

*In the opinion of Pacifica Law Group LLP, Bond Counsel, assuming compliance with certain covenants of the District, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Bonds is not an item of tax preference for purposes of either individual or corporate alternative minimum tax. Interest on the Bonds may be indirectly subject to corporate alternative minimum tax and certain other taxes imposed on certain corporations. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.*

**\$25,000,000  
ALDERWOOD WATER & WASTEWATER DISTRICT,  
SNOHOMISH COUNTY, WASHINGTON  
WATER AND SEWER REVENUE BONDS, 2013**



**DATED: Date of Initial Delivery**

**DUE: December 1, as shown herein**

The Alderwood Water & Wastewater District, Snohomish County, Washington (the "District"), Water and Sewer Revenue Bonds, 2013 (the "Bonds"), will be issued as fully registered bonds in the name of Cede & Co., as Registered Owner and as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof within a maturity. Purchasers will not receive certificates representing their interest in the Bonds. See "THE BONDS."

The Bonds bear interest payable semiannually on each June 1 and December 1, beginning June 1, 2014, until maturity or prior redemption of the Bonds. The principal of and interest on the Bonds are payable by the fiscal agency of the State of Washington, currently The Bank of New York Mellon in New York, New York (the "Bond Registrar"). For so long as the Bonds remain in a "book-entry only" transfer system, the Bond Registrar will make such payments only to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to Beneficial Owners of the Bonds as described herein under Appendix E—"BOOK-ENTRY SYSTEM."

The Bonds are subject to redemption prior to maturity as provided herein. See "THE BONDS—Redemption."

The Bonds are being issued (i) to finance the costs of constructing improvements to the District's combined water supply and distribution system and sewage collection and disposal system (together, the "System"), and (ii) to pay costs of issuance of the Bonds. See "USE OF PROCEEDS."

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**Maturity Dates, Principal Amounts, Interest Rates, Yields, Prices and CUSIP Numbers on Inside Cover**

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The Bonds are secured by a pledge of Gross Revenue of the System, subject only to the payment of Operation and Maintenance Expenses ("Net Revenue"), and from any utility local improvement district ("ULID") assessments ("Assessments") required to be deposited into the Bond Fund. The lien of the Bonds on Net Revenues and ULID Assessments is equal to the lien securing the Outstanding Parity Bonds and superior to all other charges of any kind. The District reserves the right to issue Future Parity Bonds upon compliance with certain conditions. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE ONLY FROM THE BOND FUND. THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE DISTRICT, SNOHOMISH COUNTY, OR THE STATE OF WASHINGTON (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE, OR A CHARGE UPON ANY GENERAL FUND OR UPON ANY MONEY OR OTHER PROPERTY OF THE DISTRICT OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE, NOT SPECIFICALLY PLEDGED BY THE BOND RESOLUTION. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The District has not designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.

*The Bonds are offered when, as and if issued, subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel, and certain other conditions. It is anticipated that the Bonds in definitive book-entry form will be available for delivery through the facilities of DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about October 9, 2013.*

*This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

**\$25,000,000**  
**ALDERWOOD WATER & WASTEWATER DISTRICT,**  
**SNOHOMISH COUNTY, WASHINGTON**  
**Water and Sewer Revenue Bonds, 2013**

**MATURITY SCHEDULE**

<b>Maturity Date (December 1)</b>	<b>Principal Amounts</b>	<b>Coupons</b>	<b>Yields</b>	<b>Prices</b>	<b>CUSIP<sup>†</sup> Nos.</b>
2014	\$ 290,000	2.000%	0.30%	101.940	014365BT6
2015	455,000	3.000	0.50	105.325	014365BU3
2016	465,000	3.000	0.85	106.656	014365BV1
2017	480,000	4.000	1.16	111.458	014365BW9
2018	500,000	4.000	1.56	112.015	014365BX7
2019	520,000	5.000	1.85	118.213	014365BY5
2020	545,000	5.000	2.09	119.216	014365BZ2
2021	575,000	5.000	2.38	119.290	014365CA6
2022	600,000	5.000	2.59	119.507	014365CB4
2023	630,000	5.000	2.80	119.307	014365CC2
2024	665,000	3.000	3.00	100.000	014365CD0
2025	685,000	3.125	3.23	98.949	014365CE8
2026	705,000	4.000	3.46	104.583*	014365CF5
2027	735,000	4.000	3.60	103.370*	014365CG3
2028	765,000	4.000	3.73	102.259*	014365CH1
2029	795,000	4.000	3.85	101.245*	014365CJ7
2030	825,000	4.000	3.96	100.327*	014365CK4
2031	860,000	4.500	4.04	103.792*	014365CL2
2032	895,000	4.500	4.11	103.203*	014365CM0
2033	935,000	4.500	4.17	102.702*	014365CN8
2034	980,000	4.500	4.24	102.120*	014365CP3
2035	1,025,000	4.500	4.30	101.625*	014365CQ1
2036	1,070,000	4.500	4.35	101.214*	014365CR9

\$3,515,000 4.625% Term Bond, due December 1, 2039 (Yield of 4.55% & Price of 100.598\*), CUSIP<sup>†</sup> No. 014365CS7

\$5,485,000 4.625% Term Bond, due December 1, 2043 (Yield of 4.60% & Price of 100.195\*), CUSIP<sup>†</sup> No. 014365CT5

\* Priced to the December 1, 2023 par call date.

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**ALDERWOOD WATER & WASTEWATER DISTRICT**

3626 156th St. SW  
Lynnwood, WA 98087-5021  
(425) 743-4605  
<http://alderwoodwater.com/>\*

**Board of Commissioners**

<u>Member</u>	<u>Position</u>	<u>Term Expires</u>
Larry D. Jones	President	December 31, 2017
Roy N. George	Vice President	December 31, 2013
Donna J. Cross	Secretary	December 31, 2015
Paul D. McIntyre	Member	December 31, 2013
Michael R. Dixon	Member	December 31, 2017

**District Officials**

Jeff Clarke	General Manager
Tabatha Miller, CPA	Director of Finance
Nancy Davidson, P.E.	Capital Projects Manager
Joe Bolam	Director of Maintenance and Operations
Duane Huskey, P.E.	Planning and Development Services Manager
Mike Pivec	Administrative Services Manager

**Bond Registrar**

The Bank of New York Mellon  
New York, New York  
(800) 438-5473

**Bond Counsel**

Pacifica Law Group LLP  
Seattle, Washington

**Financial Advisor**

Piper Jaffray & Co.  
Seattle, Washington

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\* The District's website is not part of this Official Statement, and investors should not rely on information presented in the District's website in determining whether to purchase the Bonds. This inactive textual reference to the District's website is not a hyperlink and does not incorporate the District's website by reference.

No dealer, broker, sales representative or other person has been authorized by the District to give any information or to make any representations with respect to the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

No quotations from or summaries or explanations of the provisions of laws or documents herein purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Bonds. The cover page hereof and appendices attached hereto are part of this Official Statement.

The information set forth or included in this Official Statement has been provided by the District and from other sources believed by the District to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the District described herein since the date hereof.

Certain statements contained in this Official Statement reflect not historical facts but are forecasts and “forward-looking statements.” No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words “estimate,” “forecast,” “project,” “anticipate,” “expect,” “intend,” “believe” and other similar expressions are intended to identify forward-looking statements. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. All estimates, projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The District specifically disclaims any obligation to update any forward-looking statements to reflect occurrences or unanticipated events or, circumstances after the date of this Official Statement, except as otherwise expressly provided in “CONTINUING DISCLOSURE UNDERTAKING.”

The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, in reliance upon a specific exemption contained in such act. The Bonds may, however, be subject to registration or qualification under the securities laws of various states, and may not be transferred in violation of such state laws. The registration or qualification of the Bonds in accordance with applicable provisions of the securities laws of the states in which the Bonds have been registered or qualified, if any, and exemption from registration or qualification in other states, shall not be regarded as a recommendation thereof. No state nor any state or federal agency has passed upon the merits of these Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

The CUSIP numbers herein were obtained from CUSIP Global Services. The District makes no representation as to the accuracy thereof. CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers are included in this Official Statement for convenience of the holders and potential holders of the Bonds. The CUSIP numbers were provided by CUSIP Global Services and are not intended to create a database and do not serve in any way as a substitute for the CUSIP Global Services. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

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## OFFICIAL STATEMENT

**\$25,000,000**

### **ALDERWOOD WATER & WASTEWATER DISTRICT, SNOHOMISH COUNTY, WASHINGTON, WATER AND SEWER REVENUE BONDS, 2013**

#### INTRODUCTION

Alderwood Water & Wastewater District, Snohomish County, Washington (the “District”), a municipal corporation duly organized and existing under the laws of the State of Washington (the “State”), furnishes this Official Statement in connection with the offering of \$25,000,000 aggregate principal amount of Water and Sewer Revenue Bonds, 2013 (the “Bonds”).

The Bonds are issued pursuant to Resolution No. 2618-2013, passed by the Board of Commissioners on September 16, 2013 (the “Bond Resolution”), and under and in accordance with the laws and provisions of the State, including chapters 39.46 and 57.20 of the Revised Code of Washington (“RCW”). Capitalized terms not otherwise defined herein shall have the meanings set forth in Appendix A—“COPY OF THE BOND RESOLUTION.”

This Official Statement provides information concerning the District, the Bonds and the District’s combined water supply and distribution system and sewage collection and disposal system, as the same may be added to, improved and extended (together, the “System”). The Bonds are issued on a parity of lien with the following obligations of the System:

- Water and Sewer Revenue Refunding Bonds, 2009 (the “2009 Bonds”) currently outstanding in the aggregate principal amount of \$17,910,000;
- Water and Sewer Revenue Bonds, 2010A (the “2010A Bonds”) currently outstanding in the aggregate principal amount of \$1,215,000; and
- Water and Sewer Revenue Bonds, 2010B (Taxable Build America Bonds – Direct Payment) (the “2010B Bonds”) currently outstanding in the aggregate principal amount of \$49,325,000.

The 2009 Bonds, 2010A Bonds, and 2010B Bonds are collectively referred to as the “Outstanding Parity Bonds.” See “DEBT INFORMATION” herein. The District has reserved the right in the Bond Resolution to issue additional bonds (the “Future Parity Bonds”) with a lien on Gross Revenue (as defined herein) of the System on a parity with the lien of the Outstanding Parity Bonds and the Bonds upon satisfaction of certain conditions. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Parity Bonds.” The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are collectively referred to as the “Parity Bonds.”

The Bonds are revenue obligations of the System payable solely from the funds and accounts described herein. The Bonds are not obligations of Snohomish County (the “County”), the State or any political subdivision thereof other than the District. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE DISTRICT.”

#### THE BONDS

##### General

The Bonds will be dated their date of delivery and will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof within a maturity. The Bonds will mature on the dates and in the principal amounts and will bear interest from their date, payable on June 1, 2014, and semiannually thereafter on December 1 and June 1 of each year, at the rates set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

The Bonds will be issued in registered form, initially registered in the name Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the Bonds will be made initially in book-entry form only and purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Registered

Owners or bond owners will mean Cede & Co. and will not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” will mean the person for whom a DTC participant acquires an interest in the Bonds. See Appendix E—“BOOK-ENTRY SYSTEM.”

### **Bond Registrar**

The District has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee (the “Committee”). Pursuant to chapter 43.80 RCW, the Committee designates one or more fiscal agencies for bonds issued within the State. The State’s fiscal agent, currently The Bank of New York Mellon, New York, New York (the “Bond Registrar”), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal of and interest on the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar.

To meet payment requirements for the Bonds as the same become due and payable, the District will remit money from the Water and Sewer Revenue Bond Fund created by Resolution No. 2543-2009 of the District (the “Bond Fund”) to the Bond Registrar. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Funds and Accounts” herein. The Bond Registrar will in turn remit such principal and interest to DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds as described in Appendix E—“BOOK-ENTRY SYSTEM.” In the event that the Bonds are no longer held by a depository, interest on the Bonds will be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar; provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal amount of Bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

### **Redemption**

*Optional Redemption.* The Bonds maturing in years 2014 through 2023, inclusive, are not subject to optional redemption prior to maturity. The Bonds maturing on or after December 1, 2024 are subject to redemption at the option of the District, in whole or in part (and if in part, with maturities to be selected by the District) on any date on or after December 1, 2023 at the price equal to the principal amount to be redeemed, without premium, plus accrued interest, if any, to the date fixed for redemption.

For as long as the Bonds are held by DTC, if fewer than all of the Bonds of a maturity are called for redemption, the selection of Bonds within a maturity to be redeemed shall be made by DTC in accordance with its operational procedures then in effect. If the Bonds are no longer held by a depository, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the Bond Resolution. If the District redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the District and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bond by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations authorized in the Bond Resolution.

*Mandatory Sinking Fund Redemption.* In addition to optional redemption, the Bonds maturing on December 1, 2039 (the “2039 Term Bond”) are subject to mandatory sinking fund redemption prior to maturity in part in authorized denomination on December 1, in the years 2037 through 2039, inclusive, at a redemption price equal to the principal amount thereof and accrued interest thereon, if any, to the date fixed for redemption, as set forth in the following table:

Mandatory Sinking Fund Redemption Dates (December 1)	Mandatory Sinking Fund Redemption Amounts
2037	\$ 1,120,000
2038	1,170,000
2039*	1,225,000

\*Maturity

In addition to optional redemption, the Bonds maturing on December 1, 2043 (the “2043 Term Bond” and together with the 2039 Term Bond, the “Term Bonds”), are subject to mandatory sinking fund redemption prior to maturity in part in authorized denomination on December 1, in the years 2040 through 2043, inclusive, at a redemption price equal to the principal amount thereof and accrued interest thereon, if any, to the date fixed for redemption, as set forth in the following table:

Mandatory Sinking Fund Redemption Dates (December 1)	Mandatory Sinking Fund Redemption Amounts
2040	\$ 1,280,000
2041	1,340,000
2042	1,400,000
2043*	1,465,000

\*Maturity

If the District redeems Term Bonds under the optional redemption provisions described above or purchases or defeases Term Bonds, the Term Bonds so redeemed, purchased, or defeased (irrespective of their actual redemption or purchase prices) will be credited at the par amount thereof against one or more scheduled mandatory redemption amounts for the Term Bonds in the manner to be determined by the District or, if no such determination is made, on a *pro rata* basis.

*Notice of Redemption.* For so long as the Bonds are held by DTC, notice of redemption (which notice may be conditional) shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the District nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. Thereafter (if the Bonds are no longer held by DTC), notice of redemption shall be given in the manner as provided in the Bond Resolution. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the District by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

**Open Market Purchase**

The District reserves the right to use at any time any surplus Revenue of the System, or other available funds, to purchase for retirement any of the Bonds at any price deemed reasonable by the District. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Flow of Funds.”

**Defeasance**

In the event that money and/or “Government Obligations,” as defined in chapter 39.53 RCW, as it may be amended, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Bonds or any of them in accordance with their terms are set aside in a special account to effect such redemption or retirement, and such money and the principal of and interest on such obligations are set aside irrevocably and pledged

for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for. Such Bonds will cease to be entitled to any lien, benefit or security of the Bond Resolution except the right to receive the funds so set aside and pledged, and such Bonds will be deemed not to be outstanding.

As currently defined in chapter 39.53 RCW, the term “Government Obligations” means (a) direct obligations of or obligations the principal and interest on which are unconditionally guaranteed by the United States of America and bank certificates of deposit secured by such obligations; (b) bonds, debentures, notes, participation certificates or other obligations issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-import Bank of the United States, federal land banks or the Federal National Mortgage Association; (c) public housing bonds and project notes fully secured by contracts with the United States; and (d) obligations of financial institutions insured by the Federal Deposit Insurance Corporation to the extent insured or guaranteed as permitted under any other provision of State law.

## USE OF PROCEEDS

### Purpose

The proceeds from the sale of the Bonds will be used (i) to finance the costs of constructing improvements to the System as described under “THE WATER SYSTEM—Description of Water System Facilities” and “THE SEWER SYSTEM—Description of Sewer System Facilities,” and (ii) to pay costs of issuance of the Bonds.

### Sources and Uses of Funds

The table below sets forth the sources and uses of funds in connection with the issuance of the Bonds.

<b>Sources of Funds</b>	
Principal Amount of the Bonds	\$ 25,000,000
Net Original Issue Premium	973,343
<b>Total Sources:</b>	<b>\$ 25,973,343</b>
<b>Uses of Funds</b>	
Capital Improvement Fund	\$ 25,801,987
Costs of Issuance <sup>(1)</sup>	171,356
<b>Total Uses:</b>	<b>\$ 25,973,343</b>

<sup>(1)</sup> Includes Bond Counsel fee, rating agency fees, printing costs, Financial Advisor fees, underwriter’s discount, and other costs associated with the issuance of the Bonds.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Pledge of Net Revenues of the System

The Bonds are payable from Gross Revenue of the System, subject only to the payment of Operation and Maintenance Expenses, and from any utility local improvement district (“ULID”) assessments (“Assessments”) required to be deposited into the Bond Fund. “Gross Revenue” or “Gross Revenue of the System” is defined in the Bond Resolution to mean all of the earnings and revenues by the District from the maintenance and operation of the System, and earnings from the investment of money on deposit in the various funds of the District, including but not limited to connection charges, general facilities charges and other similar charges collected; and federal credit payments received by the District in respect of Build America Bonds (such as the 2010B Bonds) and similar federal credit payments. Gross Revenue does not include: (a) principal proceeds of Parity Bonds or other borrowings, (b) ULID Assessments, (c) government grants, (d) tax proceeds, or (e) earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund System obligations (until commingled with other earnings and revenues of the System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Internal Revenue Code of 1986, as amended (the “Code”).

The term “Operation and Maintenance Expenses” is defined in the Bond Resolution to mean all expenses incurred by the District in causing the System of the District to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the System; payments into pension funds; taxes imposed by the State; and payments with respect to any other expenses of the System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. The term Operation and Maintenance Expenses does not include any depreciation, or capital additions or capital replacements to the System.

The District currently has two ULIDs outstanding. See “ULID Assessments” herein.

The Bonds are special limited obligations of the District payable only from the Bond Fund. The Bond Fund will at all times be completely segregated and set apart from all other funds and accounts of the District for the security and the payment of the principal of and interest on the Parity Bonds as they become due.

**The Bonds are revenue obligations of the System payable solely from the funds and accounts described herein. The Bonds are not obligations of the County, the State or any political subdivision thereof other than the District. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “THE DISTRICT.”**

### **Flow of Funds**

All ULID Assessments will be paid into the Bond Fund as provided by the Bond Resolution. The Gross Revenue of the System will be used for the following purposes only and will be applied in the following order of priority:

*First*, to pay the Operation and Maintenance Expenses;

*Second*, to pay interest on Parity Bonds and net payments on Parity Payment Agreements when due (see Appendix A—“COPY OF THE BOND RESOLUTION” for definitions and provisions related to Parity Payment Agreements);

*Third*, to pay the principal of Parity Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Term Bonds, and to make payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;

*Fourth*, to make all payments required to be made into the Reserve Account, all payments required to be made under any agreement relating to the provision of Reserve Insurance, and payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Account;

*Fifth*, to make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the District having a lien upon the revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

*Sixth*, to retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the System, to make necessary additional betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful System purposes.

The District is not currently a party to any Parity Payment Agreement.

**Rate Covenant**

The District has covenanted and agreed that it will establish, maintain and collect rates and charges for water and sanitary sewage disposal service and for all other utility services that will be fair and equitable, and will adjust those rates and charges from time to time so that:

- (a) The Gross Revenue will be sufficient to (i) pay all Operation and Maintenance Expenses, (ii) pay when due all amounts that the District is obligated to pay into the Bond Fund and the accounts therein, and (iii) pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the District may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and
- (b) The Net Revenue of the System in each fiscal year will be at least equal to the Coverage Requirement; except to aid the poor or infirm it will not furnish or supply or permit the furnishing or supplying of any service free of charge to any person, firm or corporation, public or private. The term "Coverage Requirement" means in any fiscal year an amount of Net Revenue of the System at least equal to 1.25 times the Annual Debt Service in that year on Parity Bonds that are not Assessment Bonds. For Assessment Bonds in any fiscal year the term Coverage Requirement means an amount of Net Revenue of the System together with ULID Assessment collections at least equal to 1.00 times the Annual Debt Service in that year on such Assessment Bonds after satisfying the Coverage Requirement on bonds that are not Assessment Bonds.

The failure of the District to comply with paragraphs (a) and (b) above will not be an Event of Default as defined in the Bond Resolution if the District promptly retains an Independent Consulting Engineer to recommend to the Board adjustments in the rates of the System necessary to meet these requirements and if the Board adopts the recommended modifications within 180 days of the date the failure became known to the Board.

**Funds and Accounts**

*Bond Fund.* The Bond Fund is divided into two accounts: the Principal and Interest Account and the Reserve Account. So long as any Parity Bonds are outstanding, the District will set aside and pay into the Bond Fund all ULID Assessments on their collection (except for ULID Assessments deposited in a construction account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

- (a) Into the Principal and Interest Account on or before each interest or principal and interest payment date of any Parity Bonds at least an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest, to become due and payable on the Parity Bonds on that payment date, including any Parity Bonds subject to mandatory redemption on that date, and net payments due on Parity Payment Agreements; and
- (b) Into the Reserve Account, in approximately equal annual payments, amounts necessary to fund the Reserve Requirement within five years from the date of issuance of such Parity Bonds after taking into account the capitalization of all or any part of the Reserve Requirement.

The Reserve Requirement is defined as of any date of calculation as the lesser of Maximum Annual Debt Service or 125 percent of Average Annual Debt Service on the Parity Bonds; provided that upon the issuance of any Parity Bonds, the Reserve Requirement shall not be required to be funded or increased by an amount greater than the lesser of 10 percent of the proceeds or 10 percent of the par amount of those Parity Bonds. Unless otherwise provided in the resolution authorizing a series of Parity Bonds (a "Parity Bond Authorizing Resolution"), in calculating Annual Debt Service for purposes of determining the Reserve Requirement, the amount of interest payable on Parity Bonds that are issued and sold as Build America Bonds (such as the 2010B Bonds) for any fiscal year (or other designated twelve-month period) shall be reduced by the federal credit payments scheduled to be received by the District in respect of such Build America Bonds or similar federal credit payments in such year (or other designated twelve-month period). The Reserve Requirement at the time of issuance of the Bonds (\$5,524,279) will be satisfied with funds currently on deposit in the Reserve Account. Pursuant to the Bond Resolution, Annual Debt Service for

the 2010B Bonds was reduced for purposes of the Reserve Requirement by an amount equal to 35 percent of the interest due on each interest payment date, which is equivalent to the federal credit payment scheduled to be received by the District. In 2013, however, the District received less than the scheduled amount as a result of sequestration. The District cannot predict whether sequestration will continue in the future or whether it will receive less than its scheduled federal credit payment.

The District may provide all or any part of the Reserve Requirement through Reserve Insurance, and the amount available to be drawn upon under that Reserve Insurance will be credited against the Reserve Requirement consistent with the provisions of the Bond Resolution. See Appendix A—"COPY OF THE BOND RESOLUTION."

*Rate Stabilization Fund.* Pursuant to Resolution No. 2543-2009, the District has established a Rate Stabilization Fund. The District may at any time, as determined by the District and as consistent with the Bond Resolution, deposit in the Rate Stabilization Fund Gross Revenue and any other money received by the System and available to be used therefor, excluding principal proceeds of any Parity Bonds or other borrowing. The District may, at any time, withdraw money from the Rate Stabilization Fund for inclusion in the Net Revenue for the current fiscal year of the System. Such deposits or withdrawals may be made up to and including the date 180 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue for that fiscal year. The District may apply amounts withdrawn from the Rate Stabilization Fund for any proper District purpose.

Earnings from investments in the Rate Stabilization Fund shall be deposited in the Rate Stabilization Fund and shall not be included as Net Revenue of the System unless and until withdrawn from that fund as provided in the Bond Resolution. The District may also deposit earnings from investments in the Rate Stabilization Fund into any District fund as authorized by resolution, and such deposits shall be included as Net Revenue in the year of deposit.

No deposit of Gross Revenue shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in the relevant fiscal year. As of June 30, 2013, the balance in the Rate Stabilization Fund was \$12,443,547.

### **Additional Covenants**

*Operation and Maintenance.* It will at all times maintain, preserve and keep the properties of the System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be operated the properties of the System and the business in connection therewith in an efficient manner and at a reasonable cost.

*Sale, Transfer or Disposition of the System.* It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the System or any real or personal property comprising a part of the System only upon approval by resolution and only consistent with the provisions and requirements contained in the Bond Resolution.

*Liens Upon the System.* Except as otherwise provided in the Bond Resolution, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to the lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

*Books and Accounts.* It will keep proper books, records and accounts with respect to the operations, income and expenditures of the System in accordance with generally accepted accounting practices relating to the municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited in accordance with the schedule established by the State Auditor pursuant to applicable law. It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the System as of the close of the previous year, and the income and expenses for such year, including the amounts paid into the Bond Fund and into any and all special funds or accounts created pursuant to the provisions of the Bond Resolution, the status of all funds and accounts as of the end of such

year, and the amounts expended for maintenance, renewals, replacements and capital additions to the System. The District may charge a reasonable cost for providing such financial statements.

*Collection of Delinquent Accounts and ULID Assessments.* It will, not later than March 1 of each calendar year, take such legal action as may be feasible to enforce collection of all collectible delinquent accounts, and if, on or before March 1 in any year, two installments of any ULID Assessments have been delinquent for more than one year, it shall take legal action as permitted by law to enforce collection of such collectible delinquent accounts.

*Maintenance of Insurance.* It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the District on such of the buildings, equipment, works, plants, facilities and properties of the System as are ordinarily carried by municipal or privately-owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately-owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the District, to protect the System and the owners of the Parity Bonds against loss.

*Condemnation Awards and Insurance Proceeds.* If the District receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the System, it will apply the condemnation award or insurance proceeds, in the District's sole discretion, either (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or (iii) to the cost of improvements to the System.

#### **Future Parity Bonds**

The District has reserved the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the System or to refund Parity Bonds if the following conditions (the "Parity Conditions") are met and complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

- (a) There will be no deficiency in the Bond Fund and no Event of Default will have occurred and be continuing.
- (b) The Parity Bond Authorizing Resolution will provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, will be paid directly into the Bond Fund, except for any prepaid assessments permitted by law to be paid into a construction fund or account.
- (c) The Parity Bond Authorizing Resolution will provide for the payment of the principal thereof and interest thereon out of the Bond Fund.
- (d) The Parity Bond Authorizing Resolution will provide for the payment of amounts into the Bond Fund to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Account.
- (e) The Parity Bond Authorizing Resolution will provide for the deposit into the Reserve Account of:
  - (i) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available, or
  - (ii) Reserve Insurance or an amount plus Reserve Insurance necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or
  - (iii) amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.

- (f) There will be on file with the District either:
- (1) a certificate of the District Manager demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that 12-month period was the Average Annual Debt Service for those proposed bonds); or
  - (2) a certificate of an Independent Consulting Engineer to the effect that the Net Revenue for the five fiscal years next following the earlier of (i) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (ii) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Net Revenue further adjusted as provided in paragraphs (i) through (iv) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:
    - (i) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue adopted by resolution;
    - (ii) Net revenue from customers of the System who have become customers during the 12 consecutive month period or thereafter, and his or her estimate of net revenue from any customers to be connected to the System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;
    - (iii) His or her estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds; and
    - (iv) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for sewer or other utility service, which revenue was not included in the historical Net Revenue of the System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding outstanding bonds payable from the Bond Fund, no such coverage certification will be required if the Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than \$5,000 over the Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

Nothing in the Bond Resolution prevents the District from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging the payment of utility local improvement district assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such utility local improvement district assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

*Compliance with Future Parity Bond Requirements.* At the time of issuance of the Bonds, the District will have on file a certificate showing satisfaction of the Parity Conditions.

### **Junior Lien Obligations**

The District has reserved the right to issue revenue bonds or other obligations which would be a charge upon Gross Revenue subordinate to that of any Outstanding Parity Bonds. See "DEBT INFORMATION—Junior Lien Debt" for a description of the District's current junior lien obligations.

## **ULID Assessments**

*General Description.* Under Washington law (RCW 57.16.050), a water and sewer district may establish utility local improvement districts within the area of a comprehensive general plan of improvements. A water and sewer district may levy special assessments to pay in whole or in part the costs of any improvements, under a mode of annual installments extending over a period not exceeding 20 years on all property specially benefited by any local improvement on the basis of the special benefits.

*Lien of Assessments.* State law (RCW 57.16.050 and RCW 35.50.010) provides that Assessments will be a lien on the property assessed from the time the assessment roll is placed in the hands of the County Treasurer for collection, and that interest and penalty shall be included in and become part of the assessment lien, which lien is paramount to all other liens theretofore or thereafter created except the lien for general property taxes.

The manner in which delinquent Assessments may be foreclosed is set forth in chapter 35.50 RCW. Foreclosure proceedings may be initiated if on the first day of January two installments of any Assessment are delinquent, or if the final installment has been delinquent for more than one year. Property foreclosed upon is sold by the District, and the laws governing appeals from general tax foreclosure judgments apply similarly to appeals from judgments obtained in a local improvement assessment lien foreclosure action. Proceeds of the sale of any property foreclosed upon in the manner required by law up to the amount of the unpaid Assessment and interest and penalties thereon, are deposited into and become a part of the Bond Fund.

*Impact of State Homestead Exception Upon Local Improvement District Financing.* Chapter 6.13 RCW permits any head of a family to protect a certain portion of the homestead (residence) from forced sale. On January 4, 1982, the Court of Appeals of the State of Washington, Division I, filed its decision in *City of Algona v. Sharp, et. al.*, wherein it announced that the filing for a homestead exemption before a scheduled foreclosure sale of residential property valued at \$25,000 or less effectively exempted that property from a forced sale to enforce delinquent special assessments in a special benefit assessment district such as a local improvement district or utility local improvement district. Subsequently, by legislation, chapter 442, Laws of 1987, the homestead exemption in RCW 6.13.030 of \$25,000 was raised to \$125,000 in 2007. The United States Bankruptcy Court for the Western District of Washington has held that the homestead exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

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*Estimated Assessment Collections.* Assessment collections for ULIDs are estimated by amortizing the unpaid balance in the ULID assuming level principal payments over the remaining payment for the ULID. All ULID Assessments, including interest, are deposited directly into the Bond Fund and may be used only for payment of debt service on Parity Bonds. The District has two ULIDs outstanding. The following table shows future estimated assessment installments for all outstanding ULIDs.

**ESTIMATED  
ULID ASSESSMENT INSTALLMENTS**

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 76,690	\$ 28,142	\$ 107,832
2014	79,690	24,236	103,925
2015	76,121	20,329	96,451
2016	75,260	16,599	91,859
2017	38,032	12,912	50,944
2018	38,032	11,067	49,100
2019	38,032	9,223	47,255
2020	38,032	7,378	45,411
2021	38,032	5,534	43,566
2022	38,032	3,689	41,721
2023	38,032	1,845	39,877
	\$ 573,985	\$ 140,954	\$ 717,941

*Source: The District.*

**No Acceleration**

The Bonds are not subject to acceleration upon the occurrence and continuation of an Event of Default, as defined in the Bond Resolution. The District, therefore, would be liable only for principal and interest payments as they become due. In the event of multiple defaults in payment of principal of or interest on the Parity Bonds, the Registered Owners would be required to bring a separate action for each such payment not made. This could give rise to a difference in interests between Registered Owners of earlier and later maturing Parity Bonds.

