 | 1,086,932 |
| Operations maintenance | 1,422,121 | 976,297 |
| Arlington sewage disposal | 1,429,464 | 731,483 |
| Sludge disposal | 1,112,561 | 975,936 |
| Depreciation and amortization (Note 4) | 19,468,132 | 18,608,157 |
| Repairs and replacements, sewage disposal systems | 220,177 | 98,057 |
| General, administrative, customer service, and other | 3,954,272 | 4,416,947 |
| | <u>42,926,718</u> | <u>41,276,617</u> |
| Operating income | <u>7,064,096</u> | <u>7,821,725</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 300,954 | 296,581 |
| Interest on debt | (4,044,192) | (4,077,682) |
| Loss on disposed capital assets | (522,700) | (819,299) |
| | <u>(4,265,938)</u> | <u>(4,600,400)</u> |
| Change in net position before capital contributions | 2,798,158 | 3,221,325 |
| CAPITAL CONTRIBUTIONS | <u>18,636,519</u> | <u>9,119,146</u> |
| Change in net position | <u>21,434,677</u> | <u>12,340,471</u> |
| NET POSITION, BEGINNING OF YEAR, ORIGINAL | 676,419,988 | 664,079,517 |
| CHANGE IN ACCOUNTING PRINCIPLE - OPEB | 793,895 | - |
| NET POSITION, BEGINNING OF YEAR, RESTATED | <u>677,213,883</u> | <u>-</u> |
| NET POSITION, END OF YEAR | <u>\$ 698,648,560</u> | <u>\$ 676,419,988</u> |

The Notes to Financial Statements are an integral part of these statements.

ALEXANDRIA RENEW ENTERPRISES
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 39,352,925 | \$ 38,732,154 |
| Cash received from Fairfax County for operations | 9,661,481 | 9,491,975 |
| Cash received from other sources | 16,630 | 127,186 |
| Payments to suppliers for goods and services | (11,500,915) | (10,488,570) |
| Payments to employees for services | (12,017,846) | (11,860,325) |
| | <u>25,512,275</u> | <u>26,002,420</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition/construction of capital assets | (12,270,211) | (21,919,997) |
| Capital contributions from Fairfax County | 5,140,123 | 12,503,158 |
| Proceeds from state grants | 934,505 | 469,025 |
| Proceeds from sale of property | 381,466 | 13,713 |
| Net proceeds from debt issuance | - | 24,173,247 |
| Payments on line of credit | - | (10,019,000) |
| Principal payments on debt | (9,813,229) | (9,498,004) |
| Interest paid on borrowing | (4,100,217) | (3,939,627) |
| | <u>(19,727,563)</u> | <u>(8,217,485)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 10,609,175 | 44,474,963 |
| Purchase of investments | (12,278,106) | (45,541,027) |
| Interest received on investments | 300,954 | 296,581 |
| | <u>(1,367,977)</u> | <u>(769,483)</u> |
| Net increase in cash and cash equivalents | 4,416,735 | 17,015,452 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 39,381,696 | 22,366,244 |
| End of year | \$ 43,798,431 | \$ 39,381,696 |
| RECONCILIATION TO STATEMENT OF NET POSITION | | |
| Cash and cash equivalents - unrestricted | \$ 25,920,498 | \$ 14,229,375 |
| Cash and cash equivalents - restricted | 17,877,933 | 25,152,321 |
| Total cash and cash equivalents | <u>\$ 43,798,431</u> | <u>\$ 39,381,696</u> |

The Notes to Financial Statements are an integral part of these statements.

(Continued)

ALEXANDRIA RENEW ENTERPRISES
STATEMENTS OF CASH FLOWS (continued)
Years Ended September 30, 2018 and 2017

| | 2018 | 2017 |
|---|---------------|---------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 7,064,096 | \$ 7,821,725 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 19,468,132 | 18,608,157 |
| Pension expense, net of of employer contributions | (1,077,349) | (471,486) |
| Changes in assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | (102,018) | 18,877 |
| Due from other governments | (432,499) | (585,027) |
| Prepaid expenses | 102,014 | 26,140 |
| Inventory | 25,655 | (7,773) |
| (Decrease) increase in: | | |
| Accounts payable and accrued expenses | 1,079,244 | (294,491) |
| Due to City of Alexandria | 83,411 | 135,758 |
| Due to other governments | (515,088) | 515,088 |
| Accrued paid time off | (119,247) | 153,927 |
| Other post employment benefits | (64,076) | 81,525 |
| Net cash provided by operating activities | \$ 25,512,275 | \$ 26,002,420 |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Carrying value of disposed capital assets | \$ 904,166 | \$ 833,012 |
| Capital asset purchases included in accounts payable at year end | \$ 3,832,710 | \$ 3,410,283 |
| Capital assets donated | \$ 11,441,100 | \$ - |
| Capital grants reimbursable to Fairfax County included in both other receivables and accounts payable at year end | \$ - | \$ 560,703 |
| Capitalized interest | \$ - | \$ 166,978 |

The Notes to Financial Statements are an integral part of these statements.

ALEXANDRIA RENEW ENTERPRISES
STATEMENTS OF FIDUCIARY NET POSITION
September 30, 2018 and 2017
OPEB Trust Fund

| | 2018 | 2017 |
|-------------------------------------|-------------|-------------|
| ASSETS | | |
| Assets held in trust, at fair value | | |
| Investment in pooled funds | \$ 845,627 | \$ 773,591 |
| | \$ 845,627 | \$ 773,591 |
| NET POSITION | | |
| Net position restricted for OPEB | \$ 845,627 | \$ 773,591 |
| | \$ 845,627 | \$ 773,591 |

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years Ended September 30, 2018 and 2017
OPEB Trust Fund

| | 2018 | 2017 |
|---|-------------|-------------|
| ADDITIONS | | |
| Contributions from employer | \$ 90,513 | \$ 156,091 |
| Investment Income: | | |
| Net increase in fair value of investments | 74,315 | 80,776 |
| Less investment expenses | (2,279) | (2,059) |
| Net investment income | 72,036 | 78,717 |
| Total additions | 162,549 | 234,808 |
| DEDUCTIONS | | |
| Benefits paid to participants | 90,513 | 123,090 |
| Total deductions | 90,513 | 123,090 |
| Change in net position | 72,036 | 111,718 |
| Total net position - beginning of year | 773,591 | 661,873 |
| Total net position - end of year | \$ 845,627 | \$ 773,591 |

The Notes to Financial Statements are an integral part of these Statements.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Entity and Summary of Significant Accounting Policies

Description of Entity

On May 15, 2012, the Board amended its bylaws to adopt the name of “Alexandria Renew Enterprises” as the official trade name of the Alexandria Sanitation Authority.

The Authority is a special governmental unit created by the City Council in 1952 for the purpose of constructing, operating and maintaining a wastewater treatment system for the City. The Authority is chartered by the State Corporation Commission and is an independent public body. The Authority is governed by a five member Board who serve staggered terms and are appointed by the City Council.

Although the Board is appointed by City Council, the Authority is not part of the City’s reporting entity and not considered a component unit under GASB Statement No. 61.

No component units are included in the Authority’s financial statements.

The following is a summary of the Authority’s significant accounting policies:

Basis of Presentation and Accounting

The Authority’s financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America as applicable to the enterprise fund of governmental units.

The primary activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows, net of total liabilities plus deferred inflows) is segregated into net investment in capital assets, restricted, and unrestricted components.

The Authority also has a fiduciary fund for assets held by the Authority in a trustee capacity for its employees. The Authority’s Other Post-Employment Benefit (OPEB) trust fund accounts for the receipt and disbursement of assets held in trust for the Authority’s OPEB plan.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Entity and Summary of Significant Accounting Policies (Continued)

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities. Contributions from the County under the Service Agreement discussed in Note 4 are recorded as capital contributions.

In accordance with the Service Agreement with the County, the Authority recognizes as revenue the County's proportionate share of current operating expenses.

Cash and Cash Equivalents

The Authority considers all highly liquid investments with maturities of three months or less from date of purchase to be cash equivalents.

Inventory

Inventory, consisting of items held for consumption, are valued at cost using the first-in, first-out method.

Financial Policy

In FY2010 the Board revised its financial policy to increase its restricted cash reserves. The Bond Master Trust Indenture requires the Authority keep 60 days of operating expenses in reserve and the Authority has appropriately restricted these amounts. The Authority's internal policy requires its restricted cash reserves to be maintained at 120 days of operating expenses at year end; however, only the amount required by the Indenture are shown as restricted in the financial statements.

Investments

Investments are stated at fair value, except for investments in the LGIP and SNAP, which are external 2a7-like investment pools stated at share price. All fair market valuations are based on quoted market prices.

In accordance with the *Code of Virginia* and other applicable law, including regulations, the Authority's investment policy (Policy) permits investments in U.S. Treasury Securities, U.S. agency securities, municipal obligations, prime quality commercial paper, banker's acceptances with domestic banks, corporate notes, negotiable certificates of deposit of domestic banks, money market funds registered under the Federal Investment act of 1940, repurchase agreements collateralized by U. S. Treasury and Federal Agency obligations, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP).

Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share).

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Entity and Summary of Significant Accounting Policies (Continued)

Investment (Continued)

The Policy limits investment maturities to a maximum of five years for any investment, unless the Board approves an exception in writing. The investment policy establishes the maximum percentage of the portfolio permitted in each of the following instruments:

| | |
|---|------------------------|
| U.S. Treasury Obligations | 100%, no limitation |
| Federal Agency Obligations | 100%, 35% issuer limit |
| Municipal Obligations | 10%, 3% issuer limit |
| Commercial Paper | 25%, 3% issuer limit |
| Bankers' Acceptance | 25%, 3% issuer limit |
| Corporate Notes | 10%, 3% issuer limit |
| Negotiable Certificates of Deposit | 10%, 50% issuer limit |
| Money Market Mutual Funds | 100%, 50% issuer limit |
| Repurchase Agreements | 35%, 35% issuer limit |
| Local Government Investment Pool (LGIP) | 100%, no limitation |

Accounts Receivable

Operating revenues are generally recognized on the basis of cycle billings rendered monthly. Unbilled revenues for services delivered during the last month of the fiscal year are accrued based on meter readings for September consumption. Receivables related are recorded as current assets, net of an allowance for doubtful accounts of \$819,835 and \$937,769 at September 30, 2018 and 2017. The allowance is based upon management's specific identification of receivables that may become uncollectible.

