OFFICIAL STATEMENT

NEW ISSUE

Standard & Poor's Rating: AA+
Moody's Rating: Aa3

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Series A Bonds, interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is not subject to the alternative minimum tax. However, interest on the Series A Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Series A Bonds received by certain S corporations may be subject to tax, and interest on the Series A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Series A Bonds may have other federal tax consequences for certain taxpayers. See the captions "TAX MATTERS-Series A Bonds (Tax-Exempt)."

Interest on the Series B Bonds is includable in gross income for federal income tax purposes. See the caption "TAX MATTERS-Series B Bonds (Build America Bonds)."

Alderwood Water and Wastewater District
Snohomish County, Washington
Water and Sewer Revenue Bonds, 2010

$3,675,000 Series A	**$49,325,000 Series B**
(Tax-Exempt Bonds)	**(Taxable Build America Bonds-Direct Payment)**

DATED: Date of Delivery DUE: December 1, as shown below

The Series A and Series B Bonds (collectively the "Bonds") will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of ownership interests in the Bonds will be made in book-entry form, in the principal amount of $5,000 each or any integral multiple thereof within a single series and maturity. Purchasers of such interests will not receive certificates representing their interests in the Bonds. For so long as the Bonds are held in book-entry form, the principal of and interest on the Bonds will be paid to DTC by the fiscal agent of the state of Washington, currently The Bank of New York Mellon, New York, New York (the "Registrar"). DTC will in turn remit such principal and interest to its broker-dealer participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds, as defined and described in Appendix D herein. Principal is payable on the dates set forth on the inside cover page of this Official Statement. Interest is payable on June 1, 2010, and semiannually thereafter on each succeeding December 1 and June 1 until the date of maturity.

MATURITY SCHEDULE -
See Inside of Cover Page

The Series A Bonds are not subject to optional redemption. The Series B Bonds are subject to optional redemption prior to their maturity. See "Redemption Provisions," as described herein.

The District has designated the Series A Bonds as "qualified tax-exempt obligations" for banks, thrift institutions and other financial institutions. See "TAX MATTERS – Series A Bonds (Tax-Exempt) – Series A Bonds "Qualified Tax-Exempt Obligations" for Financial Institutions."

The principal of and interest on the Bonds are payable solely from and secured by the Net Revenue of the System and ULID Assessments. This pledge shall constitute a lien and charge upon the Net Revenue and ULID Assessments equal to the lien thereon of the District's Outstanding Parity Bonds and prior and superior to any charges whatsoever. The Bonds are special obligations of the District payable only from the Bond Fund. The Bonds are not general obligations of Snohomish County, the State of Washington, or any other municipal corporation or political subdivision thereof.

The Bonds are offered by the underwriters when, as and if issued, subject to the approving bond counsel opinions of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. Fees payable to Foster Pepper PLLC, as Bond Counsel, are payable solely from the proceeds of the Bonds; hence such fees are necessarily contingent upon issuance of the Bonds. The Bonds, in book-entry form, are expected to be available through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer on or about February 9, 2010. A complete review of this Official Statement and the documents summarized or described herein should be made to obtain information essential to the making of an informed investment decision.

January 27, 2010

Wells Fargo Advisors	**Piper Jaffray & Co.**
(Series A Bonds)	**(Series B Bonds)**

Alderwood Water and Wastewater District
Snohomish County, Washington
Water and Sewer Revenue Bonds, 2010

MATURITY SCHEDULE

$3,675,000 Series A

December 1	Amount	Rate	Price	CUSIP[(1)]
2010	$1,705,000	2.000%	101.179%	014365 BM1
2011	400,000	2.000	102.243	014365 BN9
2012	355,000	2.000	102.483	014365BP4
2013	350,000	2.000	102.218	014365BQ2
2014	405,000	2.000	101.147	014365BR0
2015	**	**	**	**
2016	460,000	2.625	100.000	014365BS8

$49,325,000 Series B

December 1	Amount	Rate	Price	CUSIP[(1)]
2017	$ 475,000	4.20%	100%	014365 BA7
2018	485,000	4.25	100	014365 BB5
2019	3,760,000	4.30	100	014365 BC3
**	**	**	**	**
2023	4,225,000	4.75	100	014365 BE9
2024	4,355,000	5.00	100	014365 BF6
2025	4,495,000	5.15	100	014365 BG4
2026	4,645,000	5.25	100	014365 BH2
2027	4,805,000	5.35	100	014365 BJ8
2028	4,975,000	5.45	100	014365 BK5
2029	5,150,000	5.55	100	014365 BL3

$11,955,000 4.60% Term Bonds Maturing December 1, 2022, Price 100, CUSIP 014365 BD1

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 in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the District.

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. The information set forth herein has been obtained by the District from District records and from other sources that the District believes to be reliable, but the District does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

The District makes no representation regarding the accuracy or completeness of the information provided in Appendix D—Book-Entry System, which has been furnished by DTC. This Official Statement is not to be construed as a contract or agreement between the District and purchasers or owners of any of the Bonds. Certain statements contained in this Official Statement, including the appendices, reflect not historical facts but 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," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements.

All projections, forecasts, assumptions, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

Alderwood Water and Wastewater District

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Lynnwood, Washington 98037-2399
Phone: (425) 743-4605
www.alderwoodwater.com[1]

Board of Commissioners

Paul McIntyre	President
Larry Jones	Vice President
Laren McLaren	Secretary
Roy George	Member
Donna Cross	Member

District Officials

Arden Blackledge, P.E	General Manager
Kenneth Goodwin, CPA	Director of Finance
Nancy Davidson, P.E.	District Engineer

Bond Counsel

Foster Pepper PLLC
Seattle, Washington

Financial Advisor

Sound Finance Group Inc.
Seattle, Washington

[1] 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.