**DEBT INFORMATION**

**Description of Outstanding Parity Bonds**

Following the issuance of the Bonds, the District will have the following Parity Bonds outstanding:

<b>Issue</b>	<b>Initial Principal Amount</b>	<b>Final Maturity</b>	<b>Outstanding Principal Amount<sup>(1)</sup></b>
2009 Bonds	\$ 23,885,000	December 1, 2018	\$ 17,910,000
2010A Bonds	3,675,000	December 1, 2016	1,215,000
2010B Bonds	49,325,000	December 1, 2029	49,325,000
The Bonds	25,000,000	December 1, 2043	25,000,000
Total			\$ 93,450,000

**Future Parity Bonds**

The District does not currently intend to issue Future Parity Bonds in the next 12 months.

**Junior Lien Debt**

Nothing in the Bond Resolution prevents the District from issuing bonds, notes, warrants, or other obligations payable from and secured by a lien and charge junior to the lien and charge of the Parity Bonds. As shown in the following table, the District currently has outstanding eight loans from the State’s Public Works Trust Fund (“PWTF”) and Revolving Fund Loan Program (“RFLP”).

**Schedule of Junior Lien Debt Service**

<b>Loan</b>	<b>Date of Issue</b>	<b>Final Maturity</b>	<b>Original Principal Amount</b>	<b>Outstanding Principal Amount</b>	<b>Interest Rate</b>
<i>Water Department</i>					
<i>Subordinated Debt</i>					
PWTF Loan	06/07/99	07/01/19	\$ 3,420,060	\$ 1,092,725	1.0%
PWTF Loan	05/15/00	07/01/20	1,402,800	544,436	1.0
RFLP <sup>(1)</sup>	08/15/12	24 years from completion	5,262,090	0	1.5
RFLP <sup>(2)</sup>	09/04/12	24 years from completion	10,403,000	0	1.5
Total			\$ 20,487,950	\$ 1,637,161	
<i>Sewer Department</i>					
<i>Subordinated Debt</i>					
PWTF Loan	04/26/05	07/01/25	\$ 1,000,000	\$ 631,579	0.5%
PWTF Loan	08/15/05	07/01/25	1,000,000	640,351	0.5
PWTF Loan	07/17/06	07/01/26	7,000,000	4,967,416	0.5
RFLP	02/11/11	02/11/31	9,015,745	8,700,711	2.7
Total			\$ 18,015,745	\$ 14,940,057	

<sup>(1)</sup> The District was awarded a State Revolving Fund loan in the amount of not to exceed \$5,262,090. Under the terms of the contract the District has 48 months to complete the project, and at that time the total of all disbursements on the loan will begin to amortize over the term of the loan. As of August 9, 2013 the District had requested disbursements totaling \$315,677.

<sup>(2)</sup> The District was awarded a State Revolving Fund loan in the amount of not to exceed \$10,403,000. Under the terms of the contract the District has 48 months to complete the project, and at that time the total of all disbursements on the loan will begin to amortize over the term of the loan. As of the date of this Official Statement, no draws have been made on this loan.

Source: The District.

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**Schedule of Debt Service on Obligations of the System**

<b>Schedule of Debt Service</b>								
<b>Year<sup>(2)</sup></b>	<b>Junior Lien Debt<sup>(1)</sup></b>		<b>Outstanding Parity Bonds</b>		<b>The Bonds</b>		<b>Total Parity Debt</b>	<b>Total Debt of the System<sup>(4)</sup></b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest<sup>(3)</sup></b>	<b>Principal</b>	<b>Interest</b>		
2013	\$ 1,123,513	\$ 291,384	\$ 2,990,000	\$ 3,203,570	—	—	\$ 6,193,570	\$ 7,608,467
2014	1,133,778	276,079	3,105,000	3,090,970	\$ 290,000	\$ 1,243,017	7,728,987	9,138,844
2015	1,144,324	260,494	3,515,000	2,974,870	455,000	1,080,331	8,025,201	9,430,019
2016	1,155,158	244,621	3,360,000	2,834,270	465,000	1,066,681	7,725,951	9,125,730
2017	1,166,288	228,451	3,490,000	2,706,195	480,000	1,052,731	7,728,926	9,123,665
2018	1,177,723	211,977	3,625,000	2,565,645	500,000	1,033,531	7,724,176	9,113,876
2019	1,189,470	195,190	3,760,000	2,419,433	520,000	1,013,531	7,712,964	9,097,624
2020	1,019,418	178,082	3,870,000	2,257,753	545,000	987,531	7,660,284	8,857,784
2021	954,039	162,466	3,985,000	2,079,733	575,000	960,281	7,600,014	8,716,519
2022	966,776	147,288	4,100,000	1,896,423	600,000	931,531	7,527,954	8,642,018
2023	979,862	131,762	4,225,000	1,707,823	630,000	901,531	7,464,354	8,575,978
2024	993,305	115,879	4,355,000	1,507,135	665,000	870,031	7,397,166	8,506,350
2025	1,007,115	99,628	4,495,000	1,289,385	685,000	850,081	7,319,466	8,426,209
2026	915,309	82,999	4,645,000	1,057,893	705,000	828,675	7,236,568	8,234,876
2027	547,776	66,513	4,805,000	814,030	735,000	800,475	7,154,505	7,768,794
2028	562,751	51,538	4,975,000	556,963	765,000	771,075	7,068,038	7,682,327
2029	578,134	36,155	5,150,000	285,825	795,000	740,475	6,971,300	7,585,589
2030	593,938	20,350	—	—	825,000	708,675	1,533,675	2,147,963
2031	303,030	4,114	—	—	860,000	675,675	1,535,675	1,842,819
2032	—	—	—	—	895,000	636,975	1,531,975	1,531,975
2033	—	—	—	—	935,000	596,700	1,531,700	1,531,700
2034	—	—	—	—	980,000	554,625	1,534,625	1,534,625
2035	—	—	—	—	1,025,000	510,525	1,535,525	1,535,525
2036	—	—	—	—	1,070,000	464,400	1,534,400	1,534,400
2037	—	—	—	—	1,120,000	416,250	1,536,250	1,536,250
2038	—	—	—	—	1,170,000	364,450	1,534,450	1,534,450
2039	—	—	—	—	1,225,000	310,338	1,535,338	1,535,338
2040	—	—	—	—	1,280,000	253,681	1,533,681	1,533,681
2041	—	—	—	—	1,340,000	194,481	1,534,481	1,534,481
2042	—	—	—	—	1,400,000	132,506	1,532,506	1,532,506
2043	—	—	—	—	1,465,000	67,756	1,532,756	1,532,756
<b>Total<sup>(4)</sup></b>	<b>\$17,511,707</b>	<b>\$2,804,970</b>	<b>\$68,450,000</b>	<b>\$33,247,916</b>	<b>\$25,000,000</b>	<b>\$21,018,548</b>	<b>\$147,716,464</b>	<b>\$168,033,141</b>

<sup>(1)</sup> Junior lien debt service does not include the District’s State Revolving Fund loans awarded in the amounts of not to exceed \$5,262,090 and \$10,403,000, or principal payments made on July 1, 2013. See the table titled “Schedule of Junior Lien Debt Service” under “Junior Lien Debt” above.

<sup>(2)</sup> Based on Fiscal Years ending December 31.

<sup>(3)</sup> Debt service in the table reflects the gross amount of interest due on the District’s 2010B Bonds, which were designated as Build America Bonds, and does not take into account the interest rate subsidy payable by the federal government.

<sup>(4)</sup> Totals may not foot due to rounding.

**Debt Payment Record**

The District has promptly met all debt service payments on outstanding obligations. No refunding bonds have been issued to avoid an impending default.

## THE DISTRICT

The District is a special purpose district organized under chapter 57 RCW to provide water and sanitary sewer service to specific areas in the County. The District was formed by public election in 1931. The District is the largest water and sewer district in the State and is located in the southwest quadrant of the County, serving a population of over 300,000 retail and wholesale customers. The District area is approximately 60 square miles, and includes the cities of Lynnwood, Mountlake Terrace and Brier. There is partial service area coverage of the cities of Bothell (the Snohomish County portion), Edmonds, Mill Creek and Mukilteo. The District may from time to time provide new or expanded service to properties located within surrounding jurisdictions.

The District is a municipal corporation with the power to acquire and lease real and personal property; to construct, condemn, acquire and own buildings, systems, and other facilities to accomplish its corporate purposes; to acquire, construct, condemn and purchase, maintain and operate water and sewer systems; to impose rates and charges for services; and to exercise all other powers granted to water and sewer districts under State law.

The District may issue bonds, notes, warrants and other evidences of indebtedness including revenue bonds (such as the Bonds) and general indebtedness. The amount of general indebtedness that the District may legally incur is limited by the Constitution and laws of the State. As prescribed by State statutes, the unlimited tax general indebtedness permitted for water and sewer districts, subject to 60 percent majority vote of registered voters at an election at which 40 percent of those who voted at the last general election cast a ballot, is limited to 2.5 percent of the value of taxable property in the district. Within the 2.5 percent limit, a water and sewer district may, without a vote of the electors, incur general obligation indebtedness in an amount not to exceed 0.5 percent of the value of taxable property in the district. Water and sewer districts do not have authority under State law to levy regular property taxes. The District does not have any general indebtedness outstanding payable from excess property taxes. There is no statutory limit on the amount of revenue bonds the District may incur. The District must satisfy, however, any applicable additional indebtedness covenants prior to issuing revenue debt. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Future Parity Bonds.”

See “FINANCIAL INFORMATION” and “DISTRICT MANAGEMENT AND OPERATIONS” for additional information regarding the District and its operations.

## THE WATER SYSTEM

### Description of Water System Facilities

The District water system consists of over 647 miles of pipeline, nine reservoirs and tanks with 98 million gallons of storage, one booster pump station, four service pressure zones, and three water supply pump stations with a combined capacity of 94 million gallons per day (“mgd”). The average day demand for 2012 was 26.07 mgd with a maximum day demand of 39.38 mgd. The following table shows historical demand for the water system.

### WATER SYSTEM DEMAND

<b>Year Ended</b>	<b>Peak Demand (MGD)</b>	<b>Average Day Demand (MGD)</b>
2013 <sup>(1)</sup>	44.50	27.37
2012	39.38	26.07
2011	40.25	25.66
2010	42.50	24.98
2009	51.61	27.88
2008	47.69	25.57

<sup>(1)</sup> Estimated.  
Source: *The District*.

The District completed an update to its water comprehensive plan in 2009 (the “Water Comprehensive Plan”). The Water Comprehensive Plan projected the average day demand for water service to be 47.3 mgd and the maximum day demand to be 84.1 mgd in 2028. These figures were projected from 2006 data. Due to the economic recession, conservation efforts, plumbing code requirements and rates, actual demand was lower than originally projected. The District is currently revising its demand forecast for the 2015 Water System Plan update.

*Capital Improvement Program.* As part of the planning process for the Water Comprehensive Plan, a capital improvement program was developed to meet future water needs of the District. The District has identified several projects in its six-year capital program (2012-2017), which include pump station upgrades and other improvements to District facilities. The following chart summarizes the capital improvement plan for the water system for the years 2013 through 2017. The improvements listed below will be funded by proceeds of the Bonds, operating funds, general facility charges, and subordinate lien loans. Joint water and sewer system projects have also been identified as part of the capital improvement program. See “THE SEWER SYSTEM—Description of Sewer System Facilities-Capital Improvement Program.”

**WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Water Storage	\$ 0	\$ 0	\$ 0	\$ 0	\$ 946,050
Water Pump Stations	2,758,800	1,825,000	0	0	0
Water Distribution System	12,669,000	6,656,000	2,701,000	7,496,000	6,531,000
General Maintenance, Operation, and Miscellaneous	975,000	1,512,900	693,500	501,500	534,000
<b>Total</b>	<b>\$ 16,402,800</b>	<b>\$ 9,993,900</b>	<b>\$ 3,394,500</b>	<b>\$ 7,997,500</b>	<b>\$ 8,011,000</b>

*Source: The District.*

*Contractual Agreements and Water Rights.* Since the incorporation of the District in 1931, the District has purchased water from the City of Everett. During the period from 1954 to 1961, the District augmented the Everett water supply with ten deep wells. However, due to increasing demand and the inability to find sufficient water through a test well program, in 2005 the District signed a long-term agreement with the City of Everett. Under the agreement, the City of Everett has agreed to provide the District a maximum of 106 mgd, with a maximum of 55 mgd permitted at any single specific connection point. Payments under the agreement by the District for such water are treated as Operation and Maintenance Expenses of the System. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Flow of Funds.” The agreement will continue until January 1, 2055.

The total water demand on the Everett supply system during 2012 averaged 49.04 mgd with a peak day usage of 76.96 mgd. The District and its wholesale customers used approximately 53 percent of all the potable water supplied by Everett’s system in 2012.

Everett’s water is obtained primarily from the Spada Reservoir, located at the headwaters of the Sultan River about 30 miles east of the City of Everett and in the Upper Sultan River Watershed. The Spada Reservoir was created in 1964, in partnership with the Snohomish County Public Utility District, and holds approximately 50 billion gallons of water. From the Spada Reservoir, the water travels through a pipeline to the Chaplain Reservoir, where the City of Everett Treatment Facility is located. The Chaplain Reservoir is approximately eight miles downstream from the Spada Reservoir and holds approximately 4.5 billion gallons of water.

The City of Everett currently holds surface and groundwater rights for a total instantaneous quantity of 426.1 cubic feet per second and an annual quantity of 168,244 acre feet per year. This is equivalent to a maximum production rate of 275 mgd and an annual average production volume of 150 mgd. The City of Everett is currently in the process of revising its Comprehensive Water Plan.

The District, in turn, provides water to the Cities of Mountlake Terrace, Lynnwood, and Brier, and portions of the cities of Edmonds, Bothell, Mukilteo, Mill Creek and other south Snohomish County areas. The District has wholesale water agreements with the cities of Lynnwood, Edmonds, and Mountlake Terrace, the Mukilteo Water and Wastewater District and the Silver Lake Water and Sewer District, all of which expire on January 1, 2055. The District also has a wholesale water agreement with the Clearview Water Supply Agency, which expires on December 31, 2054. See “Clearview Water Supply Agency” below. In general, the agreements are similar with the primary difference being the allowable instantaneous demand for individual cities prior to incurring demand charges.

**Clearview Water Supply Agency**

In February 2005, the Clearview Water Supply Agency (the “Agency”) commenced operations. The Agency is an administrative organization formed in 2005 pursuant to an Interlocal Joint Operating Agreement under chapter 39.34 RCW among the District, Cross Valley Water District, and Silver Lake Water and Sewer District. The Agency was formed to provide water to the Agency members and to operate and maintain certain facilities. The facilities consist of the Clearview Pump Station, a water transmission line, and a storage reservoir in the vicinity of Clearview. A three member Board with each member district providing a representative governs the Agency.

The three members initially advanced operating funds to the Agency as shown in the following table:

The District	\$	811,183
Silver Lake Water and Sewer District		327,761
Cross Valley Water District		31,972
Initial Owner Contribution	\$	<u>1,170,916</u>

*Source: The District.*

The Agency currently has no plant and equipment; the Agency members own the facilities. The District has been contracted by the Agency to maintain and operate the Clearview Pump Station as well as provide administrative support for the Agency. The Agency purchases all of its water from the District at the District’s cost, which includes the wholesale cost of water from the City of Everett and the associated pumping costs. The members are responsible for all of the Agency’s expenses based on metered water use and an agreed upon expense allocation formula. Monthly charges to the three Agency members are equal to the monthly expenses resulting in net operating income at year-end of zero. For year ending December 31, 2012, the District paid \$2,770,533 in aggregate monthly charges to the Agency. Costs paid to the Agency are treated as Operation and Maintenance Expenses of the System. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Flow of Funds.” The Agency prepares a set of financial statements which receive an accountability audit by the State Auditor's Office.

**Permitting and Regulatory**

The water system is subject to an annual operating permit issued by the Washington State Department of Health. The District is in compliance with all State and Federal drinking water regulations and compliance agreements.

**Billings and Delinquent Accounts**

If an account is delinquent, the District will assess a penalty to the account and enforce collections. The District’s ability to collect on delinquent accounts is controlled by State law. Remedies include, but are not limited to, providing notice, charging fees and interest on unpaid charges for service, terminating service, and placing a lien for unpaid charges against premises to which such service has been furnished or is available. Such lien is superior to all other liens or encumbrances, except those for general taxes and special assessments, and may be foreclosed by the District in the manner provided by law, in addition to all other available remedies. The District initiates several notices prior to terminating water service, including phone/electronic notices and a door tag delivered to the premises. The five year average rate for utility bills which result in a shut-off notice is 5.4 percent, the average rate of door tags delivered is 1.1 percent, and the average rate for shut-offs or termination of services is 0.2 percent.

## Service Area and Customers

The District provides retail water service to the City of Brier and portions of the Cities of Lynnwood, Bothell, Mukilteo and Mill Creek. As of June 1, 2013, the District served 48,665 retail accounts located within the District, and 28,143 wholesale accounts, which are within city limits of the cities of Lynnwood, Edmonds, and Mountlake Terrace and the Mukilteo Water and Wastewater District. In 2013, the District signed a wholesale water agreement with the Silver Lake Water and Sewer District, and anticipates supplying that entity a small portion of its water needs in early 2014. Water consumption by the District's wholesale customers accounts for approximately 51 percent of the total average daily demand. Historical records indicate that over 94 percent of consumption within the retail service area, or the direct service area, is from residential accounts.

### WATER RETAIL CUSTOMERS (by Service Classification)

	2008	2009	2010	2011	2012
Single-Family	39,725	40,240	41,031	41,898	42,662
Multi-Commercial	301	300	305	315	312
Single-Commercial	1,035	1,038	1,050	1,058	1,073
Fire Protection	676	695	719	754	786
Hotel/Motel	18	18	21	20	19
Irrigation	848	869	884	907	939
Multi-Family Units	2,299	2,300	2,299	2,304	2,335
Mobile Home and RV	69	69	68	68	68
Total	44,971	45,529	46,377	47,324	48,194

Source: The District.

### WATER WHOLESALE ACCOUNTS

Jurisdiction	2008	2009	2010	2011	2012
Lynnwood	8,414	8,511	8,512	8,502	8,501
Edmonds	10,106	10,066	10,095	10,173	10,227
Mountlake Terrace	5,895	5,875	5,950	5,964	5,976
Mukilteo Water and Wastewater District	N/A	N/A	N/A	N/A	3,439 <sup>(1)</sup>
Total	24,415	24,452	24,557	24,639	28,143

<sup>(1)</sup> Mukilteo Water and Wastewater District was added as a wholesale water customer in 2012.

Source: The District.

### 2012 WHOLESALE ACCOUNTS

	Revenue	Percent of 2012 Water Revenue
Clearview Water Supply Agency	\$ 4,117,696	13.8%
Lynnwood	1,766,323	5.9
Edmonds	1,438,724	4.8
Mountlake Terrace	817,793	2.7
Mukilteo Water and Wastewater District	387,356	1.3
Total Wholesale Sales	\$ 8,527,892	28.5%

Source: The District.

**Water Rates**

Water customers currently pay a monthly base rate based upon their meter size plus a consumption rate, per 100 cubic feet (“ccf”), based upon their service classification. Consumption charges are calculated based on winter and summer rates. The following table contains monthly water meter charges for the years 2009 through September 30, 2013. Out-of-District service is provided at 133 percent of the in-District rate.

In 2012 the District contracted with a rate consultant to review the current rate structure and make recommendations to the rate structure to better support conservation. The rate study was completed in early 2013, and recommended overall rate increases for both water and sewer services. As a result, on July 1, 2013 the District adopted a new rate structure which will become effective October 1, 2013. The new structure continues to have all service rate classifications pay a monthly base rate based upon their meter size, and incorporates a subsistence amount of consumption into the base rate. Consumption which exceeds the amount included in the base rate is charged at increasing tiered rates. Under the new rate structure, consumption charges will remain constant throughout the year.

The following tables show historical rates and charges for water service through September 30, 2013. Rates and charges to become effective October 1, 2013 are shown on the following page.

**MONTHLY WATER METER CHARGE**

<b>Meter Size</b>	<b>2009 Charge</b>	<b>2010 Charge</b>	<b>2011 Charge</b>	<b>2012 Charge</b>	<b>2013 Charge<sup>(1)</sup></b>
3/4” x 5/8”	\$ 11.39	\$ 12.98	\$ 13.63	\$ 13.63	\$ 13.63
3/4” x 3/4”	N/A	N/A	17.52	17.52	17.52
1”	19.04	21.70	22.79	22.79	22.79
1½”	37.97	43.27	45.43	45.43	45.43
2”	60.78	69.26	72.72	72.72	72.72
3”	114.04	129.96	136.46	136.46	136.46
4”	190.11	216.65	227.48	227.48	227.48
6”	380.08	433.14	454.80	454.80	454.80
8”	608.18	693.08	727.73	727.73	727.73
10”	848.05	966.43	1,014.94	1,014.94	1,014.94

<sup>(1)</sup> Effective until September 30, 2013. Beginning October 1, 2013, the District will impose a new rate structure for water service. The new water rates are provided on the following page.

Source: The District.

**MONTHLY WATER CONSUMPTION CHARGE**

<b>Service Classification</b>	<b>Usage Charge \$/ccf</b>	
	<b>Winter</b>	<b>Summer</b>
Single Family (including construction and fire meters)	\$ 1.54	\$ 2.73
Multi-Family (including mobile home parks)	1.72	2.58
Single Commercial	1.44	2.39
Multi Commercial (including RV parks and hotel/motel)	1.87	2.97
Irrigation	1.26	2.79

Source: The District.

Effective October 1, 2013, the District will impose a tiered rate structure based on the applicable meter size. Rates for water service will consist of a bi-monthly base charge, which includes a certain amount of consumption based on units of water, plus a tiered water consumption charge for consumption in excess of the amount of consumption included in the base charge.

**WATER SERVICE CHARGE**  
(effective October 1, 2013)

Meter Size	Bi-Monthly Base Charge	CCF Consumption Included in Base Charge	Water Consumption Rate Charge per CCF:		
			\$2.40 Bottom Tier	\$2.90 Middle Tier	\$3.50 Top Tier
3/4" x 5/8"	\$ 29.90	4	5 – 14	15 – 50	> 50
3/4" x 3/4"	42.31	6	7 – 21	22 – 75	> 75
1"	67.15	10	11 – 35	36 – 125	> 125
1 1/2"	129.23	20	21 – 70	71 – 250	> 250
2"	203.74	32	33 – 112	113 – 400	> 400
3"	402.43	64	65 – 224	225 – 800	> 800
4"	625.95	100	101 – 350	351 – 1,250	> 1,250
6"	1,246.82	200	201 – 700	701 – 2,500	> 2,500
8"	1,991.89	320	321 – 1,120	1,121 – 4,000	> 4,000
10"	5,220.46	840	841 – 2,940	2,941 – 10,500	> 10,500

Source: The District

**Water Rate Comparison**

Shown below are comparative water rate charges of several municipalities and districts located near the District.

**2013 SINGLE FAMILY MONTHLY WATER RATE**  
(Based on 1,000 cubic feet)

Jurisdiction	2013 Monthly Rate
City of Seattle (average)	\$ 60.92
Woodinville Water District (average)	58.39
City of Snohomish	53.14
Northshore Utility District	48.50
City of Bothell	46.17
Cross Valley Water District	40.92
The District (rates effective October 1, 2013)	35.65
City of Edmonds	34.08
City of Mountlake Terrace	34.03
Mukilteo Water and Wastewater District	32.98
City of Everett (metered)	30.23
Silver Lake Water and Sewer District (average)	26.30
City of Lynnwood	25.39

Source: The District.

### Water General Facility Charges

The District completed an update to the general facility charges (“GFCs”) for new connections to the water system that reflects the Water Comprehensive Plan adopted on August 17, 2009. GFC revenue is used for capital improvement projects undertaken to construct general facilities and debt service on capital projects. GFCs are charged in addition to charges for new service connections (see “Other Rates and Charges” on the following page). GFCs will increase annually based on the changes in the Engineering News Record Construction Cost index for the Seattle area as determined each December. The following GFCs became effective on January 1, 2013.

#### WATER SYSTEM GENERAL FACILITY CHARGES

<b>Meter Size</b>	<b>ERU<sup>(1)</sup> Factor</b>	<b>\$ Charge per Meter</b>
5/8” by 3/4”	1.0	\$ 1,484
3/4”	1.5	2,226
1”	2.5	3,710
1 1/2”	5.0	7,420
2”	8.0	11,872
3”	15.0	22,260
4”	25.0	37,100
6”	50.0	74,200
8”	80.0	118,720
10”	115.0	170,660

<sup>(1)</sup> Equivalent Residential Unit. An ERU is based on typical water meter size for a single-family residential connection.

Source: The District.

*[remainder of page intentionally left blank]*

## Other Rates and Charges

In addition to rates and charges for water service and GFCs, the District collects a number of utility billings, collection charges, administration fees, new service fees, equipment fees, inspection fees, permit fees, developer extension agreements and engineering service fees. The following is a schedule of fees for new water customers. New water service fees will increase annually based on the changes in the Engineering News Record Construction Cost index for the Seattle area as determined each December. The following new water service fees became effective on January 1, 2013.

### OTHER WATER RATES AND CHARGES

<u>Service</u>	<u>Charge for Service</u>
<i>Meter Set (Drop) Charges</i>	
3/4" meter	\$ 260
1" meter	322
1 1/2" meter	519
2" meter	649
2+" meter	Actual cost
 <i>Water Service and Meter Installation</i>	
3/4" meter	\$ 2,595
1" meter	2,803
1 1/2" meter	4,048
2" meter	4,671
2+" meter	Actual cost
 <i>Water Main Line Tap</i>	
4" x 4", 6" x 4", 8" x 4", and 8" x 6"	\$ 467
6" x 6" and 8" x 8"	545
12" x 4", 12" x 6", and 12" x 8"	623
12" x 12", 16" x 4", 16" x 6", 16" x 8", and 16" x 12"	804
18+"	Actual Cost

*Source: The District.*

*[remainder of page intentionally left blank]*

## Major Water Customers

The following table shows the District's largest retail customers by amount billed.

### MAJOR 2012 RETAIL WATER ACCOUNTS

<u>Ratepayer</u>	<u>2012 Total Amount Billed for Water</u>	<u>2012 Percent of Retail Water Revenue</u>
Avalon Bay Communities Inc.	\$ 170,803	0.8%
BRE Properties Inc.	158,569	0.7
Keeler's Corner	89,482	0.4
ERP Operating LP	86,580	0.4
Archstone Communities	86,460	0.4
The Renaissance	81,769	0.4
GS Mill at Mill Creek	76,273	0.4
Mukilteo School District No. 6	67,594	0.3
Crystal Cove Apartments	64,669	0.3
PPC OTGHP LLC	62,399	0.3
TOTAL	\$ 943,883	4.4%

*Source: The District.*

## Conservation Program

The District has adopted a water conservation program for the years 2009 through 2014, which is comprised of a combination of regional and local measures. The regional measures are implemented by the City of Everett and its partner utilities in the Everett Water Utility Committee. The local measures are implemented by District staff in the District's service area only. The program is based on minimizing impacts on water resources, customer service and assistance requests, regulatory compliance, and other drivers. The program uses a number of factors in an effort to encourage water conservation, including employing conservation pricing, providing rebates, offering public outreach and school-based education, providing multi- and single-family retrofit kits, providing outdoor irrigation kits, and conducting indoor and irrigation audits of water consumption. The cost of the conservation program is primarily funded through wholesale water rates paid by the District to the City of Everett. At full implementation, the program is estimated to save approximately 450,000 gallons per day in the District's retail service area. Conservation programs are expected to continue beyond 2014.

## THE SEWER SYSTEM

### Description of Sewer System Facilities

The District's Picnic Point Wastewater Treatment Facility ("Picnic Point") was originally designed to provide secondary treatment for an average flow of three mgd and a peak hour flow of 7.5 mgd. Expansion and improvement to Picnic Point began in 2008, and as a result of the expansion, this facility has begun producing high-quality treated effluent and Class A biosolids. The initial capacity of the expanded and improved Picnic Point is four mgd with the ability to expand to six mgd and peak flows of 13.2 mgd. Continued expansion and improvements to Picnic Point are included in the District's capital improvement program. See "Capital Improvement Program" on the following page.

The District currently has 14 active sewer lift stations with a combined capacity of 5,300 gallons per minute. All stations have a back-up power supply. The District has approximately 432 miles of sewer mains and laterals for local collection and transmission to treatment facilities.

*Service Contracts and Agreements.* Transmission and treatment of sewage is provided by three sources: (1) a contract with King County Department of Natural Resources and Parks ("KCDNRP"); (2) a contract with the City of Everett; and (3) Picnic Point. Treatment of sewage in most of the eastern half of the District is provided by KCDNRP through a

long-term contract with the District, which expires July 1, 2056. Service is also provided to the northeast part of the District by the City of Everett under a contract which expires March 31, 2020. KCDNRP collects and treats approximately 62 percent of the District’s sewage; 27 percent is treated by the Picnic Point, and 11 percent is treated by the City of Everett. Costs for transmission and treatment of sewage from these sources are Operation and Maintenance Expenses of the System. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Flow of Funds.”

On December 31, 1981, the District and the City of Everett entered into an agreement whereby the District agreed to contribute toward the cost of certain City sewer facilities which benefit the District. The District will continue to pay its share of Everett’s Water Pollution Control Facility upgrades through 2020. Such costs are payable after the payment of principal of and interest on Parity Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Flow of Funds.”

*Sewer Comprehensive Plan.* The District completed an update to the sanitary sewer comprehensive plan in 2009 (the “Sewer Comprehensive Plan”). The Sewer Comprehensive Plan was approved by the District, the State Department of Ecology and the County in 2009. The Sewer Comprehensive Plan includes a Capital Improvement Program for 2012 through 2017, which the District has begun to implement.

*Capital Improvement Program.* As part of the planning process for the Sewer Comprehensive Plan, a capital improvement program was developed to meet future needs of the District. The District has identified several projects in its six-year capital program (2012-2017) which include certain upgrades and other improvements to facilities. The following chart summarizes the capital improvement plan for the sewer system for the years 2013 through 2017. The improvements listed below will be funded by proceeds of the Bonds, operating funds, general facility charges, and subordinate lien loans. The following chart also identifies certain joint water and sewer system projects, which will be allocated to the water and sewer systems as necessary.

**SEWER SYSTEM CAPITAL IMPROVEMENT PROGRAM**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Sewer Projects</b>					
North Creek/Olympus Meadows Trunk	\$ 1,045,000	\$ 2,144,000	\$ 0	\$ 0	\$ 0
Lift Station Improvements	1,150,800	4,147,500	0	0	500,000
Capacity Upgrade Projects	1,800,000	2,045,000	5,500,000	4,700,00	4,400,000
Maintenance & Other	450,000	150,000	150,000	150,000	150,000
Martha Lake Gateway	4,199,100	653,700	0	0	0
Everett Facilities	2,114,433	1,220,000	482,900	642,000	188,800
Picnic Point WWTP	3,179,800	250,000	0	0	0
Picnic Point Sewer Main Replacement	1,967,000	3,000,000	0	0	0
<b>Total Sewer Projects</b>	<b>\$ 15,906,133</b>	<b>\$ 13,610,200</b>	<b>\$ 6,132,900</b>	<b>\$ 5,492,000</b>	<b>\$ 5,238,800</b>
<b>Joint Water and Sewer Projects</b>					
GIS Phase II	\$ 80,000	\$ 0	\$ 0	\$ 0	\$ 0
Contract Management Software	0	100,000	0	0	0
Admin. Building Generator	200,000	0	0	0	0
Fencing and Roofing	0	310,000	157,000	200,0000	0
<b>Total</b>	<b>\$ 280,000</b>	<b>\$ 410,000</b>	<b>\$ 157,000</b>	<b>\$ 200,000</b>	<b>\$ 0</b>

Source: The District.