Capital Assets

Purchased or constructed property, plant and equipment with a cost greater than \$5,000 and an estimated useful life of 3 years or more is capitalized and recorded at historical cost. Interest related to costs and major improvements, renewals and replacements is capitalized as a cost of the project. Depreciation is computed on the straight-line basis over the estimated useful life. The estimated useful lives are as follows:

| | |
|----------------------------------|-------------|
| Plant and related infrastructure | 67 years |
| Buildings and improvements | 10-30 years |
| Furniture and equipment | 3-15 years |
| Vehicles | 5 years |
| Computers | 3 years |

Capital assets also include intangible assets such as purchased capacity rights for the Arlington sewer treatment plant upgrade and expansion. Intangible assets are amortized over 40 years.

Accrued Paid Time-Off Benefit

The Authority's paid time-off benefit (PTO) policy permits employees to accumulate a limited amount of earned but unused PTO benefits, which will be paid to employees upon separation from service. The accrued PTO Benefit is included in the statement of net position as a liability.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Entity and Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

For purposes of the statement of revenues, expenses and changes in net position, payroll taxes and fringe benefits were allocated to operations and administration based on direct salaries.

Net Position

Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Unrestricted net position represents the remaining net position not included as the previous two categories.

When both restricted and unrestricted net position are available for use, it is the Authority's policy to use restricted net position first, then unrestricted as needed.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified in order to conform to the presentation of the current-year financial statements.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Entity and Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

Deferred Outflows

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has three items that qualify for reporting in this category. The first item consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The second item is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third item is the deferred loss on refunding, which results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred Inflows

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has two types of items that qualifies for reporting under this category. This first item represents differences between expected and actual experience in the pension plan. These differences will be recognized in pension expense over a closed five-year period. The second item is the differences between expected and actual experience and the net difference between projected and actual earnings related to OPEB. This difference will be recognized in OPEB expense over a closed five-year period

Prior Period Adjustment Due to Change in Accounting Principle

During 2018, the Authority implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. GASB No 75 replaces the requirements of Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. This statement requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities, including a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government, and new RSI.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 1. Description of Entity and Summary of Significant Accounting Policies (Continued)

Prior Period Adjustment Due to Change in Accounting Principle (Continued)

For the Authority, this statement includes the prior period adjustment of beginning net position of \$793,895 to record the Net OPEB Liability, pursuant to GASB No. 75, as of October 1, 2017. The authority determined that it was not necessary to incur the additional costs to obtain the required information to restate FY17.

Early Implementation of New Accounting Standards

During 2018, the Authority early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred.

Note 2. Deposits and Investments

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of all excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements, the State Treasurer’s Local Government Investment Pool (LGIP), a 2a-7 like pool, and the Commonwealth of Virginia State Non-Arbitrage Program (SNAP), a pooled investment fund. Both the LGIP and SNA are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the Authority’s position in the pools is the same as the value of the pool shares, which are reported at amortized cost.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. As of September 30, 2018, the Authority’s investments in federal agency bonds and notes, U.S. Treasury bonds and notes, Supra-National agency notes, and corporate bonds and notes were valued using a matrix pricing model, Level 2 inputs.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 2. Deposits and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At September 30, 2018 and 2017, none of the Authority's investments are exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Authority's portfolio management approach is active, allowing for periodic restructuring of the investment portfolio to take advantage of current and anticipated interest rate moves. The Authority minimizes its exposure to interest rate risk by having an average investment period of 2.5 years and a limit of less than 5 years.

The Authority's investments as of September 30, 2018 consisted of the following:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>S&P Credit Rating</u> | <u>Weighted Average Maturity *</u> |
|--------------------------------|----------------------|------------------------------|------------------------------------|
| Federal agency bonds and notes | \$ 8,301,881 | AA+ | 1.59 |
| U.S. Treasury bonds and notes | 7,323,389 | AA+ | 3.10 |
| Supra-National agency notes | 3,930,307 | AAA | 2.08 |
| Corporate bonds and notes | 2,036,107 | AA-- to AA+ | 1.88 |
| Commercial paper | 1,440,744 | A-1 | 0.25 |
| LGIP | 120,876 | AAAm | N/A |
| Total investments | <u>\$ 23,153,304</u> | | |

**Average maturity in years*

The Authority's investments as of September 30, 2017 consisted of the following:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>S&P Credit Rating</u> | <u>Weighted Average Maturity *</u> |
|--------------------------------|----------------------|------------------------------|------------------------------------|
| Federal agency bonds and notes | \$ 9,368,790 | AA+ | 1.87 |
| U.S. Treasury bonds and notes | 8,075,919 | AA+ | 3.28 |
| Supra-National agency notes | 3,441,717 | AAA | 2.62 |
| Corporate bonds and notes | 1,906,178 | AA-- to AA+ | 0.66 |
| Commercial paper | - | N/A | N/A |
| LGIP | 118,819 | AAAm | N/A |
| Total investments | <u>\$ 22,911,423</u> | | |

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 4. Capital Assets

Changes in capital assets for FY2018 were as follows:

| | <u>Balance, Beginning</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance, Ending</u> |
|--|-------------------------------|-------------------------|---------------------------|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and improvements | \$ 40,172,404 | \$ - | \$ - | \$ 40,172,404 |
| Construction in progress | <u>20,765,706</u> | <u>11,394,970</u> | <u>(583,607)</u> | <u>31,577,069</u> |
| Total capital assets, not being depreciated | <u>60,938,110</u> | <u>11,394,970</u> | <u>(583,607)</u> | <u>71,749,473</u> |
| Capital assets, being depreciated | | | | |
| Plant and infrastructure | 819,745,751 | 14,286,438 | (635,972) | 833,396,217 |
| Plant equipment and office equipment | <u>25,760,898</u> | <u>1,019,655</u> | <u>(417,719)</u> | <u>26,362,834</u> |
| Total capital assets, being depreciated | <u>845,506,649</u> | <u>15,306,093</u> | <u>(1,053,691)</u> | <u>859,759,051</u> |
| Less accumulated depreciation for: | | | | |
| Plant and infrastructure | (180,131,717) | (15,589,604) | 77,439 | (195,643,882) |
| Plant equipment and office equipment | <u>(10,392,869)</u> | <u>(2,871,716)</u> | <u>72,087</u> | <u>(13,192,498)</u> |
| | <u>(190,524,586)</u> | <u>(18,461,320)</u> | <u>149,526</u> | <u>(208,836,380)</u> |
| Total capital assets being depreciated, net | <u>654,982,063</u> | <u>(3,155,227)</u> | <u>(904,165)</u> | <u>650,922,671</u> |
| Capital assets, being amortized | | | | |
| Capacity rights | <u>39,829,173</u> | <u>252,289</u> | <u>-</u> | <u>40,081,462</u> |
| - | | | | |
| Less accumulated amortization for: | | | | |
| Capacity rights | <u>(8,020,919)</u> | <u>(1,006,812)</u> | <u>-</u> | <u>(9,027,731)</u> |
| Total capital assets being amortized, net | <u>31,808,254</u> | <u>(754,523)</u> | <u>-</u> | <u>31,053,731</u> |
| Total capital assets | <u>\$ 747,728,427</u> | <u>\$ 7,485,220</u> | <u>\$ (1,487,772)</u> | <u>\$ 753,725,875</u> |

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 4. Capital Assets (Continued)

Changes in capital assets for FY2017 were as follows:

| | <u>Balance, Beginning</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance, Ending</u> |
|--|-------------------------------|---------------------------|-------------------------|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and improvements | \$ 40,172,404 | \$ - | \$ - | \$ 40,172,404 |
| Construction in progress | <u>14,309,281</u> | <u>6,543,557</u> | <u>(87,132)</u> | <u>20,765,706</u> |
| Total capital assets, not being depreciated | <u>54,481,685</u> | <u>6,543,557</u> | <u>(87,132)</u> | <u>60,938,110</u> |
| Capital assets, being depreciated | | | | |
| Plant and infrastructure | 813,480,777 | 7,213,435 | (948,461) | 819,745,751 |
| Plant equipment and office equipment | <u>24,204,509</u> | <u>1,788,737</u> | <u>(232,348)</u> | <u>25,760,898</u> |
| Total capital assets, being depreciated | <u>837,685,286</u> | <u>9,002,172</u> | <u>(1,180,809)</u> | <u>845,506,649</u> |
| Less accumulated depreciation for: | | | | |
| Plant and infrastructure | (165,157,561) | (15,217,524) | 243,368 | (180,131,717) |
| Plant equipment and office equipment | <u>(8,191,215)</u> | <u>(2,393,215)</u> | <u>191,561</u> | <u>(10,392,869)</u> |
| | <u>(173,348,776)</u> | <u>(17,610,739)</u> | <u>434,929</u> | <u>(190,524,586)</u> |
| Total capital assets being depreciated, net | <u>664,336,510</u> | <u>(8,608,567)</u> | <u>(745,880)</u> | <u>654,982,063</u> |
| Capital assets, being amortized | | | | |
| Capacity rights | <u>39,625,733</u> | <u>203,440</u> | <u>-</u> | <u>39,829,173</u> |
| - | | | | |
| Less accumulated amortization for: | | | | |
| Capacity rights | <u>(7,023,501)</u> | <u>(997,418)</u> | <u>-</u> | <u>(8,020,919)</u> |
| Total capital assets being amortized, net | <u>32,602,232</u> | <u>(793,978)</u> | <u>-</u> | <u>31,808,254</u> |
| Total capital assets | <u>\$ 751,420,427</u> | <u>\$ (2,858,988)</u> | <u>\$ (833,012)</u> | <u>\$ 747,728,427</u> |

County of Arlington, Virginia Purchased Capacity Rights

The Authority has entered into a service agreement with the County of Arlington, Virginia (Arlington), in which the Authority purchases capacity rights to use Arlington's wastewater treatment plant. These costs are capitalized as an intangible asset. Arlington holds title to the plant.