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OFFICIAL STATEMENT
Alderwood Water and Wastewater District
Snohomish County, Washington
Water and Sewer Revenue Bonds, 2010

$3,675,000 Series A	$49,325,000 Series B
(Tax-Exempt Bonds)	(Taxable Build America Bonds-Direct Payment)

INTRODUCTION

Alderwood Water and Wastewater District, Snohomish County, Washington (the “District”), a municipal corporation duly organized and existing under the laws of the State of Washington, furnishes this Official Statement in connection with the offering of $3,675,000 aggregate principal amount of Water and Sewer Revenue Bonds, 2010, Series A (the "Series A Bonds") and $49,325,000 Water and Sewer Revenue Bonds, 2010, Series B (Taxable Build America Bonds-Direct Payment) (the “Series B Bonds”). The Series A Bonds and Series B Bonds are collectively referred to as the “Bonds.” This Official Statement, which includes the cover page and appendices, provides information concerning the District, the Bonds and the District’s Water Utility and Sewer Utility, which were combined in 1995 for financing purposes. The District’s Combined Water and Sewer Utility, including any improvements and extensions thereto, is referred to herein as the "System." Under and in accordance with the laws and provisions of the State of Washington (the “State”), issuance of the Bonds is pursuant to Resolution No. 2547-2010 adopted by the Board of Commissioners (the "Bond Resolution" and the "Board," respectively) on January 27, 2010.

The principal of and interest on the Bonds are payable solely from and secured by the Net Revenue of the System and ULID Assessments. Additional Bonds may be issued on a parity of lien with the District’s outstanding Water and Sewer Revenue Refunding Bonds, 2009 (the “Outstanding Parity Bonds”), and the Bonds subject to certain conditions described herein. The Outstanding Parity Bonds, the Bonds and any additional bonds issued on parity with the Bonds ("Future Parity Bonds") are referred to herein as the "Parity Bonds."

Certain capitalized words and phrases used in this Official Statement have the meanings as defined in Appendix A herein.

DESCRIPTION OF THE BONDS

Principal Amount, Date, Interest Rates and Maturities

The Bonds will be dated and bear interest from the initial date of delivery. The Bonds will be fully registered as to both principal and interest, and will be in the denomination of $5,000 or any integral multiple thereof within a single series and maturity of the Bonds. When issued, the Bonds will be registered in the name of Cede & Co. as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”).

Interest on the Bonds will be payable semiannually on each December 1 and June 1, beginning June 1, 2010, to the maturity or applicable call date of the Bonds. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will mature on December 1 in the years and amounts set forth on the inside cover of this Official Statement.

DTC will act as initial securities depository for the Bonds. Individual purchases may be made in book-entry form only. 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 which a DTC participant acquires an interest in the Bonds.

The principal of and interest on the Bonds are payable by the fiscal agent of the State in New York, New York, currently The Bank of New York Mellon (the “Bond Registrar”). For so long as the Bonds remain in a “book-entry only” transfer system, the Bond Registrar is required to make such payments to DTC, which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as further described herein in Appendix D—Book-Entry System.

Designation of Series B Bonds as Build America Bonds

Under the terms of the Bond Resolution, the District has made an irrevocable election to have Section 54AA of the Internal Revenue Code of 1986, as amended, apply to the Series B Bonds so that the Series B Bonds are designated “Build America Bonds,” and furthermore to have subsection 54AA(g) of the Code apply to the Series B Bonds so that the Series B Bonds are treated as “qualified bonds” with respect to which the District will be allowed a credit payable by the United States Treasury to the District pursuant to Section 6431 of the Code in an amount equal to 35 percent of the interest payable on the Series B Bonds on each interest payment date. As a result of these elections, interest on the Series B Bonds is not excludable from gross income of owners of the Series B Bonds for federal income tax purposes, and owners of the Series B Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the Series B Bonds. See “TAX MATTERS” herein. The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to the District in respect of interest payments on the Series B Bonds does not constitute a full faith and credit guarantee of the Series B Bonds by the United States of America.

The Bond Resolution defines any federal credit payments expected to be received by the District in respect of the Series B Bonds as a component of Gross Revenue of the System. The Bond Resolution provides that in calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the Reserve Account, the amount of interest payable on those Parity Bonds that are issued and sold as Build America Bonds (such as the Series B Bonds) for any fiscal year (or other designated twelve-month period) is to be reduced by the federal credit payments scheduled to be received by the District in respect of such Build America Bonds in that fiscal year (or other designated twelve-month period). See “SECURITY FOR THE BONDS – Bond Fund.”

The Code establishes certain ongoing requirements that must be met subsequent to the delivery of the Series B Bonds in order for the District to continue to receive federal credit payments. Many of these requirements are identical to those applicable to tax-exempt bonds such as the District’s outstanding Parity Bonds such as requirements relating to the use and expenditure of the available project proceeds of the Series B Bonds, yield and other restrictions on investments of available project proceeds. The Internal Revenue Service has advised that in general, the federal credit payments made in respect of Build America Bonds such as the Series B Bonds are payments that are treated as overpayment of tax. Accordingly, rules relating to overpayments of tax, such as credits against liabilities in respect of an internal revenue tax and offsets, interest on overpayments of tax and limitations on credits or refunds of overpayments of tax also apply to the federal credit payments made in respect of Build America Bonds.

Noncompliance by the District with any of the provisions required to claim the federal credit payments, or an internal revenue tax liability of the District (such as a federal payroll tax liability) against which federal credit payments may be offset could result in the District not receiving expected federal credit payments. As described above, the District has taken federal credit payments into account in calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the Reserve Account. The District has authorized its appropriate officers to take such actions as are necessary or appropriate for the District to receive from the United States Treasury the applicable federal credit payments in respect of the Series B Bonds, such as the timely filing with the Internal Revenue Service of Form 8038-CP – “Return for Credit Payments to Issuers of Qualified Bonds” in the manner prescribed by Internal Revenue Service Notice 2009-26. The District also has covenanted in the Bond Resolution that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of the District to receive from the United States Treasury the applicable federal credit payments in respect of any bonds, including the Series B Bonds, sold and issued as Build America Bonds. The District will covenant to comply with the provisions of the Code compliance with which would result in the interest on such Series B Bonds being excluded from gross income for federal income tax purposes but for an irrevocable election to have Section 54AA of the Code apply to such bonds, including the Series B Bonds.

Bond Redemption Provisions

*Redemption of Series A Bonds***.** The Series A Bonds are not subject to optional redemption.

Redemption of the Series B Bonds. The Series B Bonds maturing on or after December 1, 2022, are subject to redemption at the option of the District on or after March 1,2020, in whole or in part at any time (maturities to be selected by the District and randomly within a maturity in such manner as the Bond Registrar and DTC will determine) at a price of par plus accrued interest, if any to the date of redemption.