### Permitting and Regulatory

Picnic Point is permitted under the National Pollutant Discharge Elimination System (“NPDES”) (discharge) system administered pursuant to the U.S. Environmental Protection Agency’s Clean Water Act. The NPDES system is administered in the State by the U.S. Department of Energy pursuant to delegation rules set forth in the federal regulations. Picnic Point’s most recent NPDES permit became effective on September 5, 2013 and is scheduled to expire in 2018. The sewer system is in compliance with known regulations and applicable permits.

### Service Area and Customers

In 1966, the District was authorized to provide sewer service within the unincorporated area of its boundaries. The current population of the service area is approximately 155,000, and there were 50,699 equivalent single family residential sewer units being billed by the District as of December 31, 2012.

#### EQUIVALENT SINGLE FAMILY RESIDENTIAL SEWER UNITS Historical Count as of Year End

<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
48,032	48,925	50,455	50,803	50,699

*Source: The District.*

The District’s sewer retail customers by class for the last five years are shown in the following table.

#### SEWER RETAIL CUSTOMERS BY CLASS

<u>Year Ended</u>	<u>Single Commercial</u>	<u>Hotel Motel</u>	<u>Multi Commercial</u>	<u>Single Family</u>	<u>R/V Parks</u>	<u>Total Retail Customers</u>
2012	756	19	2,547	32,269	22	35,613
2011	740	20	2,516	31,479	22	34,777
2010	731	20	2,501	30,595	22	33,869
2009	725	18	2,494	29,783	22	33,043
2008	715	18	2,494	29,187	23	32,437

*Source: The District.*

### Sewer Rates

Single family residential customers currently pay a flat monthly charge for sewer service. The current monthly charge is \$51.46. Other customer classes pay a charge based on volume and service classification, which is subject to a minimum monthly fee.

In 2012 the District contracted with a rate consultant to review the current rate structure. The rate study was completed in early 2013, and recommended overall rate increases for both water and sewer services. As a result, on July 1, 2013 District adopted a new rate structure which will become effective October 1, 2013. To encourage and support conservation of water, the District has implemented an additional volumetric charge on single family accounts of \$1.50 per ccf of water use above 15 ccf per bi-monthly billing cycle.

The following table shows historical rates and charges for sewer service for the years 2009 through September 30, 2013. Rates and charges to become effective October 1, 2013 are shown in the table below.

**SEWER RATES AND CHARGES**

<b>Classification</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013<sup>(1)</sup></b>
<i>Single Family</i> (flat monthly charge)	\$ 42.34	\$ 46.03	\$ 48.67	\$ 51.46	\$ 51.46
<i>All Other Accounts:</i>					
Classification (per/ccf)					
Single Commercial <sup>(2)</sup>	\$ 5.75	\$ 6.34	\$ 6.76	\$ 7.21	\$ 7.21
Multiple Units	5.75	6.04	6.24	6.45	6.45
<i>Minimum Monthly Charge</i>					
Single Commercial	\$ 43.14	\$ 47.57	\$ 50.74	\$ 54.12	\$ 54.12
Multiple Units per unit	29.30	30.77	31.77	32.80	32.80
Hotel/Motels per unit <sup>(2)</sup>	16.65	—	—	—	—
RV Parks per site <sup>(2)</sup>	12.27	—	—	—	—

<sup>(1)</sup> Beginning October 1, 2013, the District will impose a new rate structure for sewer service. The new rates are provided in the table below.

<sup>(2)</sup> Hotels, motels and RV parks are included in the single commercial classification as of 2010.

Source: The District.

The following table provides rates and charges for sewer service effective October 1, 2013, which are based on rate classifications.

**SEWER RATES AND CHARGES**

(effective October 1, 2013)

<b>Classification</b>	<b>2013</b>
<i>Single Family</i>	
Base bi-monthly charge	\$ 108.00
Consumption charge - per ccf of water consumed over 15 ccf of water per two-month billing cycle	1.50
<i>Multiple Unit<sup>(1)</sup></i>	
Consumption charge – per ccf of water consumed per two-month billing cycle	\$ 7.00
Minimum bi-monthly charge	68.00
<i>Single Commercial<sup>(2)</sup></i>	
Consumption charge – per ccf of water consumed per two-month billing cycle	\$ 7.50
Minimum bi-monthly charge	110.00

<sup>(1)</sup> Multiple units include structures designed and built for two or more separate households or users and served by a separate single water meter, including multi-commercial, multi-family residential, and mobile home uses.

<sup>(2)</sup> Single commercial units include non-residential structures designed and built for commercial users and served by a separate water meter, including recreational vehicle parks, hotels and motels.

Source: The District.

## Sewer Rate Comparison

Shown below are comparative sewer rate charges of several municipalities and districts located near the District.

### 2013 SINGLE FAMILY MONTHLY RATE (per 10 ccf)

Jurisdiction	2013 Monthly Rate
City of Snohomish	\$ 117.19
City of Seattle	116.50
Lake Stevens Sewer District	75.00
Woodinville Water District	65.77
City of Bothell	64.84
Northshore Utility District	60.48
The District (rates effective October 1, 2013)	57.75
Mukilteo Water and Wastewater District	57.59
Silver Lake Water and Sewer District	50.25
City of Mountlake Terrace	42.46
City of Lynnwood	37.33
City of Everett	34.94
City of Edmonds	25.32

*Source: The District.*

## Sewer General Facility Charges

The District completed an update to the GFCs for new connections to the sewer system that reflects the Comprehensive Sewer Plan adopted on May 4, 2009. Sewer GFCs are imposed by customer class (or water meter size for commercial customers) and sewer basin. The following GFCs became effective January 1, 2013.

### SEWER SYSTEM GENERAL FACILITY CHARGES

Customer Class	ERU Factor	Picnic Point/South Everett Discharge Basins	North Creek, Swamp Creek, and Bear Creek Basins
Single Family Residential	1.0	\$ 4,460	\$ 1,505
Duplex Family Residential Per Unit	1.0	4,460	1,505
Multi-Family Residential, per water meter, first unit	1.0	4,460	1,505
Each Additional Unit, per water meter	0.7	3,122	1,054
Commercial (by water meter size)			
5/8" x 3/4"	1.0	4,460	1,505
1"	2.5	11,150	3,763
1 1/2"	5.0	22,300	7,525
2"	8.0	35,680	12,040
3"	15.0	66,900	22,575
4"	25.0	111,500	37,625
6"	50.0	223,000	75,250
8"	80.0	356,800	120,400

*Source: The District.*

## Other Rates and Charges

In addition to rates and charges for sewer service and GFCs, the District collects a number of utility billings, collection charges, administration fees, new service fees, equipment fees, inspection fees, permit fees, developer extension agreements and engineering service fees. The following is a schedule of fees for new sewer customers. New sewer service fees are increased annually based on the changes in the Engineering News Record Construction Cost index for the Seattle area as determined each December. The following new sewer service fees became effective on January 1, 2013.

<u>Service</u>	<u>Charge for Service</u>
<i>Sewer Line Tap</i>	
PVC – Side Sewer Tap	\$ 234.00
Concrete – Side Sewer Tap	519.00
Ductile Iron – Side Sewer Tap	908.00

*Source: The District.*

## Major Sewer Customers

The District's largest sewer customers by total amount billed in 2012 are shown below.

### MAJOR 2012 SEWER ACCOUNTS

<u>Ratepayer</u>	<u>2012 Total Amount Billed for Sewer</u>	<u>2012 Percent of Retail Sewer Revenue</u>
Avalon Bay Communities Inc.	\$ 434,885	1.3%
BRE Properties Inc.	311,787	1.0
Archstone Communities	210,665	0.6
ERP Operating LP	210,449	0.6
GS Mill at Mill Creek	198,974	0.6
Keeler's Corner	188,887	0.6
The Renaissance	174,280	0.5
Crystal Cove Apartments	162,885	0.5
PPC OTGHP LLC	137,829	0.4
Mukilteo School District No. 6	55,084	0.2
TOTAL	\$ 2,085,729	6.3%

*Source: The District.*

## FINANCIAL INFORMATION

### Statement of Income and Coverage Ratios

The following table provides historical revenues, expenses and debt service coverage for the District. Audited financial statements for the District for fiscal year ending December 31, 2012 are attached in Appendix C hereto.

#### COMBINED WATER AND SEWER DEPARTMENTS COMPARATIVE STATEMENT OF INCOME

(Based on Audited Financial Statements for Fiscal Years Ending December 31, 2008 – 2012)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Operating Revenues	\$ 48,120,980	\$ 53,795,469	\$ 56,435,170	\$ 59,293,401	\$ 65,469,832
Operating Expenses					
General Operations	9,886,843	10,443,900	10,059,995	10,289,615	11,850,956
Purchased Water/Wastewater	23,328,004	28,344,478	25,974,330	28,594,827	31,514,245
Maintenance Expenses	3,353,735	3,394,261	3,582,601	5,057,263	6,757,395
Taxes	1,116,298	1,203,174	1,304,793	1,374,128	1,467,545
Total Operating Expenses (excluding depreciation)	<u>\$ 37,684,881</u>	<u>\$ 43,385,813</u>	<u>\$ 40,921,719</u>	<u>\$ 45,315,833</u>	<u>\$ 51,590,141</u>
Net Operating Income	\$ 10,436,099	\$ 10,409,656	\$ 15,513,451	\$ 13,977,568	\$ 13,879,691
Non-Operating Revenues <sup>(1)</sup>					
Other non-operating revenue	274,499	76,904	89,600	101,968	106,396
Capital Facility Charges	3,791,108	2,920,473	2,258,174	2,966,472	3,294,855
Assessment Income – Principal	115,875	177,171	165,741	124,707	166,461
Assessment Income – Interest	34,550	59,012	47,227	40,746	38,561
Interest Revenue	3,359,305	921,812	1,156,171	1,119,850	1,879,590
Total Non-Operating Revenues	<u>\$ 7,575,337</u>	<u>\$ 4,155,372</u>	<u>\$ 3,716,913</u>	<u>\$ 4,353,743</u>	<u>\$ 5,485,863</u>
Available for Debt Service	\$ 18,011,437	\$ 14,565,028	\$ 19,230,364	\$ 18,331,311	\$ 19,365,554
Parity Bond Debt Service	\$ 3,669,146	\$ 1,033,427	\$ 5,717,589	\$ 6,198,220	\$ 6,197,320
Public Works Trust Fund Debt	\$ 581,551	\$ 793,568	\$ 791,992	\$ 1,102,358	\$ 1,419,936
Debt Service Coverage – Parity Debt	4.91	14.09	3.36	2.96	3.12
Debt Service Coverage – All Debt	4.24	7.97	2.95	2.51	2.54

<sup>(1)</sup> Non-cash gains and losses from disposition of assets are excluded from this table.

Source: The District.

### Management Discussion of 2012 Financial Results

The District's overall financial position continued to be strong in 2012 and provided sufficient liquidity to support stable, ongoing operations. Capital assets continued to increase as new connections were added to both the water and sewer systems and investments continued to be made to upgrade and replace necessary capital infrastructure and facilities.

Total operating revenues increased from \$59.3 million to \$65.5 million in 2012. The water system's revenues increased by 12.6 percent, while the sewer system's revenues increased by nine percent. A portion of the increase in water system revenues is attributed to a change in accounting for contributions of small (under two inches) water meters from development within the District. Prior to 2012, these meters were treated as contributed capital and capitalized in bulk,

then depreciated over a life of 10 years. The difficulty was that each individual small meter was valued at less than the \$5,000 capitalization threshold for the District and created an accounting problem when an individual meter was replaced or taken out of service. In 2012, the District changed its accounting practice and recognized these contributed meters as operating revenue and an expense in the year contributed. Without this change, water revenue would only have increased 8.8 percent from 2011 to 2012. This remaining increase is the result of increased retail demand, in part due to the increase in water system connections (1.8 percent growth in accounts) and increase in wholesale water sales. The primary reason for the increase in wholesale water sales was the addition of the Mukilteo Water and Wastewater District as a wholesale water customer in 2012. The increase in sewer system revenues is a combination of increase in system connections (2.4 percent growth in number of accounts) and an overall rate increase of five percent effective January 1, 2012.

Non-depreciation operating expenses increased from \$45.3 million to \$51.6 million. This \$6.3 million increase in operating expenses reflected a 23.3 percent increase in purchased water costs, a 15 percent increase in general operations and a 34.2 percent increase in maintenance expenses. The large increase in purchased water costs was due to an increase in the amount of water purchased and the closing of the Kimberly Clark Paper Mill in early 2012. Kimberly Clark was a large water customer of the City of Everett, purchasing 30 million gallons of untreated water per day. Upon closing, the share of fixed water system costs previously paid by Kimberly Clark was redistributed to the remaining water customers. The District is the City of Everett's largest water customer, purchasing more than 50 percent of all water sold by the City. As a result, the District absorbed the largest portion of those fixed water system costs.

Non-operating revenues increased by 62.5 percent, primarily due to an increase in interest earnings as the result of transferring a larger portion of investments from the Local Government Investment Pool ("LGIP") to longer-term government sponsored enterprises and reducing the amount of funds held on deposit. At the end of 2011, a higher than normal balance was held in deposits in a qualified bank depository. With interest rates in the LGIP and other investment vehicles low, the District took advantage of a higher earnings credit rate (0.67 percent) on deposits to reduce bank fees. Investment balances increased from \$70.3 million in 2011 to \$78.7 million in 2012. The interest rate on funds held by the District in the LGIP averaged 0.17 percent in 2011, 0.16 percent in 2012 and 0.15 percent through June, 2013. Despite the reduced interest earnings in the LGIP, interest income increased \$1.1 million to 1.9 million, a 67.8 percent increase. There were no investment losses, but investments in government sponsored enterprises are adjusted annually to fair market value. As of December 31, 2012, the carrying value of the District's investments was reduced by \$293,760 as a result of changes in interest rates and resulting market values.

The combined System achieved a coverage ratio of 3.12 for 2012 on the combined debt service of its Outstanding Parity Bonds, exceeding Coverage Requirement. A debt service coverage ratio of 2.54 was achieved on all of the District's outstanding debt payable from Net Revenue of the System.

## 2013 Operating Budget

The following table shows the 2013 operating budget for the System, as approved by the Board, and year-to-date information.

### 2013 OPERATING BUDGET (For the Fiscal Year Ended December 31, 2013)

	<u>2013 Budget</u>	<u>2013 Actuals (as of June 30, 2013)</u>
Total Operating Revenues <sup>(1)</sup>	\$ 66,845,517	\$ 29,174,582
Operating Expenses		
General Operations	13,489,699	6,431,198
Purchased Water/Wastewater	34,041,703	15,226,033
Maintenance Expenses	4,807,440	2,415,685
Taxes	1,343,544	811,656
Total Operating Expenses (excluding depreciation)	53,682,386	24,884,572
Net Operating Income	13,163,131	4,290,010
Non-Operating Revenues		
Disposition Gains (Losses)	—	—
Other non-operating revenue	1,242,000	528,720
Capital Facility Charges	1,500,000	1,540,704
Assessment Income – Principal	80,000	—
Assessment Income – Interest	28,000	—
Total Non-Operating Revenues	2,850,000	2,069,424
Available for Debt Service	\$ 16,013,131	\$ 2,666,286
Parity Bond Debt Service <sup>(2)</sup>	\$ 6,193,570	—
Public Works Trust Fund Debt <sup>(2)</sup>	\$ 1,282,370	—
Debt Service Coverage – Parity Debt <sup>(2)</sup>	2.59	2.39
Debt Service Coverage – All Debt <sup>(2)</sup>	2.14	1.61

<sup>(1)</sup> Revenues for the second half of each fiscal year are typically higher than the first half of each fiscal year because of the increased water usage during the summer months and higher summer water consumption rates.

<sup>(2)</sup> For 2013 actual data through June 30, 2013, coverage ratios are calculated taking into account 50 percent of budgeted annual debt service.

Source: The District.

## DISTRICT MANAGEMENT AND OPERATIONS

### Management

The District is a municipal corporation governed by an elected board of commissioners (the “Board”), comprised of five members who serve six-year, staggered terms. The current Board and their term expiration dates are as follows:

<u>Member</u>	<u>Position</u>	<u>Term Expires</u>
Larry D. Jones	President	12/31/2017
Roy N. George	Vice President	12/31/2013
Donna J. Cross	Secretary	12/31/2015
Paul D. McIntyre	Member	12/31/2013
Michael R. Dixon	Member	12/31/2017

### Personnel

The number of employees working for the District is equivalent to 112 full-time employees. The majority of the maintenance and operation employees and the customer accounts representatives in the Finance Department are members of Local 1811-A of the American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO, under an agreement with the District which expires December 31, 2013. The District considers employee relations to be satisfactory. Total employees of the District are as follows:

Administrative Services	9
Planning & Development	13
Capital Improvement	7
Finance	14
Maintenance & Operations	69
Total Full-time	112
Commissioners	5
Total	117

*Source: The District.*

### Pension Plans

Substantially all of these employees are enrolled in the State of Washington Public Employees Retirement System (“PERS”). The Department of Retirement Systems (the “DRS”), a department within the primary government of the State, issues a publicly available comprehensive annual financial report (a “CAFR”) that includes financial statements and required supplementary information for this plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380, or by visiting the DRS website at [www.wa.gov/DRS/drs.html](http://www.wa.gov/DRS/drs.html). Information on such website is not a part of this Official Statement. Detailed information about the plans and contributions thereto are included in the notes to the financial statements contained in Appendix C hereto.

PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those PERS participants who joined on or after October 1, 1977 are Plan 2 members, unless they choose the option to join Plan 3. PERS Plan 3 is a hybrid of a deferred contribution and defined benefit plan effective September 1, 2002. Contributions by both employees and employers are based on gross wages. See Note 6 in the District’s financial statements attached hereto as Appendix C for additional information on PERS.

The following tables outline the contribution rates of employees and employers under PERS.

**PERS Contribution Rates as of July 1, 2013**

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
<b>Employer<sup>(1)</sup></b>	9.19%	9.19%	9.19%
<b>Employee</b>	6.00	4.92	<sup>(2)</sup>

<sup>(1)</sup> Includes a 0.16 percent administration fee.

<sup>(2)</sup> Rates vary from five percent minimum to 15 percent maximum based on rate selected by the PERS 3 member.

Source: *The District*.

The following tables outline the contributions made by the District for fiscal year ending December 31 for PERS.

**PERS Contributions for Fiscal Year Ending December 31**

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>
2012	\$ 65,087	\$ 497,817	\$ 35,945
2011	29,769	407,509	32,222
2010	24,814	337,142	27,257

Source: *The District*.

While the District’s contribution in 2012 represented its full current liability under PERS, any unfunded pension benefit obligations within the system could be reflected in future years as higher contribution rates. The website of the Office of the State Actuary includes information regarding the values and funding levels of this retirement plan.

According to the Office of the State Actuary (the “OSA”), as of June 30, 2011, PERS Plans 2 and 3 had no unfunded actuarial accrued liability (“UAAL”). However, during the years 2001 through 2010, the rates adopted by the State Legislature (the “Legislature”) were lower than those that would have been required to produce actuarially required contributions to PERS Plan 1, a closed plan with a large proportion of the retirees. The State Actuary’s June 30, 2012 actuarial valuation showed that the funded status of PERS 1 had an unfunded accrued liability of \$3.8 billion (a 69 percent funded ratio on an actuarial value basis). The assumptions used by the State Actuary in calculating the unfunded liability are 7.9 percent annual rate of investment return, 4.05 percent general salary increases, 3.0 percent consumer price index increase and 0.95 percent growth in membership. Liabilities were valued using the “Projected Unit Credit” cost method and assets valued using the actuarial value of assets, which defers a portion of the annual investment gains or losses over a period of up to eight years.

Assets for one plan may not be used to fund benefits for another plan; however, all employers in PERS are required to make contributions at rates (percentage of payroll) determined by the OSA every two years for the purpose of amortizing within a rolling 10-year period the unfunded actuarial accrued liability in PERS Plan 1. The Legislature in 2009 established certain maximum contribution rates that began in 2009 and continue until 2015 and certain minimum contribution rates that are to become effective in 2015 and remain in effect until the actuarial value of assets in PERS Plan 1 equal 100 percent of actuarial accrued liability of PERS Plan 1. These rates are subject to change by future legislation enacted by the Legislature to address future changes in actuarial and economic assumptions and investment performance.

*Deferred Compensation Plan.* Effective December 7, 1998 the District amended its IRC 457 Deferred Compensation group annuity contract to ensure that the annuity contract satisfies the trust requirements of IRC 457(g). The District no longer records the balance in the plan as an asset with a corresponding liability.

**Risk Management**

The District is a member of the Washington Water and Sewer Risk Management Pool (the “Pool”). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the

provisions of chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State joined together by signing an Interlocal Governmental Agreement (the “Agreement”) to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 62 members. The Pool’s fiscal year is November 1 through October 31.

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

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

<u>Coverage</u>	<u>Subject to Self-Insured Retention by Pool</u>	<u>Description</u>
General Liability	\$ 200,000	Includes General Liability, Public Officials Liability and Automobile Liability
Property Insurance	25,000	Except earthquake and flood which is subject to a deductible of five percent of the values at risk at the time of the loss subject to a minimum of \$100,000. Properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible
Boiler and Machinery	25,000	Per occurrence
Crime	25,000	Per occurrence

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

Upon joining, the members contract to remain in the Pool for a minimum of one full policy period. Following completion of one full policy period, members must give six months’ notice before terminating participation. The Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Agreement.

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

The amount of settlements for claims filed with the Pool did not exceed insurance coverage for the past three years ending December 31, 2010, 2011, and 2012.

**Deposits and Investments**

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

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

*Investments.* Investments for the District are managed by the Director of Finance in accordance with the District’s Investment Policy which incorporates the Eligible Investments for Public Funds, as authorized by the Washington State Treasurer and set forth in Washington State statutes. The District’s investment objectives are preservation of principal, liquidity, hold to maturity and yield in relation to the policy’s risk constraints. While the District’s investment policy allows for a range of investment vehicles, outside of investments in the Washington State Local Government Investment Pool (“LGIP”), the District is currently only invested in certain obligations identified below.

The State Treasurer’s Office administers the LGIP, which invests money on behalf of more than 460 cities, counties and special taxing districts. In its management of LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These principles are, in order of priority: (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) the attainment of the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool which provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. The LGIP is managed in a manner generally consistent with Security and Exchange Commission (“SEC”) regulated Rule 2a-7 money market funds. The pool is restricted to investments with maturities of one year or less, and the average weighted maturity typically is 60 days or less. Investments permitted under the pool’s guidelines include U.S. government and agency securities, bankers’ acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, motor vehicle fund warrants, and certificates of deposit issued by qualified Washington State depositories. The LGIP’s annual financial statements are audited by an independent Certified Public Accounting firm.

Investments are stated at fair value. The District does not separately disclose realized gains and losses on the maturity or disposition of securities.

As of June 30, 2013, the District had the following deposits and investments.

	<b>Water Fund 6/30/2013</b>	<b>Sewer Fund 6/30/2013</b>	<b>Total 6/30/2013</b>
Deposits	\$ 6,478,467	\$ 2,687,603	\$ 9,166,070
Government Sponsored Enterprises	24,728,545	19,175,345	43,903,890
Local Government Investment Pool	15,722,911	9,530,822	25,253,733
<b>Total</b>	<b>\$ 46,929,923</b>	<b>\$ 31,393,770</b>	<b>\$ 78,323,693</b>
<b>Fiscal Policy Reserves</b>			
Operating Reserves	\$ 5,953,014	\$ 4,855,825	\$ 10,808,839
Rate Stabilization Reserve	6,762,915	5,680,632	12,443,547
Capital Reserve	10,000,000	10,000,000	20,000,000
Debt Service Reserves	3,577,245	2,239,725	5,816,970
<b>Total</b>	<b>\$ 26,293,174</b>	<b>\$ 22,776,182</b>	<b>\$ 49,069,356</b>

*Source: The District.*

**Accounting Policies**

The accounting records of the District are maintained in accordance with the methods prescribed by the State Auditor under the authority of chapter 43.09 RCW. The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Fixed asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds.

**Endangered Species Act**

In planning future projects, the District evaluates the construction and operation of the facilities to determine if there will be any impact on endangered species through the use of site evaluations, special environmental studies, and preparation of State Environmental Policy Act (“SEPA”) checklists or environmental impact statements, as appropriate.

The District has adopted resolutions 2049-78 and 2320-98 in order to implement the requirements of chapter 43.21C RCW, SEPA and the codification of that act by the Department of Ecology under Washington Administrative Code 197-10.

### **INITIATIVE AND REFERENDUM**

Under the State Constitution, the voters of the State have the ability to initiate legislation and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least eight percent (initiative) and four percent (referenda) of the number of voters registered and voting for the office of State Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

### **FINANCIAL ADVISOR**

The District has retained Piper Jaffray & Co, Seattle, Washington, as financial advisor (the “Financial Advisor”). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. While under contract to the District, the Financial Advisor may not participate in the underwriting of any District debt.

### **TAX MATTERS**

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Federal income tax law contains a number of requirements that apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the use of proceeds of the Bonds and the facilities financed with proceeds of the Bonds and certain other matters. The District has covenanted to comply with all applicable requirements.

Bond Counsel’s opinion is subject to the condition that the District comply with the above-referenced covenants and, in addition, will rely on representations by the District and its advisors with respect to matters solely within the knowledge of the District and its advisors, respectively, which Bond Counsel has not independently verified. If the District fails to comply with such covenants or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing taxability occurs.

Except as expressly stated above, Bond Counsel expresses no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Bonds. Bond Counsel expresses no opinion regarding any collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors regarding collateral federal income tax consequences.

Payments of interest on tax-exempt obligations such as the Bonds, are in many cases required to be reported to the IRS. Additionally, backup withholding may apply to any such payments made to any owner who is not an “exempt recipient” and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Bond Counsel’s opinion is not a guarantee of result and is not binding on the IRS; rather, the opinion represents Bond Counsel’s legal judgment based on its review of existing law and in reliance on the representations made to Bond Counsel and the District’s compliance with its covenants. The IRS has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations is includable in gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Bonds. Owners of the Bonds are advised that, if the IRS does audit the Bonds, under current IRS procedures, at least during the early stages of an audit, the IRS will treat the District as the taxpayer, and the owners of the Bonds may have limited rights to participate in the audit. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

### **Not Bank Qualified**

The District has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code.

### **Proposed Tax Legislation; Miscellaneous**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. For example, proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

### **Premium**

An amount equal to the excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on that Bond. A purchaser of a Bond must amortize any premium over that Bond’s term using constant yield principles, based on the Bond’s yield to maturity. As premium is amortized, the purchaser’s basis in the Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and the state and local tax consequences of owning such Bonds.

### **Original Issue Discount**

The initial public offering price of certain Bonds (the “Original Issue Discount Bonds”), is less than the stated redemption price at maturity. In such case, the difference between (i) the stated amount payable at the maturity of an Original Issue Discount Bond and (ii) the initial public offering price of that Original Issue Discount Bond constitutes original issue discount with respect to that Original Issue Discount Bond in the hands of the owner who purchased that Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds. The initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to an Original Issue Discount Bond equal to that portion of the amount of the original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by the initial owner.

In the event of the redemption, sale or other taxable disposition of an Original Issue Discount Bond prior to its stated maturity, however, the amount realized by the initial owner in excess of the basis of the Original Issue Discount Bond in the hands of its initial owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by the initial owner) is includable in gross income. Purchasers of Original Issue Discount Bonds should consult their tax advisors regarding the determination and treatment of original issue discount for federal income tax purposes and the state and local tax consequences of owning Original Issue Discount Bonds.

### CONTINUING DISCLOSURE UNDERTAKING

In accordance with Section (b)(5) of Securities and Exchange Commission (the “Commission”) Rule 15c2–12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”), the District has agreed in the Bond Resolution for the benefit of the owners of the Bonds to provide or cause to be provided to the Municipal Securities Rulemaking Board (“MSRB”) the following annual financial information and operating data for the prior fiscal year (commencing in 2014 for the fiscal year ended December 31, 2013):

(1) Annual financial statements, prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting principles promulgated by the Government Accounting Standards Board (“GASB”), as such principles may be changed from time to time by GASB or its successor, which shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the District they will be provided;

(2) A statement of authorized, issued, and outstanding bonded debt secured by Net Revenue of the System;

(3) Debt service coverage ratios for Parity Bonds and junior lien obligations; and

(4) Water and sewer rates, top 10 water and sewer customers, and the number of water and sewer customers, comparable to the information provided in the tables in this Official Statement titled “WATER RETAIL CUSTOMERS,” “WATER WHOLESALE ACCOUNTS,” “WATER SERVICE CHARGE,” “MAJOR 2012 RETAIL WATER ACCOUNTS,” “SEWER RETAIL CUSTOMERS BY CLASS,” “SEWER RATES AND CHARGES,” and “MAJOR 2012 SEWER ACCOUNTS.”

Items (2) – (4) shall be required only to the extent that such information is not included in the annual financial statements provided pursuant to (1).

Such annual information and operating data described above will be so provided on or before the end of nine months after the end of the District’s fiscal year. The District’s current fiscal year ends on December 31. The District may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the District may cross-reference to other documents available to the public on the MSRB’s internet website or filed with the Commission.

*Listed Events.* The District agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- principal and interest payment delinquencies;
- non-payment related defaults, if material;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- modifications to the rights of Bondholders, if material;
- optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856, if material, and tender offers;
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds, if material;
- rating changes;
- bankruptcy, insolvency, receivership or similar event of the District;
- the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure, without any intent to modify the undertaking as set forth above, the District advises that no credit enhancement, credit or liquidity facilities, or property secures payment of the Bonds. The District shall promptly determine whether the events described above are material.

*Format for Filings with the MSRB.* Until otherwise designated by the MSRB or the Commission, any information or notices submitted to the MSRB in compliance with the Rule are to be submitted through the MSRB's Electronic Municipal Market Access system ("EMMA"), currently located at [www.emma.msrb.org](http://www.emma.msrb.org) (which is not incorporated into this Official Statement by reference). All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

*Notification Upon Failure to Provide Financial Data.* The District also agrees to provide or cause to be provided, in a timely manner, to the MSRB notice of its failure to provide the annual financial information described above on or prior to the date set forth above.

*Termination/Modification.* The District's obligations to provide annual financial information and notices of listed events will terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. This section, or any provision hereof, will be null and void if the District (i) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (ii) notifies the MSRB of such opinion and the cancellation of this section.

Notwithstanding any other provision of the undertaking, the District may amend the provisions described in this section with an approving opinion of nationally recognized bond counsel and in accordance with the Rule. In the event of any amendment of its undertaking, the District will describe such amendment in the next annual report, and will include a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a listed event, as described above, and (ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

*Bond Owner's Remedies Under This Section.* A Bond Owner's or Beneficial Owner's right to enforce the provisions of the District's undertaking described in this section will be limited to a right to obtain specific enforcement of the District's obligations, and any failure by the District to comply with the provisions of this undertaking will not be an event of default with respect to the Bonds. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any bonds, including persons holding bonds through nominees or depositories.

*Other Ongoing Disclosure Undertakings of the District.* The District has entered into written undertakings under the Rule with respect to all of its obligations subject thereto and is in compliance with all such undertakings.

## **RATINGS**

As noted on the cover page of this Official Statement, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business and Moody's Investors Service Inc. have assigned ratings of "AA+" and "Aa2", respectively, to the Bonds. The ratings reflect only the views of applicable rating agency and an explanation of the significance of the rating may be obtained from the rating agency. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating will be likely to have an adverse effect on the market price of the Bonds. The District does not have any obligation to take any action, other than file a material event notification, if a rating on the Bonds is changed, suspended or withdrawn.