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 4. Capital Assets (Continued)

County of Fairfax, Virginia Capacity Rights

Under the terms of the Service Agreement with the County, the County reimburses the Authority for its share of capital costs related to joint-use facilities, which ranges between 30% and 60%. In exchange for these capital contributions as presented on the statement of revenues, expenses and changes in net position, the Authority is required to recognize and preserve an equivalent share of the capacity rights of the related facilities for the County's use. Currently, the County has a capacity entitlement of 32.4 MGD, which is 60% of the facility's total capacity of 54 MGD. The County is required to share in operation and maintenance costs related to the joint-use facilities.

Note 5. Long-Term Debt

On March 15, 1999, the Authority executed a new Master Indenture of Trust for the purpose of issuing sewer revenue bonds from time to time. These bonds will provide funds to pay the cost, or any part of the cost, of the Sewage Disposal System additions or improvements or to refund indebtedness and obligations previously incurred for such purposes. The Authority has issued and sold sewer revenue bonds to the Virginia Clean Water Revolving Loan Fund and the Virginia Pooled Financing Program, acting by and through the Virginia Resources Authority (VRA). The Master Indenture of Trust constitutes a contract among the Authority, the Trustee and VRA governing bond issuance.

Sewer bonds consist of the following:

| | 2018 | 2017 |
|---|-------------|-------------|
| Sewer revenue bond, Series 1998A, \$9,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$334,540, including principal and interest at 4.00% due through March 2019. | \$ 313,098 | \$ 928,427 |
| Sewer revenue bond, Series 2000A, \$25,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$889,850, including principal and interest at 3.50% due through March 2020. | 2,578,770 | 4,224,877 |
| Sewer revenue bond, Series 2000B, \$60,400,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; interest only payments due March 2002 and March 2005; semi-annual installments of approximately \$2,405,000, including principal and interest at 3.85% due through September 2022. | 23,232,786 | 26,809,771 |
| Sewer revenue bond, Series 2004, \$22,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$742,125, including principal and interest beginning March 2006 at 3.10% due through September 2024. | 8,069,582 | 9,275,565 |

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 5. Long-Term Debt (Continued)

| | 2018 | 2017 |
|---|--------------|--------------|
| Sewer revenue bond, Series 2006A, \$3,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$105,060, including principal and interest beginning in March 2006 at 3.10% due through September 2024. | \$ 1,142,378 | \$ 1,313,105 |
| Sewer revenue bond, Series 2006B, \$12,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$412,313 at 3.10% due through March 2027. | 6,001,114 | 6,631,946 |
| Sewer revenue bond, Series 2008B, \$9,265,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$181,569 to \$595,081, including principal and interest, beginning October 2009 at an average interest cost of 5.37% due through October 2018. | 215,000 | 420,000 |
| Sewer revenue bond, Series 2009, \$15,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$536,250, including principal and interest, beginning March 2011 at 3.55% due through September 2030. | 9,387,582 | 10,123,079 |
| Sewer revenue bond, Series 2011, \$8,115,767; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$260,604, including principal and interest, beginning March 2014 at 2.35% due through September 2033. | 6,551,724 | 6,912,596 |
| Sewer revenue bond, Series 2014A, \$12,500,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$392,261, including principal and interest, beginning March 2016 at 2.10% due through September 2035. | 11,167,250 | 11,708,717 |

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 5. Long-Term Debt (Continued)

| | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Sewer revenue bond, Series 2014B, \$2,500,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$78,452, including principal and interest, beginning March 2016 at 2.10% due through September 2035. | 2,178,449 | 2,287,879 |
| Sewer revenue bond, Series 2014C, \$19,515,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$399,833 to \$3,203,294, including principal and interest, beginning April 2015 at 3.63%, due through April 2039. | 19,470,000 | 19,485,000 |
| Sewer revenue bond, Series 2017A, \$23,000,000; secured equally and ratably with other bond issues by pledge of revenues of the Authority; semi-annual installments of \$395,774 to \$1,468,613, including principal and interest, beginning October 2017 at 3.60%, due through October 2045. | 23,000,000 | 23,000,000 |
| | 113,307,733 | 123,120,962 |
| Plus unamortized premiums and discounts, net | 3,078,032 | 3,209,553 |
| | \$ 116,385,765 | \$ 126,330,515 |

The annual requirements to amortize bond principal and related interest are as follows:

| Fiscal Year | Principal | Interest | Total |
|--------------------|-----------------------|----------------------|-----------------------|
| 2019 | \$ 10,136,648 | \$ 3,874,674 | \$ 14,011,322 |
| 2020 | 10,450,922 | 3,528,674 | 13,979,596 |
| 2021 | 10,760,878 | 3,189,247 | 13,950,125 |
| 2022 | 11,768,354 | 2,812,293 | 14,580,647 |
| 2023 | 5,128,790 | 2,448,119 | 7,576,909 |
| 2024-2028 | 20,361,196 | 10,023,979 | 30,385,175 |
| 2029-2033 | 20,001,741 | 6,727,935 | 26,729,676 |
| 2034-2038 | 14,084,204 | 3,042,069 | 17,126,273 |
| 2039-2043 | 6,465,000 | 1,440,347 | 7,905,347 |
| 2044-2046 | 4,150,000 | 251,806 | 4,401,806 |
| Total | \$ 113,307,733 | \$ 37,339,143 | \$ 150,646,876 |

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 5. Long-Term Debt, (Continued)

The changes in debt for the fiscal years ended September 30, 2018 and 2017 are as follows:

2018

| | Balance, Beginning | Additions | Reductions | Balance, Ending | Due Within One Year |
|------------------------|-------------------------------|------------------|-----------------------|----------------------------|--------------------------------|
| Sewer revenue bonds | \$ 123,120,962 | \$ - | \$ (9,813,229) | \$ 113,307,733 | \$ 10,136,648 |
| Plus deferred amounts: | | | | | |
| Net premium | <u>3,209,553</u> | <u>-</u> | <u>(131,521)</u> | <u>3,078,032</u> | <u>137,019</u> |
| Total | <u>\$ 126,330,515</u> | <u>\$ -</u> | <u>\$ (9,944,750)</u> | <u>\$ 116,385,765</u> | <u>\$ 10,273,667</u> |

2017

| | Balance, Beginning | Additions | Reductions | Balance, Ending | Due Within One Year |
|------------------------|-------------------------------|----------------------|-----------------------|----------------------------|--------------------------------|
| Sewer revenue bonds | \$ 109,618,966 | \$ 23,000,000 | \$ (9,498,004) | \$ 123,120,962 | \$ 9,802,825 |
| Plus deferred amounts: | | | | | |
| Net premium | <u>2,145,717</u> | <u>1,173,247</u> | <u>(109,411)</u> | <u>3,209,553</u> | <u>137,019</u> |
| Total | <u>\$ 111,764,683</u> | <u>\$ 24,173,247</u> | <u>\$ (9,607,415)</u> | <u>\$ 126,330,515</u> | <u>\$ 9,939,844</u> |

During FY2018 and FY2017, the Authority was in compliance with the covenants associated with the outstanding bond indentures.

Prior defeasance of debt

In FY2015, the Authority issued revenue bonds with a face value of \$7,800,000 and an average interest rate of 4.2% to refund \$7,500,000 in outstanding 2008 bonds. The proceeds were placed in trust to fund all future debt service payments. The liability for the refunded bonds has been replaced with the liability from the new debt with the difference between the reacquisition price and the net carrying amount of the old debt being deferred and amortized over the life of the new debt in proportion to the stated interest due on the new debt. The outstanding principal of the defeased bonds was \$7,500,000 as of September 30, 2018.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by the Virginia Retirement System (VRS) upon employment. This plan is an agent multiple-employer plan administered by the VRS along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71* requires the net pension liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year. The actuarial report provided for the Authority, however, has a measurement date as of June 30, 2017, resulting in a discrepancy of three months. Further calculations to update the employer pension expense, net pension liability and deferred inflows of resources have not been estimated; however, management has determined the impact of the additional three months to be immaterial.

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ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan is as follows:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **Hybrid Opt-In Election** – Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payments.
- **Creditable Service** – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of the employers contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Average Final Compensation** – A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.
- **Normal Retirement Age** – Age 65.
- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
 - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
 - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
 - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
 - The member retires on disability.
 - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
 - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
 - The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts towards vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Plan 2 - Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.
- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.
- **Normal Retirement Age** – Normal Social Security retirement age.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
 - **Eligibility** – Same as Plan 1.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Purchase of Prior Service** – Same as Plan 1.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes Political Subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include Political Subdivision employees who are covered by enhanced benefits for hazardous duty employees and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Retirement Contributions** – A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service** –
 - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting** –
 - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit** –
 - **Defined Benefit Component:** See definition under Plan 1.
 - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Average Final Compensation** – Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier** – The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
- **Normal Retirement Age** –
 - **Defined Benefit Component:** Same as Plan 2.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility** –
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving.
- **Earliest Reduced Retirement Eligibility** –
 - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions
- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component:** Same as Plan 2.
 - **Defined Contribution Component** - Not Applicable
 - **Eligibility** – Same as Plan 1 and 2.
 - **Exceptions to COLA Effective Dates** – Same as Plan 1 and 2.
- **Disability Coverage** – Employees of Political Subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Purchase of Prior Service –**
 - **Defined Benefit Component –** Same as Plan 1, with the following exceptions:
 - Hybrid Retirement Plan members are ineligible for ported service.
 - The cost for purchasing refunded service is the highest of 4% of creditable compensation or average final compensation.
 - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
 - **Defined Contribution Component –** Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|--|---------------|
| Inactive members or their beneficiaries currently receiving benefits | 83 |
| Inactive members: | |
| Vested inactive members | 13 |
| Non-vested inactive members | 31 |
| Inactive members active elsewhere in VRS | 9 |
| Total inactive members | 53 |
| Active members | 92 |
| Total covered employees | 228 |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to Political Subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Contributions (Continued)

The Authority's contractually required contribution rate for the year ended June 30, 2018 was 8.95% of covered employee compensation, and 7.27% thereafter. These rates were based on actuarially determined rates from actuarial valuations as of June 30, 2014 and 2015.