Extraordinary Redemption of Series B Bonds. The Series B Bonds of each maturity are subject to extraordinary optional redemption on any date prior to their respective stated maturity dates, at the option of the District, in whole or in part at the “Extraordinary

Redemption Price," as described below, upon the occurrence of an "Extraordinary Event," as defined below. For purposes of this section "Build America Bonds" shall mean the Series B Bonds. The Extraordinary Redemption Price is equal to the greater of :

(1) the issue price of the Build America Bonds, as described in the tax certificate for those bonds (but not less than 100% to be redeemed) or
(2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Build America Bonds to be redeemed to the first optional redemption date as if such principal payments were due on such optional redemption date, not including any portion of those payments of interest accrued and unpaid as of the date on which the Build America Bonds are to be redeemed, discounted to the date on which the Build America Bonds are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as defined below, plus 100 basis points, plus in each case, accrued and unpaid interest on the Build America Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if the District determines that a material adverse change has occurred to Section 54AA or Section 6431 of the Code (as such sections were added by the America Recovery and Reinvestment Act, pertaining to Build America Bonds) with respect to the Build America Bonds, which determination is not the result of an act or omission by the District to satisfy the requirements to receive the Interest Subsidy Payments, pursuant to which the Interest Subsidy Payments are reduced or eliminated.

"Treasury Rate" means, with respect to any redemption date for a particular Build America Bond, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Independent Banking Institution.

"Comparable Treasury Issue" means, with respect to any redemption date for a Build America Bond, the United States Treasury security or securities selected by the Independent Banking Institution which has an actual or interpolated maturity comparable to the remaining average life of such Build America Bond, to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of debt securities of comparable maturity to the remaining weighted average life of such Build America Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Build America Bond:

(1) the most recent yield data for the applicable United States Treasury maturity index from the Federal Reserve Statistical Release H.15 Daily Update (or any comparable or successor publication) reported as of 11:00 a.m., New York City time, on the Valuation Date; or

(2) if the yield described in (i) above is not reported as of such time or the yield reported as of such time is not ascertainable, the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such reference Treasury Dealer Quotations, or if the Independent Banking Institution obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the Independent Banking Institution.

"Independent Banking Institution" means one of the Reference Treasury Dealers appointed by the District.

"Reference Treasury Dealer" means one of four firms, specified by the District from time to time, that are primary United States securities dealers (each, a Primary Treasury Dealer"); provided that if any of them ceases to be a Primary Treasury Dealer, the District will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means for each Reference Treasury Dealer and for a proposed redemption date for a Build America Bond, the average as determined by the Independent Investment Banker, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Banking Institution and communicated to the District by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

"Valuation Date" means the third business day preceding the redemption date.

Selection of the Series B Bonds for Extraordinary Redemption. If less than all of a maturity of the Series B Bonds is to be redeemed, the Registrar will select the Series B Bonds to be redeemed, from the outstanding Series B Bonds of such maturity not previously called for redemption, pro rata as nearly as practicable in proportion to the principal amounts of the Series B Bonds owned by each Registered Owner in whose name such Series B Bonds are registered on the Record Date immediately preceding a date fixed for redemption. "Pro rata" is to be determined, in connection with any redemption, in part, by multiplying the principal amount of the Series B Bonds of such maturity to be redeemed on the applicable date fixed for redemption by a fraction, the numerator of which is equal to the principal amount of Series B Bonds of such maturity owned by a Registered Owner, and the denominator of which is equal to the total amount of the Series B Bonds of such maturity then outstanding immediately prior to such date fixed for redemption. If the Series B Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole Registered Owner of the Series B Bonds, partial redemptions will be done in accordance with DTC procedures. It is the District's intent that redemption allocations made by DTC be made in accordance with these same proportional provisions. However, the District can provide no assurance that DTC will allocate redemptions among beneficial owners on such a proportional basis.

Notice of Series B Bond Redemption. So long as the Series B Bonds are held by DTC in book-entry form, notice of redemption is to be given as provided in the Letter of Representations. If the Series B Bonds cease to be in book-entry only form, notice of redemption will be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first class mail to the Registered Owner of any Series B Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirement of giving notice of redemption will be deemed to have been fulfilled when notice has been mailed, whether or not notice is actually received by that Registered Owner. Notice of redemption is also to be given to the Municipal Securities Rulemaking Board (the "MSRB").

In the case of an optional redemption, the notice of redemption may state that the District retains the right to rescind that notice on or prior to the scheduled redemption date and that notice and optional redemption shall be of no effect to the extent that the District gives notice to the affected Registered Owners at any time prior to the redemption date that the District is rescinding the redemption notice in whole or in part. Any Series B Bonds subject to a rescinded notice of redemption are to remain outstanding, and the rescission will not constitute an Event of Default.

Effect of Bond Redemption. Interest on each Series B Bond called for redemption will cease to accrue on the date fixed for redemption except in the case of a rescinded optional redemption as described above, or unless that Series B Bond is not redeemed when presented.

Mandatory Redemption. Series B Bonds maturing in 2022 are Term Bonds and, if not redeemed under the applicable optional redemption provisions described above or purchased in the open market under the provisions described below, will be called for redemption randomly (in such manner as the Bond Registrar shall determine) at par plus accrued interest on December 1 in years and amounts as follows:

Mandatory Redemption Years	**Mandatory Redemption Amounts**
2020	$3,870,000
2021	3,985,000
2022 (maturity)	4,100,000

If the District redeems under the optional redemption provisions, purchases in the open market or defeases Term Bonds, the par amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds.

Open Market Purchase

The District reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price. All Bonds so purchased shall be canceled.

Book-Entry Bonds

The Bonds initially issued will be held in fully immobilized form by DTC acting as depository. Bonds will be registered initially in the name of Cede & Co., as nominee of DTC, with one Bond maturing on each of the maturity dates for each series of the Bonds in a denomination corresponding to the total principal designated to mature on such date. Neither the District nor the Bond Registrar has any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds in respect of the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on the Bonds, any notice which is permitted or required to be given to registered owners under the Bond Resolution (except such notices as are required to be given by the District to the Bond Registrar or to DTC), or any consent given or other action taken by DTC as the registered owner. See Appendix D for additional information. The District makes no representation as to the accuracy or completeness of information in Appendix D provided by DTC. Purchasers of the Bonds should confirm its contents with DTC or its participants.

Procedure in the Event of Termination of Book-Entry Transfer System

If DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or if the District determines that it is in the best interest of the Beneficial Owners of any of the Bonds that they be able to obtain such Bonds in the form of bond certificates, the ownership of Bonds may then be transferred to any person or entity as provided in the Bond Resolution, and the Bonds will no longer be held in fully immobilized form. In that event, 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. If so requested in writing by the registered owner of at least $1,000,000 principal amount of Bonds of a series, interest will be paid by wire transfer on the interest payment date to an account with a bank located in the United States. Principal of the Bonds will be payable upon presentation and surrender of such Bonds by the registered owners at the principal office of the Bond Registrar.