## **UNDERWRITING**

The Bonds are being purchased by Janney Montgomery Scott LLC (the "Purchaser"), at an aggregate price of \$25,915,237.10 (par plus net original issue premium of \$973,343.35 less an underwriter's discount of \$58,106.25). After the initial public offering, the public offering prices may be varied from time to time.

## **CERTAIN LEGAL MATTERS**

Legal matters incident to the authorization, issuance and sale of Bonds by the District are subject to the approving legal opinion of Pacifica Law Group LLP, Seattle, Washington, Bond Counsel. Pacifica Law Group LLP is also serving as Disclosure Counsel to the District. A copy of the form of the opinion of Bond Counsel is attached hereto as Appendix B.

## **POTENTIAL CONFLICTS OF INTEREST**

Some or all of the fees of the Financial Advisor and Bond Counsel are contingent upon the issuance and sale of the Bonds. From time to time, Bond Counsel serves as counsel to the Financial Advisor in transactions unrelated to the issuance of the Bonds.

## **LIMITATIONS ON REMEDIES**

Any remedies available to the owners of the Bonds upon the occurrence and continuation of an Event of Default under the Bond Resolution are in many respects dependent upon judicial actions, which are in turn often subject to discretion and delay and could be both expensive and time-consuming to obtain. If the District fails to comply with its covenants under the Bond Resolution or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the owners of the Bonds.

In addition to the limitations on remedies contained in the Bond Resolution, the rights and obligations under the Bonds and the Bond Resolution may be limited by and are subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors' rights, to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. The opinion to be delivered by Pacifica Law Group LLP, as Bond Counsel, concurrently with the issuance of the Bonds, will be subject to limitations regarding bankruptcy, insolvency and other laws relating to or affecting creditors' rights. A copy of the form of legal opinion of Bond Counsel is set forth in Appendix B.

Under current Washington law, local governments, such as the District, may be able to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"). A creditor, however, cannot bring an involuntarily bankruptcy proceeding against a municipality, including the District. The federal bankruptcy courts have broad discretionary powers under the Bankruptcy Code. Taxing districts in the State are expressly authorized to carry out a plan of readjustment if approved by the appropriate court. If the District were to become a debtor in a federal bankruptcy case, owners of the Bonds may not be able to exercise any of their remedies under the Bond Resolution during the course of a proceeding. Legal proceedings to resolve issues could be time-consuming and expensive, and substantial delays and/or reductions in payments could result.



**APPENDIX A**  
**COPY OF THE BOND RESOLUTION**

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ALDERWOOD WATER & WASTEWATER DISTRICT  
SNOHOMISH COUNTY, WASHINGTON

RESOLUTION NO. 2618-2013

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Exhibit A: Definitions applicable to Parity Payment Agreements  
Exhibit B: Description of Projects  
Exhibit C: Form of Certificate of Award

ALDERWOOD WATER & WASTEWATER DISTRICT  
SNOHOMISH COUNTY, WASHINGTON

RESOLUTION NO. 2618-2013

A RESOLUTION of the Board of Commissioners of Alderwood Water & Wastewater District, Snohomish County, Washington, providing for the issuance of one or more series of water and sewer revenue bonds of the District in the aggregate principal amount of not to exceed \$30,000,000, for the purpose of providing a part of the funds necessary to carry out portions of the water and sewer comprehensive plans of the District, to fund the reserve account, and to pay the costs of issuance and sale of the bonds; providing the form, terms and covenants of the bonds; and delegating certain authority to approve the final terms of the bonds.

Adopted September 16, 2013

Prepared By

PACIFICA LAW GROUP LLC  
Seattle, Washington

ALDERWOOD WATER & WASTEWATER DISTRICT  
SNOHOMISH COUNTY, WASHINGTON

RESOLUTION NO. 2618-2013

A RESOLUTION of the Board of Commissioners of Alderwood Water & Wastewater District, Snohomish County, Washington, providing for the issuance of one or more series of water and sewer revenue bonds of the District in the aggregate principal amount of not to exceed \$30,000,000, for the purpose of providing a part of the funds necessary to carry out portions of the water and sewer comprehensive plans of the District, to fund the reserve account, and to pay the costs of issuance and sale of the bonds; providing the form, terms and covenants of the bonds; and delegating certain authority to approve the final terms of the bonds.

WHEREAS, the Alderwood Water & Wastewater District, Snohomish County, Washington (the "District"), owns, operates and maintains a combined water supply and distribution system and sewage collection and disposal system (the "System"); and

WHEREAS, the District has issued and has outstanding the following obligations of the System:

Designation	Date of Issue	Authorizing Resolution	Principal Amount Outstanding as of August 1, 2013
Water and Sewer Revenue Refunding Bonds, 2009	10/22/2009	No. 2543-2009	\$ 17,910,000
Water and Sewer Revenue Bonds, Series 2010A	01/27/2010	No. 2547-2010	1,215,000
Water and Sewer Revenue Bonds, Series 2010B (Taxable Build America Bonds-Direct Payment)	01/27/2010	No. 2547-2010	49,325,000

(collectively, the "Outstanding Parity Bonds"); and

WHEREAS, the resolutions authorizing the issuance of the Outstanding Parity Bonds (collectively, the "Outstanding Parity Bond Resolutions") provide that additional water and sewer revenue bonds may be issued on a parity of lien with the Outstanding Parity Bonds if certain conditions are met; and

WHEREAS, the District has approved its Water and Sewer Comprehensive Plans, which identify capital projects listed in its six-year capital improvement program (the "CIP"), including but not limited to those projects listed in Exhibit B attached hereto (as further defined herein, the "Projects"); and

WHEREAS, the cost of the Projects is estimated to be approximately \$93,227,000; and

WHEREAS, the District is authorized pursuant to chapters 39.46 and 57.20 RCW to issue revenue bonds payable from revenues of the System for the purpose of financing costs of the Projects; and

WHEREAS, the District's Board of Commissioners (the "Board") has determined that the conditions to the issuance of parity bonds have been or will be met and that it is in the best interests of the District and its ratepayers that it issue one or more series of water and sewer revenue bonds in the aggregate principal amount of not to exceed \$30,000,000 (the "Bonds") for the purpose of financing the Projects, making a deposit to the debt service reserve account, and paying costs of issuance for the Bonds; and

WHEREAS, the Board wishes to delegate authority to the District Manager and the Director of Finance (each, a "Designated Representative"), for a limited time, to approve the interest rates, maturity dates, redemption terms and principal maturities for the Bonds within the parameters set by this resolution; and

WHEREAS, the Bonds authorized herein shall be sold by competitive sale or negotiated sale as herein provided;

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF ALDERWOOD WATER & WASTEWATER DISTRICT, SNOHOMISH COUNTY, WASHINGTON, as follows:

**Section 1. Definitions and Interpretation of Terms.**

(a) *Definitions.* As used in this resolution, the following words have the following meanings:

**"Accreted Value"** means:

(i) with respect to any Capital Appreciation Bonds, as of the time of calculation, the sum of the amount representing the initial principal amount of such Capital Appreciation Bonds as set forth in the applicable Parity Bond Authorizing Resolution plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or

(ii) with respect to original issue discount bonds under the Code, as of the time of calculation, the amount representing the initial public offering price of such original issue discount bonds plus the amount of the discounted principal which has accreted since the date of issue, determined in accordance with the provisions of the applicable Parity Bond Authorizing Resolution.

**"Annual Debt Service"** means, for any fiscal year of the District, all amounts required to be paid in respect of interest on and principal of Parity Bonds and Payment Agreement Payments in connection with Parity Payment Agreements, subject to the following:

on the assumption that the interest rate on those bonds would be equal to the rate (the "assumed RBI-based rate") that is 90% of the average RBI during the fiscal quarter preceding the quarter in which the calculation is made. *Following the full redemption, defeasance or refunding of the 2009 Bonds, the 2010A Bonds and the 2010B Bonds,* this subsection (C) shall read as follows: The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated on the assumption that the interest rate on those bonds would be equal to the yield to maturity equal to the higher of (1) the average of the SIFMA Municipal Swap Index over the 60 month period immediately preceding the date of computation, or (2) the average of the SIFMA Municipal Swap Index over the 12 month period immediately preceding the date of computation, as determined within ten days prior to the date of computation or, if such computation is being made in connection with a certificate required by Section 16 hereof, then within ten days prior to the date of such certificate.

(D) *Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force.* Interest on Parity Bonds with respect to which a Payment Agreement is in force is provided for in Exhibit A.

**"Assessment Bonds"** means the portion of the original principal amount of any issue of Parity Bonds equal to the total remaining unpaid principal amount (at the time of adoption of the resolution providing for the issuance and sale of those bonds) of ULID Assessments on any final assessment roll or rolls of one or more ULIDs formed in connection with the improvements being financed by that issue of Parity Bonds (or bonds being refunded by those Parity Bonds). The original principal amount of such issue of Parity Bonds in excess of Assessment Bonds shall be referred to as "bonds that are not Assessment Bonds." Assessment Bonds shall be allocated to each \$5,000

(i) *Debt Service on Term Bonds.* For purposes of calculating debt service on Term Bonds, only the scheduled mandatory redemption amounts payable in respect of principal of Term Bonds shall be taken into account in any fiscal year prior to the Term Bond Maturity Year, and only the principal amount scheduled to remain outstanding after payment of all prior mandatory redemption amounts shall be taken into account in the Term Bond Maturity Year.

(ii) *Debt Service on Revenue Bond Anticipation Notes.* For purposes of determining compliance with the Coverage Requirement, the Reserve Requirement and conditions for the issuance of Future Parity Bonds, debt service on Parity Bonds shall exclude payments required to be made with respect to revenue bond anticipation notes to the extent that the resolution authorizing their issuance provides that such revenue bond anticipation notes will be payable solely from the proceeds of Future Parity Bonds.

(iii) *Interest on Parity Bonds.* For purposes of determining compliance with the Coverage Requirement, the Reserve Requirement and conditions for the issuance of Future Parity Bonds:

(A) *Generally.* Except as otherwise provided by this subparagraph (iii), interest on any issue of Parity Bonds shall be calculated based on the actual amount of accrued, accreted or otherwise accumulated interest that is payable in respect of that issue taken as a whole, at the rate or rates set forth in the Parity Bond Authorizing Resolution.

(B) *Capitalized Interest.* Interest on any issue of Parity Bonds shall be excluded if such interest is payable from the proceeds of Parity Bonds.

(C) *Interest on Variable Interest Rate Bonds.* The amount of interest deemed to be payable on any issue of Variable Interest Rate Bonds shall be calculated

of bonds in proportion to their percentage of the entire issue of bonds. When a bond of any issue of bonds containing Assessment Bonds is redeemed or purchased, and retired, the same percentage of that bond as the percentage of Assessment Bonds is to that total issue of bonds shall be treated as being redeemed or purchased, and retired.

**"Average Annual Debt Service"** means, as of its date of calculation, the sum of the Annual Debt Service with respect to all Parity Bonds outstanding (including all Parity Bonds maturing in the year of calculation) for all years (or portions thereof) during which those Parity Bonds are scheduled to remain outstanding, divided by the number of those fiscal years (or portions thereof).

**"Board"** means the Board of Commissioners of the District.

**"Bond Fund"** means that special fund of the District known as the Water and Sewer Revenue Bond Fund created by Resolution No. 2543-2009 of the District for the payment of the principal of, mandatory sinking fund payments and interest on the Parity Bonds.

**"Bond Insurance"** means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

**"Bond Insurer"** means the issuer of any Bond Insurance.

**"Bond Purchase Contract"** means one or more, if any, contracts for the purchase of the Bonds of a series between the Underwriter and the District, executed pursuant to Section 17 of this resolution.

**"Bond Register"** means the registration books showing the name, address and tax identification number of each Registered Owner of the Bonds, maintained pursuant to Section 149(a) of the Code.

**"Bond Registrar"** means, initially, the fiscal agency of the State of Washington, for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds and paying interest on and principal of the Bonds.

**"Bond Year"** means each one-year period that ends on the date selected by the District. The first and last Bond Years may be short periods. If no day is selected by the District before the earlier of the final maturity date of the Bonds or the date that is five years after the date of issuance of the Bonds, Bond Years end on each anniversary of the date of issue and on the final maturity date of the Bonds.

**"Bonds"** mean the District's Water and Wastewater Revenue Bonds, 2013[\_\_\_], authorized to be issued in one or more series pursuant to this resolution in the aggregate principal amount of not to exceed \$30,000,000.

**"Build America Bonds"** means any Parity Bonds to which the District elects to have Section 54AA of the Code apply. The 2010B Bonds have been designated as "Build America Bonds."

**"Capital Appreciation Bonds"** means any Parity Bonds, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Parity Bond Authorizing Resolution and is payable only upon redemption or on the maturity date of such Parity Bonds. Parity Bonds that are issued as Capital Appreciation Bonds, but later convert to obligations on which interest is paid periodically, shall be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date.

**"Capital Improvement Fund"** means that special fund of the District established in the office of the Director of Finance.

**"Certificate of Award"** means one or more certificates, if any, signed by the Designated Representative, in the form attached hereto as Exhibit C, awarding the Bonds of a series to a bidder as set forth in Section 17 of this resolution.

**"CIP"** means the District's Capital Improvements Program (2013-2017), adopted by the Board in conjunction with the District's budget process, as such CIP may be adjusted by the Board from time to time.

**"Code"** means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

**"Commission"** means the Securities and Exchange Commission.

**"Comprehensive Plans"** mean, collectively, the Water Comprehensive Plan and the Sewer Comprehensive Plan.

**"Coverage Requirement"** means in any fiscal year an amount of Net Revenue of the System at least equal to 1.25 times the Annual Debt Service in that year on Parity Bonds that are not Assessment Bonds. For Assessment Bonds in any fiscal year Coverage Requirement means an amount of Net Revenue of the System together with ULID Assessment collections at least equal to 1.00 times the Annual Debt Service in that year on such Assessment Bonds after satisfying the Coverage Requirement on bonds that are not Assessment Bonds.

**"District"** means the Alderwood Water & Wastewater District, Snohomish County, Washington, as presently existing or as may subsequently exist as a result of any change in corporate or service area boundaries or lawful merger or consolidation with or assumption of assets and liabilities by (1) any other special purpose sewer,

water or sewer and water district under the provisions of Titles 56 or 57 RCW or the successor statutes, or (2) any public utility district created under the provisions of Title 54 RCW or successor statutes.

**"Designated Representative"** means the District Manager and the Director of Finance, or his or her designee. The signature of one Designated Representative shall be sufficient to bind the District.

**"Director of Finance"** means the Director of Finance of the District or the successor to such officer.

**"District Manager"** means the General Manager of the District duly appointed by the Board or the successor to such officer.

**"DTC"** means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Bonds.

**"Federal Tax Certificate"** means the certificate(s) executed by the Designated Representative setting forth the requirements of the Code for maintaining the tax exemption of interest on a series of Bonds.

**"Financial Advisor"** means Piper Jaffray & Co., and its successors.

**"Future Parity Bonds"** means all revenue bonds and other obligations (including Parity Payment Agreements) of the District issued or entered into after the date of the issuance of the Bonds and then outstanding, the payment of which constitutes a charge and lien on the Net Revenue of the System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds and the Bonds, but shall not include any obligations issued by any successor municipal corporation.

**"Government Obligations"** mean those obligations now or hereafter defined as such in chapter 39.53 RCW.

**"Gross Revenue of the System" or "Gross Revenue"** means all of the earnings and revenues by the District from the maintenance and operation of the System, and earnings from the investment of money on deposit in the various funds of the District, including but not limited to connection charges, general facilities charges and other similar charges collected; and federal credit payments received by the District in respect of Build America Bonds and similar federal credit payments. Gross Revenue shall not include: (1) principal proceeds of Parity Bonds or other borrowings, (2) ULID Assessments, (3) government grants, (4) tax proceeds, or (5) earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund System obligations (until commingled with other earnings and revenues of the System defined as Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code.

**"Independent Consulting Engineer"** means either (1) an independent licensed professional engineer experienced in the design, construction or operation of municipal utilities of comparable size and character to the System, or (2) an independent certified public accountant or other professional consultant experienced in the development of rates and charges for municipal utilities of comparable size and character to the System.

**"Letter of Representations"** means the Blanket Issuer Letter of Representations given by the District to DTC, as amended from time to time.

**"MSRB"** means the Municipal Securities Rulemaking Board.

**"Maximum Annual Debt Service"** means, at the time of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current year or any future year on the Parity Bonds.

**"Net Revenue of the System"** or **"Net Revenue"** means Gross Revenue less (1) Operation and Maintenance Expenses, (2) deposits into the Rate Stabilization Fund, and (3) proceeds from the sale of property of the System, and plus withdrawals from the Rate Stabilization Fund. The District shall not take into account any non-cash gains or losses with respect to any real or personal property, investment or agreement that it may be required to recognize under generally accepted accounting principles, such as unrealized mark-to-market gains and losses.

**"Notice of Sale"** means the notice(s) of bond sale authorized to be given in connection with a series of Bonds pursuant to Section 17 of this resolution.

**"Operation and Maintenance Expenses"** means all expenses incurred by the District in causing the System of the District to be operated and maintained in good repair, working order and condition, including without limitation: deposits, premiums, assessments or other payments for insurance, if any, on the System; payments into pension funds; taxes imposed by the State of Washington; and payments with respect to any other expenses of the System that are properly treated as operation and maintenance expenses under generally accepted accounting principles applicable to municipal corporations. The term Operation and Maintenance Expenses does not include any depreciation, or capital additions or capital replacements to the System.

**"Outstanding Parity Bond Resolutions"** mean the resolutions authorizing the issuance of the Outstanding Parity Bonds as described in the recitals to this resolution.

**"Outstanding Parity Bonds"** mean the outstanding 2009 Bonds, the 2010A Bonds and the 2010B Bonds.

**"Parity Bond Authorizing Resolution"** means the resolution of the District that authorizes the issuance and sale and establishes the terms of a particular issue of Parity Bonds and other matters relating to the same plan of finance.

**"Parity Bonds"** mean the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

**"Parity Conditions"** mean the requirements for the issuance of Future Parity Bonds set forth in the Outstanding Parity Bond Resolutions and in Section 16 of this resolution.

**"Principal and Interest Account"** means the account of that name created in the Bond Fund for the payment of the principal of and interest and mandatory redemption requirements, if any, on the Parity Bonds.

**"Private Person"** means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

**"Private Person Use"** means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a day to day basis if the rental paid by such Private Person is the same as

the rental paid by any Private Person who desires to rent the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a de minimis fee to cover custodial expenses.

**"Projects"** mean those capital improvement projects relating to the System identified in the CIP, as such CIP may be amended, updated, supplemented or replaced from time to time by resolution, including but not limited to those projects listed in Exhibit B attached to this resolution.

**"Rate Stabilization Fund"** means the Rate Stabilization Fund created pursuant to Resolution No. 2543-2009 of the District.

**"Rating Agencies"** mean any nationally-recognized securities rating agency or agencies rating any of the Parity Bonds at the request of the District.

**"RBI"** means the Bond Buyer Revenue Bond Index or comparable index plus 50 basis points, or, if no comparable index can be obtained, 80% of the interest rate for actively traded 30 year United States Treasury obligations.

**"Registered Owner"** means the person named as the registered owner of a Bond in the Bond Register. For so long as the Bonds are held in book-entry only form, DTC shall be deemed to be the sole Registered Owner.

**"Reserve Account"** means the account of that name created in the Bond Fund for the purpose of securing the payment of the principal of and interest on the Parity Bonds.

**"Reserve Insurance"** means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device obtained by the District equal to part or all of the Reserve Requirement for any Parity Bonds which is issued by an institution which has been assigned a credit rating at the time of issuance of the device in one of the two highest rating categories of at least two Rating Agencies (without regard to any gradations within a rating category).

**"Reserve Requirement"** means, as of any date of calculation, the lesser of Maximum Annual Debt Service or 125% of Average Annual Debt Service on the Parity Bonds; provided that upon the issuance of any Parity Bonds, the Reserve Requirement shall not be required to be funded or increased by an amount greater than the lesser of 10% of the proceeds or 10% of the par amount of those Parity Bonds. Unless otherwise provided in a Parity Bond Authorizing Resolution, in calculating Annual Debt Service for purposes of determining the Reserve Requirement, the amount of interest payable on Parity Bonds that are issued and sold as Build America Bonds for any fiscal year (or other designated twelve-month period) shall be reduced by the federal credit payments scheduled to be received by the District in respect of such Build America Bonds or similar federal credit payments in such year (or other designated twelve-month period).

**"Rule"** means the Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as amended from time to time.

**"Sewer Comprehensive Plan"** means the District's Comprehensive Sewer Plan adopted May 4, 2009, as such Plan may be amended, updated, supplemented or replaced from time to time.

"**Sewer System**" means the sanitary sewage collection and disposal system of the District together with all additions, betterments, improvements or extensions to the Sewer System hereafter made.

"**SIFMA Municipal Swap Index**" means The Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc. a Thompson Financial Services Company, or its successor, or as otherwise designated by the Securities Industry and financial Markets Association, provided, however, that if such index is no longer produced by Municipal Market Data Inc., a Thompson Financial Services Company, or its successor, then "SIFMA Municipal Swap Index" shall mean such other reasonably comparable index selected by the District.

"**State**" means the State of Washington.

"**State Auditor**" means the office of the Auditor of the State or such other department, office or agent of the State authorized and directed by State law to make audits.

"**System**" means the combined Water System and Sewer System, as the same may hereafter be added to, improved, bettered, extended or otherwise further combined with other utilities.

"**Term Bond Maturity Year**" means any calendar year in which Term Bonds are scheduled to mature.

"**Term Bonds**" mean those Parity Bonds designated as such in the applicable Parity Bond Authorizing Resolution.

"**2009 Bonds**" mean the District's Water and Sewer Revenue Refunding Bonds, 2009, dated October 22, 2009, and issued pursuant to Resolution No. 2543-2009.

"**2010A Bonds**" mean the District's Water and Sewer Revenue Bonds, Series 2010A, dated January 27, 2010, and issued pursuant to Resolution No. 2547-2010.

"**2010B Bonds**" mean the District's Water and Sewer Revenue Bonds, Series 2010B (Taxable Build America Bonds-Direct Payment), dated January 27, 2010, and issued pursuant to Resolution No. 2547-2010.

"**ULID**" means a utility local improvement district.

"**ULID Assessments**" mean all assessments levied and collected in any ULID of the District created for the acquisition or construction of additions to and betterments and extensions of the System if (and only if) those assessments are pledged to be paid into the Bond Fund, not including any prepaid assessments paid into a construction fund or account. ULID Assessments shall include installments thereof and any interest or penalties thereon. Any remaining unpaid ULID assessments previously pledged to previously issued Bonds of the District that have been redeemed or defeased, shall be deemed ULID Assessments for the purpose of this resolution.

"**Underwriter**" means the initial purchaser of the Bonds, as selected by the Designated Representative.

"**Variable Interest Rate**" means any variable interest rate or rates to be borne by any Parity Bonds. The method of computing such a variable interest rate shall be as specified in the applicable Parity Bond Authorizing Resolution, which resolution also shall specify either (1) the particular period or periods of time or manner of determining such period or periods of time for which each value of such variable interest rate shall remain in effect or (2) the time or times upon which any change in such variable interest

rate shall become effective. A Variable Interest Rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indexes.

"**Variable Interest Rate Bonds**" mean, for any period of time, any Parity Bonds that bear a Variable Interest Rate during that period, except that Parity Bonds shall not be treated as Variable Interest Rate Bonds if the net economic effect of interest rates on particular Parity Bonds of an issue and interest rates on other Parity Bonds of the same issue, as set forth in the applicable Parity Bond Authorizing Resolution, or the net economic effect of a Payment Agreement with respect to particular Parity Bonds, in either case is to produce obligations that bear interest at a fixed interest rate; and Parity Bonds with respect to which a Payment Agreement is in force shall be treated as Variable Interest Rate Bonds if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

"**Water Comprehensive Plan**" means the District's Water Comprehensive Plan adopted August 17, 2009, as such Plan may be amended, updated, supplemented or replaced from time to time.

"**Water System**" means the existing water supply and distribution system of the District, as the same shall be added to, bettered, improved and extended.

(b) *Interpretation.* In this resolution, unless the context otherwise requires:

(1) The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this resolution;

(2) Words of the masculine gender shall mean and include correlative words of the feminine and neutral genders and words importing the singular number shall mean and include the plural number and vice versa;

(3) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(4) Any headings preceding the text of the several articles and sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect; and

(5) All references herein to "articles," "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

Section 2. Compliance with Parity Conditions. The Outstanding Parity Bond Resolutions that authorized the issuance of the Outstanding Parity Bonds provide that the District may issue Future Parity Bonds upon compliance with certain conditions. The Board hereby finds, as required by those provisions of the Outstanding Parity Bond Resolutions as follows:

(a) At the time of issuance of a series of Bonds there shall be no deficiency in the Bond Fund and no Event of Default (as that term is defined in the Outstanding Parity Bond Resolutions) shall have occurred and be continuing.

(b) This resolution provides that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on the Bonds shall be paid directly into the Bond Fund, except

for any prepaid assessments permitted by law to be paid into a construction fund or account.

(c) This resolution contains the provisions and covenants required to be included herein by the provisions of the Outstanding Parity Bond Resolutions relating to the issuance of Future Parity Bonds.

(d) At the time of issuance of a series of Bonds, the Reserve Requirement shall be satisfied.

(e) The Board has been assured that prior to the issuance and delivery of a series of Bonds it will have on file a certificate of the District Manager demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months from the date of issuance of the proposed series of Bonds, Net Revenue of the System was at least equal to 1.25 times the Annual Debt Service in that year on the Outstanding Parity Bonds and the series of Bonds proposed to be issued pursuant to this resolution.

The Parity Conditions having been complied with or assured, the payments required herein to be made out of the Revenue of the System to pay and secure the payment of the principal of and interest on the Bonds shall constitute a lien and charge upon such Revenue of the System equal in rank to the lien and charge thereon of the payments to be made into the Bond Fund to pay and secure the payment of the principal of and interest on the Outstanding Parity Bonds.

Section 3. Authorization and Description of Bonds. For the purpose of paying the costs of the Projects, funding the Reserve Account, and paying costs of issuance of the Bonds, the District is hereby authorized to issue and sell one or more series of its

time to time through the appointment of state fiscal agencies. The District shall cause a bond register to be maintained by the Bond Registrar. So long as any Bonds remain outstanding, the Bond Registrar shall make all necessary provisions to permit the exchange or registration or transfer of Bonds at its principal corporate trust office. The Bond Registrar may be removed at any time at the option of the Director of Finance upon prior notice to the Bond Registrar and a successor Bond Registrar appointed by the Director of Finance. No resignation or removal of the Bond Registrar shall be effective until a successor shall have been appointed and until the successor Bond Registrar shall have accepted the duties of the Bond Registrar hereunder. The Bond Registrar is authorized, on behalf of the District, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this resolution and to carry out all of the Bond Registrar's powers and duties under this resolution. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication of the Bonds.

(b) *Registered Ownership.* The District and the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as provided in Section 19 of this resolution), and neither the District nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in Section 4(h), but such Bond may be transferred as herein provided. All such payments made as described in Section 4(h) shall be valid and shall satisfy and discharge the liability of the District upon such Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letters of Representations.* The Bonds initially shall be held by DTC acting as depository. To induce DTC to accept the Bonds as eligible for

water and sewer revenue bonds in the aggregate principal amount of not to exceed \$30,000,000 (the "Bonds").

The Bonds shall be designated "Alderwood Water & Wastewater District, Snohomish County, Washington, Water and Sewer Revenue Bonds, 2013[\_\_\_]", with additional series designation or other designation as determined to be necessary by the Designated Representative. The Bonds of a series shall be dated as of their date of initial delivery; shall be fully registered as to both principal and interest; shall be in the denomination of \$5,000 each, or any integral multiple thereof, within a maturity; shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; and shall bear interest from their date payable on the first days of each June and December, commencing on June 1, 2014, at rates set forth in the Certificate of Award or Bond Purchase Contract; and shall mature on the dates and in the principal amounts set forth in the Certificate of Award or Bond Purchase Contract and as approved by the Designated Representative pursuant to Section 17. The Bonds of any of the maturities of a series may be combined and issued as Term Bonds, subject to mandatory redemption as provided in the Certificate of Award or Bond Purchase Contract.

The Bonds shall be obligations only of the Bond Fund and shall be payable and secured as provided herein. The Bonds do not constitute an indebtedness or general obligation of the District within the meaning of the constitutional provisions and limitations of the State of Washington.

Section 4. Registration, Exchange and Payments.

(a) *Bond Registrar/Bond Register.* The District hereby specifies and adopts the system of registration approved by the Washington State Finance Committee from

deposit at DTC, the District has executed and delivered to DTC a Blanket Issuer Letter of Representations. Neither the District nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or any successor depository) with respect to the Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice which is permitted or required to be given to Registered Owners under this resolution (except such notices as shall be required to be given by the District to the Bond Registrar or to DTC (or any successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Bonds are held in by a depository, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in such Bonds.

If any Bond shall be duly presented for payment and funds have not been duly provided by the District on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Bond until it is paid.

(d) *Use of Depository.*

(1) The Bonds shall be registered initially in the name of "Cede & Co.", as nominee of DTC, with one Bond maturing on each of the maturity dates for the Bonds within a series in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC

or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by the Director of Finance pursuant to subsection (2) below or such substitute depository's successor; or (C) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Director of Finance to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Director of Finance may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (A) or (B) of subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding Bonds of a series, together with a written request on behalf of the Director of Finance, issue a single new Bond for each maturity of that series then outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Director of Finance.

(4) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Director of Finance determines that it is in the best interest of the beneficial owners of the Bonds that such owners be able to obtain physical Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held by a depository. The Director of

Finance shall deliver a written request to the Bond Registrar, together with a supply of physical Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Bond Registrar of all then outstanding Bonds of a series together with a written request on behalf of the Director of Finance to the Bond Registrar, new Bonds of such series shall be issued in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(e) *Registration of Transfer of Ownership or Exchange; Change in Denominations.* The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity, series, and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity, series, and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to register the transfer or to exchange any Bond during the 15 days preceding any interest payment or principal payment date any such Bond is to be redeemed.

(f) *Bond Registrar's Ownership of Bonds.* The Bond Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Bonds.

(g) *Registration Covenant.* The District covenants that, until all Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

(h) *Place and Medium of Payment.* Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a year of 360 days and 12 30-day months. For so long as all Bonds are held by a depository, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer held by a depository, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the fifteenth day of the month preceding the interest payment date, or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Bond Registrar at least 15 days prior to the applicable payment date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Section 5. Redemption; Purchase of Bonds.

(a) *Mandatory Redemption of Term Bonds and Optional Redemption, if any.* Each series of Bonds shall be subject to optional redemption on the dates, at the prices and under the terms set forth in the Certificate of Award or Bond Purchase Contract approved by the Designated Representative pursuant to Section 17. Each series of Bonds shall be subject to mandatory redemption to the extent, if any, set forth in the Certificate of Award or Bond Purchase Contract and as approved by the Designated Representative pursuant to Section 17.

(b) *Purchase of Bonds.* The District reserves the right to use at any time any surplus Revenue of the System available after providing for the payments required by paragraphs (a) through (e) of Section 9 of this resolution, or other available funds, to purchase for retirement any of the Bonds at any price deemed reasonable by the District.