These rates, when combined with employee contributions, were expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$723,851 and \$740,517 for the years ended September 30, 2018 and September 30, 2017, respectively.

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

| | |
|--|---|
| Inflation | 2.50% |
| General Employees - Salary increases, including inflation | 3.50 – 5.35% |
| Investment rate of return | 7.00%, net of pension plan investment expense, including inflation |

Mortality rates: General employees - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

General Employees - Largest 10 – Non-LEOS and all Others (Non 10 Largest): Updated mortality table

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class (Strategy) | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|-------------------------------|--------------------------------------|---|---|
| Public Equity | 40.00 % | 4.54 % | 1.82 % |
| Fixed Income | 15.00 % | 0.69 % | 0.10 % |
| Credit Strategies | 15.00 % | 3.96 % | 0.59 % |
| Real Assets | 15.00 % | 5.76 % | 0.86 % |
| Private Equity | 15.00 % | 9.53 % | 1.43 % |
| Total | 100.00 % | | 4.80 % |
| | Inflation | | 2.50 % |
| | * Expected arithmetic nominal return | | 7.30 % |

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

| | Increase (Decrease) | | |
|--|--|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
| Balances at September 30, 2017 | \$ 48,419,119 | \$ 40,019,329 | \$ 8,399,790 |
| Changes for the year: | | | |
| Service cost | 643,808 | - | 643,808 |
| Interest | 3,299,804 | - | 3,299,804 |
| Change in assumptions | (485,329) | - | (485,329) |
| Differences between expected and actual experience | (207,089) | - | (207,089) |
| Contributions – employer | - | 697,581 | (697,581) |
| Contributions – employee | - | 428,499 | (428,499) |
| Net investment income | - | 4,804,505 | (4,804,505) |
| Benefit payments, including refunds of employee contributions | (2,558,116) | (2,558,116) | - |
| Administrative expenses | - | (28,599) | 28,599 |
| Other changes | - | (4,237) | 4,237 |
| Net changes | 693,078 | 3,339,633 | (2,646,555) |
| Balances at September 30, 2018 | \$ 49,112,197 | \$ 43,358,962 | \$ 5,753,235 |

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority using the discount rate of 7.00%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | 1.00% Decrease (6.00%) | Current Discount Rate (7.00%) | 1.00% Increase (8.00%) |
|--------------------------------------|---------------------------------------|--|---------------------------------------|
| Authority's net pension liability | \$ 11,730,652 | \$ 5,753,235 | \$ 733,018 |

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2018, the Authority's recognized pension expense of (\$375,563). At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 497,012 |
| Change in assumptions | - | 310,750 |
| Net difference between projected and actual earnings on pension plan investments | - | 605,806 |
| Employer contributions subsequent to the measurement date | 915,440 | - |
| Total | \$ 915,440 | \$ 1,413,568 |

The \$915,440 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions after the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended September 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 6. Defined Benefit Pension Plan (Continued)

| Year Ending September 30, | Addition/ (Reduction) to Pension Expense |
|------------------------------|---|
| 2019 | \$ (993,662) |
| 2020 | (19,635) |
| 2021 | 10,612 |
| 2022 | (410,883) |
| 2023 | - |
| Thereafter | - |

Payables to the Pension Plan

At September 30, 2018, approximately \$72,000 was payable to the Virginia Retirement System for the legally required contributions related to September 2018 payroll.

Note 7. Other Post-Employment Benefits

The Authority provides limited post-retirement benefits such as health, dental and vision insurance to retirees who have five or more years of service with the Authority. The Authority pays 25% of medical insurance costs of retirees with five or more years of service. The remaining amounts of insurance premiums are paid by the retiree. Prior to fiscal 2014, the Authority also provided a post-retirement life insurance benefit to retirees. The Authority has discontinued its post retirement life insurance coverage for retirees.

Prior to fiscal year 2018, the Authority followed the guidance in GASB Statements No. 45 and 74, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions. The Authority implemented the guidance in GASB Statement No.75, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, effective fiscal year 2018. The objective of the statement is to improve the usefulness of information about post-employment benefits other than pensions.

The plan does not issue separate financial statements.

As of January 1, 2018, the following employees were covered by the benefit terms:

| | |
|---|------------|
| Inactive members and dependent spouses currently receiving benefits | 29 |
| Active members | <u>100</u> |
| | <u>129</u> |

(Continued)

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 7. Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the entry age normal actuarial cost method was used. The valuation results are based on a discount rate of 7.0%, an annual payroll growth rate of 3.0%, and an annual healthcare cost trend rate of 5.1% initially, decreasing annually to a rate of 4.1%. An inflation rate of 2.5% is used in the assumptions. The unfunded liability is amortized over a closed period of 30 years at a level percentage of pay.

Actuarial valuations of an on-going plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made for the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Net OPEB Liability

The components of the net OPEB liability at September 30, 2018 were as follows.

| | |
|---|------------------|
| Total OPEB Liability | \$1,523,103 |
| Plan fiduciary net position | <u>(845,627)</u> |
| Net OPEB liability | <u>\$677,476</u> |
| Plan fiduciary net position as a Percentage of the total OPEB Liability | 55.5% |

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 7. Other Post-Employment Benefits (Continued)

Net OPEB Liability (Continued)

The components of the net OPEB liability at September 30, 2017 were as follows.

| | |
|---|--------------------|
| Total OPEB Liability | \$1,930,209 |
| Plan fiduciary net position | <u>(773,591)</u> |
| Net OPEB liability | <u>\$1,156,618</u> |
| Plan fiduciary net position as a Percentage of the total OPEB Liability | 40.1% |

Changes in Net OPEB Liability

| | <u>Increase (Decrease)</u> | | |
|--|---|--|---|
| | <u>Total OPEB Liability (a)</u> | <u>Plan Fiduciary Net Position (b)</u> | <u>Net OPEB Liability (a) – (b)</u> |
| Balances at September 30, 2017 | \$ 1,930,209 | \$ 773,591 | \$ 1,156,618 |
| Changes for the year: | | | |
| Service cost | 36,657 | - | 36,657 |
| Interest | 102,653 | - | 102,653 |
| Effect of economic/demographic gains or losses | (455,903) | | (455,903) |
| Benefit payments | (90,513) | (90,513) | - |
| Employer contributions | - | 90,513 | (90,513) |
| Net investment income | - | 74,315 | (74,315) |
| Administrative expenses | <u>-</u> | <u>(2,279)</u> | <u>2,279</u> |
| Balances as of September 30, 2018 | <u>\$ 1,523,103</u> | <u>\$ 845,627</u> | <u>\$ 677,476</u> |

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 7. Other Post-Employment Benefits (Continued)

Sensitivity of the Net OPEB Liability

The following presents the Net OPEB Liability of the Authority, calculated using the discount rate of 7.00%, as well as what the Authority's Net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

| | 1.00% Decrease (6.00%) | Current Discount Rate (7.00%) | 1.00% Increase (8.00%) |
|------------------------------------|---------------------------------------|--|---------------------------------------|
| Authority's OPEB liability | \$ 1,629,011 | \$ 1,523,103 | \$ 1,426,117 |
| Authority's fiduciary net position | 845,627 | 845,627 | 845,627 |
| Net OPEB Liability | \$ 783,384 | \$ 677,476 | \$ 580,490 |

The following presents the Net OPEB Liability of the Authority, calculated using the current healthcare cost trend rates, as well as what the Authority's Net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current rate.

| | 1.00% Decrease (6.00%) | Current Trend Rate (7.00%) | 1.00% Increase (8.00%) |
|------------------------------------|---------------------------------------|---|---------------------------------------|
| Authority's OPEB liability | \$ 1,400,431 | \$ 1,523,103 | \$ 1,661,447 |
| Authority's fiduciary net position | 845,627 | 845,627 | 845,627 |
| Net OPEB Liability | \$ 554,804 | \$ 677,476 | \$ 815,820 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Authority recognized OPEB Expense of \$26,437. As of September 30, 2018, the Authority reported Deferred Inflows of Resources related to OPEB from the following sources.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 398,915 |
| Net difference between projected and actual earnings | - | 16,151 |
| Total | \$ - | \$ 415,066 |

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 7. Other Post-Employment Benefits (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Amounts currently reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows.

| Year Ending September 30, | Addition/ (Reduction) to OPEB Expense |
|------------------------------|--|
| 2019 | \$ (61,012) |
| 2020 | (61,012) |
| 2021 | (61,012) |
| 2022 | (61,012) |
| 2023 | (56,988) |
| Thereafter | (114,030) |

OPEB Trust

During 2014, the Authority established a trust fund to fund the cost of OPEB. The trust fund was established by the Authority with the Virginia Pooled OPEB Trust Fund (Trust), sponsored by the Virginia Municipal League and the Virginia Association of Counties, and overseen by a Board of Trustees. The Trust is established as an investment vehicle for participating employers to accumulate assets to fund OPEB Plan assets for purposes of GASB Statement No. 75 that are segregated and restricted in a trust, in which (a) contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employer or plan administrator, for the payment of benefits in accordance with terms of the plan.