USE OF PROCEEDS

The proceeds of the Bonds will be used to provide a part of the funds to pay the costs of capital improvements to the District’s water and sewer facilities, to fund a reserve account and pay the costs of issuance and sale of the Bonds.

Sources and Uses of Funds

The proceeds of the Bonds are estimated to be applied as follows:

	Series A Bonds	**Series B Bonds**	**Total**
Sources of Funds			
Bond Proceeds	$3,675,000	$49,325,000	$53,000,000
Original Issue Premium	50,297	0	50,297
Total	$3,725,297	$49,325,000	$53,050,297
Uses of Funds			
Reserve Acct. Requirement	$ 367,500	$ 2,872,872	$ 3,240,372
Project Account	3,335,394	46,112,162	49,447,556
Costs of Issuance	22,403	339,966	362,369
Total	$3,725,297	$49,325,000	$53,050,297

SECURITY FOR THE BONDS

Pledge of Revenues

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), has been pledged to the payment of the Parity Bonds and to make payments into the Reserve Account required by the Bond Resolution and Parity Bond Authorizing Resolutions, and this pledge will constitute a lien and charge upon the Net Revenue and ULID Assessments prior and superior to any other charges whatsoever.

Bond Fund

A fund, known as the Water and Sewer Revenue Bond Fund (the "Bond Fund"), has been created in the office of the District Treasurer and 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, 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).

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. With the issuance of the Bonds, the District will deposit sufficient funds in the Reserve Account to fully fund the Reserve Requirement.

Rate Stabilization Fund

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.

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 herein. 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.

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;

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.

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, which 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.

The failure of the District to comply with subparagraphs (a) and (b) of this section 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.

Additional Covenants of the District

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 of 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 will proceed with the foreclosure of the delinquent assessments or delinquent installments thereof in the manner required by law on or before September 1 of such year.

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 a portion of the 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 will be no deficiency in the Bond Fund and no Event of Default as defined in the Bond Resolution 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 twelve 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 (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 contained herein will 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.

Reimbursement Obligations

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

ULID Assessments

Chapter 6.13 of the Revised Code of Washington 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 County Assessor's records show that twenty-two of the properties located within Alderwood Water District have a 2009 assessed value of $125,000 or less; however, assessed values do not necessarily represent either the fair market value or forced sale price of such property, and those values could change over the life of the assessment roll installment collection period.

Assessment Roll Lien. State law (RCW 57.16.050 and RCW 35.50.010) provides that Assessments shall 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.

General Description of Combination of Revenues and Special Assessments Securing Water and Sewer Revenue Bonds. The primary objectives of Special Purpose (water and/or sewer) Districts operating water and/or sewer utilities are to construct and operate water distribution systems and/or sewer collection and treatment systems in suburban and other unincorporated areas. In many of these areas, the density of the population is such that the repayment of the facilities from revenues derived solely from the service charges would not be feasible.

This fact was recognized by the State Legislature when the basic laws governing the issuance of water and/or sewer revenue bonds were enacted. To supplement revenues for service charges, water and sewer districts were empowered to levy special assessments against properties specially benefited by water and sewer construction.

Many districts in Washington have used the combined assessment revenue procedure not only because of the population density, but also for the following reasons:

(a) Where water and/or sewer service charges alone are imposed, only improved properties (those having houses or commercial establishments on them) pay the charges and thereby the entire cost of retiring water and/or sewer revenue bonds issued to pay the costs of construction.

(b) The levying of special assessments places a portion of the cost of the facilities against vacant properties, which would benefit by the availability of water and/or sewer service, but would otherwise not contribute toward repayment of the costs until such time as the owners decide to place buildings thereon.

These assessments may be levied in amounts equal to a portion of or to the entire cost of the facilities being constructed. The areas in which such assessments may be levied are called utility local improvement districts and may consist of a portion of or may contain the entire district.

The special assessments are levied against all property, both vacant and improved, in the utility local improvement district which will be specially benefited by the improvement. Rates of assessments vary in different districts, but once the assessment roll has been confirmed, the amounts levied are final and may not be altered. The assessments are payable in whole or in part, without interest, during the 30-day prepayment period, which commences when the appropriate district official advertises that the assessment roll is in his hands for collection. The assessments on the unpaid principal, over a term of years not exceeding 20 years, is determined by the Board of Commissioners. The property owner reserves the right to repay the entire assessment at any time by paying the principal amount outstanding, plus the current year's interest. The assessment principal and interest, when collected, by law must be paid directly into the Bond Fund servicing the particular water and/or sewer revenue bonds which they secure, and must be used for the sole purpose of paying the principal of and interest on all bonds payable out of the Bond Fund.

The pledge of gross water and/or sewer revenues of the District for payment of the bond principal and interest is not altered where assessments are levied except that in computing the amount of such revenues to be paid into the Bond Fund, the amount of assessment money in the Bond Fund may be taken into consideration. The District has two ULID's outstanding with a combined balance outstanding of $825,301 and 14 years of payments remaining, which amount is pledged to be deposited into the Bond Fund when paid. The following table shows estimated installment assessment collections for all outstanding ULID assessments, which are deposited into the Bond Fund, owed to the District assuming level principal payments on the outstanding balances are received in the year due.

ESTIMATED ULID ASSESSMENT COLLECTIONS

Year	Principal	Interest	Total
2010	$86,829	$40,320	$127,149
2011	81,797	36,060	117,857
2012	79,690	32,049	111,739
2013	79,690	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
2020	38,032	1,845	39,877
Total	$825,301	$249,383	$1,074,686

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DEBT SERVICE REQUIREMENTS
SERIES A AND SERIES B BONDS

(Years Ended December 31)

	Series A Bonds		Series B Bonds		
Year	**Principal**	**Interest**	**Principal**	**Interest***	**Total**
2010	$1,705,000	$ 61,949			$1,766,949
2011	400,000	42,275			442,275
2012	355,000	34,275			389,275
2013	350,000	27,175			377,175
2014	405,000	20,175			425,175
2015	-	12,075			12,075
2016	460,000	12,075			472,075
2017			$ 475,000	$ 2,459,995	2,566,288
2018			485,000	2,440,045	2,560,068
2019			3,760,000	2,419,433	5,822,648
2020			3,870,000	2,257,753	5,825,088
2021			3,985,000	2,079,733	5,824,688
2022			4,100,000	1,896,423	5,824,378
2023			4,225,000	1,707,823	5,823,438
2024			4,355,000	1,507,135	5,826,118
2025			4,495,000	1,289,385	5,826,993
2026			4,645,000	1,057,893	5,824,243
2027			4,805,000	814,030	5,824,415
2028			4,975,000	556,963	5,826,595
2029			5,150,000	285,825	5,827,195
Total	$ 3,675,000	$209,999	$49,325,000	$37,527,732	$ 90,737,730