(c) *Selection of Bonds for Redemption.* For as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a series and maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC. If the Bonds are no longer held by a depository, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the following provisions of this subsection (c). If the District redeems at any one time fewer than all of the Bonds having the same maturity date within a series, the particular Bonds or portions of Bonds of such series and maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the District and the Bond Registrar shall treat each Bond of such series as representing

such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bonds of such series by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity, series, and interest rate in any of the denominations herein authorized. To the extent the District optionally redeems or purchases for retirement any Term Bond, any remaining mandatory sinking fund payment or mandatory prior redemption requirements for such Term Bond shall be reduced on a *pro rata* basis.

(d) Notice of Redemption.

(1) Official Notice. For so long as the Bonds are held in by a depository, notice of redemption shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the District nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. The notice of redemption may be conditional. Thereafter (if the Bonds are no longer held by a depository), notice of redemption shall be given in the manner hereinafter provided. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption may be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption or otherwise) shall be given by the Bond Registrar on behalf of the District by mailing a copy of an official redemption notice by first class mail at least 20 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the

Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar.

All official notices of redemption shall be dated and shall state:

- (A) the redemption date,
- (B) the redemption price,
- (C) if fewer than all outstanding Bonds are to be redeemed, the identification by series and maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (D) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (E) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any redemption date, the District shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

(2) Effect of Notice: Bonds Due. If an unconditional notice of redemption has been given or if the conditions set forth in a conditional notice of redemption have been satisfied, the Bonds or portions of Bonds to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price.

Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. All Bonds which have been redeemed shall be canceled by the Bond Registrar and shall not be reissued.

(3) Additional Notice. In addition to the foregoing notice, further notice shall be given by the District as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as originally issued; (C) the rate of interest borne by each Bond being redeemed; (D) the series and maturity date of each Bond being redeemed; (E) any conditions to redemption; and (F) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption may be sent at least 20 days before the redemption date to each party entitled to receive notice pursuant to Section 19 and with such additional information as the District shall deem appropriate, but such mailings shall not be a condition precedent to the redemption of such Bonds.

(4) Amendment of Notice Provisions. The foregoing notice provisions of this Section 5, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 6. Form of Bonds. The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. \_\_\_\_\_ \$ \_\_\_\_\_

STATE OF WASHINGTON  
ALDERWOOD WATER & WASTEWATER DISTRICT  
SNOHOMISH COUNTY  
WATER AND SEWER REVENUE BOND, 2013[\_\_\_]

INTEREST RATE:            MATURITY DATE:            CUSIP NO:

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ Dollars

Alderwood Water & Wastewater District, Snohomish County, Washington (the "District"), for value received hereby promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date set forth above the Principal Amount set forth above, and to pay interest thereon from the date hereof, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above payable on the first days of each June and December, commencing on June 1, 2014.

Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest and principal shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the District to The Depository Trust Company ("DTC"). The fiscal agency of the State of Washington has been appointed by the District as the authenticating agent, paying agent and registrar for the bonds of this issue (the "Bond Registrar"). Capitalized terms used in this bond that are not specifically defined have the meanings given such terms in Resolution No. \_\_\_\_\_ of the District adopted on September 16, 2013 (the "Bond Resolution"). Reference is made to the Bond Resolution and any and all modifications and amendments thereto for a description of the nature and extent of the security for the bonds of this issue, the funds or revenues pledged, and the terms and conditions upon which such bonds are issued.

This bond is one of a series of bonds in the aggregate principal amount of \$ \_\_\_\_\_ (the "Bonds"), issued pursuant to the Bond Resolution, to provide a portion of the funds to carry out a part of the water and sewer comprehensive plans, to fund the Reserve Account, and to pay costs of issuing the bonds. Unless otherwise defined on this bond, capitalized terms used herein have the meanings given them in the Bond Resolution.

The principal of and interest on the Bonds are payable solely out of the special fund of the District known as the "Water and Sewer Revenue Bond Fund" (the "Bond Fund") established by Resolution No. 2543-2009 of the District. The Bonds are special limited obligations of the District and are not obligations of the State of Washington or any political subdivision thereof other than the District, and neither the full faith and credit nor the taxing power of the District or the State of Washington is pledged to the payment of the Bonds.

Under the Bond Resolution, the District is obligated to set aside and pay into the Bond Fund out of Gross Revenue of the System certain fixed amounts sufficient to pay when due the principal of and interest and premium, if any, on the Bonds and all other Parity Bonds. To the extent provided by the Bond Resolution, the amounts pledged to be paid from Gross Revenue into the Bond Fund and accounts therein are a lien and charge thereon equal in rank to the lien and charge upon Gross Revenue of the amounts required to pay and secure the payment of certain Outstanding Parity Bonds and any Future Parity Bonds that the District may issue hereafter, and superior to all other liens and charges of any kind or nature, except Operation and Maintenance Expenses of the System.

The Bond Resolution sets forth covenants of the District to secure the payment of Parity Bonds, including but not limited to covenants relating to rates and charges of the System, operations of the System, and the issuance of Future Parity Bonds.

The Bonds are subject to redemption prior to maturity as provided in the Bond Resolution. The Bonds may be transferred and exchanged upon surrender to the Bond Registrar as provided in the Bond Resolution.

The Bonds are not "private activity bonds" as such term is defined in the Internal Revenue Code of 1986, as amended (the "Code"). [The District has [not] designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Code.]

This bond will not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Resolution until the Certificate of Authentication hereon has been manually signed by the Bond Registrar.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened and to have been performed precedent to and in the issuance of this bond do exist, have happened and have been performed in due time, form and manner as prescribed by law, and that the amount of this bond, together with all other obligations or indebtedness of the District, does not exceed any constitutional or statutory limitations of indebtedness.

IN WITNESS WHEREOF, the Alderwood Water & Wastewater District, Snohomish County Washington, has caused this bond to be signed by the manual or facsimile signature of its President of the Board of Commissioners, attested by the

manual or facsimile signature of the Secretary of the Board of Commissioners, and seal of the District to be impressed or reproduced hereon, all as of \_\_\_\_\_, 2013.

ALDERWOOD WATER &  
WASTEWATER DISTRICT,  
SNOHOMISH COUNTY,  
WASHINGTON

( S E A L )

By \_\_\_\_\_  
President, Board of Commissioners

Attest:

\_\_\_\_\_  
Secretary, Board of Commissioners

CERTIFICATE OF AUTHENTICATION

Date of Authentication: \_\_\_\_\_

This is one of the Water and Sewer Revenue Bonds, 2013, of the Alderwood Water & Wastewater District, Snohomish County, Washington, dated \_\_\_\_\_, 2013, as described in the within mentioned Bond Resolution.

WASHINGTON STATE FISCAL  
AGENCY, Bond Registrar

By \_\_\_\_\_  
Authorized Officer

Section 7. Execution of Bonds. The Bonds shall be executed on behalf of the District by the facsimile or manual signatures of the President and Secretary of the Board and shall have the seal of the District impressed or a facsimile thereof imprinted, or otherwise reproduced thereon.

In the event any officer who shall have signed or whose facsimile signatures appear on any of the Bonds shall cease to be such officer of the District before said Bonds shall have been authenticated or delivered by the Bond Registrar or issued by the District, such Bonds may nevertheless be authenticated, delivered and issued and,

upon such authentication, delivery and issuance, shall be as binding upon the District as though said person had not ceased to be such officer. Any Bond may be signed and attested on behalf of the District by such persons who, at the actual date of execution of such Bond shall be the proper officer of the District, although at the original date of such Bond such persons were not such officers of the District.

Only such Bonds as shall bear thereon a Certificate of Authentication manually executed by an authorized representative of the Bond Registrar shall be valid or obligatory for any purpose or entitled to the benefits of this resolution. Such Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this resolution. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bonds.

Section 8. Bond Fund. The Bond Fund has been created as a special fund of the District designated the Water and Sewer Revenue Bond Fund, which is divided into two accounts: the Principal and Interest Account and the Reserve Account. So long as any Parity Bonds are outstanding, the District shall set aside and pay into the Bond Fund all ULID Assessments on their collection (except for ULID Assessments deposited in a construction account) and, out of the Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Account on or before each interest or principal and interest payment date of any Parity Bonds at least an amount which, together with other money on deposit therein, will be sufficient to pay the interest, or principal and interest, to become due and payable on the Parity Bonds on that payment

date, including any Parity Bonds subject to mandatory redemption on that date, and net payments due on Parity Payment Agreements; and

(b) Into the Reserve Account, in approximately equal annual payments, amounts necessary to fund the Reserve Requirement within five years from the date of issuance of such Parity Bonds after taking into account the capitalization of all or any part of the Reserve Requirement. The District may provide all or any part of the Reserve Requirement through Reserve Insurance, and the amount available to be drawn upon under that Reserve Insurance shall be credited against the Reserve Requirement, subject to the following:

On receipt of a notice of cancellation of any Reserve Insurance, the District shall substitute Reserve Insurance in the amount required to make up the deficiency created in the Reserve Account or in the alternative shall create a special account and deposit therein, on or before the 25<sup>th</sup> day of each of the 36 succeeding calendar months (commencing with the 25<sup>th</sup> day of the calendar month next following the date of the notice) 1/36<sup>th</sup> of the amount sufficient, together with other money and investments on deposit in the Reserve Account, to equal the Reserve Requirement in effect as of the date the cancellation or disqualification of the entity becomes effective. Those amounts shall be deposited in the special account from available money of the District after making provision for payment of Operation and Maintenance Expenses and for required payments into the Bond Fund. Amounts on deposit in that special account shall not be available to pay debt service on Parity Bonds or for any other purpose of the District, and shall be transferred to the Reserve Account on the effective date of any cancellation of a Reserve Insurance to make up all or part of the deficiency caused thereby. Amounts in that special account or in the Reserve Account may be transferred

back to the District's general fund and used for any purpose if and when qualifying Reserve Insurance is obtained.

Except for withdrawals therefrom and payments over time as authorized herein, the Reserve Account shall be maintained at the Reserve Requirement, as it is adjusted from time to time, at all times so long as any Parity Bonds are outstanding. For the purpose of determining the amount credited to the Reserve Account, obligations in which money in the Reserve Account has been invested shall be valued at market value.

If there shall be a deficiency in the Principal and Interest Account to meet maturing installments of either principal or interest or mandatory redemption requirements, as the case may be, that deficiency shall be made up from the Reserve Account by the withdrawal of cash therefrom for that purpose. Any deficiency created in the Reserve Account by reason of any such withdrawal shall within 12 months be made up from ULID Assessments and Net Revenue available after making necessary provisions for the required payments into the Principal and Interest Account.

The money in the Reserve Account may be applied to the payment of the last outstanding Parity Bonds, except that any money in the Reserve Account (including investment earnings) in excess of the Reserve Requirement may be withdrawn and deposited in the Principal and Interest Account and spent for the purpose of retiring Parity Bonds or may be deposited in any other fund or account and spent for any other lawful District purpose as provided in the Federal Tax Certificate. When the total amount in the Bond Fund (including investment earnings) shall equal the total amount of principal and interest for all Parity Bonds to the last maturity thereof, no further payment need be made into the Bond Fund.

The District may provide for the purchase, redemption or defeasance of any Parity Bonds by the use of money on deposit in any account in the Bond Fund as long as the money remaining in those accounts is sufficient to satisfy the required deposits in those accounts for the remaining Parity Bonds.

All money in the Bond Fund may be kept in cash or invested in legal investments maturing, for investments in the Principal and Interest Account, not later than the dates when the funds are required for the payment of principal of or interest on the Parity Bonds and, for investments in the Reserve Account, maturing (or subject to redemption, or repurchase and redemption, at the option of the District) on a date not later than five years from the date of investment.

Earnings from investments in the Principal and Interest Account shall be deposited in that account. Earnings from investments in the Reserve Account shall be deposited in that account until the amount therein is equal to the Reserve Requirement for all Parity Bonds, and thereafter shall be deposited to the Principal and Interest Account.

Notwithstanding the provisions for the deposit of earnings, any earnings that are subject to federal arbitrage rebate requirements may be withdrawn from the Bond Fund for deposit into a separate fund or account created for the purpose of compliance with those rebate requirements.

The District may create sinking fund accounts or other accounts in the Bond Fund for the payment or securing the payment of Parity Bonds as long as the maintenance of such accounts does not conflict with the rights of the owners of such Parity Bonds.

If the District elects to meet the Reserve Requirement or any portion thereof through the use of Reserve Insurance or elects to secure any issue of Parity Bonds through the use of Bond Insurance, the District may contract with the entity providing such Reserve Insurance or Bond Insurance to the effect that the District's reimbursement obligation, if any, to such entity ranks on a parity of lien with the Parity Bonds.

If the principal of, interest or mandatory redemption requirements due on the Bonds is paid by a Bond Insurer pursuant to a Bond Insurance Policy, the Bonds shall not be considered paid by the District, and the covenants, agreements and other obligations of the District to the registered owners shall continue to exist and the Bond Insurer shall be subrogated to the rights of the registered owners.

Section 9. Flow of Funds. All ULID Assessments shall be paid into the Bond Fund as provided by this resolution. The Gross Revenue of the System shall be used for the following purposes only and shall be applied in the following order of priority:

- (a) To pay the Operation and Maintenance Expenses;
- (b) To pay interest on Parity Bonds and net payments on Parity Payment Agreements when due;
- (c) To pay the principal of Parity Bonds as it comes due at maturity or as the principal is required to be paid pursuant to mandatory redemption requirements applicable to Term Bonds, and to make payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the Parity Bonds;
- (d) To make all payments required to be made into the Reserve Account, all payments required to be made under any agreement relating to the provision of

Reserve Insurance, and payments due under any reimbursement agreement with a Bond Insurer which agreement requires those payments to be treated on a parity of lien with the payments required to be made into the Reserve Account;

(e) To make all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of the principal of and interest on any revenue bonds, notes, warrants or other obligations of the District having a lien upon the revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

(f) To retire by redemption or purchase in the open market any outstanding revenue bonds or other revenue obligations of the System, to make necessary additional betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful System purposes.

The District may transfer any money from any funds or accounts of the System legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Bond Fund.

Section 10. Findings as to Sufficiency of Gross Revenue. The District finds and determines that the Gross Revenue and benefits to be derived from the operation and maintenance of the System at the rates to be charged for services provided by the District will be more than sufficient to meet all Operation and Maintenance Expenses and to permit the setting aside into the Bond Fund out of the Gross Revenue of amounts sufficient to pay the principal of and interest on the Outstanding Parity Bonds, the Bonds and any mandatory redemption requirements when due. The District further declares that in maintaining the Bond Fund and in fixing the amounts to be paid into the

Bond Fund it has exercised due regard for Operation and Maintenance Expenses, and the District has not bound and obligated itself to set aside and pay into the Bond Fund a greater amount or proportion of the Gross Revenue than in the judgment of the District will be available over and above the Operation and Maintenance Expenses.

Section 11. Pledge of Net Revenue and ULID Assessments: Lien Position. The Net Revenue of the System and ULID Assessments, and all money and investments held in the Bond Fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code), are pledged to the payment of the Parity Bonds and to make payments into the Reserve Account required by this resolution and Parity Bond Authorizing Resolutions, and this pledge shall constitute a lien and charge upon the Net Revenue and ULID Assessments prior and superior to any other charges whatsoever. In addition, if an "Event of Default" as defined in Section 20 occurs, any proceeds of the Parity Bonds remaining unspent shall be pledged to and available for repayment of the Parity Bonds.

Section 12. Rate Stabilization Fund. The District may at any time, as determined by the District and as consistent with this resolution, deposit in the Rate Stabilization Fund Gross Revenue and any other money received by the System and available to be used therefor, excluding principal proceeds of any Parity Bonds or other borrowing. The District may at any time withdraw money from the Rate Stabilization Fund for inclusion in the Net Revenue for the current fiscal year of the System. Such deposits or withdrawals may be made up to and including the date 180 days after the end of the fiscal year for which the deposit or withdrawal will be included as Net Revenue for that fiscal year. The District may apply amounts withdrawn from the Rate Stabilization Fund for any proper District purpose.

Earnings from investments in the Rate Stabilization Fund shall be deposited in that fund and shall not be included as Net Revenue of the System unless and until withdrawn from that fund as provided in this Section. The District may also deposit earnings from investments in the Rate Stabilization Fund into any District fund as authorized by resolution, and such deposits shall be included as Net Revenue in the year of deposit.

No deposit of Gross Revenue shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in the relevant fiscal year.

Section 13. Covenants and Agreements. The District covenants and agrees with the owner of each Bond at any time outstanding, as follows:

(a) *Operation and Maintenance.* It will at all times maintain, preserve and keep the properties of the System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof, and will at all times operate or cause to be operated the properties of the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) *Establishment and Collection of Rates and Charges.* It will establish, maintain and collect rates and charges for water and for sanitary sewage disposal service and for all other utility services that will be fair and equitable, and will adjust those rates and charges from time to time so that:

(1) The Gross Revenue will be sufficient to (i) pay all Operation and Maintenance Expenses, (ii) pay when due all amounts that the District is obligated to pay into the Bond Fund and the accounts therein, and (iii) pay all taxes, assessments

or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the District may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(2) The Net Revenue of the System in each fiscal year will be at least equal to the Coverage Requirement; except to aid the poor or infirm it will not furnish or supply or permit the furnishing or supplying of any service free of charge to any person, firm or corporation, public or private.

The failure of the District to comply with subparagraphs (1) and (2) of this paragraph (b) shall not be an Event of Default as defined in Section 20(a) of this resolution if the District promptly retains an Independent Consulting Engineer to recommend to the Board adjustments in the rates of the System necessary to meet the requirements of those subparagraphs and if the Board adopts the recommended modifications within 180 days of the date the failure became known to the Board.

(c) *Sale Transfer or Disposition of the System.* It will sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the System or any real or personal property comprising a part of the System only upon approval by resolution and only consistent with one or more of the following:

(1) The District in its discretion may carry out such a sale, transfer or disposition (each, as used in this subparagraph, a "transfer") if the facilities or property transferred are not material to the operation of the System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System or are no longer necessary, material or useful to the operation of the System; or

(2) The District in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property being transferred under this subparagraph (2) in any fiscal year comprises no more than 3% of the total assets of the System; or

(3) The District in its discretion, or if required by law, may carry out such a transfer if the District receives from the transferee for deposit into the Bond Fund an amount equal to the greater of the following:

(A) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (defined as the total amount of the Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the Gross Revenue of the System from the portion of the System sold or disposed of for the preceding year bears to the total Gross Revenue for that period; or

(B) An amount which will be in the same proportion to the net amount of Parity Bonds then outstanding (as defined above) that the Net Revenue from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenue for such period;

(C) An amount equal to the fair market value of the portion of the System transferred. As used herein, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus; or

(D) An amount equal to the replacement cost of the portion of the System transferred reduced by an assessment of its remaining useful life.

The proceeds of any transfer under this subparagraph (3) shall be used (i) to promptly redeem, or irrevocably set aside for the redemption of, Parity Bonds, and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the System.

Before any such transfer under this subparagraph (3), the District must obtain a certificate of an Independent Consulting Engineer to the effect that in his or her professional opinion, upon such transfer and the use of proceeds of the transfer as proposed by the District, the remaining System will retain its operational integrity and the Net Revenue of the System will be at least equal to the Coverage Requirement during the five fiscal years following the fiscal year in which the transfer is to occur, taking into account, (w) the reduction in revenue resulting from the transfer, (x) the use of any proceeds of the transfer for the redemption of Parity Bonds, (y) the Independent Consulting Engineer's estimate of revenue from customers anticipated to be served by any additions to and betterments and extensions of the System financed in part by the proposed portion of the proceeds of the transfer, and (z) any other adjustment permitted in the preparation of a certificate under Section 16 of this resolution. Before such a transfer, the District also must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn upon such transfer. *Following the full redemption, defeasance or refunding of the 2009 Bonds, the 2010A Bonds and the 2010B Bonds, the last sentence of this paragraph shall be deleted and no confirmation shall be required.*

(d) *Liens Upon the System.* Except as otherwise provided in this resolution, it will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the Gross Revenue or any part thereof, prior or superior to the

lien thereon for the payment of the Parity Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Gross Revenue or any part thereof, prior or superior to, or on a parity with, the lien of the Parity Bonds, or which might impair the security of the Parity Bonds.

(e) *Books and Accounts.* It will keep proper books, records and accounts with respect to the operations, income and expenditures of the System in accordance with generally accepted accounting practices relating to the municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited in accordance with the schedule established by the State Auditor pursuant to applicable law. It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the System as of the close of the previous year, and the income and expenses for such year, including the amounts paid into the Bond Fund and into any and all special funds or accounts created pursuant to the provisions of this resolution, the status of all funds and accounts as of the end of such year, and the amounts expended for maintenance, renewals, replacements and capital additions to the System. The District may charge a reasonable cost for providing such financial statements.

(f) *Collection of Delinquent Accounts and ULID Assessments.* It shall, not later than March 1 of each calendar year, take such legal action as may be feasible to enforce collection of all collectible delinquent accounts, and that if on or before March 1 in any year two installments of any ULID Assessments have been delinquent for more

than one year, it shall take legal action as permitted by law to enforce collection of such collectible delinquent accounts on or before September 1 of such year.

(g) *Maintenance of Insurance.* It at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to the District on such of the buildings, equipment, works, plants, facilities and properties of the System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the District, to protect the System and the owners of the Parity Bonds against loss.

(h) *Condemnation Awards and Insurance Proceeds.* If the District receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the System, it shall apply the condemnation award or insurance proceeds, in the District's sole discretion, either (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase or redemption of Parity Bonds, or (iii) to the cost of improvements to the System.

**Section 14. Tax Covenants.** The District covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bonds.

(a) *Arbitrage Covenant.* Without limiting the generality of the foregoing, the District covenants that it will not take any action or fail to take any action with respect to the proceeds of sale of the Bonds or any other funds of the District which may be deemed to be proceeds of the Bonds pursuant to Section 148 of the Code and the regulations promulgated thereunder which, if such use had been reasonably expected on the date of delivery of the Bonds to the initial purchasers thereof, would have caused the Bonds as "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code.

The District represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications may not be relied upon. The District will comply with the requirements of Section 148 of the Code and the applicable regulations thereunder throughout the term of the Bonds.

(b) *Private Person Use Limitation for Bonds.* The District covenants that for as long as the Bonds are outstanding, it will not permit:

(1) More than 10% of the Net Proceeds of the Bonds to be used for any Private Person Use; and

(2) More than 10% of the principal or interest payments on the Bonds in a bond year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the District) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The District further covenants that, if:

(3) More than five percent of the Net Proceeds of the Bonds are to be used for any Private Person Use; and

(4) More than five percent of the principal or interest payments on the Bonds in a bond year are (under the terms of this resolution or any underlying arrangement) directly or indirectly:

(A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or

(B) derived from payments (whether or not made to the District) in respect of property, or borrowed money, used or to be used for any Private Person Use, then, (i) any Private Person Use of the projects described in subsection (3) hereof or Private Person Use payments described in subsection (4) hereof that is in excess of the five percent limitations described in such subsections (3) or (4) will be for a Private Person Use that is related to the state or local governmental use of the projects financed and/or refinanced with the Bonds, and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Bonds used for the state or local governmental use portion of the projects to which the Private Person Use of such portion of the projects relates. The District further covenants that it will comply with any limitations on the use of the projects financed and/or refinanced with the Bonds by other than state and local governmental users that are necessary, in the opinion of nationally recognized bond counsel, to preserve the tax exemption of the interest on the Bonds.

(c) *Modification of Tax Covenants.* The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bonds. To that end, the provisions of this section may be modified or

eliminated without any requirement for formal amendment thereof upon receipt of an opinion of nationally recognized bond counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Bonds.

(d) *Designation under Section 265(b).* The Designated Representative may designate a series of Bonds issued pursuant to this resolution as "qualified tax-exempt obligations" for investment by financial institutions under Section 265(b) of the Code.

**Section 15. Defeasance.** In the event that the District, to effect the payment, retirement or redemption of any Bond, sets aside in the Bond Fund or in another special account, cash or noncallable Government Obligations, or any combination of cash and/or noncallable Government Obligations, in amounts and maturities which, together with the known earned income therefrom, are sufficient to redeem or pay and retire such Bond in accordance with its terms and to pay when due the interest and redemption premium, if any, thereon, and such cash and/or noncallable Government Obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bond. The owner of a Bond so provided for shall cease to be entitled to any lien, benefit or security of this resolution except the right to receive payment of principal, premium, if any, and interest from the Bond Fund or such special account, and such Bond shall be deemed to be not outstanding under this resolution.

In the event that the refunding plan provides that the Bonds being refunded or the refunding bonds to be issued be secured by money and/or government obligations pending the prior redemption of those Bonds being refunded and if such refunding plan also provides that certain money and/or Government Obligations are pledged irrevocably for the prior redemption of those Bonds included in the refunding plan, then

only the debt service on the Bonds which are not defeased Bonds and the refunding bonds, the payment of which is not so secured by the refunding plan, shall be included in any computation of the coverage requirement for the issuance of Future Parity Bonds and the annual computation of coverage for determining compliance with the rate covenant.

**Section 16. Issuance of Future Parity Bonds.** The District reserves the right to issue Future Parity Bonds and to enter into Parity Payment Agreements for purposes of the System or to refund Parity Bonds if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or entering into the Parity Payment Agreement:

(a) There shall be no deficiency in the Bond Fund and no Event of Default as defined in the Outstanding Parity Bond Resolutions shall have occurred and be continuing.

(b) The Parity Bond Authorizing Resolution shall provide that all assessments and interest thereon that may be levied in any ULID created for the purpose of paying, in whole or in part, the principal of and interest on those Future Parity Bonds, shall be paid directly into the Bond Fund, except for any prepaid assessments permitted by law to be paid into a construction fund or account.

(c) The Parity Bond Authorizing Resolution shall provide for the payment of the principal thereof and interest thereon out of the Bond Fund.

(d) The Parity Bond Authorizing Resolution shall provide for the payment of amounts into the Bond Fund to meet mandatory redemption requirements applicable to any Term Bonds to be issued and for regular payments to be made for the payment of the principal of such Term Bonds on or before their maturity, or, as an alternative, the

mandatory redemption of those Term Bonds prior to their maturity date from money in the Principal and Interest Account.

(e) The Parity Bond Authorizing Resolution shall provide for the deposit into the Reserve Account of (i) an amount, if any, necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds from Future Parity Bond proceeds or other money legally available, or (ii) Reserve Insurance or an amount plus Reserve Insurance necessary to fund the Reserve Requirement upon the issuance of those Future Parity Bonds, or (iii) amounts necessary to fund the Reserve Requirement from ULID Assessments and Net Revenue within five years from the date of issuance of those Future Parity Bonds, in five approximately equal annual payments.

(f) There shall be on file with the District either:

(1) a certificate of the District Manager demonstrating that during any 12 consecutive calendar months out of the immediately preceding 24 calendar months Net Revenue was at least equal to the Coverage Requirement for all Parity Bonds plus the Future Parity Bonds proposed to be issued (and assuming that the debt service of the proposed Future Parity Bonds for that twelve-month period was the Average Annual Debt Service for those proposed bonds); or

(2) a certificate of an Independent Consulting Engineer to the effect that the Net Revenue for the five fiscal years next following the earlier of (i) the end of the period during which interest on those Future Parity Bonds is to be capitalized or, if no interest is capitalized, the fiscal year in which the Future Parity Bonds are issued, or (ii) the date on which substantially all new facilities financed with those Future Parity Bonds are expected to commence operations, such Net Revenue further adjusted as

provided in paragraphs (A) through (D) below, will be at least equal to the Coverage Requirement. That certificate may take into account the following adjustments:

(A) Any changes in rates in effect and being charged, or rates expected to be charged in accordance with a program of specific rates, rate levels or increases in overall rate revenue adopted by resolution;

(B) Net revenue from customers of the System who have become customers during the 12 consecutive month period or thereafter, and his or her estimate of net revenue from any customers to be connected to the System who have paid the required connection charges, adjusted to reflect one year's net revenue from those customers;

(C) His or her estimate of net revenue from customers anticipated to be served by facilities or improvements financed in substantial part by those Future Parity Bonds; and

(D) Net revenue from any person, firm, corporation or municipal corporation under any executed contract for sewer or other utility service, which revenue was not included in the historical Net Revenue of the System.

If the Future Parity Bonds proposed to be issued are for the sole purpose of refunding outstanding bonds payable from the Bond Fund, no such coverage certification shall be required if the Annual Debt Service on the Parity Bonds after the issuance of the Future Parity Bonds is not, for any year in which the Parity Bonds being refunded were outstanding, more than \$5,000 over the Annual Debt Service on the Parity Bonds prior to the issuance of those Future Parity Bonds.

Nothing contained herein shall prevent the District from issuing Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not

otherwise available, or revenue bonds that are a charge or lien upon the Gross Revenue subordinate to the charge or lien of the Parity Bonds, or from pledging the payment of utility local improvement district assessments into a bond redemption fund created for the payment of the principal of and interest on those junior lien bonds as long as such utility local improvement district assessments are levied for improvements constructed from the proceeds of those junior lien bonds.

Section 17. Sale of Bonds.

(a) *Bond Sale.* The Financial Advisor has advised the Board that market conditions are fluctuating and, as a result, the most favorable market conditions may best be achieved by either a negotiated sale or a competitive sale, depending on then applicable market conditions. The Board has determined that it would be in the best interest of the District to delegate to the Designated Representative for a limited time the authority to determine whether the Bonds shall be sold in one or more series and to approve the final interest rates, maturity dates, redemption terms and principal maturities for the Bonds. The Designated Representative is hereby authorized to approve the issuance, from time to time, of one or more series of Bonds and to approve a competitive bond sale or a negotiated bond sale for each series of Bonds, as set forth below.

(b) *Competitive Sale.* If the Designated Representative determines that the Bonds of a series are to be sold at a competitive public sale, the Designated Representative or his or her designee shall: (1) establish the date of the public sale; (2) establish the criteria by which the successful bidder will be determined; (3) request that a good faith deposit in an amount not less than one percent of the principal amount of the offering accompany each bid; (4) cause notice of the public sale to be given; and

(5) provide for such other matters pertaining to the public sale as he or she deems necessary or desirable. The Designated Representative shall cause the notice of sale to be given and provide for such other matters pertaining to the public sale as he or she deems necessary or desirable.

Upon the date and time established for the receipt of bids for the Bonds, the Designated Representative or his or her designee shall open the bids and shall cause the bids to be mathematically verified. The Bonds shall be sold to the bidder offering to purchase them at the lowest true interest cost to the District; *provided, however*, that the District may reserve the right to reject any and all bids for the Bonds and also may waive any irregularity or informality in any bid.

Subject to the terms and conditions set forth in this Section 17, the Designated Representative is hereby authorized to accept a bid for the Bonds and to approve the final principal maturity amounts, principal payment dates, dated date, denominations, interest payment dates, redemption provisions and interest rates for the Bonds, as set forth in the Certificate of Award; *provided* that (1) the aggregate principal amount of the Bonds does not exceed \$30,000,000, (2) the final maturity of the Bonds is no later than December 1, 2043, (3) the Bonds are sold (in the aggregate) at a price not less than 95% and not greater than 130%, and (4) the true interest cost for the Bonds (in the aggregate) does not exceed 5.75%.

(c) *Negotiated Bond Sale.* If the Designated Representative determines that the Bonds of a series are to be sold by negotiated sale, the Designated Representative shall solicit bond underwriting proposals and shall select the Underwriter that submits the proposal that is in the best interest of the District. The Bonds shall be sold to the Underwriter pursuant to the terms of the Bond Purchase Contract.