Trust Fund Investments

Investment decisions for the fund's assets are made by the Board of Trustees. The Board of Trustees established investment objectives, risk tolerance and asset allocation policies in light of the investment policy, market and economic conditions, and generally prevailing prudent investment practices. The Board of Trustees also monitors the investments to ensure adherence to the adopted policies and guidelines. In addition, the Trustees review, monitor, and evaluate the performance of the investments and its investment advisors in light of available investment opportunities, market conditions and publicly available indices for the generally accepted evaluation and measurement of such performance.

The following is the Board of Trustees adopted asset allocation policy as of September 30, 2018:

| Asset Class (Strategy) | Allocation – Portfolio I | Allocation – Portfolio II |
|-------------------------|-----------------------------|------------------------------|
| Total Equity | 59% | 32% |
| Total Fixed Income | 21% | 58% |
| Total Real Assets | 10% | 5% |
| Diversified Hedge Funds | 10% | 5% |
| Total | 100% | 100% |

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 7. Other Post-Employment Benefits (Continued)

Trust Fund Investments (Continued)

Concentrations – There are no investments in any one organization that represents 5 percent or more of the OPEB Trust’s fiduciary net position.

Rate of Return – For the fiscal year ended September 30, 2018 and 2017, the annual money-weighted rate of return on investments, net of investment expense, was 9.62% and 12.37%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

Additional investment information for the Trust can be obtained by writing to VML/Varco Finance Program, 1108 East Main Street, Richmond Virginia, 23219.

Note 8. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded insurance coverage in the past three years.

Note 9. Commitments and Contingencies

From time to time, the Authority is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of the Authority.

Note 10. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflows or resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability incurred should be based on the occurrence of external laws, regulations, contracts, or court judgements, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Law and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plans. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation of a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This statement will be effective for the year ending September 30, 2019.

ALEXANDRIA RENEW ENTERPRISES

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

Note 10. New Accounting Standards (Continued)

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria is on (1) whether a government is controlling the assets of the fiduciary and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending September 30, 2020.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending September 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt* clarifies which liabilities governments should include in their note disclosures related to debt. This statement requires that all debt disclosures present direct borrowings and direct placements of debt separately from other types of debt. This statement also requires the disclosure of additional essential debt-related information for all types of debt. This Statement will be effective for the year ending September 30, 2019.

GASB Statement No. 90, *Majority Equity Interests* clarifies majority equity interest reporting rules. This statement requires that a government's majority equity interest in a legally separate organization should be reported as an investment if that equity interest meets GASB's definition of an investment. This Statement will be effective for the year ending September 30, 2020.

Management has not yet evaluated the effects, if any, of adopting these standards.

REQUIRED SUPPLEMENTARY INFORMATION

ALEXANDRIA RENEW ENTERPRISES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
September 30, 2018

| | Plan Year Ended June 30, | | | |
|--|---------------------------------|---------------------|---------------------|---------------------|
| | 2017 | 2016 | 2015 | 2014 |
| Total Pension Liability | | | | |
| Service cost | \$ 643,808 | \$ 682,527 | \$ 771,341 | \$ 757,878 |
| Interest on total pension liability | 3,299,804 | 3,236,592 | 3,206,163 | 3,092,779 |
| Difference between expected and actual experience | (207,089) | (598,619) | (1,127,638) | - |
| Change in assumptions | (485,329) | - | - | - |
| Benefit payments, including refunds of employee contributions | (2,558,116) | (2,276,811) | (2,553,525) | (1,908,245) |
| Net change in total pension liability | 693,078 | 1,043,689 | 296,341 | 1,942,412 |
| Total pension liability - beginning | 48,419,119 | 47,375,430 | 47,079,089 | 45,136,677 |
| Total pension liability - ending | 49,112,197 | 48,419,119 | 47,375,430 | 47,079,089 |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | 697,581 | 893,151 | 915,790 | 852,928 |
| Contributions - employee | 428,499 | 397,795 | 413,212 | 583,295 |
| Net investment income | 4,804,505 | 681,557 | 1,789,373 | 5,462,840 |
| Benefit payments, including refunds of employee contributions | (2,558,116) | (2,276,811) | (2,553,525) | (1,908,245) |
| Administrative expenses | (28,599) | (25,420) | (25,361) | (29,559) |
| Other | (4,237) | (294) | (375) | 288 |
| Net change in plan fiduciary net position | 3,339,633 | (330,022) | 539,114 | 4,961,547 |
| Plan fiduciary net position - beginning | 40,019,329 | 40,349,351 | 39,810,237 | 34,848,690 |
| Plan fiduciary net position - ending | 43,358,962 | 40,019,329 | 40,349,351 | 39,810,237 |
| Net pension liability - ending | <u>\$ 5,753,235</u> | <u>\$ 8,399,790</u> | <u>\$ 7,026,079</u> | <u>\$ 7,268,852</u> |
| Plan fiduciary net position as a percentage of total pension liability | <u>88%</u> | <u>83%</u> | <u>85%</u> | <u>85%</u> |
| Covered payroll | <u>\$ 8,455,472</u> | <u>\$ 7,802,611</u> | <u>\$ 7,746,889</u> | <u>\$ 8,434,533</u> |
| Net pension liability as a percentage of covered payroll | <u>68%</u> | <u>108%</u> | <u>91%</u> | <u>86%</u> |

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - e.g., plan year 2014 was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

ALEXANDRIA RENEW ENTERPRISES
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
September 30, 2018

| Entity Fiscal Year Ended September 30 | Contractually Determined Contribution | Contributions in Relation to Contractually Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|--|--|---|---|------------------------|---|
| 2018 | \$ 723,851 | \$ 723,851 | \$ - | \$ 8,455,472 | |
| 2017 | 740,517 | 740,517 | - | 8,273,941 | 8.95% |
| 2016 | 844,141 | 844,141 | - | 8,216,533 | 10.27% |
| 2015 | 858,355 | 956,177 | (97,822) | 7,746,889 | 12.34% |

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

ALEXANDRIA RENEW ENTERPRISES

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
September 30, 2018

| | Fiscal Year | Fiscal Year |
|---|---------------------|---------------------|
| | <u>2018</u> | <u>2017</u> |
| Total OPEB Liability | | |
| Service cost | \$ 36,657 | \$ 53,055 |
| Interest on total OPEB liability | 102,653 | 129,354 |
| Effect of Economic/Demographic Gains or Losses | (455,903) | - |
| Benefit payments, including refunds of employee contributions | <u>(90,513)</u> | <u>(92,542)</u> |
| Net change in total OPEB liability | (407,106) | 89,867 |
| Total OPEB liability - beginning | <u>1,930,209</u> | <u>1,840,342</u> |
| Total OPEB liability - ending | <u>1,523,103</u> | <u>1,930,209</u> |
| | | |
| Plan Fiduciary Net Position | | |
| Contributions - employer | 90,513 | 156,091 |
| Net investment income | 74,315 | 80,776 |
| Benefit payments, including refunds of employee contributions | (90,513) | (123,090) |
| Administrative expenses | <u>(2,279)</u> | <u>(2,059)</u> |
| Net change in plan fiduciary net position | 72,036 | 111,718 |
| Plan fiduciary net position - beginning | <u>773,591</u> | <u>661,873</u> |
| Plan fiduciary net position - ending | <u>845,627</u> | <u>773,591</u> |
| | | |
| Net OPEB liability - ending | <u>\$ 677,476</u> | <u>\$ 1,156,618</u> |
| | | |
| Plan fiduciary net position as a percentage of total OPEB liability | <u>56%</u> | <u>40%</u> |
| | | |
| Covered payroll | <u>\$ 9,055,713</u> | <u>\$ 8,480,330</u> |
| | | |
| Net OPEB liability as a percentage of covered employee payroll | <u>7%</u> | <u>14%</u> |

This schedule is intended to show information for 10 years. Since fiscal year 2017 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

ALEXANDRIA RENEW ENTERPRISES

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS - OPEB TRUST
September 30, 2018**

Annual money-weighted rate of return, net of investment expense:

| | |
|------|--------|
| 2018 | 9.62% |
| 2017 | 12.37% |

This schedule is intended to show information for 10 years. Since fiscal year 2017 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

ALEXANDRIA RENEW ENTERPRISES

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
September 30, 2018**

| Entity Fiscal Year Ended September 30 | Actuarially Determined Contribution | Contributions in Relation to Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|--|--|---|---|----------------------------|---|
| 2018 | \$ 80,163 | \$ 90,513 | \$ (10,350) | \$ 9,055,713 | 1.00% |
| 2017 | 121,704 | 92,542 | 29,162 | 8,480,330 | 1.09% |

This schedule is intended to show information for 10 years. Since fiscal year 2017 was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2018

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of September 30, 2017 are not material.

Note 2. Changes of Assumptions (Pension)

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Adjusted withdrawal rates to better fit experience
- Decrease in rates of disability retirement
- Increase in rates of line of duty disability

Largest 10 – LEOS:

- Update mortality table
- Lowered retirement rates at older ages
- Adjusted withdrawal rates to better fit experience
- Increase in disability rates
- Increase in rates of line of duty disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Adjusted withdrawal rates to better fit experience
- Increase in rates of line of duty disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Increased age 50 retirement rates, and lowered rates at older ages
- Adjusted withdrawal rates to better fit experience
- Adjusted disability rates to better fit experience
- Decrease in rates of line of duty disability

Note 3. Changes of Assumptions (OPEB)

The following changes in actuarial assumptions were made effective January 1, 2018:

- Age-related claims costs assumptions were updated
- The healthcare trend assumptions were updated
- The withdrawal, retirement, mortality and disability assumptions were changed.

STATISTICAL SECTION (UNAUDITED)

Financial Trends

Financial trend information is intended to assist users in understanding how the Authority's net position has changed over time. The tables below disclose comparative financial data.