**Interest does not reflect 35% subsidy payable by the federal government on the Build America Bonds.*

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PARITY DEBT SERVICE REQUIREMENTS
(Years Ended December 31)

Year	Outstanding Parity Bonds	Series A Bonds	Series B Bonds*	Total
2010	$1,955,312	$1,766,949	$1,995,329	$5,717,590
2011	3,295,950	442,275	2,459,995	6,198,220
2012	3,348,050	389,275	2,459,995	6,197,320
2013	3,356,400	377,175	2,459,995	6,193,570
2014	3,310,800	425,175	2,459,995	6,195,970
2015	4,017,800	12,075	2,459,995	6,489,870
2016	3,262,200	472,075	2,459,995	6,194,270
2017	3,261,200		2,934,995	6,196,195
2018	3,265,600		2,925,045	6,190,645
2019			6,179,433	6,179,433
2020			6,127,753	6,127,753
2021			6,064,733	6,064,733
2022			5,996,423	5,996,423
2023			5,932,823	5,932,823
2024			5,862,135	5,862,135
2025			5,784,385	5,784,385
2026			5,702,893	5,702,893
2027			5,619,030	5,619,030
2028			5,531,963	5,531,963
2029			5,435,825	5,435,825
Total	$29,073,312	$3,884,999	$86,852,732	$119,811,042

**Debt service does not reflect 35% interest rate subsidy payable by the federal government on the Build America Bonds.*

Future Financing

The District intends to issue approximately $40,000,000 of bonds in 2012, which will be on parity with the Outstanding Parity Bonds and the Bonds.

AUTHORIZED INVESTMENTS

Chapter 39.59 RCW limits the investment of public funds by local governments to the following authorized instruments: (i) bonds of the State or any local government in the State, or general obligation bonds of any other state or political subdivision thereof which has at the time of investment one of the three highest credit ratings of a nationally recognized rating agency; (ii) registered warrants of a local government in the same county as the local government making the investment; (iii) certificates of deposit; and (iv) any investments authorized by law for the State Treasurer. In addition to these instruments, bond proceeds may be invested in qualified money market and mutual funds which restrict their portfolios to specified securities and post a bond with the State (RCW 39.59.030).

Investments authorized by law for the State Treasurer include: (i) obligations of the U.S. government, its agencies and wholly owned corporations; (ii) bankers' acceptances; (iii) commercial paper; (iv) obligations of the Federal Home Loan Bank, Fannie Mae and other government-sponsored enterprises; (v) motor vehicle fund warrants; and (vi) certificates of deposit (RCW 43.84). Utility revenue bonds and warrants of any city and bonds or warrants of a local improvement district are also eligible investments (RCW 35.39.030).

THE DISTRICT

Alderwood Water and Wastewater District is a special purpose district organized under RCW 57 to provide water and sanitary sewer service to specific areas of south Snohomish County. The District was formed by public election in 1931. The District is the largest water and sewer district in the State of Washington, and is located in the southwest quadrant of Snohomish County serving a population of over 250,000 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 is bordered on the north by the city of Everett and on the west by the city of Mukilteo, on the east by Cross Valley Water District and the Sliver Lake Water and Sewer District on the south by the Snohomish-King County line, and on the west by Puget Sound.

Construction Financing

Sewer Facilities - City of Everett. 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 that will continue through 2018. The District's share is 3.7 percent of the total improvement cost and is estimated at $3.53 million for the period from 2009 to 2018.

Water Filtration Plant - City of Everett. The City of Everett provides water to the District from the Sultan Watershed. In January of 2005, the District and the City of Everett renegotiated a long-terms supply agreement that continues until January 1, 2055. The District, in turn, provides water to the cities of Mountlake Terrace, Lynnwood, and Brier and portions of the cities of Edmonds, Bothell, Mukilteo and Mill Creek. The District also provides water to the Clearview Water Supply Agency and other south Snohomish County areas.

The Clearview Project

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

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

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 facilities consist of a new pump station (at Everett pipeline No. 5 near Snohomish), a water transmission line, and a storage reservoir in the vicinity of Clearview.

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 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. The agency prepares a set of financial statements which receive an accountability audit by the State Auditor's Office.

Outstanding Bonds

The District's outstanding long-term debt is composed of the bond issues and other debt obligations which are contained in the following table.

Class and Series of Obligation	Date of Issue	Maturity Date	Amount of Original Issue	Outstanding at 12-1-2009
Water and Sewer Revenue Bonds				
2009 Water & Sewer Revenue Refunding	11/03/09	12/1/18	$23,885,000	$23,885,000
Total			$23,885,000	$23,885,000
Water Department Subordinated Debt				
Public Works Trust Fund Loan	07/13/09	07/1/19	$3,420,080	1,639,087
Public Works Trust Fund Loan	06/28/00	07/1/20	1,042,800	855,541
Total			$4,822,860	$2,494,628
Sewer Department Subordinated Debt				
Public Works Trust Fund Loan	05//1/05	07/1/10	$1,000,000	842,105
Public Works Trust Fund Loan	08/1/05	07/1/10	1,000,000	853,802
Public Works Trust Fund Loan	06/1/06	07/1/27	6,650,000	6,123,977
Total			$2,900,000	$7,819,884
Total Debt Outstanding				$34,199,512

The District has received an additional $9,015,745 subordinated loan for its Sewer Department from the State of Washington Revolving Fund Loan Program. Loan proceeds are expected to be available in January, 2010. The loan is repayable beginning in 2011. The term of the loan is 20 years with an interest rate of 2.7%.