Subject to the terms and conditions set forth in this Section 17, the Designated Representative is hereby authorized to select the Underwriter for the Bonds, to approve the final principal maturity amounts, principal payment dates, dated date, denominations, interest payment dates, redemption provisions and interest rates for the Bonds, and to execute the Bond Purchase Contract; *provided* that (1) the aggregate principal amount of the Bonds does not exceed \$30,000,000, (2) the final maturity of the Bonds is no later than December 1, 2043, (3) the Bonds are sold (in the aggregate) at a price not less than 95% and not greater than 130%, and (4) the true interest cost for the Bonds (in the aggregate) does not exceed 5.75%.

(d) *Report to Board; Expiration of Authority.* Following the sale of a series of Bonds, the Designated Representative shall provide a report to Board describing the method of sale and final terms of the Bonds approved pursuant to the authority delegated in this section. The authority granted to the Designated Representative by this Section 17 shall expire on December 31, 2013. If the Bonds have not been sold by December 31, 2013, the authorization for the issuance of the Bonds shall be rescinded, and the Bonds shall not be issued nor their sale approved unless such Bonds shall have been re-authorized by resolution of the Board. The resolution re-authorizing the issuance and sale of such Bonds may be in the form of a new resolution repealing this resolution in whole or in part or may be in the form of an amendatory resolution establishing terms and conditions for the authority delegated under this Section 17.

(e) *Delivery of Bonds; Documentation.* Upon the passage and approval of this resolution, the proper officials of the District including the Designated Representative, are authorized and directed to undertake all action necessary for the prompt execution and delivery of the Bonds to the successful bidder or Underwriter

thereof and further to execute all closing certificates and documents required to effect the closing and delivery of the Bonds in accordance with the terms of the Certificate of Award or the Bond Purchase Contract.

(f) *Preliminary and Final Official Statements.* The Director of Finance is hereby authorized to ratify and to deem final the preliminary Official Statement(s) relating to a series of Bonds for the purposes of the Rule. The Director of Finance is further authorized to ratify and to approve for purposes of the Rule, on behalf of the District, the Official Statement(s) relating to the issuance and sale of a series of Bonds and the distribution of the Official Statement(s) pursuant thereto with such changes, if any, as may be deemed by him or her to be appropriate.

Section 18. Disposition of Bond Proceeds. Proceeds of the Bonds received by the District that are allocable to the financing of the Projects shall be deposited in the Capital Improvement Fund and used to pay those costs and payment of costs of issuance and sale of the Bonds. Principal proceeds in an amount necessary to meet the Reserve Requirement shall be deposited to the Reserve Account.

Section 19. Undertaking to Provide Ongoing Disclosure. This Section 19 constitutes the District's written undertaking for the benefit of the owners and Beneficial Owners of the Bonds as required by Section (b)(5) of the Rule.

(a) *Financial Statements/Operating Data.* The District agrees to provide or cause to be provided to the MSRB, in accordance with the Rule, the following annual financial information and operating data for the prior Fiscal Year (commencing in 2014 for the Fiscal Year ended December 31, 2013):

(1) Annual financial statements, prepared (except as noted in the financial statements) in accordance with applicable generally accepted accounting

principles promulgated by the Government Accounting Standards Board ("GASB"), as such principles may be changed from time to time by GASB or its successor, which shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the District they will be provided;

(2) A statement of authorized, issued, and outstanding bonded debt secured by Net Revenue of the System;

(3) Debt service coverage ratios for Parity Bonds and junior lien obligations; and

(4) General customer statistics for the System as identified in the Official Statement relating to the Bonds.

Items (2) – (4) shall be required only to the extent that such information is not included in the annual financial statements provided pursuant to (1).

The financial information and operating data described above shall be provided on or before the last day of the ninth month after the end of the District's fiscal year. The District's fiscal year currently ends on December 31. The District may adjust such fiscal year by providing written notice of the change of fiscal year to the MSRB. In lieu of providing such annual financial information and operating data, the District may cross-refer to other documents available to the public on the MSRB's internet website or filed with the Commission.

(b) *Listed Events.* The District agrees to provide or cause to be provided to the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- Principal and interest payment delinquencies;

- Non-payment related defaults, if material;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- Modifications to the rights of Bondholders, if material;
- Bond calls, if material, and tender offers;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the Bonds, if material;
- Rating changes;
- Bankruptcy, insolvency, receivership or similar event of the District;
- The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Solely for purposes of disclosure, and not intending to modify this undertaking, the District advises that no property secures payment of the Bonds.

(c) *Notification Upon Failure to Provide Financial Data.* The District agrees to provide or cause to be provided to the MSRB, in a timely manner, notice of the District's failure to provide the annual financial information described in subsection (a) above on or prior to the date set forth in subsection (a) above.

(d) *Format for Filings with the MSRB.* All notices, financial information and operating data required by this undertaking to be provided to the MSRB must be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB pursuant to this undertaking must be accompanied by identifying information as prescribed by the MSRB.

(e) *Termination/Modification.* The District's obligations to provide annual financial information and notices of listed events shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this section shall be null and void if the District (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule requiring that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds; and (2) notifies the MSRB of such opinion and the cancellation of the provision.

Notwithstanding any other provision of this resolution, the District may amend this Section 19 with an approving opinion of nationally recognized bond counsel and in accordance with the Rule. In the event of any amendment of a provision of this Section 19, the District will describe the amendment in the next annual report, and will

include a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change will be given in the same manner as for a listed event under subsection (b), and (2) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) *Bond Owner's Remedies Under This Section.* The right of any Bond Owner or Beneficial Owner of Bonds to enforce the provisions of this section are limited to a right to obtain specific enforcement of the District's obligations hereunder, and any failure by the District to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds. For purposes of this Section 19, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 20. Defaults and Remedies.

(a) *Events of Default.* The following shall constitute "Events of Default" with respect to the Bonds:

(1) If a default is made in the payment of the principal of or interest on any of the Bonds when the same shall become due and payable; or

(2) If the District defaults in the observance and performance of any other of the covenants, conditions and agreements on the part of the District set forth in

this resolution or any covenants, conditions or agreements on the part of the District contained in any Parity Bond Authorizing Resolution and such default or defaults have continued for a period of six months after they have received from the Bondowners' Trustee (as defined below) or from the registered owners of not less than 25% in principal amount of the Parity Bonds, a written notice specifying and demanding the cure of such default. However, if the default in the observance and performance of any other of the covenants, conditions and agreements is one which cannot be completely remedied within the six months after written notice has been given, it shall not be an Event of Default with respect to the Bonds as long as the District has taken active steps within the six months after written notice has been given to remedy the default and is diligently pursuing such remedy.

(3) If the District files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

In determining whether an Event of Default has occurred, no effect shall be given to payments made under the Bond Insurance Policy.

(b) *Bondowners' Trustee.* So long as such Event of Default has not been remedied, a bondowners' trustee (the "Bondowners' Trustee") may be appointed by the registered owners of 25% in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Parity Bonds or by their attorneys-in-fact duly authorized and delivered to such Bondowners' Trustee, notification thereof being given to the District. That appointment shall become effective immediately upon acceptance thereof by the Bondowners' Trustee. Any Bondowners' Trustee appointed under the provisions of this subsection shall be a bank or trust company organized under the laws of the State of Washington

or the State of New York or a national banking association. The bank or trust company acting as Bondowners' Trustee may be removed at any time, and a successor Bondowners' Trustee may be appointed, by the registered owners of a majority in principal amount of the Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by such registered owners of the Bonds or by their attorneys-in-fact duly authorized. The Bondowners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

In the event that any Event of Default in the sole judgment of the Bondowners' Trustee is cured and the Bondowners' Trustee furnishes to the District a certificate so stating, that Event of Default shall be conclusively deemed to be cured and the District, the Bondowners' Trustee and the registered owners of the Parity Bonds shall be restored to the same rights and position which they would have held if no Event of Default had occurred.

The Bondowners' Trustee appointed in the manner herein provided, and each successor thereto, is declared to be a trustee for the registered owners of all the Parity Bonds and is empowered to exercise all the rights and powers herein conferred on the Bondowners' Trustee.

(c) *Suits at Law or in Equity.* Upon the happening of an Event of Default and during the continuance thereof, the Bondowners' Trustee may, and upon the written request of the registered owners of not less than 25% in principal amount of the Parity Bonds outstanding shall, take such steps and institute such suits, actions or other proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the registered owners of the Parity Bonds, to collect any amounts due and

owing to or from the District, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this resolution or in any of the Parity Bonds.

Nothing contained in this section shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of principal on the Parity Bonds, and the remedy of acceleration is expressly denied to the registered owners of the Parity Bonds under any circumstances including, without limitation, upon the occurrence and continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bondowners' Trustee hereunder shall be brought in its name as trustee for the Bondowners and all such rights of action upon or under any of the Parity Bonds or the provisions of this resolution may be enforced by the Bondowners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bondowners' Trustee shall be brought for the ratable benefit of all of the registered owners of those Parity Bonds, subject to the provisions of this resolution. The respective registered owners of the Parity Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners' Trustee the true and lawful trustee of the respective registered owners of those Parity Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the registered owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bondowners' Trustee to

consent to accept or adopt, on behalf of any registered owner of the Parity Bonds, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any registered owner thereof, or to authorize or empower the Bondowners' Trustee to vote the claims of the registered owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the District is a party.

(d) *Application of Money Collected by Bondowners' Trustee.* Any money collected by the Bondowners' Trustee at any time pursuant to this section shall be applied in the following order of priority:

(1) to the payment of the charges, expenses, advances and compensation of the Bondowners' Trustee and the charges, expenses, counsel fees, disbursements and compensation of its agents and attorneys; and

(2) to the payment to the persons entitled thereto of all installments of interest then due on the Parity Bonds in the order of maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and

(3) to the payment to the persons entitled thereto of the unpaid principal amounts of any Parity Bonds which shall have become due (other than Parity Bonds previously called for redemption for the payment of which money is held pursuant to the provisions hereto), whether at maturity or by proceedings for redemption or otherwise, in the order of their due dates and, if the amount available shall not be sufficient to pay in full the principal amounts due on the same date, then to the payment

thereof ratably, according to the principal amounts due thereon to the persons entitled thereto, without any discrimination or preference.

(e) *Duties and Obligations of Bondowners' Trustee.* The Bondowners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. During an Event of Default, the Bondowners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bondowners' Trustee shall have no liability for any act or omission to act hereunder except for the Bondowners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bondowners' Trustee shall be determined solely by the express provisions of this resolution, and no implied powers, duties or obligations of the Bondowners' Trustee shall be read into this resolution.

The Bondowners' Trustee shall not be required to expend or risk its own funds or otherwise incur individual liability in the performance of any of its duties or in the exercise of any of its rights or powers as the Bondowners' Trustee, except as may result from its own negligent action, its own negligent failure to act or its own willful misconduct.

The Bondowners' Trustee shall not be bound to recognize any person as a registered owner of any Bond until his title thereto, if disputed, has been established to its reasonable satisfaction.

The Bondowners' Trustee may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of

such counsel. The Bondowners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected by it with reasonable care.

(f) *Suits by Individual Bondowners Restricted.* Neither the registered owner nor the beneficial owner of any one or more of Parity Bonds shall have any-right to institute any action, suit or proceeding at law or in equity for the enforcement of same unless:

- (1) an Event of Default has happened and is continuing; and
- (2) a Bondowners' Trustee has been appointed; and
- (3) such owner previously shall have given to the Bondowners' Trustee

written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted; and

(4) the registered owners of 25% in principal amount of the Parity Bonds, after the occurrence of such Event of Default, has made written request of the Bondowners' Trustee and have afforded the Bondowners' Trustee a reasonable opportunity to institute such suit, action or proceeding; and

(5) there have been offered to the Bondowners' Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and

(6) the Bondowners' Trustee has refused or neglected to comply with such request within a reasonable time.

No registered owner or beneficial owner of any Parity Bond shall have any right in any manner whatever by his action to affect or impair the obligation of the District to

pay from the Net Revenue the principal of and interest on such Parity Bonds to the respective owners thereof when due.

Section 21. Lost or Destroyed Bonds. In case any Bonds are lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new Bond or Bonds of like amount, date and tenor to the Registered Owner thereof if the owner pays the expenses and charges of the Bond Registrar and the District in connection therewith and files with the Bond Registrar and the District evidence satisfactory to both that such Bond or Bonds were actually lost, stolen or destroyed and of his or her ownership thereof, and furnishes the District and the Bond Registrar with indemnity satisfactory to both.

Section 22. Severability; Ratification. If a court of competent jurisdiction declares that any one or more of the covenants and agreements in this resolution to be performed by the District are contrary to law, then such covenant or covenants, agreement or agreements, will be null and void and will be deemed separable from the remaining covenants and agreements in this resolution and will in no way affect the validity of other provisions of this resolution or of the Bonds.

Section 23. Effective Date. This resolution shall take effect and be in force immediately upon its adoption.

ADOPTED by the Board of Commissioners of Alderwood Water & Wastewater District, Snohomish County, Washington, at a regular open public meeting thereof this 16<sup>th</sup> day of September, 2013, notice thereof having been given as required by law, and the undersigned Commissioners being present and voting.

ALDERWOOD WATER & WASTEWATER  
DISTRICT, SNOHOMISH COUNTY,  
WASHINGTON

\_\_\_\_\_  
Commissioner and President

\_\_\_\_\_  
Commissioner and Vice-President

\_\_\_\_\_  
Commissioner and Secretary

\_\_\_\_\_  
Commissioner

\_\_\_\_\_  
Commissioner

AWWD Res. No. 2618-2013

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September 16, 2013

Qualified Counterparty based on a fixed rate, payments by the District to the Qualified Counterparty shall be assumed to be made at the fixed rate specified by the Payment Agreement and payments by the Qualified Counterparty to the District shall be assumed to be made at the actual Variable Interest Rate on such bonds, without regard to the occurrence of any event that, under the provisions of the Payment Agreement, would permit the Qualified Counterparty to make payments on any basis other than the actual Variable Interest Rate on such bonds, and the Parity Bond Authorizing Resolution shall set forth a debt service schedule for those Parity Bonds based on that assumption;

(2) *Variable Interest Rate Bonds and Payment Agreements Having the Same Variable Rate Component.* If both a Payment Agreement and related Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds include a variable rate payment component that is required to be calculated on the same basis (including, without limitation, on the basis of the same variable rate index), it shall be assumed that the variable rate payment component payable pursuant to the Payment Agreement is equal in amount to the variable rate interest component payable on those Parity Bonds;

(3) *Variable Interest Rate Bonds and Payment Agreements Having Different Variable Rate Interest Components.* If a Payment Agreement obligates either the District or the Qualified Counterparty to make payments of a variable rate interest component on a basis that is different (including, without limitation, on a different variable rate index) from the basis that is required to be used to calculate interest on the Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds, it shall be assumed:

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Exhibit A

Definitions applicable to Parity Payment Agreements

**"Annual Debt Service"**, for the purpose of calculating debt service on Parity Bonds with respect to which a Payment Agreement is in force, shall be based on the net economic effect on the District expected to be produced by the terms of the Parity Bonds and the terms of the Payment Agreement, including but not limited to the effects that (i) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a Variable Interest Rate instead shall be treated as obligations bearing interest at a fixed interest rate, and (ii) Parity Bonds that would, but for a Payment Agreement, be treated as obligations bearing interest at a fixed interest rate instead shall be treated as obligations bearing interest at a Variable Interest Rate. Accordingly, the amount of interest deemed to be payable on any Parity Bonds with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in those Parity Bonds plus Payment Agreement Payments minus Payment Agreement Receipts. For the purposes of calculating as nearly as practicable Payment Agreement Receipts and Payment Agreement Payments under a Payment Agreement, the following assumptions shall be made:

(1) *Counterparty Obligated to Pay Actual Variable Interest on Variable Interest Rate Bonds.* If any Payment Agreement obligates a Qualified Counterparty to make payments to the District based on the actual Variable Interest Rate on Parity Bonds that would, but for the Payment Agreement, be treated as Variable Interest Rate Bonds and obligates the District to make payments to the

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(a) *District Obligated to Make Payments Based on Variable Rate Index.* If payments by the District under the Payment Agreement are to be based on a variable rate index and payments by the Qualified Counterparty are to be based on a fixed rate, that payments by the District to the Qualified Counterparty will be based upon an interest rate equal to the rate calculated as provided for in subsection (iii)(C) of the definition of "Annual Debt Service", and that payments by the Qualified Counterparty to the District will be based on the fixed rate specified by the Payment Agreement; and

(b) *District Obligated to Make Payments Based on Fixed Rate.* If payments by the District under the Payment Agreement are to be based on a fixed rate and payments by the Qualified Counterparty are to be based on a variable rate index, that payments by the District to the Qualified Counterparty will be based on an interest rate equal to the rate (the "assumed fixed payor rate") that is 105% of the fixed rate specified by the Payment Agreement, and that payments by the Qualified Counterparty to the District will be based on a rate equal to the actual Variable Interest Rate on the Variable Interest Rate Bonds.

(4) *Certain Payment Agreements May be Disregarded.* Notwithstanding the provisions of subparagraphs (iii)(D)(I), (2) and (3) of this definition, the District shall not be required to (but may in its discretion) take into account in determining Annual Debt Service the effects of any Payment Agreement that has a term of 10 years or less.

(E) *Debt Service on Parity Payment Agreements.* No additional debt service shall be taken into account with respect to a Parity Payment Agreement for any period during which Payment Agreement Payments on that Parity Payment Agreement

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are taken into account in determining Annual Debt Service on related Parity Bonds under subparagraph (iii)(D) of this definition. However, for any period during which Payment Agreement Payments are not taken into account in calculating Annual Debt Service on any outstanding Parity Bonds because the Parity Payment Agreement is not then related to any outstanding Parity Bonds, debt service on that Parity Payment Agreement shall be taken into account by assuming:

(1) *District Obligated to Make Payments Based on Fixed Rate.* If

the District is obligated to make Payment Agreement Payments based on a fixed rate and the Qualified Counterparty is obligated to make payments based on a variable rate index, that payments by the District will be based on the assumed fixed payor rate, and that payments by the Qualified Counterparty will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and

(2) *District Obligated to Make Payments Based on Variable Rate Index.* If the District is obligated to make Payment Agreement Payments based on

a variable rate index and the Qualified Counterparty is obligated to make payment based on a fixed rate, that payments by the District will be based on a rate equal to the average rate determined by the variable rate index specified by the Parity Payment Agreement during the fiscal quarter preceding the quarter in which the calculation is made, and that the Qualified Counterparty will make payments based on the fixed rate specified by the Parity Payment Agreement.

**"Parity Payment Agreement"** means a Payment Agreement under which the District's payment obligations are expressly stated to constitute a charge and lien on the

Net Revenue of the System equal in rank with the charge and lien upon such revenue required to be paid into the Bond Fund to pay and secure the payment of the principal of and interest on Parity Bonds.

**"Payment Agreement"** means a written agreement that (1) is entered into by the District for the purpose of managing or reducing the District's exposure to fluctuations or levels of interest rates for Parity Bonds or for other interest rate, investment, asset or liability management purposes relating to Parity Bonds, (2) is entered into on either a current or forward basis with a Qualified Counterparty, (3) is authorized by any applicable laws of the State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, (4) provides for an exchange of payments based on interest rates, ceilings or floors on those payments, options on those payments, or any combination thereof or any similar device and (5) expressly provides that the District's obligation to make regularly scheduled payments thereunder constitutes a charge on Net Revenue equal in rank with the charge upon Net Revenue required to be paid into the Bond Fund to pay the principal of and interest on the Parity Bonds.

**"Payment Agreement Payments"** mean the regularly scheduled payments (netted, if applicable) required to be paid by the District to the Qualified Counterparty pursuant to a Payment Agreement.

**"Payment Agreement Receipts"** mean the regularly scheduled amounts (netted, if applicable) required to be paid by the Qualified Counterparty to the District pursuant to a Payment Agreement.

**"Qualified Counterparty"** means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) at the time of execution of the Payment Agreement, (a) whose claims-paying ability is or senior unsecured debt obligations are rated in one of the three highest rating categories of each of at least two Rating Agencies or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by an entity whose claims-paying ability is or senior unsecured debt obligations are rated in one of the three highest rating categories of each of at least two Rating Agencies (in each case, without regard to any gradations within a rating category), and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

Exhibit B  
Description of Projects

Proceeds of the Bonds may be used for capital projects identified in the CIP, as it may be amended, updated, supplemented or replaced from time to time, including but not limited to the following:

- Improvements to the Olympus Meadows Trunk;
- Sewer capacity improvements as provided in the King County and District Amendment to the Sewage Disposal Agreement dated March 4, 2013;
- Extension of the Swamp Creek interceptor sewer line;
- Gravity piping and other improvements to the Picnic Point Wastewater Treatment Plant;
- Construction of and modifications to lift stations;
- Improvements to sewer lines and water mains;
- Improvements to Martha Lake Gateway sewer; and
- Other capital projects as set forth in the CIP or determined to be necessary from time to time.

Exhibit C  
FORM OF CERTIFICATE OF AWARD

ALDERWOOD WATER & WASTEWATER DISTRICT  
SNOHOMISH COUNTY, WASHINGTON  
WATER AND SEWER REVENUE BONDS, 2013[ ]

ALDERWOOD WATER & WASTEWATER  
DISTRICT, SNOHOMISH COUNTY,  
WASHINGTON

By: \_\_\_\_\_  
[ ]

With respect to the above-captioned bonds (the "Bonds"), the undersigned certify as follows:

1. The undersigned is the Designated Representative of the Alderwood Water & Wastewater District, Snohomish County, Washington (the "District"), and make this certification for and on behalf of the District pursuant to the authorization and direction contained in Resolution No. 2618-2013 of the District passed by the Board of Commissioners of the District on September 16, 2013 (the "Resolution").
2. In accordance with the Resolution, the Notice of Sale dated [ ], 2013, has been prepared and distributed. Attached as Annex A hereto is the Notice of Sale, together with any amendments or supplements.
3. On [ ] [date of Bond sale], 2013, bids for the purchase of the Bonds, as summarized on Annex B hereto, were received and opened in accordance with the Notice of Sale.
4. The sale of the Bonds is hereby awarded to [ ] (the "Purchaser"), the Purchaser's bid being the best responsible bid determined by the method of calculation therefor contained in the Notice of Sale as follows:  
  
True Interest Cost: [ ]% [as resized from the original bid of [ ]%]  
  
A copy of the Purchaser's bid setting forth interest rates and purchase price for the Bonds is attached as Annex C hereto.
5. The Bonds shall be dated, mature, bear interest and be subject to redemption and other terms, all as set forth in Annex D hereto. Proceeds of the Bonds shall be disbursed for the purposes provided in the Resolution.
6. All bids received other than that of the Purchaser are hereby rejected.

Dated: [ ] [date of Bond sale], 2013

AWWD Res. No. 2618-2013

C-1

September 16, 2013

AWWD Res. No. 2618-2013

C-2

September 16, 2013

CERTIFICATE

I, the undersigned, Secretary of the Board of Commissioners (the "Board") of Alderwood Water & Wastewater District, Snohomish County, Washington (the "District"), DO HEREBY CERTIFY:

1. That the attached is a true and correct copy of Resolution No. 2618-2013 (the "Resolution") of the District, duly passed at a regular meeting of the Board held on September 16, 2013.
2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said Resolution; that all other requirements and proceedings incident to the proper passage of said Resolution have been fully fulfilled, carried out and otherwise observed; and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 16th day of September, 2013.

ALDERWOOD WATER & WASTEWATER  
DISTRICT, SNOHOMISH COUNTY,  
WASHINGTON

By: \_\_\_\_\_  
Secretary, Board of Commissioners

## APPENDIX B

### FORM OF BOND COUNSEL OPINION

October 9, 2013

Alderwood Water & Wastewater District  
Snohomish County, Washington

Janney Montgomery Scott LLC  
Philadelphia, Pennsylvania

Re: Alderwood Water & Wastewater District, Snohomish County, Washington  
Water and Sewer Revenue Bonds, 2013 — \$25,000,000

Ladies and Gentlemen:

We have acted as bond counsel to Alderwood Water & Wastewater District, Snohomish County, Washington (the “District”), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the District of its Water and Sewer Revenue Bonds, 2013, in the principal amount of \$25,000,000 (the “Bonds”) issued pursuant to Resolution No. 2618-2013 passed by the Board of Commissioners on September 16, 2013 (the “Bond Resolution”), to finance certain improvements to the water and sewer system of the District and pay costs of issuance of the Bonds. Capitalized terms used in this opinion have the meanings given such terms in the Bond Resolution.

The Bonds are subject to redemption prior to maturity as provided in the Bond Resolution.

Regarding questions of fact material to our opinion, we have relied on representations of the District in the Bond Resolution and in the certified proceedings and on other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been legally issued and constitute valid and binding special obligations of the District, both principal thereof and interest thereon payable solely out of the Bond Fund, except to the extent that the enforcement of the rights and remedies of the holders of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The Bond Resolution is a legal, valid and binding obligation of the District, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that enforcement may be limited by laws relating to bankruptcy, insolvency, moratorium, reorganization or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

3. The District has irrevocably bound itself to set aside and pay into said Bond Fund out of Gross Revenue of the System certain fixed amounts necessary to pay and secure the payment of the principal of and interest on the Bonds as the same become due. The District has further pledged that the payments to be made into the Bond Fund out of Gross Revenue of the System shall constitute a lien and charge upon such Gross Revenue superior to all other charges of any kind or nature whatsoever, except for Operation and Maintenance Expenses of the System, and equal in rank to the lien and charge on such Gross Revenue to pay and secure the payment of the principal of and interest on the District’s Outstanding Parity Bonds and any Future Parity Bonds that may be issued after this date on a parity with such bonds and the Bonds. The District has reserved the right to issue Future Parity Bonds on the terms and conditions set forth in the Bond Resolution.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all applicable requirements. Failure to comply with certain of such covenants may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

The District has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code.

Except as expressly stated above, we express no opinion regarding any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds, which may include original issue discount, original issue premium, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PACIFICA LAW GROUP LLP

**APPENDIX C**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING DECEMBER 31, 2012 (AUDITED)**

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**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**Alderwood Water and Wastewater  
District  
Snohomish County**

Audit Period  
January 1, 2012 through December 31, 2012

Report No. 1010091

Issue Date  
July 8, 2013



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

July 8, 2013

Board of Commissioners  
Alderwood Water and Wastewater District  
Lynnwood, Washington

***Report on Financial Statements***

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

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

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

# Table of Contents

**Alderwood Water and Wastewater District  
Snohomish County  
January 1, 2012 through December 31, 2012**

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# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

## **Alderwood Water and Wastewater District Snohomish County January 1, 2012 through December 31, 2012**

Board of Commissioners  
Alderwood Water and Wastewater District  
Lynnwood, Washington

We have audited the financial statements of each major fund of the Alderwood Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2012 and 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 13, 2013.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

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

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

This report is intended for the information and use of management and the Board of Commissioners. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



**TROY KELLEY**  
STATE AUDITOR

May 13, 2013

# Independent Auditor's Report on Financial Statements

## **Alderwood Water and Wastewater District Snohomish County January 1, 2012 through December 31, 2012**

Board of Commissioners  
Alderwood Water and Wastewater District  
Lynnwood, Washington

### ***REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying financial statements of each major fund of the Alderwood Water and Wastewater District, Snohomish County, Washington, as of and for the years ended December 31, 2012 and 2011, which collectively comprise the District's basic financial statements as listed on page 5.

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

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

#### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Alderwood Water and Wastewater District, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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



**TROY KELLEY**  
STATE AUDITOR

May 13, 2013

# Financial Section

**Alderwood Water and Wastewater District  
Snohomish County  
January 1, 2012 through December 31, 2012**

***REQUIRED SUPPLEMENTARY INFORMATION***

Management's Discussion and Analysis – 2012 and 2011

***BASIC FINANCIAL STATEMENTS***

Comparative Statement of Net Position – 2012 and 2011

Comparative Statement of Revenue, Expenses and Changes in Fund Net Position –  
2012 and 2011

Comparative Statement of Cash Flows – 2012 and 2011

Notes to Financial Statements – 2012 and 2011

Alderwood Water & Wastewater District  
Management's Discussion and Analysis  
For the years ended December 31, 2012 and December 31, 2011

As Management of the Alderwood Water & Wastewater District (District) we have prepared a narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2012 and December 31, 2011. Please read this in conjunction with the financial statements, including the notes to the financial statements, which follow.

**Financial Highlights**

- For the year ending December 31, 2012, the assets of the District exceeded its liabilities by \$396 Million. Of this amount, referred to as net position, 20% or \$80.6 Million is shown as unrestricted and may be used to meet the District's ongoing obligations. The remaining net position is invested in capital assets (\$310.2 Million or 78%) or restricted for debt service payments and reserves.
- As of the end of 2012, the District's total net position increased by \$7.1 Million or 2% from the prior year. The major component of this increase is developer contributions of \$4.8 million in system improvements and new customer contributions of \$3.3 in General Facilities Charges. Net Position for the Water Fund increased \$2 million or 1.1% and the Net Position for the Wastewater Fund increased \$5.1 million or 2.4%.
- Total utility plant or capital assets of the District increased by \$21.3 million or 5.6% in 2012, over the prior year. \$17 million is associated with capital assets still under construction. The District will complete replacement of significant portions of the pre-1950 water mains located underneath Highway 99 between 148<sup>th</sup> Street and 116<sup>th</sup> Street. The Picnic Point Wastewater Treatment Facility should also be completed in 2013.

**Overview of the Financial Statements**

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

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

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

items and begin to make a determination whether the changes, taken as a whole, indicate the District's financial position has improved or deteriorated.

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

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

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

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

### **Financial Position**

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

## **Total Net Position (Dollars in Millions)**

	<u>Water</u>			<u>Wastewater</u>			<u>Total</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 59.2	\$ 67.2	\$ 66.4	\$ 35.6	\$ 45.6	\$ 61.1	\$ 94.9	\$ 112.8	\$ 127.4
Capital Assets	163.7	156.0	154.0	232.5	218.9	203.3	396.2	374.9	357.4
Total Assets	222.9	223.2	220.4	268.1	264.5	264.4	491.1	487.7	484.8
Long-Term Liabilities	36.9	39.9	42.7	46.7	47.7	47.6	83.7	87.7	90.4
Other Liabilities	6.8	6.0	5.0	4.7	5.2	3.0	11.4	11.2	8.0
Total Liabilities	43.7	45.9	47.7	51.4	53.0	50.6	95.1	98.8	98.4
Invested in Capital Assets									
Net of Related Debt	125.2	114.6	109.9	185.1	170.2	155.3	310.2	284.8	265.3
Restricted	3.6	6.8	11.1	1.5	3.0	2.9	5.2	9.8	14.0
Unrestricted	50.5	55.9	51.6	30.1	38.4	55.6	80.6	94.3	107.2
Total Net Position	<u>\$ 179.3</u>	<u>\$ 177.3</u>	<u>\$ 172.6</u>	<u>\$ 216.7</u>	<u>\$ 211.6</u>	<u>\$ 213.8</u>	<u>\$ 396.0</u>	<u>\$ 388.9</u>	<u>\$ 386.4</u>

### **Analysis of changes in Total Net Position from 2011-2012:**

For the twelve months ending December 31, 2012, the total net position of the District increased by \$7.1 million or 1.8% (\$388.9 million to \$396.0 million). As of December 31, 2012, the District had \$80.6 million in unrestricted net position that can be used to provide services and construct capital projects for the benefit of the District's customers. This is a decrease of \$13.7 million (\$284.4 million to \$310.2), largely the result of investing current assets in capital projects. The remainder of the District's net position of \$315.4 million is capital assets such as land, buildings, mains, reservoirs, a treatment plant or cash restricted to a specific use such as debt service payments and reserves. As the result of spending cash to construct capital projects, net position invested in capital assets, net of debt increased by \$25.4 million or 8% in 2012. The District continues to invest in an aggressive capital improvement program to ensure that infrastructure is dependable and has sufficient capacity for future growth.