TABLE 1

| Condensed Schedules of Net Position Last Ten Fiscal Years | | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|---------------------------|---------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014⁽²⁾ | 2013⁽¹⁾ | 2012 | 2011 | 2010 | 2009 |
| Assets | | | | | | | | | | |
| Current Assets | \$ 77,481,606 | \$ 71,992,329 | \$ 58,517,536 | \$ 74,456,170 | \$ 86,428,544 | \$ 71,873,061 | \$ 48,735,050 | \$ 49,878,801 | \$ 40,936,857 | \$ 29,036,214 |
| Non-current Assets | 753,725,875 | 747,728,427 | 751,420,427 | 716,656,368 | 651,084,163 | 578,892,676 | 551,185,919 | 531,506,570 | 529,716,752 | 508,054,514 |
| Deferred Outflows | 1,924,167 | 3,009,750 | 2,193,183 | 2,332,861 | - | - | - | - | - | - |
| Total Assets and Deferred Outflows | \$ 833,131,648 | \$ 822,730,506 | \$ 812,131,146 | \$ 793,445,399 | \$ 737,512,707 | \$ 650,765,737 | \$ 599,920,969 | \$ 581,385,371 | \$ 570,653,609 | \$ 537,090,728 |
| Liabilities | | | | | | | | | | |
| Current Liabilities | \$ 19,854,654 | \$ 18,400,831 | \$ 34,860,034 | \$ 41,395,712 | \$ 41,743,756 | \$ 24,535,900 | \$ 19,960,226 | \$ 22,766,941 | \$ 21,561,196 | \$ 16,763,091 |
| Long-term Liabilities | 112,799,800 | 127,027,777 | 111,329,090 | 121,578,497 | 106,414,204 | 100,476,050 | 105,147,225 | 108,100,791 | 113,707,151 | 106,392,180 |
| Deferred Inflows | 1,828,634 | 881,910 | 1,862,505 | 2,432,782 | - | - | - | - | - | - |
| Total Liabilities and Deferred Inflows | \$ 134,483,088 | \$ 146,310,518 | \$ 148,051,629 | \$ 165,406,991 | \$ 148,157,960 | \$ 125,011,950 | \$ 125,107,451 | \$ 130,867,732 | \$ 135,268,347 | \$ 123,155,271 |
| Net Position | | | | | | | | | | |
| Net Investment in Capital Assets | \$ 638,348,836 | \$ 622,454,674 | \$ 630,741,541 | \$ 586,995,330 | \$ 537,784,921 | \$ 471,881,818 | \$ 435,451,972 | \$ 403,409,766 | \$ 395,087,048 | \$ 382,932,818 |
| Restricted Net Position | 21,357,370 | 29,705,073 | 13,652,933 | 11,629,933 | 16,799,469 | 16,486,146 | 15,795,460 | 16,426,547 | 13,827,081 | 9,463,057 |
| Unrestricted Net Position | 38,942,354 | 24,260,241 | 19,685,043 | 29,413,145 | 34,770,357 | 37,385,823 | 23,566,086 | 30,681,326 | 26,471,133 | 21,539,582 |
| Total Net Position | \$ 698,648,560 | \$ 676,419,988 | \$ 664,079,517 | \$ 628,038,408 | \$ 589,354,747 | \$ 525,753,787 | \$ 474,813,518 | \$ 450,517,639 | \$ 435,385,262 | \$ 413,935,457 |
| Total Liabilities, Deferred Inflows and Net Position | \$ 833,131,648 | \$ 822,730,506 | \$ 812,131,146 | \$ 793,445,399 | \$ 737,512,707 | \$ 650,765,737 | \$ 599,920,969 | \$ 581,385,371 | \$ 570,653,609 | \$ 537,090,728 |

Source: Alexandria Renew Enterprises

Notes: ⁽¹⁾These totals are as previously reported. A prior period adjustment was required in 2013 which modified these amounts.

⁽²⁾GASB statement No. 68 was adopted in fiscal year 2015.

Financial Trends, continued

TABLE 2

Condensed Schedules of Revenues, Expenses and Changes in Net Position

Last Ten Fiscal Years

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014(1)</u> | <u>2013(1)</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Operating Revenues | | | | | | | | | | |
| Waste Water Treatment | | | | | | | | | | |
| Service Charges | \$ 49,974,184 | \$ 48,971,156 | \$ 47,139,072 | \$ 47,773,073 | \$ 48,560,009 | \$ 48,807,164 | \$ 43,082,976 | \$ 44,093,367 | \$ 42,900,219 | \$ 41,715,325 |
| Other | 16,630 | 127,186 | 81,727 | 26,008 | 6,044 | 3,480 | 486,114 | 139,808 | 33,211 | 10,118 |
| Total Operating Revenues | <u>\$ 49,990,814</u> | <u>\$ 49,098,342</u> | <u>\$ 47,220,799</u> | <u>\$ 47,799,081</u> | <u>\$ 48,566,053</u> | <u>\$ 48,810,644</u> | <u>\$ 43,569,090</u> | <u>\$ 44,233,175</u> | <u>\$ 42,933,430</u> | <u>\$ 41,725,443</u> |
| Non-operating Revenues | | | | | | | | | | |
| Investment Income | \$ 300,954 | \$ 296,581 | \$ 453,508 | \$ 483,340 | \$ 283,273 | \$ 58,128 | \$ 132,671 | \$ 150,169 | \$ 175,253 | \$ 237,065 |
| Sale Of Property | - | - | - | - | 1,000,000 | 15,203,750 | - | 199,600 | - | - |
| Capital Contribution | 18,636,519 | 9,119,146 | 26,671,809 | 38,870,682 | 52,160,997 | 24,882,239 | 19,121,393 | 5,831,343 | 15,278,723 | 19,565,293 |
| Total Non-operating Revenues | <u>\$ 18,937,473</u> | <u>\$ 9,415,727</u> | <u>\$ 27,125,317</u> | <u>\$ 39,354,022</u> | <u>\$ 53,444,270</u> | <u>\$ 40,144,117</u> | <u>\$ 19,254,064</u> | <u>\$ 6,181,112</u> | <u>\$ 15,453,976</u> | <u>\$ 19,802,358</u> |
| Total Revenues | <u>\$ 68,928,287</u> | <u>\$ 58,514,069</u> | <u>\$ 74,346,116</u> | <u>\$ 87,153,103</u> | <u>\$ 102,010,323</u> | <u>\$ 88,954,761</u> | <u>\$ 62,823,154</u> | <u>\$ 50,414,287</u> | <u>\$ 58,387,406</u> | <u>\$ 61,527,801</u> |
| Operating Expenses | | | | | | | | | | |
| Personnel Services | \$ 10,599,487 | \$ 11,607,302 | \$ 10,885,117 | \$ 11,915,152 | \$ 12,464,250 | \$ 12,038,490 | \$ 11,468,523 | \$ 10,767,106 | \$ 11,984,116 | \$ 11,906,871 |
| Utilities | 3,415,322 | 2,775,506 | 2,621,156 | 2,937,466 | 3,224,653 | 3,118,336 | 3,191,548 | 3,122,233 | 2,894,032 | 3,739,917 |
| General and Administration | 3,954,272 | 4,416,947 | 4,803,327 | 5,023,878 | 4,594,881 | 3,836,600 | 3,614,145 | 3,060,621 | 2,646,080 | 3,673,599 |
| Other | 5,489,505 | 3,868,705 | 4,459,109 | 5,245,885 | 5,303,574 | 5,475,709 | 6,658,616 | 5,477,530 | 5,518,656 | 5,280,280 |
| Total Operating Expenses | <u>\$ 23,458,586</u> | <u>\$ 22,668,460</u> | <u>\$ 22,768,709</u> | <u>\$ 25,122,381</u> | <u>\$ 25,587,358</u> | <u>\$ 24,469,135</u> | <u>\$ 24,932,832</u> | <u>\$ 22,427,490</u> | <u>\$ 23,042,884</u> | <u>\$ 24,600,667</u> |
| Non-operating Expenses | | | | | | | | | | |
| Depreciation/Amortization | \$ 19,468,132 | \$ 18,608,157 | \$ 11,737,374 | \$ 10,238,996 | \$ 9,549,807 | \$ 10,158,793 | \$ 9,645,068 | \$ 9,419,173 | \$ 9,263,777 | \$ 8,912,081 |
| Interest/Other Expenses | 4,566,892 | 4,896,981 | 3,798,924 | 3,896,859 | 3,272,198 | 3,232,231 | 3,949,375 | 4,022,480 | 4,043,707 | 3,951,887 |
| Total Non-operating Expenses | <u>\$ 24,035,024</u> | <u>\$ 23,505,138</u> | <u>\$ 15,536,298</u> | <u>\$ 14,135,855</u> | <u>\$ 12,822,005</u> | <u>\$ 13,391,024</u> | <u>\$ 13,594,443</u> | <u>\$ 13,441,653</u> | <u>\$ 13,307,484</u> | <u>\$ 12,863,968</u> |
| Total Expenses | <u>\$ 47,493,610</u> | <u>\$ 46,173,598</u> | <u>\$ 38,305,007</u> | <u>\$ 39,258,236</u> | <u>\$ 38,409,363</u> | <u>\$ 37,860,159</u> | <u>\$ 38,527,275</u> | <u>\$ 35,869,143</u> | <u>\$ 36,350,368</u> | <u>\$ 37,464,635</u> |
| Change in Net Position | <u>\$ 21,434,677</u> | <u>\$ 12,340,471</u> | <u>\$ 36,041,109</u> | <u>\$ 47,894,867</u> | <u>\$ 63,600,960</u> | <u>\$ 51,094,602</u> | <u>\$ 24,295,879</u> | <u>\$ 14,545,144</u> | <u>\$ 22,037,038</u> | <u>\$ 24,063,167</u> |
| Total Net Position, Beginning of Year | <u>\$ 677,213,883</u> | <u>\$ 664,079,517</u> | <u>\$ 628,038,408</u> | <u>\$ 580,143,541</u> | <u>\$ 525,753,787</u> | <u>\$ 474,813,518</u> | <u>\$ 450,517,639</u> | <u>\$ 435,972,495</u> | <u>\$ 413,935,457</u> | <u>\$ 389,872,290</u> |
| Total Net Position, End of Year | <u>\$ 698,648,560</u> | <u>\$ 676,419,988</u> | <u>\$ 664,079,517</u> | <u>\$ 628,038,408</u> | <u>\$ 589,354,747</u> | <u>\$ 525,908,120</u> | <u>\$ 474,813,518</u> | <u>\$ 450,517,639</u> | <u>\$ 435,972,495</u> | <u>\$ 413,935,457</u> |

Source: Alexandria Renew Enterprises

Notes: ⁽¹⁾These totals are as previously reported. Prior period adjustments were required in 2013 and 2014 which modified these amounts.