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:

Member	Position	Term Expires
Donna J. Cross	President	12-31-15
Paul D. McIntyre	Vice President	12-31-13
Larry D. Jones	Secretary	12-31-11
Roy N. George	Member	12-31-13
Laren W. McLaren	Member	12-31-11

Personnel

The number of employees working for the District is equivalent to 107 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, 2010. The District considers employee relations to be satisfactory. Total employees of the District are as follows:

Administrative Services	9
Engineering	18
Finance	13
Maintenance & Operations	66
Total Full-time	106
Commissioners	5
Grand Total	111

Pension Plans

PERS. All of the District's full-time and qualifying part-time employees participate in the Public Employees' Retirement System ("PERS"). This is a statewide local government defined benefit retirement system administered by the Department of Retirement Systems, under a cost-sharing multiple-employer public employee retirement plan.

PERS includes three 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. Participants who joined the system by September 30, 1977 are Plan I 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 exercise an option to transfer their membership to Plan 3. PERS participants 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. Retirement benefits are financed from a combination of investment earnings, employee and employer contributions. Retirement benefits under Plans 1 and 2 are vested after completion of five years of eligible service. Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. Plan 3 members are vested in the defined benefit component 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 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

The District's required contributions for the previous five years were as follows. All required contributions were made by the District.

Year ended December 31	PERS Plan 1	PERS Plan 2	PERS Plan 3
2008	$40,686	$413,696	$33,760
2007	$33,877	$305,602	$24,566
2006	$24,279	$137,416	$10,270
2005	$14,495	$82,302	$4,772
2004	$10,017	$57,312	$2,832

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 government 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-insure, 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 Government Agreement (the "Agreement") to pool their self-insured losses and jointly purchase insurance and administrative services. At this time, 64 water and sewer districts are members of the Pool.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management services and loss prevention. The Pool provides the following forms of group 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.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a per occurrence deductible or self-insured retention as follows: General Liability of $200,000 (including General Liability, Public Officials Liability and Automobile Liability); Property Insurance of $25,000 (except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of loss subject to a minimum loss of $100,000; those properties located in NFIP Flood Zones A and V are subject to a $250,000 deductible) Boiler and Machinery which is $25,000; and Crime which is $5,000 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. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible

for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).
Each new member pays the Pool an admittance fee. The amount covers the member's share of organizational expenses and the cost of analyzing their loss data and risk profile. Members contract to remain in the Pool for a minimum of one full policy period, and must give notice six months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period during which they were 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 is responsible for conducting the business affairs of the Pool and providing direction to the Pool's Executive Director.

Deposits and Investments

As required by State law, all deposits and investments of the District's funds (except as noted below) are obligations of the U.S. Government, the State Treasurer's Investment Pool, bankers' acceptances, or obligations with Washington State banks and savings and loan institutions. The District's deposits and certificates of deposit are entirely covered by federal depository insurance or by collateral held in a multiple financial collateral pool administered by the Washington Public Depository Protection Commission.

As of November 30, 2009, the District's deposits and investments, at cost plus accrued interest, were as follows: $83,482,559 in the Local Government Investment Pool. The District typically holds its investments until their maturities.

Accounting Policies

The District is comprised of a Water Department and a Sewer Department. 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.

THE WATER SYSTEM

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. The District provides wholesale water service to the cities of Mountlake Terrace, Lynnwood, approximately two-thirds of Edmonds, and the Clearview Water Supply Agency

As of the end of 2008, the District served 69,386 accounts, including 44,971 retail accounts and 24,415 wholesale accounts, which are within city limits of its three wholesale cities. Water consumption by the District's wholesale customers accounts for approximately 49 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. The District estimates that the number of retail accounts increased to 45,626 during 2009. An estimates of the number of wholesale water accounts for 2009 is not available.

WATER RETAIL ACCOUNTS

Historical Count

2004	2005	2006	2007	2008
38,955	40,459	42,676	44,198	44,971

WATER WHOLESALE ACCOUNTS

Historical Count

City	2004	2005	2006	2007	2008
Lynnwood	8,100	8,252	8,365	8,396	8,414
Edmonds (1)	9,919	10,114	9,998	10,031	10,106
Mountlake Terrace	5,792	5,795	5,813	5,877	5,895
Total	23,811	24,161	24,176	24,304	24,415

COMBINED WATER RETAIL AND WHOLESALE ACCOUNTS

2004	2005	2006	2007	2008
62,766	64,620	66,852	68,502	69,386

WATER RETAIL CUSTOMERS

by Service Classification

	2007	2008
Single-Family	39,027	39,725
Multi-Commercial	302	301
Single Commercial	1,020	1,035
Fire Protection	653	676
Hotel/Motel	18	18
Irrigation	809	848
Multi-Family Units	2,299	2,299
Mobile Home and RV	70	69
Total	44,198	44,971

Contractual Agreements and Water Rights. Since the incorporation of the District in 1931, the District has purchased water from the City of Everett. During the period from 1954 to 1961, the District augmented the Everett water supply with ten deep wells. However, due to increasing demand and the inability to find sufficient water through a test well program, the District signed a long-term agreement with the City of Everett.

The total water demand on the Everett supply system during the 2008 averaged 52 million gallons per day ("mgd") with a peak day usage of 95 mgd. The District and its wholesale customers used approximately 50 percent of all the potable water supplied by Everett's system in 2008. Everett also delivers unfiltered industrial water to the Kimberly-Clark Corporation Mill with an average day demand of 30.4 mgd.

Everett's water is obtained primarily from it's Sultan River source. 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 million gallons per day and an annual average production volume of 150 mgd. In the City of Everett's 2007 Comprehensive Water Plan, the growth in water demand for the regional water system is projected to be 1.6 percent annually during the next 20 years.

The District has wholesale water agreements with the cities of Lynnwood, Edmonds, and Mountlake Terrace which expire on September 20, 2010. The District is currently in contract negotiations regarding renewal of the wholesale agreements with these cities. The District has a wholesale water agreement with the Clearview Water Supply Agency which expires on December 31, 2054. The District is negotiating a new wholesale water agreement with the Mukilteo Water and Wastewater District. In general, the agreements are similar with the primary difference being the allowable instantaneous demand for individual cities prior to incurring demand charges.

2008 WHOLESALE ACCOUNTS

	Revenue	**Percent of Water Revenue**
Lynnwood	$1,456,273	6.54%
Edmonds	1,221,186.	5.48
Mountlake Terrace	677,854	3.04
Total City Sales	$3,355,313	15.06%

Description of System Facilities. The District water system consists of over 610 miles of pipeline, 9 reservoirs and tanks with 97.3 million gallons of storage, one booster pump station, four service pressure zones, and three water supply pump stations with a combined capacity of 88 mgd. The average day demand for 2008 was 31.4 mgd with a maximum day demand of 47.7 mgd.