### **Analysis of changes in Total Net Position from 2010-2011:**

For the twelve months ending December 31, 2011, the total net position of the District increased by \$2.5 million or less than 1% (\$386.4 million to \$388.9 million). The major components of the increase are: developer contributions of \$4.2 million in system improvements (distribution and collection lines), and new customer contributions of \$3.0 million in general facilities charges. The other material component was a loss of \$4.1 million in Income before Capital Contributions largely due to the losses from capital asset disposition. As of December 31, 2011, the District had \$94.3 million in unrestricted net position that can be used to provide services and construct capital projects for the benefit of the District's customers. The remainder of the District's net position of \$294.6 million is capital assets such as land, buildings, mains, reservoirs, a treatment plant or cash restricted to a specific use such as debt service payments and reserves.

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

	Water			Wastewater			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Utility Revenue	\$ 31.0	\$ 27.5	\$ 26.5	\$ 34.5	\$ 31.8	\$ 29.9	\$ 65.5	\$ 59.3	\$ 56.4
Nonoperating Revenue	1.0	0.6	0.6	1.2	0.6	0.7	2.2	1.2	1.2
<b>Total Revenues</b>	<b>32.0</b>	<b>28.1</b>	<b>27.1</b>	<b>35.7</b>	<b>32.4</b>	<b>30.6</b>	<b>67.7</b>	<b>60.5</b>	<b>57.7</b>
Operation Expenses	19.2	16.0	15.9	24.2	22.9	20.1	43.4	38.9	36.0
Maintenance Expenses	4.9	3.4	2.2	1.9	1.7	1.4	6.8	5.1	3.6
Depreciation Expenses	5.0	5.5	4.9	6.8	6.9	3.7	11.8	12.5	8.6
Taxes	1.1	1.0	1.0	0.4	0.3	0.3	1.5	1.4	1.3
Total Operating Expenses	30.1	26.0	24.0	33.3	31.9	25.5	63.4	57.8	49.5
Nonoperating Expenses	3.4	1.7	1.7	1.9	5.7	1.6	5.2	7.4	3.3
<b>Total Expenses</b>	<b>33.5</b>	<b>27.7</b>	<b>25.6</b>	<b>35.2</b>	<b>37.5</b>	<b>27.1</b>	<b>68.6</b>	<b>65.2</b>	<b>52.8</b>
Inc. Before Cap. Contributions	(1.5)	0.4	1.5	0.5	(5.1)	3.5	(0.9)	(4.7)	4.9
Capital Contributions									
Contributed Systems	1.3	2.3	3.0	3.5	1.9	3.2	4.8	4.2	6.2
Other Capital Contributions	2.2	1.9	1.6	1.1	1.0	0.6	3.3	3.0	2.3
Change in Net Position	2.0	4.7	6.1	5.1	(2.2)	7.3	7.1	2.4	13.4
Beginning Net Position	177.3	172.6	166.6	211.6	213.8	206.5	388.9	386.4	373.1
<b>Ending Net Position</b>	<b>\$ 179.3</b>	<b>\$ 177.3</b>	<b>\$ 172.6</b>	<b>\$ 216.7</b>	<b>\$ 211.6</b>	<b>\$ 213.8</b>	<b>\$ 396.0</b>	<b>\$ 388.9</b>	<b>\$ 386.4</b>

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

Income or loss before Capital Contributions for 2012 increased from Income before Capital Contributions in 2011 by \$3.8 million (\$0.9 million loss vs. \$4.7 million loss). This was the result of an increase in total revenue of \$7.2 million and a smaller increase in total expenses of \$3.4 million. Part of the increase in income was due to a change in how contributed and sold water meters are treated for accounting purposes. Prior to 2012, water meters contributed by developers and meters sold by the District were considered a capital system contribution and a capital asset. However, individually most contributed meters did not meet the District's capitalization threshold of \$5,000, so the contribution is now recognized as utility revenue and the meter expensed during the current year. In 2012 charges for other services, relating to the sale and contributions of water meters was \$1 million. Nonoperating expenses decreased by \$2.2 million (\$5.2 million from \$7.4 million) and operating expenses increased \$5.6 million (\$63.4 Million for 2012 vs. \$57.8 million for 2011). The primary reason for the decrease in nonoperating expenses is that the District recognized a \$3.8 loss from disposition of capital assets in 2011 and only a \$1.5 million loss from disposition of capital assets in 2012. The loss on disposition of capital assets in 2012 was in part, the result of removing water meters from capital assets as part of an ongoing advanced metering infrastructure program.

Capital contributions include 1) developer contributed systems, a non-cash transaction, and 2) customer payments of connection charges, a cash capital contribution, which are reported on the Statement of Revenues, Expenses, and Changes in Net Position. Developers contributed \$4.8 million in water and sewer mains and \$3.3 million in capital contribution (general facilities charges). This is an increase in developer contributions of \$.6 Million or 14% (\$4.8 million from \$4.2 million) and an increase in general facilities charges of \$.3 million or 10% (\$3.3 million from \$3.0 million).

Analysis of changes in Revenues, Expenses, and Changes in Fund Net Position from 2010-2011:

Income or loss before Capital Contributions for 2011 decreased from Income before Capital Contributions in 2010 by \$9.6 million (\$4.7 million loss vs. \$4.9 million income). This is due to an increase in nonoperating expenses of \$4.1 million (\$7.4 million from \$3.3 million) and operating expenses increasing \$8.3 million (\$57.8 million for 2011 vs. \$49.5 million for 2010). The primary increase in nonoperating expenses is due to \$3.8 million losses from disposition of capital assets. During 2011, construction continued on the upgrade and expansion of the Wastewater Treatment Plant, much of the existing facility was demolished with little or no salvage value and the loss was the remaining book value of the original plant assets.

Capital contributions include 1) developer contributed systems, a non-cash transaction, and 2) customer payments of connection charges, a cash capital contribution, which are reported on the Statement of Revenues, Expenses, and Changes in Net Position. Developers contributed \$4.2 million in water and sewer mains and \$3.0 million in capital contribution (general facilities charges). This is a decrease in developer contributions of \$2.0 Million or 32% (\$4.2 million from \$6.2 million) but an increase in general facilities charges of \$.7 million or 30% (\$3.0 million from \$2.3 million).

**Capital Assets (Dollars in Millions)**

	<u>Water</u>			<u>Wastewater</u>			<u>Total</u>		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Land and Land Rights	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.4	\$ 0.4	\$ 0.8	\$ 0.8	\$ 0.8
Construction in Progress	16.5	11.9	7.8	57.6	45.3	98.1	74.2	57.2	105.9
<b>Total Plant not depreciated</b>	<b>17.0</b>	<b>12.3</b>	<b>8.3</b>	<b>58.0</b>	<b>45.7</b>	<b>98.5</b>	<b>75.0</b>	<b>58.0</b>	<b>106.8</b>
Miscellaneous Intangible Plant	1.3	1.3	1.8	1.0	1.0	1.4	2.4	2.4	3.2
Structures & Improvements	26.9	26.8	26.8	88.2	88.2	17.4	115.0	115.0	44.2
Mains, Meters, Hydrants	166.8	167.6	164.9	133.4	125.9	123.6	300.2	293.5	288.5
Computers, Equipment & Furniture	4.4	4.0	4.1	5.9	5.6	9.7	10.3	9.6	13.8
<b>Total Plant being depreciated</b>	<b>199.4</b>	<b>199.7</b>	<b>197.7</b>	<b>228.5</b>	<b>220.7</b>	<b>152.1</b>	<b>427.9</b>	<b>420.5</b>	<b>349.7</b>
<b>Less Accumulated Depreciation</b>	<b>(52.7)</b>	<b>(56.1)</b>	<b>(51.9)</b>	<b>(54.1)</b>	<b>(47.5)</b>	<b>(47.3)</b>	<b>(106.8)</b>	<b>(103.6)</b>	<b>(99.2)</b>
<b>Total Utility Plant</b>	<b>\$ 163.7</b>	<b>\$ 155.9</b>	<b>\$ 154.0</b>	<b>\$ 232.5</b>	<b>\$ 218.9</b>	<b>\$ 203.3</b>	<b>\$ 396.2</b>	<b>\$ 374.9</b>	<b>\$ 357.4</b>

Analysis of changes in Capital Assets from 2011-2012:

Total Plant being depreciated increased \$7.4 million (from \$420.5 million to \$427.9). The water division reduced depreciable assets by \$.3 million (\$199.7 million to \$199.4 million). The primary reason for the reduction was a change in policy regarding the capitalization of small water service meters. In the past, the District capitalized water meters in bulk, however, individually these meters are far less than the \$5,000 capitalization threshold. Because the District is in the process of upgrading water meters throughout the District, water meters are being removed from capital assets but not replaced because they are under the capitalization threshold. The wastewater utility added \$7.8 million in depreciable assets or 3.5% (\$220.7 million to \$228.5 million). The increase is primarily due to the addition of \$7.5 million in sewer mains.

### Analysis of changes in Capital Assets from 2010-2011:

Total Plant being depreciated increased \$70.8 million (from \$349.7 million to \$420.5). The water division added \$2.0 million in depreciable assets or 1% (\$197.7 million to \$199.7 million). The wastewater utility added \$68.6 million in depreciable assets or 45% (\$152.1 million to \$220.7 million). The increase is primarily due to the addition of \$70.8 million in structures and improvements associated with the Picnic Point Wastewater Treatment Plant expansion project which will increase capacity from 3 to 6 million gallons a day. In addition, the District increased Mains, Meters and Hydrants by \$5.0 million (\$288.5 million to \$293.5 million). The decrease in Computers, Equipment & Furniture was due primarily to two factors: 1) a portion of the sewage treatment equipment was included in the demolition of the older treatment facility and had little or no salvage value and 2) the District made an effort in 2011 to inventory and confirm the existence of older fully depreciated assets.

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

### Long-Term Liabilities

At the end of the current fiscal year, the District had total long term debt outstanding of \$86,676,222; this is a net decrease of \$4,049,611 as the result of normal repayment. The District is rated by Standard and Poor's (S&P) as "AA+". In April, 2013, S&P affirmed its "AA+" rating for the District. Additional detailed information about the District's long-term debt can be found in Note 5, of the notes to the financial statements.

**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Comparative Statement of Net Position**

**DECEMBER 31, 2012**

	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 27,860,848	\$ 7,732,881	\$ 35,593,729
Petty Cash	3,200	-	3,200
Investments	21,306,266	19,717,110	41,023,376
Receivables, net	3,629,761	4,769,945	8,399,706
Inventories	1,184,662	35,450	1,220,112
Prepayments	329,072	323,458	652,530
Other Current/Accrued Assets	64,634	124,360	188,994
<b>TOTAL CURRENT ASSETS</b>	<u>54,378,443</u>	<u>32,703,204</u>	<u>87,081,647</u>
Noncurrent Assets:			
Restricted cash/equivalents	1,234,571	669,814	1,904,385
Deposits with Fiscal Agents/Trustees	100,007	-	100,007
Restricted Investments	2,396,223	1,539,142	3,935,365
Unamortized Debt Discount/Expense	338,220	267,484	605,704
Assessments Receivable	-	478,385	478,385
Investment in Clearview Water Supply Agency	811,183	-	811,183
Capital Assets Not Being Depreciated:			
Land	460,838	314,243	775,081
Construction Works in Progress	16,546,958	57,636,072	74,183,030
Other Utility Plant	-	50,494	50,494
Capital Assets Being Depreciated:			
Plant	26,716,024	89,235,293	115,951,317
Distribution and collection systems	160,041,835	133,394,687	293,436,522
Machinery and equipment	12,614,809	5,904,252	18,519,061
Less accumulated depreciation	(52,690,343)	(54,074,883)	(106,765,226)
<b>TOTAL NONCURRENT ASSETS</b>	<u>168,570,325</u>	<u>235,414,983</u>	<u>403,985,308</u>
<b>TOTAL ASSETS</b>	<u>222,948,768</u>	<u>268,118,187</u>	<u>491,066,955</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	3,413,019	2,831,772	6,244,791
Other Current/Accrued Liabilities	163,603	141,606	305,209
Compensated Absences	89,331	89,299	178,630
Customer Deposits	205,081	386,511	591,592
Bonds, Notes and Loans Payable	2,899,897	1,213,615	4,113,512
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,770,931</u>	<u>4,662,803</u>	<u>11,433,734</u>
Noncurrent Liabilities:			
Bonds, Notes and Loans Payable	35,650,660	46,197,534	81,848,194
Compensated Absences	267,993	267,896	535,889
Interest Accrued	147,085	247,028	394,113
Unamortized Debt Premium/Expense	839,888	28,829	868,717
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>36,905,626</u>	<u>46,741,287</u>	<u>83,646,913</u>
<b>TOTAL LIABILITIES</b>	<u>43,676,557</u>	<u>51,404,090</u>	<u>95,080,647</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	125,139,564	185,049,009	310,188,573
Restricted for debt service	3,630,794	2,208,956	5,839,750
Unrestricted	50,501,853	29,456,132	79,957,985
<b>TOTAL NET POSITION</b>	<u>\$ 179,272,211</u>	<u>\$ 216,714,097</u>	<u>\$ 395,986,308</u>

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

**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Comparative Statement of Net Position**

**DECEMBER 31, 2011**

<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
\$ 38,527,562	\$ 20,539,562	\$ 59,067,124
3,200	-	3,200
15,576,522	16,151,516	31,728,038
3,605,390	4,624,383	8,229,773
1,205,671	26,426	1,232,097
278,041	267,823	545,864
51,706	92,785	144,491
<u>59,248,092</u>	<u>41,702,495</u>	<u>100,950,587</u>
4,383,581	1,422,145	5,805,726
-	-	-
2,377,990	1,545,825	3,923,815
403,477	306,328	709,805
-	644,846	644,846
811,183	-	811,183
460,838	314,243	775,081
11,874,397	45,287,806	57,162,203
-	50,494	50,494
26,686,167	89,206,612	115,892,779
165,699,002	125,908,276	291,607,278
7,355,119	5,609,122	12,964,241
(56,134,218)	(47,460,358)	(103,594,576)
<u>163,917,536</u>	<u>222,835,339</u>	<u>386,752,875</u>
<u>223,165,628</u>	<u>264,537,834</u>	<u>487,703,462</u>
2,811,153	3,296,916	6,108,069
4,495	33	4,528
85,912	85,182	171,094
234,035	412,805	646,840
<u>2,814,897</u>	<u>1,448,506</u>	<u>4,263,403</u>
<u>5,950,492</u>	<u>5,243,442</u>	<u>11,193,934</u>
38,550,558	47,227,499	85,778,057
257,735	255,547	513,282
154,772	193,417	348,189
979,869	36,189	1,016,058
<u>39,942,934</u>	<u>47,712,652</u>	<u>87,655,586</u>
<u>45,893,426</u>	<u>52,956,094</u>	<u>98,849,520</u>
114,575,850	170,240,190	284,816,040
6,761,571	2,967,970	9,729,541
55,934,781	38,373,580	94,308,361
<u>\$ 177,272,202</u>	<u>\$ 211,581,740</u>	<u>\$ 388,853,942</u>

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

**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Comparative Statement of Revenue, Expenses & Changes in Fund Net Position**

	<b>DECEMBER 31, 2012</b>		
	<b>Water Fund</b>	<b>Wastewater Fund</b>	<b>Total</b>
<b>OPERATING REVENUE:</b>			
Utility Revenue	\$ 29,939,114	\$ 34,494,862	\$ 64,433,976
Other Charges for Services	1,035,856	-	1,035,856
Total Operating Revenue	30,974,970	34,494,862	65,469,832
<b>OPERATING EXPENSES:</b>			
General Operations	5,846,120	6,004,836	11,850,956
Purchased Water/Wastewater	13,353,668	18,160,577	31,514,245
Maintenance Expense	4,869,794	1,917,601	6,787,395
Depreciation Expense	4,962,219	6,814,451	11,776,670
Taxes	1,086,234	381,311	1,467,545
Total Operating Expenses	30,118,035	33,278,776	63,396,811
<b>OPERATING INCOME (LOSS)</b>	856,935	1,216,086	2,073,021
<b>NONOPERATING REVENUE(EXPENSES):</b>			
Interest and Investment Revenue	841,420	1,038,170	1,879,590
Rent	106,396	-	106,396
Gains (Losses) on Capital Asset Disposition	(1,608,539)	149,556	(1,458,983)
Interest on Long-Term Debt	(1,741,731)	(1,841,697)	(3,583,428)
Amortization Debt Discount Expense/Premium	74,725	(31,483)	43,242
Total Nonoperating Revenues (Expenses)	(2,327,729)	(685,454)	(3,013,183)
Income Before Capital Contributions	(1,470,794)	530,632	(940,162)
Capital Contributions			
Contributed Systems	1,286,402	3,491,271	4,777,673
Other Capital Contributions	2,184,401	1,110,454	3,294,855
Total Capital Contributions	3,470,803	4,601,725	8,072,528
<b>CHANGE IN NET POSITION</b>	2,000,009	5,132,357	7,132,366
<b>TOTAL NET POSITION, January 1</b>	177,272,202	211,581,740	388,853,942
<b>TOTAL NET POSITION, December 31</b>	\$ 179,272,211	\$ 216,714,097	\$395,986,308

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

**ALDERWOOD WATER & WASTEWATER DISTRICT**

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

<b>DECEMBER 31, 2011</b>		
<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
\$ 27,511,872	\$ 31,781,529	\$ 59,293,401
<u>-</u>	<u>-</u>	<u>-</u>
<u>27,511,872</u>	<u>31,781,529</u>	<u>59,293,401</u>
5,160,796	5,128,819	10,289,615
10,827,434	17,767,393	28,594,827
3,366,128	1,691,135	5,057,263
5,549,109	6,941,288	12,490,397
1,048,023	326,105	1,374,128
<u>25,951,490</u>	<u>31,854,740</u>	<u>57,806,230</u>
<u>1,560,382</u>	<u>(73,211)</u>	<u>1,487,171</u>
485,932	633,918	1,119,850
101,968	-	101,968
14,117	(3,773,164)	(3,759,047)
(1,817,542)	(1,866,197)	(3,683,739)
74,725	(31,483)	43,242
<u>(1,140,800)</u>	<u>(5,036,926)</u>	<u>(6,177,726)</u>
<u>419,582</u>	<u>(5,110,137)</u>	<u>(4,690,555)</u>
2,313,811	1,854,280	4,168,091
1,924,137	1,042,335	2,966,472
<u>4,237,948</u>	<u>2,896,615</u>	<u>7,134,563</u>
<u>4,657,530</u>	<u>(2,213,522)</u>	<u>2,444,008</u>
172,614,672	213,795,262	386,409,934
<u>\$ 177,272,202</u>	<u>\$ 211,581,740</u>	<u>\$388,853,942</u>

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

**ALDERWOOD WATER & WASTEWATER DISTRICT**  
**Comparative Statement of Cash Flows**

	DECEMBER 31, 2012		
	Water Fund	Wastewater Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash received from customers	\$ 30,950,599	\$ 34,349,299	\$ 65,299,898
Cash paid for purchased water	(12,853,171)	-	(12,853,171)
Cash paid to other municipalities for sewage treatment	-	(18,166,551)	(18,166,551)
Cash payments to suppliers for goods & services	(6,645,410)	(4,477,358)	(11,122,768)
Cash payments to employees for services	(4,054,879)	(3,345,258)	(7,400,137)
Cash payments of taxes	(1,104,192)	(382,085)	(1,486,277)
<b>Net Cash Provided by Operating Activities</b>	<b>6,292,947</b>	<b>7,978,047</b>	<b>14,270,994</b>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>			
Acquisition and construction of capital assets	(12,458,280)	(16,915,910)	(29,374,190)
Cash payments to employees for services	(327,583)	(267,132)	(594,715)
Principal received on ULID assessments	-	166,461	166,461
Interest received on ULID assessments	-	38,561	38,561
Principal paid on Bonds	(2,555,000)	(355,000)	(2,910,000)
Proceeds from PWTF Loan	-	-	-
Cash deposited with fiscal agent	(100,007)	-	(100,007)
Principal paid on WA State Revolving Fund Loan	-	(421,752)	(421,752)
Principal paid on PWTF Loan	(259,897)	(488,103)	(748,000)
Interest paid on bonds and loans	(1,749,418)	(1,788,086)	(3,537,504)
Capital contributed by developers	2,184,401	1,110,454	3,294,855
Proceeds from sale of equipment / real estate	-	-	-
Cash received on rental of real estate	106,396	-	106,396
Net receipts from customer deposits & performance bonds	(28,954)	(26,294)	(55,248)
<b>Net Cash Provided (Used) for Capital Financing Activities</b>	<b>(15,188,342)</b>	<b>(18,946,801)</b>	<b>(34,135,143)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from sale and maturities of investments	41,160,519	21,477,944	62,638,463
Purchase of investments	(46,673,739)	(24,981,424)	(71,655,163)
Interest received on investments	592,891	913,222	1,506,113
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>(4,920,329)</b>	<b>(2,590,258)</b>	<b>(7,510,587)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(13,815,724)</b>	<b>(13,559,012)</b>	<b>(27,374,736)</b>
Cash and Equivalents at Beginning of Year	42,911,143	21,961,707	64,872,850
<b>Cash and Equivalents at End of Year (Note 7) *</b>	<b>\$ 29,095,419</b>	<b>\$ 8,402,695</b>	<b>\$ 37,498,114</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Net Operating Income	\$ 856,935	\$ 1,216,086	\$ 2,073,021
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,962,219	6,814,451	11,776,670
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	(32,277)	34,977	2,700
Decrease (Increase) in materials and supplies	(497,336)	(9,024)	(506,360)
Decrease (Increase) in prepayments	(51,031)	(55,635)	(106,666)
Decrease (Increase) in accrued revenue	7,906	(175,854)	(167,948)
Increase (Decrease) in accounts payable	872,354	(4,139)	868,215
Increase (Decrease) in misc. current and long term liabilities	174,177	157,185	331,362
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 6,292,947</b>	<b>\$ 7,978,047</b>	<b>\$ 14,270,994</b>
<b>* RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:</b>			
Cash and Cash Equivalents	\$ 27,860,848	\$ 7,732,881	\$ 35,593,729
Restricted Funds	1,234,571	669,814	1,904,385
<b>Total Cash and Cash Equivalents</b>	<b>\$ 29,095,419</b>	<b>\$ 8,402,695</b>	<b>\$ 37,498,114</b>
<b>NONCASH INVESTING, CAPITAL AND FINANCIAL ACTIVITIES:</b>			
Contributions of capital assets from developers	\$ 1,286,402	\$ 3,491,271	\$ 4,777,673
Increase(decrease) in fair market value of investments	\$ 126,847	\$ (146,126)	\$ (19,279)

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

**Alderwood Water & Wastewater District  
Comparative Statement of Cash Flows**

DECEMBER 31, 2011		
Water Fund	Wastewater Fund	Total
\$ 27,124,002	\$ 31,599,922	\$ 58,723,924
(10,224,438)	-	(10,224,438)
-	(17,438,033)	(17,438,033)
(5,466,945)	(4,047,880)	(9,514,825)
(3,629,066)	(2,789,516)	(6,418,582)
(1,027,251)	(326,609)	(1,353,860)
<u>6,776,302</u>	<u>6,997,884</u>	<u>13,774,186</u>
(4,384,692)	(22,957,594)	(27,342,286)
(458,277)	(384,632)	(842,909)
-	124,707	124,707
-	40,746	40,746
(2,430,000)	(400,000)	(2,830,000)
-	350,000	350,000
-	-	-
-	1,194,783	1,194,783
(259,897)	(488,103)	(748,000)
(1,824,916)	(1,897,662)	(3,722,578)
1,924,137	1,042,335	2,966,472
37,056	169,671	206,727
96,627	-	96,627
(50,408)	21,895	(28,513)
<u>(7,350,370)</u>	<u>(23,183,854)</u>	<u>(30,534,224)</u>
24,297,987	18,201,952	42,499,939
(23,005,169)	(16,737,335)	(39,742,504)
652,865	875,001	1,527,866
<u>1,945,683</u>	<u>2,339,618</u>	<u>4,285,301</u>
<u>1,371,615</u>	<u>(13,846,352)</u>	<u>(12,474,737)</u>
<u>41,539,528</u>	<u>35,808,059</u>	<u>77,347,587</u>
<u>\$ 42,911,143</u>	<u>\$ 21,961,707</u>	<u>\$ 64,872,850</u>
\$ 1,560,382	\$ (73,211)	\$ 1,487,171
5,549,109	6,941,288	12,490,397
(316,839)	(49,102)	(365,941)
(27,040)	3,491	(23,549)
(86,454)	(81,337)	(167,791)
(71,031)	(142,032)	(213,063)
118,344	372,717	491,061
49,831	26,070	75,901
<u>\$ 6,776,302</u>	<u>\$ 6,997,884</u>	<u>\$ 13,774,186</u>
\$ 38,527,562	\$ 20,539,562	\$ 59,067,124
4,383,581	1,422,145	5,805,726
<u>\$ 42,911,143</u>	<u>\$ 21,961,707</u>	<u>\$ 64,872,850</u>
\$ 2,313,811	\$ 1,854,280	\$ 4,168,091
\$ (126,662)	\$ (147,819)	\$ (274,481)

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Alderwood Water and Wastewater District (District) conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. Private-sector standards of accounting and financial reporting are also followed to the extent that those standards were issued prior to December 1, 1989, and do not conflict with those of the Governmental Accounting Standards Board (GASB). This is consistent with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which codifies those same standards and is effective for periods beginning after December 15, 2011. The District does not expect adoption of GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, next year, to impact the District's financial reports. The following is a summary of the most significant policies (including identification of those policies which result in material departures from generally accepted accounting principles):

a. Reporting Entity

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

b. Basis of Accounting and Presentation

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

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

(2) National Association of Regulatory Utility Commissioners

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

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

Unbilled utility service receivables are recorded at year-end.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued**

c. Cash and Cash Equivalents

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

d. Utility Plant and Depreciation  
See Note 3.

e. Restricted Funds

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

f. Receivables

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

g. Inventories

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

h. Investments  
See Note 2.

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

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

Sick leave may accumulate indefinitely and is payable upon retirement or death. Upon retirement, the employee will receive 50% of the accrued and unused sick leave. Upon death of an employee, his/her beneficiary will receive 50% of the accrued and unused sick leave. Annually an employee may sell back to the District accrued sick leave in excess of 384 hours at 50% of the current hourly rate. Vacation benefits are accrued for all employees. Sick leave benefit amounts for employees that may retire within three years are accrued.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

The recorded liability for accrued payroll, unpaid vacation and sick leave benefits at December 31, 2012 and 2011 are \$178,630 in current liabilities and \$535,889 in noncurrent liabilities, and \$171,094 and \$513,282 respectively.

j. Debt:

(1) Unamortized Debt Expenses

Costs relating to the sale of bonds are deferred and amortized over the lives of the various bond issues.

(2) Rebatable Arbitrage

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the District to rebate excess arbitrage earnings from bond proceeds to the federal government. The District elects the revenue reduction method whereby the arbitrage rebate is recorded as a reduction of interest revenue. The District contracts with a firm to independently calculate its arbitrage rebate liability, the District has no reportable arbitrage liability as of December 31, 2012.

k. Construction Financing:

(1) Sewer Facilities - City of Everett

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

l. Change in Accounting Policy

Prior to 2012, the District capitalized both newly installed water meters and replacement meters as lump sum in the year installed, as part of the total water system. However, most water meters including labor and other supplies did not meet the District's \$5,000 capitalization threshold. This practice, created some confusion later when the meter was replaced or removed; because the meters for the year were capitalized in bulk it was nearly impossible to identify the cost and the year the original individual meter was installed. As of 2012, the District expenses individual meters and appurtenance which are below the \$5,000 threshold. Developer contributed water meters, less than \$5,000, and revenue received as the result of meters being installed by District staff are classified as operating revenue under the title "Other Charges for Services" on the *Statement of Revenue, Expenses & Changes in Fund Net Position*.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS**

a. Deposits

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

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

As of December 31, 2012, and December 31, 2011, the District had the following deposits and investments:

	Water Fund 12/31/2012	Wastewater Fund 12/31/2012	Total 12/31/2012
Deposits:	\$ 1,854,463	\$ 1,939,848	\$ 3,794,311
Government Sponsored Enterprises:			
Current Assets-Investments	21,306,266	19,717,110	41,023,376
Restricted Funds	2,396,223	1,539,143	3,935,365
Total Government Sponsored Enterprise Investments	23,702,489	21,256,252	44,958,741
Investment in Local Government Investment Pool:			
Current Assets-Cash and Equivalents	23,185,484	5,039,230	28,224,714
Restricted Funds	4,055,472	1,423,618	5,479,089
Total Investment in Local Government Investment Pool	27,240,955	6,462,847	33,703,803
Total Deposits, Securities and Investment Pool	\$ 52,797,907	\$ 29,658,948	\$ 82,456,855

	Water Fund 12/31/2011	Wastewater Fund 12/31/2011	Total 12/31/2011
Deposits:	\$ 22,511,249	\$ 7,737,026	\$ 30,248,275
Government Sponsored Enterprises:			
Current Assets-Investments	15,576,522	16,151,516	31,728,038
Restricted Funds	2,377,990	1,545,825	3,923,815
Total Government Sponsored Enterprise Investments	17,954,512	17,697,341	35,651,853
Investment in Local Government Investment Pool:			
Current Assets-Cash and Equivalents	16,016,313	12,802,536	28,818,849
Restricted Funds	4,383,581	1,422,145	5,805,726
Total Investment in Local Government Investment Pool	20,399,894	14,224,681	34,624,575
Total Deposits, Securities and Investment Pool	\$ 60,865,655	\$ 39,659,048	\$ 100,524,703

b. Investments

Investments for the District are managed by the Director of Finance in accordance with the District's Investment Policy which incorporates the Eligible Investments for Public Funds, as authorized by the Washington State Treasurer and set forth in the Revised Code of Washington (RCW). The District's investment objectives are preservation of principal, liquidity, hold to maturity and yield in relation to the policy's risk constraints. While the District's investment policy allows for a wide range of investment vehicles, outside of investments in the Washington State Local Government Investment Pool

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS - continued**

(LGIP), the District is currently only trading in Government Sponsored Enterprise bonds. As of yearend, these investments were rated as AA+ by Standard & Poor's.

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

The District's investments are held in the District's name by a third-party custodian. The District's policy is to hold investments to maturity and has no expectation of having to sell any of its investments prior to maturity.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows distribution to the District's investments by maturity or earliest call date:

December 31, 2012

Investment Type	Fair Value	12 Months or less	13-24 Months	25-60 Months
Local Government Investment Pool	\$ 33,703,803	\$ 33,703,803	\$ -	\$ -
Federal National Mortgage Association	23,041,427	8,955,744	9,499,099	4,586,584
Federal Home Loan Bank	5,702,411	1,015,080	2,548,417	2,138,914
Federal Home Loan Mortgage Corporation	16,214,903	4,044,870	6,118,077	6,051,956
<b>Total Investments</b>	<b>\$ 78,662,544</b>	<b>\$ 47,719,497</b>	<b>\$ 18,165,593</b>	<b>\$ 12,777,454</b>
Maximum Investment by Maturity		<u>61%</u>	<u>23%</u>	<u>16%</u>

December 31, 2011

Investment Type	Fair Value	12 Months or less	13-24 Months	25-60 Months
Local Government Investment Pool	\$ 34,624,575	\$ 34,624,575	\$ -	\$ -
Federal National Mortgage Association	16,987,534	11,508,597	3,100,947	2,377,990
Federal Home Loan Bank	10,573,077	9,027,252	-	1,545,825
Federal Home Loan Mortgage Corporation	8,091,242	2,997,759	4,041,114	1,052,369
<b>Total Investments</b>	<b>\$ 70,276,428</b>	<b>\$ 58,158,183</b>	<b>\$ 7,142,061</b>	<b>\$ 4,976,184</b>
Maximum Investment by Maturity		<u>83%</u>	<u>10%</u>	<u>7%</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - DEPOSITS AND INVESTMENTS - continued**

Investments are stated at fair value on the comparative statement of net position. Changes in fair value, as measured by the underlying market value as reported by the third-party custodian are recorded and presented in the comparative statement of revenues, expenses, and changes in fund net position as interest and investment revenue. As of December 31, 2012 and 2011 the amount of total decrease in market value was \$293,760 and \$274,481, respectively. The District does not separately disclose realized gains and losses on the maturity or disposition of securities.