Revenue Capacity Information

Revenue capacity information is provided to assist users in understanding the factors affecting the Authority's ability to generate sources of revenue. The Authority strives to cover operating and capital costs with user fees. User fees are set by the Board and are based upon the recommendation of a third-party rates analysis designed to recover The Authority's cost of service and capital cost. Rates modeling and analysis is conducted at least annually, and more frequently as required, to set new rates and charges or affirm the efficacious nature of existing rates. Rate modeling and analysis was completed in 2015 to establish new base charges effective on October 1, 2016 and October 1, 2017. User fees are comprised of two components including a wastewater treatment charge and a fixed base charge.

The wastewater treatment charge is assessed to all customers based upon metered per gallon water usage, except that residential customers are assessed based upon a winter quarter average usage (per 1,000 gallons units). A residential customer, therefore, is billed at the greater of its winter quarter per gallon average usage or 4,000 gallons per month. Commercial customers are billed based on the actual amount of per gallon water usage. The base charge was assessed for the first time beginning on October 1, 2010, and is assessed as a fixed fee per month according to water meter size. The following table represents comparative user rate charges.

TABLE 3 **User Charges**
Last Ten Fiscal Years (in dollars)

| | Fiscal Year | Wastewater Treatment Usage Charge* | Service Charge** |
|-----------------------|-------------------------|---|-------------------------|
| | 2018 | \$ 6.77 | \$ - |
| | 2017 | 6.77 | - |
| | 2016 | 6.77 | - |
| | 2015 | 6.64 | - |
| | 2014 | 6.51 | - |
| | 2013 | 6.36 | - |
| | 2012 | 6.36 | 6.78 |
| | 2011 | 6.36 | 5.27 |
| | 2010 | 6.36 | 4.51 |
| | 2009 | 6.11 | 4.42 |
| | FY 2018 | FY 2017 | |
| | Monthly | Monthly | |
| Base Charge | | | |
| Residential Customers | \$ 9.61 | \$ 8.99 | |
| | Water Meter Size | FY2018 | FY2017 |
| Commercial Customers | 5/8" | \$ 28.83 | \$ 26.95 |
| | 3/4" | 28.83 | 26.95 |
| | 1" | 72.07 | 67.45 |
| | 1-1/2" | 144.16 | 134.90 |
| | 2" | 230.65 | 215.84 |
| | 3" | 432.47 | 404.70 |
| | 4" | 720.77 | 674.50 |
| | 6" | 1,441.56 | 1,349.00 |
| | 8" | 2306.50 | 2,158.40 |

* Based on 1,000 gallons of consumption

** Per Bill

Source: Alexandria Renew Enterprises

TABLE 4

**Ten Principal Customers by Year
Shown as Percentage of Revenue**

| Name | Type | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|-----------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| SOUTHERN TOWERS | Apartments | 1.02% | 1.06% | 0.92% | 1.18% | 0.88% | 1.13% | 1.17% | 1.01% | 0.89% | 1.10% |
| WATERGATE AT LANDMARK | Condos | 0.38% | 0.44% | 0.49% | 0.46% | 0.52% | 0.57% | 0.53% | 0.52% | 0.50% | 0.46% |
| AVENTINE OWNER LLC | Apartments | 0.31% | 0.31% | 0.30% | 0.35% | 0.25% | -- | -- | -- | -- | -- |
| THE 4600 CONDOMINIUM | Condos | 0.25% | 0.30% | 0.29% | 0.28% | 0.21% | 0.22% | 0.29% | 0.28% | -- | 0.20% |
| WILLOW RUN APTS MARK CENTER | Condos | 0.24% | 0.25% | 0.27% | 0.25% | -- | 0.23% | -- | 0.24% | 0.22% | 0.22% |
| SEASONS CONDOMINIUM | Condos | 0.18% | 0.23% | 0.20% | 0.26% | 0.18% | 0.22% | 0.20% | 0.27% | -- | 0.21% |
| DAVIDSON HOTEL COMPANY | Hotel | 0.18% | 0.20% | 0.23% | 0.20% | -- | 0.19% | 0.17% | 0.19% | 0.20% | 0.21% |
| CUISINE SOLUTIONS | Condos | 0.18% | 0.20% | 0.17% | 0.19% | -- | 0.17% | 0.19% | -- | -- | -- |
| THE FOUNTAINS CONDOMINIUM | Apartments | 0.17% | 0.18% | 0.19% | 0.17% | -- | 0.23% | 0.24% | 0.20% | 0.17% | 0.17% |
| TOWER 2000 | Meal Delivery Co. | 0.17% | 0.17% | -- | -- | -- | -- | -- | -- | -- | -- |
| | MG Usage | 396,772 | 394,269 | 397,833 | 427,024 | 462,735 | 428,893 | 419,674 | 426,740 | 416,900 | 414,454 |
| | Other Customer Usage | <u>12,452,798</u> | <u>11,374,736</u> | <u>11,936,490</u> | <u>11,607,551</u> | <u>12,750,383</u> | <u>12,383,798</u> | <u>11,886,963</u> | <u>12,262,774</u> | <u>12,967,482</u> | <u>12,089,326</u> |
| | Total Usage | <u>12,849,570</u> | <u>11,769,005</u> | <u>12,334,323</u> | <u>12,034,575</u> | <u>13,213,118</u> | <u>12,812,691</u> | <u>12,306,637</u> | <u>12,689,514</u> | <u>13,384,382</u> | <u>12,503,780</u> |

Source: Alexandria Renew Enterprises

Debt Capacity Information

Debt capacity information is intended to assist users in understanding the Authority's debt burden and the ability to issue new debt. The ultimate guarantors of the Authority's debt are its customers.

TABLE 5**Outstanding Debt Per Customer
September 30, 2018**

| | <u>Outstanding Debt</u> | <u># of Customers</u> | <u>Outstanding Debt Per Customer</u> |
|-------------------------------|-----------------------------|---------------------------|--|
| VRA Revolving Loan Fund & SRF | \$ 47,610,446 | 26,681 | \$ 1,784.43 |
| VRA Pooled Financing Program | <u>68,775,320</u> | <u>26,681</u> | <u>2,577.69</u> |
| Total | <u>\$ 116,385,766</u> | <u>26,681</u> | <u>\$ 4,362.12</u> |

Source: Alexandria Renew Enterprises

TABLE 6

| | Pledged Revenue Coverage* | | | | |
|-------------------------------------|----------------------------------|---------------|---------------|---------------|---------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Pledged revenue | \$ 49,990,814 | \$ 49,098,342 | \$ 47,220,799 | \$ 47,799,081 | \$ 48,566,053 |
| Operating expenses | (23,458,587) | (22,570,403) | (22,697,959) | (25,104,967) | (25,587,358) |
| Net revenues | 26,532,227 | 26,527,939 | 24,522,840 | 22,694,114 | 22,978,695 |
| Principal and Interest Requirements | 13,913,446 | 13,437,632 | 13,122,172 | 12,062,715 | 11,676,850 |
| Debt coverage | 1.91 | 1.97 | 1.87 | 1.88 | 1.97 |
| | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
| Pledged revenue | \$ 48,810,644 | \$ 43,569,090 | \$ 44,233,175 | \$ 42,346,197 | \$ 41,725,443 |
| Operating expenses | (24,469,135) | (24,932,832) | (22,427,490) | (23,042,884) | (24,600,667) |
| Net revenues | 24,341,509 | 18,636,258 | 21,805,685 | 17,892,349 | 17,124,776 |
| Principal and Interest Requirements | 10,507,144 | 10,924,517 | 11,182,678 | 10,159,813 | 9,588,780 |
| Debt coverage | 2.32 | 1.71 | 1.95 | 1.76 | 1.79 |

*AlexRenew's Master Indenture of Trust requires 1.1x coverage and its board adopted Financial Policy requires 1.5x coverage

Source: Alexandria Renew Enterprises

Demographic and Economic Information

Demographic and economic information is intended to assist users in understanding the socio-economic environment in which the Authority operates.

TABLE 7

Population

| <u>Calendar Year</u> | <u>Population</u> | <u>Calendar Year</u> | <u>Population</u> |
|----------------------|-------------------|----------------------|-------------------|
| 1960 | 91,023 | 2012 | 140,800 |
| 1970 | 110,938 | 2013 | 142,000 |
| 1980 | 103,217 | 2014 | 144,000 |
| 1990 | 111,183 | 2015 | 147,650 |
| 2000 | 128,283 | 2016 | 150,500 |
| 2010 | 139,966 | 2017 | 156,100 |
| 2011 | 140,100 | 2018 | 159,571 |

Source: Alexandria Department of Planning and Zonning, "General Population Characteristics"

TABLE 8

Population Indicators

| <u>Fiscal Year</u> | <u>Personal Income (\$1000)</u> | <u>Per Capita Income</u> |
|--------------------|---|------------------------------|
| 2018 | 12,935,231 | 84,079 |
| 2017 | 12,692,748 | 82,683 |
| 2016 | 12,556,000 | 81,734 |
| 2015 | 12,183,000 | 79,480 |
| 2014 | 11,615,589 | 77,142 |
| 2013 | 11,220,201 | 75,146 |
| 2012 | 11,191,190 | 76,165 |
| 2011 | 10,588,665 | 73,298 |
| 2010 | 9,938,068 | 70,568 |
| 2009 | 9,504,599 | 69,113 |

The BEA has revised these numbers.