The District adopted its current Water Comprehensive Plan on August 17, 2009. The plan projects growth in the District's service area of 41 percent over the next 20 years and is consistent with the Snohomish County Comprehensive Plan. Average day demand is projected to grow from 31.4 mgd in 2008 to 47.3 mgd in 2028, with peak day demands of 56.9 mgd and 84.1 mgd respectively.

Capital Improvement Program. As part of the Water Comprehensive Planning process, a capital improvement program was developed to meet future water needs of the District.

The District has identified several other smaller projects in its six-year capital program, which include pump station upgrades and other improvements to District facilities. The total cost of the District's six-year capital program for the water system is approximately $92,061,00, of which approximately 22% will be funded by bond proceeds, and the remainder with operating funds and general facility (connection) charges.

Water Rates

The District increased water rates effective January 1, 2010, 2011 and 2012. The amount of the increase is 14% for each of the three years. All service rate classifications pay a monthly base rate based upon their meter size plus a consumption rate, per 100 cubic feet, based upon their service classification. The following table contains water rate charges for the years 2008, 2009 and 2010.

MONTHLY WATER METER CHARGE

Meter Size	2008 Charge	Percent Increase	2009 Charge	Percent Increase	2010 Charge	Percent Increase
¾"	10.35	1.10	11.39	10	12.98	14
1"	17.31	1.10	19.04	10	21.70	14
1½"	34.52	1.10	37.97	10	43.27	14
2"	55.25	1.10	60.78	10	69.26	14
3"	103.67	1.10	114.04	10	129.96	14
4"	172.83	1.10	190.11	10	216.65	14
6"	345.53	1.10	380.08	10	433.14	14
8"	552.89	1.10	608.18	10	693.08	14
10"	770.95	1.10	848.05	10	966.43	14

The following table shows historical water rate increases and future increases which were approved by the District's Board in November 2009.

WATER RATE INCREASES

Year	% Increase
2006	2.6
2007	4.0
2008	1.1
2009	10.0
2010	14.0
2011	14.0
2012	14.0

The District uses a winter and summer rate structure. The following usage charges will be in effect as of January 1, 2010.

	Usage Charge $/ccf	
Service Classification	**Winter**	**Summer**
Single Family (including construction and fire meters)	1.46	2.59
Multi-Family (including mobile home parks)	1.72	2.39
Single Commercial	1.41	2.25
Multi Commercial (including RV parks and hotel/motel)	1.86	2.76
Irrigation	1.20	2.61

Water Rate Comparison

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

2009 SINGLE FAMILY MONTHLY WATER RATE [1]

(Based on 1,000 cubic feet)

Agency	
Alderwood Water & Wastewater District	$25.29
City of Bellevue	38.74
City of Edmonds	25.49
City of Kirkland	37.26
City of Lynnwood	17.18
City of Mountlake Terrace	29.55
City of Redmond	34.01
City of Seattle	50.43
Mukilteo Water & Wastewater District	26.55
Northshore Utility District	34.50
Olympic View Water & Sewer	30.16
Shoreline Water District	41.17
Snohomish PUD #1	33.42
Woodinville	39.68

[1] 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 that was adopted on August 17, 2009. The new GFC's will be effective on January 1, 2010.

WATER SYSTEM GENERAL FACILITY CHARGES

Meter Size	ERU Factor	Charge $ per ERU
¾ inch	1.0	1,379
l inch	2.5	3,447
1½ inch	5.0	6,894
2 inch	8.0	11,031
3 inch	15.0	20,683
4 inch	25.0	34,471
6 inch	50.0	68,942
8 inch	80.0	110,307
10 inch	115.0	158,566

Major Water Customers

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

MAJOR 2008 RETAIL WATER ACCOUNTS

Customer	Total Amount Billed for Water	Water Revenues
BRE Properties Inc	$131,323	0.6%
Avalon Bay Communities Inc	121,421	0.5%
ERP Operating LP	103,275	0.5%
The Renaissance	84,858	0.4%
Keeler's Corner	73,219	0.3%
KW Mill Creek Prop Mgr LLC	68,505	0.3%
Archstone Communities	64,516	0.3%
Crystal Cove Apartments	55,099	0.2%
Harbour Point Golf Course	51,020	0.2%
PPC OTGHP LLC	50,626	0.2%
Total	$803,862	3.3%

THE SEWER SYSTEM

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 140,000, and there are about 48,032 equivalent single family residential sewer units being billed by the District.

EQUIVALENT SINGLE FAMILY RESIDENTIAL SEWER UNITS

Historical Count as of Year End

2004	2005	2006	2007	2008
43,787	44,762	46,008	48,473	48,032

The number of sewer retail customers by class for the last five years were as follows:

SEWER RETAIL CUSTOMERS BY CLASS

Year End	Single Comm.	Hotel Motel	Multi Comm.	Single Family	R/V Parks	Total Retail Customers
2008	715	18	2,494	29,187	23	32,437
2007	695	18	2,488	28,350	23	31,574
2006	676	18	2,483	26,899	23	30,099
2005	633	18	2,441	24,874	22	27,988
2004	630	18	2,414	23,358	22	26,442

Service Contract. Transmission and treatment of sewage is provided by three sources: (1) a contract with King County Department of Natural Resources and Parks (KCDNR); (2) a contract with the City of Everett; and (3) the District's own secondary treatment plant. Treatment of sewage in most of the eastern half of the District is provided by the KCDNR through a long-term contract with the District, which expires July 1, 2036. Contract service is also provided by the City of Everett to the northeast part of the District, which expires March 21, 2020. Metro collects and treats approximately 62 percent of the District's sewage, 27 percent is treated by the District’s plant, and 11 percent is treated by the City of Everett.

District Facilities. The District’s existing Picnic Point Wastewater Treatment Facility was designed to provide secondary treatment for an average flow of 3 mgd and a peak hour flow of 7.5 mgd. The plant serves the northwest portion of the District and is located north of the City of Lynnwood with outfall into Puget Sound. This facility has reached the end of its useful life and upgraded and expanded facilities are currently under construction. In 2011, the new facilities will begin producing high quality treated effluent and a Class A biosolids. The initial capacity of this plant is 4 mgd with the ability to expand to 6 mgd and peak flows of 13.2 mgd.

The District currently has 13 active sewer lift stations ranging from 100 gallons per minute to 1,500 gallons per minute. All stations have a back-up power supply. The District has approximately 373 miles of sewer mains and laterals for local collection and transmission to treatment facilities. All lines are considered in good condition with the oldest lines being just over 30 years old.