**NOTE 3 - UTILITY PLANT AND DEPRECIATION**

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

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

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

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

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

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

**Capital Asset Depreciation-Useful Lives**

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued**

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued**

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued**

Utility Plant activity for the year ended December 31, 2011 is as follows:

	Beginning Balance 1/1/2011	Increase	Decrease	Ending Balance 12/31/2011
<b>Water</b>				
<b>Utility Plant not being depreciated:</b>				
Land and Land Rights	\$ 460,838	\$ -	\$ -	\$ 460,838
Construction in Progress	7,811,727	4,924,415	861,745	11,874,397
<b>Total Utility Plant not being depreciated</b>	<b>8,272,565</b>	<b>4,924,415</b>	<b>861,745</b>	<b>12,335,235</b>
<b>Utility Plant being depreciated:</b>				
Miscellaneous Intangible Plant	1,824,563	23,785	509,059	1,339,289
Structures & Improvements	26,823,290			26,823,290
Wells & Supply Mains	653,889			653,889
Pumping Equipment	3,336,904			3,336,904
Water Treatment Equipment	16,494			16,494
Reservoirs & Standpipes	15,719,906			15,719,906
Mains	120,429,679	1,717,166	132,364	122,014,481
Meters, Meter Installations & Hydrants	24,747,524	1,563,252	476,463	25,834,313
Computers, Office Equipment & Furniture	823,660	89,749	255,904	657,505
Transportation Equipment	1,582,042	182,199	27,782	1,736,459
Other General Plant Equipment	1,706,896	19,437	118,573	1,607,760
<b>Total Utility Plant being depreciated</b>	<b>197,664,845</b>	<b>3,595,588</b>	<b>1,520,145</b>	<b>199,740,288</b>
<b>Less Accumulated Depreciation for:</b>				
Miscellaneous Intangible Plant	(1,091,985)	509,059	158,916	(741,842)
Structures & Improvements	(5,527,655)		1,077,332	(6,604,987)
Wells & Supply Mains	(340,974)		4,924	(345,898)
Pumping Equipment	(1,862,975)		255,267	(2,118,242)
Water Treatment Equipment	(16,494)			(16,494)
Reservoirs & Standpipes	(2,518,520)	-	314,898	(2,833,418)
Mains	(25,378,224)	1,590	1,626,110	(27,002,744)
Meters, Meter Installations & Hydrants	(12,286,066)	474,640	1,792,073	(13,603,499)
Computers, Office Equipment & Furniture	(684,792)	255,730	92,945	(522,007)
Transportation Equipment	(1,010,430)		144,292	(1,154,722)
Other General Plant Equipment	(1,202,058)	102,054	90,361	(1,190,365)
<b>Total Accumulated Depreciation</b>	<b>(51,920,173)</b>	<b>1,343,073</b>	<b>5,557,118</b>	<b>(56,134,218)</b>
<b>Total Utility Plant being depreciated, net</b>	<b>145,744,672</b>	<b>4,938,661</b>	<b>7,077,263</b>	<b>143,606,070</b>
<b>Total Utility Plant, Net</b>	<b>\$ 154,017,237</b>	<b>\$ 9,863,076</b>	<b>\$ 7,939,008</b>	<b>\$ 155,941,305</b>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued**

Utility Plant activity for the year ended December 31, 2011 is as follows:

	Beginning Balance 1/1/2011	Increase	Decrease	Ending Balance 12/31/2011
<b>Wastewater</b>				
<b>Utility Plant not being depreciated:</b>				
Land and Land Rights	\$ 364,737	\$ -	\$ -	\$ 364,737
Construction in Progress	98,173,256	28,312,296	81,197,746	45,287,806
<b>Total Utility Plant not being depreciated</b>	<b>98,537,993</b>	<b>28,312,296</b>	<b>81,197,746</b>	<b>45,652,543</b>
<b>Utility Plant being depreciated:</b>				
Miscellaneous Intangible Plant	1,377,811	114,718	450,813	1,041,716
Structures & Improvements	17,380,898	76,685,708	5,901,711	88,164,895
Mains	123,628,769	2,302,645	23,137	125,908,277
Pumping Equipment	2,669,341			2,669,341
Sewage Treatment Equipment	4,284,247	243,083	4,428,444	98,886
Computers, Office Equipment & Furniture	434,982	93,351	27,548	500,785
Transportation Equipment	1,449,077	76,565	118,159	1,407,483
Other General Plant Equipment	852,736	84,783	4,892	932,627
<b>Total Utility Plant being depreciated</b>	<b>152,077,861</b>	<b>79,600,853</b>	<b>10,954,704</b>	<b>220,724,010</b>
<b>Less Accumulated Depreciation for:</b>				
Miscellaneous Intangible Plant	(768,285)	444,941	171,149	(494,493)
Structures & Improvements	(5,375,846)	2,870,191	3,505,712	(6,011,367)
Mains	(35,401,020)	8,350	2,510,934	(37,903,604)
Pumping Equipment	(637,562)		310,573	(948,135)
Sewage Treatment Equipment	(3,363,218)	3,715,039	566,583	(214,762)
Computer Equipment	(292,733)	23,118	94,461	(364,076)
Transportation Equipment	(869,174)	104,911	120,603	(884,866)
Other General Plant Equipment	(569,348)	4,891	74,598	(639,055)
<b>Total Accumulated Depreciation</b>	<b>(47,277,186)</b>	<b>7,171,441</b>	<b>7,354,613</b>	<b>(47,460,358)</b>
<b>Total Utility Plant being depreciated, net</b>	<b>104,800,675</b>	<b>86,772,294</b>	<b>18,309,317</b>	<b>173,263,652</b>
<b>Total Utility Plant, Net</b>	<b>\$ 203,338,668</b>	<b>\$ 115,084,590</b>	<b>\$ 99,507,063</b>	<b>\$ 218,916,195</b>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CONSTRUCTION IN PROGRESS**

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

<b>Water Fund</b>	Project Number	Project Authorization	Expended Through at 12/31/12	Future Funds Committed at 12/31/12
HWY 99 Distribution System D10/11 148th to 116th	W0502	\$ 18,690,170	\$ 12,599,085	\$ 6,091,085
Sno. Co. 52nd Avenue W (148th to 168th)	W0804	539,930	18,930	521,000
I-5 Crossing - Trans Main (164th Vicinity) WM-10 (Ref. S7-2007)	W0806	6,165,479	365,992	5,799,487
Sno. Co. 49th Ave SE (236th Pl to 228th SE)	W0911	624,494	624,494	
Sno. Co. North Road (SR 524 to 164th St SE)	W0913	1,279,621	97,221	1,182,400
196th ST SE & 13th Dr SE 660 Zone Water Transmission Main (Ref. S4-2010)	W1002	7,535,702	694,624	6,841,078
Mountlake Terrace Supply Main Relocation at 44th	W1017	817,597	243,083	574,514
Brier Water Main Looping 232nd St SW & 236th St SW	W1018	822,203	48,203	774,000
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	W1102	11,718,025	589,839	11,128,186
Pump Station 2 & High Tank Pump Station Upgrade	W1107	2,647,294	567,930	2,079,364
Pump Station 2 (75%)	W1107B	1,929,212	107,588	1,821,624
All Other Projects		1,011,167	589,969	421,198
<b>Total</b>		<b>\$ 53,780,894</b>	<b>\$ 16,546,958</b>	<b>\$ 37,233,936</b>
<b>Wastewater Fund</b>				
Picnic Point Wastewater Treatment Plant	S0101	\$ 49,890,441	\$ 46,460,441	\$ 3,430,000
Lift Station Assessment	S0501	4,195,689	3,661,888	533,801
Reference only for Billing Tracking Evaluation of SC Ext. Ph 1-C under AWD 409-05	S0601	2,688,314	811,814	1,876,500
I-5/164th Martha Lake Gateway Sewer Improvement (WalMart) Ref. S4-2001	S0702	6,100,064	1,242,772	4,857,292
Olympus Meadows Trunk Sewer Improvement (Reference AWD 520-10)	S1004	3,737,549	548,549	3,189,000
Everett WO 2971/2993-WPCF Upgrade Capacity Expansion (reference only)	S1007	1,524,972	1,524,972	
Everett WO 3313-Lift Station #24 (reference only)	S1008	660,532	1,002,399	
Everett WO UP3359-Expansion Phase B (reference only)	S1010	304,770	307,961	
Lift Station #2 Elimination (SC-5A)	S1013	411,666	17,666	394,000
Lift Station 5 Capacity Upgrade (PP-12A)	S1015	1,842,661	135,535	1,707,126
Harvest Sewer	S1102	1,070,328	40,328	1,030,000
Lift Station 19 upgrades	S1201	269,200	10,449	258,751
Lift Station 6 Upgrade & modifications	S1203	446,422	25,081	421,341
Everett WO 3515 Lift Station 24 Forcemain Replacement	S1207	282,780	282,780	
Swamp Creek Interceptor Extension and LS21 Abandonment	S1209	1,945,665	665	1,945,000
Everett WO 3534 Lift Station 24 Forcemain Repl Silverway	S1303		1,208,931	1,000,000
All Other Projects		402,012	353,840	
<b>Total</b>		<b>\$ 75,773,065</b>	<b>\$ 57,636,072</b>	<b>\$ 20,642,811</b>

Note: Project Authorizations do not include District staff labor.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CONSTRUCTION IN PROGRESS-continued**

Construction in progress as of December 31, 2011 is composed of the following:

	Project Number	Project Authorization	Expended Through at 12/31/11	Future Funds Committed at 12/31/11
<b>Water Fund</b>				
CMMS-Computerized Maintenance Management System (S4-2007 reference only)	J0701	\$ 223,992	\$ 273,958	\$ -
Pump Station 1 & 2 Assessment	W0501	6,594,349	5,110,850	3,640,695
Hwy 99 Distribution System D10/11 148th to 116th	W0502	3,300,115	3,173,764	126,351
Meter Replacement Program (2007)	W0702	76,395	176,476	
Meter Replacement Program (2007)-A	W0702A	20,318	20,318	
Sno. Co. 52nd Avenue W (148th to 168th)	W0804	732,599	15,608	716,991
I-5 Crossing - Trans Main (164th Vicinity) WM-10 (Ref. S7-2007)	W0806	303,550	303,550	
Sno. Co. 45th Ave SE (240th to 212th SE)	W0909	1,875,777	1,022,937	852,841
Sno. Co. 49th Ave SE (236th Pl to 228th SE)	W0911	840,692	624,182	216,510
196th ST SE & 13th Dr SE 660 Zone Water Transmission Main (Ref. S4-2010)	W1002	411,516	449,557	
660/520/340 Water Pressure Zones (D-1,2,3 & V-1,2,3)	W1102	584,519	155,055	429,464
Pump Station 2 & High Tank Pump Station Upgrade	W1107	862,984	25,963	837,021
All Other Projects		571,124	522,180	
Total		<u>\$ 16,397,930</u>	<u>\$ 11,874,397</u>	<u>\$ 6,819,873</u>
<b>Wastewater Fund</b>				
Picnic Point Wastewater Treatment Plant	S0101	\$ 113,596,654	\$ 28,054,164	\$ 15,947,900
Picnic Point Wastewater Treatment Plant	S0101A	7,488,466	5,694,240	1,794,226
Picnic Point Wastewater Treatment Plant	S0101D	100,000	74,519	25,481
Lift Station Assessment	S0501	5,222,478	2,839,504	2,382,974
King County - North Creek/ Olympus Meadows Improvements	S0502	51,373,484	601,213	-
King County - North Creek/ Olympus Meadows Improvements, Project A	S0502A	1,642,472	421,464	1,221,008
King County - North Creek/ Olympus Meadows Improvements, Project B	S0502B	167,989	2,695,839	
King County - North Creek/ Olympus Meadows Improvements, Project C	S0502C	111,190	23,914	87,276
Reference only for Billing Tracking Evaluation of SC Ext. Ph 1-C under AWD 409-05	S0601	34,904	806,375	
CMMS (Reference Only) Refer to AWD 449-07	J0701	2,700	232,213	
I-5/164th Martha Lake Gateway Sewer Improvement (WalMart) Ref. S4-2001	S0702	1,134,624	812,876	321,748
Olympus Meadows Trunk Sewer Improvement (Reference AWD 520-10)	S1004	335,415	352,955	
Everett WO 2969-Smith Island Dike-Design/Construction(reference only)	S1006	196,925	196,925	-
Everett WO 2971/2993-WPCF Upgrade Capacity Expansion (reference only)	S1007	1,524,972	1,524,972	-
Everett WO 3313-Lift Station #24 (reference only)	S1008	475,904	475,904	-
Everett WO UP3359-Expansion Phase B (reference only)	S1010	186,759	186,759	-
Harvest Sewer	S1102	584,519	13,671	570,848
Sewer Evaluation	S1105	146,680	123,747	22,933
All Other Projects		25,621	156,551	
Total		<u>\$ 184,351,756</u>	<u>\$ 45,287,806</u>	<u>\$ 22,374,393</u>

Note: Project Authorizations do not include District staff labor.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM LIABILITIES**

a. Loans Payable

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

Water Fund

Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2012	Outstanding 12/31/2011	Interest Rate
99-791-001	Reservoir No 1 Cover	6/7/1999	7/1/2019	\$ 3,420,060	\$ 1,274,846	\$ 1,456,967	1%
00-691-001	NE Low Pressure Area Improvements	5/15/2000	7/1/2020	1,402,800	622,212	699,988	1%

Wastewater Fund

Public Works Trust Fund Loan	Project	Loan Origination	Maturity Date	Loan Amount	Outstanding 12/31/2012	Outstanding 12/31/2011	Interest Rate
05-691-PRE-108	Picnic Point Wastewater Facility Upgrade	4/26/2005	7/1/2025	\$ 1,000,000	\$ 684,210	\$ 736,840	0.5%
05-691-PRE-126	Picnic Point Wastewater Facility Upgrade	8/15/2005	7/1/2025	1,000,000	693,713	747,075	0.5%
06-962-001	Picnic Point Wastewater Facility Upgrade	4/17/2006	7/1/2026	7,000,000	5,349,525	5,731,634	0.5%

Wastewater Fund

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

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

The District was granted State Revolving Fund (SRF) loan by the Washington State Department of Commerce in 2011 to finance a portion of construction on the liquids facility of the Picnic Point Wastewater Facility upgrade and improvement project. The District was granted a second State Revolving Fund loan in 2012 for \$5,262,090 to finance a portion of the improvements to Pump Station 2 and the 724 Zone Booster Pump Station. As of December 31, 2012, the District had of expended \$248,476 and on February 20, 2013, requested a draw for this amount. The SRF loans are to be repaid over a period not to exceed 24 years at the interest rate stated above.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM LIABILITIES - continued**

b. Bonds

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

Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Water Fund Portion		
				Original Issue	Outstanding 12/31/2012	Outstanding 12/31/2011
2009 Water / Sewer Revenue	3% - 4%	11/3/2009	12/1/2018	23,885,000	17,910,000	20,465,000
2010 Series B Bond	4.2% - 5.55%	2/9/2010	12/1/2029	18,743,500	18,743,500	18,743,500
Total Bonds Outstanding					<u>\$ 36,653,500</u>	<u>\$ 39,208,500</u>

Class and Series of Obligation	Interest Rate	Date of Issue	Maturity Date	Wastewater Fund Portion		
				Original Issue	Outstanding 12/31/2012	Outstanding 12/31/2011
2010 Series A Bond	2% - 2.65%	2/9/2010	12/1/2016	3,675,000	1,215,000	1,570,000
2010 Series B Bond	4.2% - 5.55%	2/9/2010	12/1/2029	30,581,500	30,581,500	30,581,500
Total Bonds Outstanding					<u>\$ 31,796,500</u>	<u>\$ 32,151,500</u>
					\$ 68,450,000	\$ 71,360,000

The District issued Water and Sewer Revenue bonds in December, 2009 in the amount of \$23,885,000 to provide for a current refunding of all of the District's outstanding Water and Sewer Revenue bonds, 1998, and Water and Sewer Revenue bonds, 1999. An arbitrage rebate calculation was completed in December of 2011 and no rebate liability exists from issuance through November, 3, 2011.

In February, 2010 the District issued \$53 million in new Water and Sewer Revenue Bonds to finance the continuing construction of the Picnic Point Wastewater Treatment Facility and other water system improvements. Series A consist of \$3,675,000 in bonds issued as tax-exempt. Series B was issued as Build America Bonds – direct payment. The District has contracted with the current fiscal agent the Bank of New York, Mellon, to prepare the IRS form 8038-CP for District signature to ensure that the 35% Federal interest payment subsidy is received by the District in a timely manner. As of December 31, 2012, all of the Series B bond proceeds have fully drawn and expended. The Series A bonds qualify for the small issuer exception from arbitrage rebate because the amount of tax exempt debt issued in 2010 was less than \$5 million.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM LIABILITIES - continued**

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

**Water Fund Long-Term Obligations**

Year	Principal	Interest	Total Debt Service
2011	2,689,897	1,824,917	4,514,814
2012	2,814,897	1,749,418	4,564,315
2013	2,899,897	1,670,169	4,570,066
2014	2,959,897	1,561,970	4,521,867
2015	3,774,898	1,451,371	5,226,269
2016-2020	13,436,566	5,338,022	18,774,588
2021-2025	8,040,800	3,222,590	11,263,390
2026-2030	7,438,500	1,031,590	8,470,090
2031-2035	-	-	-
	<u>\$ 44,055,353</u>	<u>\$ 17,850,044</u>	<u>\$ 61,905,397</u>

**Wastewater Fund Long-Term Liabilities**

Year	Principal	Interest	Total Debt Service
2011	888,103	1,604,454	2,492,557
2012	1,264,855	1,788,086	3,052,942
2013	1,213,616	1,824,786	3,038,401
2014	1,278,881	1,805,080	3,083,961
2015	884,427	1,783,994	2,668,421
2016-2020	7,977,091	8,503,593	16,480,684
2021-2025	20,419,697	5,914,931	26,334,629
2026-2030	15,334,409	1,940,676	17,275,084
2031-2035	303,030	4,114	307,144
	<u>\$ 49,564,109</u>	<u>\$ 25,169,713</u>	<u>\$ 74,733,822</u>

- (2) All bond debt is secured by the total of all District revenues. Water Restricted Assets as of December 31, 2012 and December 31, 2011 are \$6,451,695 and \$6,761,571, respectively. Wastewater Restricted Assets as of December 31, 2012 and December 31, 2011 are \$2,962,759 and 2,967,970, respectively. These represent debt service funds and reserve requirements as contained in the various bond indentures. Per bond resolutions, ULID assessments are dedicated to the payment of debt service.
- (3) There are a number of limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - LONG-TERM LIABILITIES - continued**

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

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

Changes in long-term liabilities as of December 31, 2011:

Description	Beginning Balance 1/1/2011	Additions	Reductions	Ending Balance 12/31/2011	Amounts Due Within One Year
<b><u>WATER FUND</u></b>					
PWTF Loan	\$ 1,639,088	\$ -	\$ 182,121	\$ 1,456,967	\$ 182,121
PWTF Loan	\$ 777,765	\$ -	\$ 77,777	\$ 699,988	\$ 77,777
	<u>\$ 2,416,853</u>	<u>\$ -</u>	<u>\$ 259,898</u>	<u>\$ 2,156,955</u>	<u>\$ 259,898</u>
<b><u>WASTEWATER FUND</u></b>					
PWTF Loan	\$ 789,472	\$ -	\$ 52,632	\$ 736,840	\$ 52,632
PWTF Loan	\$ 800,438	\$ -	\$ 53,363	\$ 747,075	\$ 53,363
PWTF Loan	\$ 5,763,743	\$ 350,000	\$ 382,109	\$ 5,731,634	\$ 382,109
WA State Revolving Fund Loan	\$ 8,114,171	\$ 1,194,782	\$ -	\$ 9,308,953	\$ 421,752
	<u>\$ 15,467,824</u>	<u>\$ 1,544,782</u>	<u>\$ 488,104</u>	<u>\$ 16,524,502</u>	<u>\$ 909,856</u>
<b><u>COMBINED WATER / WASTEWATER UTILITY</u></b>					
Compensated Absences	\$ 646,545	\$ 37,831	\$ -	\$ 684,376	\$ 171,094
2009 Revenue Bond	\$ 22,895,000	\$ -	\$ 2,430,000	\$ 20,465,000	\$ 2,555,000
Series A Bond	\$ 1,970,000	\$ -	\$ 400,000	\$ 1,570,000	\$ 355,000
Series B Bond	\$ 49,325,000	\$ -	\$ -	\$ 49,325,000	\$ -
	<u>\$ 74,836,545</u>	<u>\$ 37,831</u>	<u>\$ 2,830,000</u>	<u>\$ 72,044,376</u>	<u>\$ 3,081,094</u>

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLANS**

Substantially all Alderwood Water & Wastewater District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov). The following disclosures are made pursuant to GASB Statements No. 27, *Accounting for Pensions by State and Local Government Employers* and No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

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

**Plan Description**

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are

accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

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

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN-continued**

any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

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

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN-continued**

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

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

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

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were \$95.2 million, and plan refunds paid out were \$66.2 million.

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN-continued**

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

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

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

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

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

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN-continued**

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

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

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
<b>Total</b>	<b>261,705</b>

**Funding Policy**

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN-continued**

the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee's age.

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

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

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	<b>PERS Plan 1</b>	<b>PERS Plan 2</b>	<b>PERS Plan 3</b>
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

\* The employer rates include the employer administrative expense fee currently set at 0.16%.

\*\* The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.

\*\*\* Plan 3 defined benefit portion only.

\*\*\*\* The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.

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

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

	<u>PERS Plan I</u>	<u>PERS Plan II</u>	<u>PERS Plan III</u>
2012	\$65,087	\$497,817	\$35,945
2011	\$29,769	\$407,509	\$32,222
2010	\$24,814	\$337,142	\$27,257

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - STATEMENT OF CASH FLOWS**

Cash and Equivalent balances are as follows:

	Water Fund		Wastewater Fund	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Cash	\$ 1,854,464	\$ 22,511,249	\$ 1,939,847	\$ 7,737,026
Investment in Local Government Investment Pool	27,240,955	20,399,894	6,462,847	14,224,681
Cash and Equivalents	<u>\$ 29,095,419</u>	<u>\$ 42,911,143</u>	<u>\$ 8,402,695</u>	<u>\$ 21,961,707</u>

The Local Government Investment Pool is included with the cash balances because it is a demand account. These pool balances are available each day through deposit or withdrawal transactions, which may not exceed the balance on hand.

**NOTE 8 - RISK MANAGEMENT**

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - RISK MANAGEMENT-continued**

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

<b>Coverage</b>	<b>Subject to Self-Insured Retention by Pool</b>	<b>Description</b>
General Liability	\$200,000	Includes General Liability, Public Officials Liability and Automobile Liability);
Property Insurance	\$25,000	Except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of \$100,000. Properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible
Boiler & Machinery	\$25,000	
Crime	\$25,000	Per occurrence

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

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2012, written notice must be in the Pool's possession by April 30, 2012). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

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

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

**ALDERWOOD WATER & WASTEWATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 – CLEARVIEW WATER SUPPLY AGENCY (Joint Venture)**

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

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

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

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

**NOTE 10 – OTHER DISCLOSURES**

**Subsequent events** – On January 28, 2013 Apollo Inc. and the District executed a project closeout and settlement agreement associated with the construction of the Picnic Point Wastewater Treatment Facility. The District agreed and paid Apollo \$665,000 to settlement disputed claims, plus sales tax of \$63,175. The agreement released and discharged all claims by Apollo, its subcontractors and suppliers against the District. Apollo agreed to have sole and complete financial and contractual responsibility for any claim by its employees, subcontractors and suppliers. Further, under the terms of the agreement, the District released and discharged Apollo and its subcontractors from all claims arising from the contract on this project.

On February 19, 2013, The District's Board of Commissioners executed a Bill of Sale to King County for pipe and manholes installed on a section of sewer transmission main known as the North Segment of the North Creek Interceptor. The transfer was the result of an agreement entered into in February, 2005 between the District and King County for pre-design and construction of the North Creek Interception improvements. The original agreement estimated King County's cost of design and construction at \$31.1 million and the District's cost at \$2.0 million. The District was to serve as lead agency on the project and invoice the County monthly for reimbursement for approximately 94% of the cost of the project.

The bill of sale could not be executed earlier because the District's Franchise agreement with Snohomish County dated January 31, 1996, provides that neither the franchise nor any interest in it shall be sold, transferred or assigned to any other party without first obtaining the written consent of the Snohomish County Council. On January 9, 2013 the Snohomish County Council finally approved Motion No. 12-399 authorizing the District's transfer to King County.

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## APPENDIX D

### ECONOMIC AND DEMOGRAPHIC INFORMATION

The District is located in southwest Snohomish County (the “County”), and encompasses the communities of Mountlake Terrace, Lynnwood, and Brier, and portions of the cities of Bothell, Mill Creek, Mukilteo, and Edmonds. The District includes about one third of the total County population. The County, as a whole, and the District’s service area have experienced steady growth in recent years.

The economy of the District is based on retail trade and services, education, health care, aircraft manufacturing and an increasingly important high technology sector. District residents commute to jobs located throughout the Puget Sound region, with the majority commuting to employment in Snohomish County, the City of Seattle and east King County.

### POPULATION

Year	Snohomish County	City of Bothell	City of Edmonds	City of Lynnwood	City of Mill Creek	City of Mountlake Terrace
2013	730,500	17,020	39,950	35,960	18,600	20,160
2012	722,900	16,720	39,800	35,900	18,450	20,090
2011	717,000	16,570	39,800	35,860	18,370	19,990
2010	713,335	16,415	39,709	35,836	18,244	19,909
2009	705,894	16,290	39,846	35,430	18,036	20,009

*Source: Washington State Office of Financial Management, April 1, 2013 estimates.*

### TOTAL PERSONAL AND PER CAPITA INCOME Snohomish County and State of Washington

Year	Snohomish County		State of Washington	
	Total Personal Income (in thousands)	Per Capita Income	Total Personal Income (in thousands)	Per Capita Income
2012	N/A	N/A	\$ 313,212,035	\$ 45,413
2011	\$ 31,266,357	\$ 43,281	299,685,263	43,878
2010	29,858,602	41,739	283,367,864	42,024
2009	29,482,068	41,741	276,727,871	41,504
2008	30,427,333	43,804	289,433,693	44,106
2007	28,328,071	41,415	272,624,864	42,192

*Source: U.S. Department of Commerce, Bureau of Economic Analysis, July, 2013.*

**TAXABLE RETAIL SALES**

<b>Year</b>	<b>Snohomish County</b>	<b>City of Bothell</b>	<b>City of Edmonds</b>	<b>City of Lynnwood</b>	<b>City of Mill Creek</b>	<b>City of Mountlake Terrace</b>
2013 <sup>(1)</sup>	\$ 2,499,142,554	\$ 84,525,337	\$ 134,261,617	\$ 466,168,113	\$ 53,003,644	\$ 46,394,149
2012	10,341,318,734	370,697,421	572,392,108	1,971,095,270	223,319,807	170,264,155
2011	9,742,666,146	350,598,340	527,041,844	1,832,525,242	213,441,112	152,976,725
2010	9,735,986,476	408,256,394	498,941,554	1,778,027,099	207,174,449	156,254,719
2009	9,614,802,878	370,394,444	505,650,467	1,742,146,033	211,823,349	155,254,586
2008	10,784,067,874	463,503,112	546,845,793	2,005,056,896	234,263,163	153,369,413

<sup>(1)</sup> Through 1st quarter.

Source: Washington State Department of Revenue, August, 2013.

**MAJOR EMPLOYERS<sup>(1)</sup>  
2012 MAJOR EMPLOYERS OF SNOHOMISH COUNTY**

<b>Employer</b>	<b>Type of Business</b>	<b>Number of Employees</b>
The Boeing Company	Aircraft Manufacturing	41,000
Naval Station Everett	Military	6,350
Washington State (including colleges)	Government	6,000
Providence Regional Medical Center	Medical Services	3,500
Tulalip Tribe Enterprises	Real Estate, Retail, Gaming	3,200
Snohomish County	Government	2,700
Premera Blue Cross	Health Insurer	2,500
Everett Clinic	Healthcare	2,100
Phillips Medical Systems	Ultrasound Technology	2,000
Edmonds School District	Education	2,000
Everett School District	Education	1,900
Swedish Edmonds Hospital	Healthcare	1,700
Mukilteo School District	Education	1,600
City of Everett	Government	1,200
Fluke Electronics (Danaher)	Electronic Test Equipment	1,200
Aviation Technical Services	Aircraft Maintenance	1,000

Source: Economic Alliance Snohomish County, 2012.

**NONAGRICULTURAL WAGE & SALARY WORKERS<sup>(1)</sup>  
AND LABOR FORCE AND EMPLOYMENT DATA  
Snohomish County**

	Annual Average				
	2013 <sup>(2)</sup>	2012	2011	2010	2009
Civilian Labor Force	399,030	386,290	385,890	388,520	383,750
Total Employment	376,120	356,250	349,670	347,420	345,030
Total Unemployment	22,910	30,040	36,220	41,110	38,710
Percent of Labor Force	5.7	7.8	9.4	10.6	10.1
NAICS INDUSTRY <sup>(3)</sup>	2013 <sup>(2)</sup>	2012	2011	2010	2009
Total Nonfarm	265,300	262,000	250,500	243,800	248,000
Mining, Logging, and Construction	16,200	15,300	14,800	15,900	17,900
Manufacturing	63,900	64,000	58,100	52,600	52,800
Trade, Transportation, and Utilities	44,400	44,000	42,500	42,400	42,800
Information	5,800	5,900	5,800	5,400	5,000
Financial Activities	11,500	11,000	10,900	10,800	11,500
Professional and Business Services	22,900	23,000	21,300	20,400	20,700
Educational and Health Services	28,400	28,400	28,100	26,300	26,100
Leisure and Hospitality	24,400	23,200	22,300	21,700	22,500
Other Services	10,200	10,000	9,700	9,400	9,700
Government	37,600	37,100	37,100	38,800	39,000

<sup>(1)</sup> Excludes proprietors, self-employed, members of the armed services, workers in private households, and agriculture. Includes all full- and part-time wage and salary workers receiving pay during the pay period including the 12th of the month.

<sup>(2)</sup> Data through June, 2013.

<sup>(3)</sup> North American Industry Classification System.

Source: Washington State Employment Security Department, August, 2013.

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## APPENDIX E

### BOOK-ENTRY SYSTEM

*The following information has been provided by DTC. The District makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined). Language in [brackets] with ~~strike through~~ has been deleted as permitted by DTC as it does not pertain to the Bonds.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for ~~[each issue of]~~ the Securities, ~~[each]~~ in the aggregate principal amount of such issue, and will be deposited with DTC. ~~[If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]~~

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

[6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

~~[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.]~~

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.