Source: U.S. Bureau of Economic Analysis (BEA)

Demographic and Economic Information, continued

Table 9

**City of Alexandria Principal Employers
Current Year (as of July 1, 2018 and Nine Years Ago)**

| Current Year | Employees⁽¹⁾ | Percentage of Total City Employment⁽²⁾ | Nine Years Ago | Employees⁽¹⁾ | Percentage of Total City Employment⁽²⁾ |
|-------------------------------------|--------------------------------|--|-------------------------------------|--------------------------------|--|
| LARGEST PUBLIC EMPLOYERS | | | LARGEST PUBLIC EMPLOYERS | | |
| U.S. Department of Commerce | 1,000 & over | 3.14% | U.S. Patent Trademark Office | 1,000 & over | 8.38% |
| U.S. Department of Defense | 1,000 & over | 3.14% | U.S. Department of Defense | 1,000 & over | 7.10% |
| Alexandria Public Schools | 1,000 & over | 2.66% | City of Alexandria | 1,000 & over | 2.30% |
| City of Alexandria | 1,000 & over | 2.39% | Alexandria Public Schools | 1,000 & over | 1.90% |
| WMATA | 500-999 | 0.78% | WMATA | 500-999 | 1.30% |
| Northern Virginia Community College | 500-999 | 0.78% | Northern Virginia Community College | 500-999 | 0.70% |
| U.S. Department of Agriculture | 500-999 | 0.78% | U.S. Postal Service | 500-999 | 0.60% |
| U.S. Department of Homeland Defense | 250-499 | 0.39% | U.S. Attorney's Office | 500-999 | 0.20% |
| | | 14.07% | | | 22.48% |
| LARGEST PRIVATE EMPLOYERS | | | LARGEST PRIVATE EMPLOYERS | | |
| INOVA Health System | 1,000 & over | 3.14% | INOVA Alexandria Hospital | 1,000 & over | 1.80% |
| Institute for Defense Analysis | 500 - 999 | 0.78% | American Building Maintenance Com | 1,000 & over | 1.20% |
| Grant Thornton LLP | 500 - 999 | 0.78% | Institute of Defense Analysis | 500-999 | 0.80% |
| The Home Depot | 500 - 999 | 0.78% | United Postal Service (UPS) | 500-999 | 0.70% |
| Clinical Oncology | 250 - 499 | 0.39% | Center for Naveal Analysis | 500-999 | 0.60% |
| Oblon Spivak McClelland PC | 250 - 499 | 0.39% | Military Professional Resources | 500-999 | 0.50% |
| Catholic Diocese of Arlington | 250 - 499 | 0.39% | Grant Thornton LLP | 500-999 | 0.50% |
| Giant Food | 250 - 499 | 0.43% | | | 6.10% |
| | | 7.10% | | | |

Source: Virginia Employment Commission

⁽¹⁾ Employment ranges are given to ensure confidentiality.

⁽²⁾ Percentages are based on the midpoint of employment range.

Table 10

**City of Alexandria Unemployment Rate
Last Ten Years**

| | |
|------|------|
| 2018 | 2.1% |
| 2017 | 2.9% |
| 2016 | 2.9% |
| 2015 | 3.5% |
| 2014 | 4.6% |
| 2013 | 4.7% |
| 2012 | 4.6% |
| 2011 | 4.8% |
| 2010 | 4.8% |
| 2009 | 2.8% |

Source: Virginia Employment Commission, Local Unemployment Statistics

Operating Information

Operating information is intended to provide information about the Authority's operations.

TABLE 11

**Number of Employees by Activity
Years Ended September 30**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------|------------|------------|------------|-----------|
| Process | | | | | |
| Chief Prod, Prod Mgr, Process Mgr & Analyst | 2 | 6 | 3 | 3 | 4 |
| Administrative/Executive Assistant | 1 | 1 | 1 | 1 | 0 |
| Interceptors/Pump Stations/Chem Feed | 8 | 9 | 9 | 9 | 10 |
| Operating Shift D | 5 | 6 | 4 | 5 | 5 |
| Operating Shift B | 5 | 6 | 5 | 5 | 6 |
| Maintenance Manager & Facilities | 2 | 1 | 1 | 1 | 1 |
| Thickening/Dewater/Prepast/Digestion | 8 | 9 | 9 | 9 | 6 |
| BRB's/Blowers/UV | 6 | 6 | 7 | 7 | 8 |
| Operating Shift C | 5 | 5 | 4 | 5 | 5 |
| Operating Shift A | 6 | 6 | 5 | 4 | 5 |
| Planners/Schedulers/Inv Control | 3 | 3 | 3 | 3 | 2 |
| Operating Shift E | 0 | 0 | 5 | 4 | 1 |
| Apprentices | 3 | 10 | 10 | 15 | 14 |
| Engineering | | | | | |
| Chief/Director Engr Planning | 1 | 1 | 1 | 1 | 1 |
| Engineering & River Renew | 2 | 5 | 3 | 2 | 4 |
| Information Systems | 3 | 3 | 3 | 3 | 2 |
| Program Manager | 0 | 1 | 1 | 1 | 1 |
| Safety Manager | 1 | 0 | 1 | 1 | 1 |
| Quality Services/Sustainability | | | | | |
| Chief Sustainability | 0 | 0 | 1 | 1 | 0 |
| Quality Assurance | 1 | 1 | 1 | 1 | 1 |
| Laboratory | 4 | 4 | 5 | 5 | 5 |
| Sustainability/Regulatory | 1 | 0 | 1 | 2 | 0 |
| Finance | | | | | |
| Chief Financial Officer | 1 | 1 | 0 | 1 | 1 |
| Controller/Director Finance/Acctg Manager | 2 | 1 | 1 | 1 | 1 |
| Senior Accountant/Staff Accountant/Acctg Clerk | 2 | 3 | 2 | 2 | 2 |
| Administrative/Executive Assistant | 1 | 1 | 1 | 0 | 1 |
| Purchasing Manager, Buyer, Contracts | 2 | 2 | 3 | 3 | 3 |
| Human Resources | | | | | |
| Human Resources | 1 | 2 | 2 | 3 | 3 |
| Administration | | | | | |
| Administration | 2 | 2 | 2 | 2 | 5 |
| Communications | 4 | 4 | 4 | 3 | 0 |
| Customer Service | 1 | 1 | 2 | 2 | 1 |
| | <u>83</u> | <u>100</u> | <u>100</u> | <u>105</u> | <u>99</u> |

Source: Alexandria Renew Enterprises

Data before 2014 not available

Operating Information

TABLE 12

ALEXANDRIA RENEW ENTERPRISES

Number of Customers and Consumption

| Fiscal Year | Customer Accounts | MG Treated | Fairfax MG Treated |
|--------------------|------------------------------|-------------------|-------------------------------|
| 2018 | 26,681 | 12,850 | 6,671 |
| 2017 | 26,611 | 11,769 | 5,941 |
| 2016 | 26,440 | 12,334 | 5,960 |
| 2015 | 26,333 | 12,035 | 6,112 |
| 2014 | 26,848 | 13,213 | 6,698 |
| 2013 | 26,330 | 12,813 | 6,633 |
| 2012 | 26,380 | 12,307 | 6,534 |
| 2011 | 26,222 | 12,690 | 7,134 |
| 2010 | 25,916 | 13,384 | 7,518 |
| 2009 | 25,312 | 12,504 | 7,109 |

Source: Alexandria Renew Enterprises

Note: The amount of wastewater treated includes flow generated by the City customers and portions of the County which is outside of the City. The amount of wastewater that flows outside the County is metered and included in Table 12 above.

Operating Information

TABLE 13

ALEXANDRIA RENEW ENTERPRISES

**Wastewater Treatment Capacity and Infrastructure Assets Owned
For the Fiscal Year Ending September 30, 2018**

Wastewater treatment capacity:

| | | |
|--|-----------------|----------------------------------|
| | Design Capacity | 54 MGD (million gallons per day) |
|--|-----------------|----------------------------------|

AssetCapacity:

| | | |
|--|----------------------------|--|
| Four Mile Run Pump Station | Pump Station | Firm pumping capacity 11.3 MGD |
| Slater's Lane Pump Station | Pump Station | Firm pumping capacity .75 MGD |
| Potomac Yard Pump Station | Pump Station | Firm pumping capacity 9.5 MGD |
| Mark Center | Pump Station | Firm pumping capacity 1.6 MGD |
| Bush Hill Service Chamber | Lift Station | Firm pumping capacity .18 MGD |
| Jefferson at Carlyle Mills Service Chamber | Lift Station | Firm pumping capacity .525 MGD |
| Holmes Run Trunk Sewer | Gravity Sewer | Design Capacity varies from 71.5 MGD at Hooff's Run to 18.9 MGD at the City Limits |
| Commonwealth Interceptor | Gravity Sewer & Force Main | Design Capacity varies from 97.0 MGD at the WRRF to 13 MGD at the Potomac Yards Pump Station force main discharge. |
| Potomac Yard Trunk Sewer | Gravity Sewer | Design Capacity varies from 17MGD at the WRRF to 13 MGD at the Potomac Yards Pump Station force main discharge. |
| Potomac Interceptor | Gravity Sewer | Design Capacity varies from 18.7 MGD at the WRRF to 11.0 MGD at Pendleton St. |

The City owns the collection system; Alexandria Renew Enterprises owns the intercepting sewer system, the pump stations and the treatment facility.

Source: Alexandria Renew Enterprises



Alexandria Renew Enterprises



@AlexandriaRenew



Alexandria Renew Enterprises



callmemoxie



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