Sewer Comprehensive Plan: The District recently completed an update to the sanitary sewer comprehensive plan. This plan was approved by the District, State Department of Ecology and Snohomish County in the year 2009. The plan includes a Capital Improvement Program the District has begun to implement.

Capital Improvement Program. As part of the Sewer Comprehensive Planning process, a capital improvement program was developed to meet future needs of the District. The Program includes two significant projects, the upgrade to the District’s Picnic Point Wastewater Treatment Plant at a cost of $35 million over the 2010 to 2016 period, and the North Creek Trunk Interceptor Project at $28.9 million, all of which will be reimbursed on a monthly basis as costs accrue by King County Department of Natural Resources.

The District has identified several other smaller projects in its capital plan, which include improvements to its lift stations and other improvements to District facilities. The total cost of the District’s six-year capital program for the sewer system is approximately $97,592,000, with $69,215,000 to be paid for by District customers and, approximately 48% to be funded by bond proceeds, and the remainder from operating funds and general facility (connection) charges.

Sewer Rates

The 2010 sewer rates will go into effect January 1, 2010. All users are subject to a minimum monthly charge. Historical sewer rate increases and the minimum monthly charges are shown in the following table

.SEWER RATE INCREASES

Year	% Increase
2012	7.5
2011	7.5
2010	7.5
2009	5.0
2008	11.0
2007	11.4
2006	11.4

SEWER RATES MINIMUM MONTHLY CHARGE PER UNIT

Classification	2006	2007	2008	2009	2010
Single Family	32.21	35.86	39.94	42.34	46.03
Single Commercial	32.21	35.86	39.94	43.14	47.57*
Multi Units per unit	27.09	28.18	29.3	29.30	30.77
Hotel/motels per unit	13.46	14.96	16.65	16.65	
RV parks per site	10.99	12.24	13.63	12.27	

*Hotels, motels and RV parks are included in the single commercial classification as of 2010.

A five year history of the sewer usage charges per 100 cubic feet for customers other than single family users are as follows:

SEWER RATES USAGE CHARGE
($/ccf)

Classification	2006	2007	2008	2009	2010
Non-Single Family	$4.30	$4.79	$5.33	$5.75	
Multi Units					$6.34
Single Commercial					$6.04

Sewer Rate Comparison

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

2009 SINGLE FAMILY MONTHLY RATE [1]
(per 100 cubic feet)

Agency	
Alderwood Water & Wastewater District	$42.34
City of Brier	42.51
City of Edmonds	25.32
City of Kirkland	42.22
City of Lynnwood	29.50
City of Mountlake Terrace	18.27
City of Redmond	44.19
City of Seattle	46.23
Northshore Utility District	40.75
Olympic View Water & Sewer	20.24
Woodinville	53.28

[1] Source: District. Rate for City of Brier is as of 2008. Rate for Seattle represents average monthly rate. Seattle has a minimum charge of $8.89 for 100 cf.

Sewer General Facility Charges

The District completed an update to the general facility charges ("GFCs") for new connections to the sewer system that reflects the Comprehensive Sewer Plan that was adopted on May 4, 2009. The new GFC's will be effective on January 1, 2010.

SEWER SYSTEM GENERAL FACILITY CHARGES

Meter Size	ERU Factor	Picnic Point/ South Everett Discharge Basins	North Creek, Swamp Creek & Bear Creek Basins
¾ inch	1.0	$3,700	$909
l inch	2.5	9,250	2,273
1½ inch	5.0	18,500	4,545
2 inch	8.0	29,600	7,272
3 inch	15.0	55,500	13,635
4 inch	25.0	92,500	22,725
6 inch	50.0	185,000	45,450
8 inch	80.0	296,000	72,720
10 inch	115.0	425,500	104,535

An increase in GFC's to be effective on January 1, 2011 has also been identified and is provided below.

Meter Size	ERU Factor	Picnic Point/ South Everett Discharge Basins	North Creek, Swamp Creek & Bear Creek Basins
¾ inch	1.0	$4,132	$1,394
l inch	2.5	10,330	3,845
1½ inch	5.0	20,660	6,970
2 inch	8.0	33,056	11,152
3 inch	15.0	61,980	20,910
4 inch	25.0	103,300	34,850
6 inch	50.0	206,600	69,700
8 inch	80.0	330,560	111,520
10 inch	115.0	475,180	160,310

Major Sewer Customers

The District's largest sewer customers by total amount billed in 2008 are shown below.

MAJOR 2008 SEWER ACCOUNTS

Customer	Total Amount Billed for Sewer	Percent of Revenues
Avalon Bay Communities Inc	$263,408	1.0
BRE Properties Inc	252,985	1.0
ERP Operating LP	233,456	0.9
Archstone Communities	177,914	0.7
KW Mill Creek Prop Mgr LLC	185,147	0.7
The Renaissance	184,025	0.7
Keelers Corner	163,094	0.6
Crystal Cove Apartments	139,137	0.5
Mill Wood Estates	124,363	0.5
Wandering Creek	123,280	0.5
Total:	$1,846,808	7.1

Financial Information

The table on the following page sets forth an historical summary of revenues, expenses and debt service coverage for the District.

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COMBINED WATER AND SEWER DEPARTMENTS
COMPARATIVE STATEMENT OF INCOME

(Years Ended December 31)

	2004	2005	2006	2007	2008
Total Operating Revenues	$34,162,558	$38,052,594	$43,189,262	$46,517,724	$48,120,980
Operating Expenses					
General Operations	7,119,086	7,805,159	8,391,125	9,539,888	9,886,843
Purchased Water/Wastewater	16,096,765	19,754,414	22,559,503	23,474,741	23,328,004
Maintenance Expenses	2,285,587	2,578,476	2,662,688	3,226,240	3,353,735
Taxes	894,021	919,216	1,006,326	1,045,477	1,116,298
Total Operating Expenses (excluding depreciation)	$26,395,459	$31,057,265	$34,619,642	$37,286,346	$37,684,881
Net Operating Income	$7,767,099	$6,995,329	$8,569,620	$9,231,378	$10,436,099
Non-operating Revenues					
Disposition Gains (Losses)	16,515	2,042	42,822	48,081	33,360
Other non-operating revenue	6,439	13,939	54,626	4,749	274,499
Capital Facility Charges	5,547,607	5,127,507	5,968,093	5,417,504	3,791,108
Assessment Income - Principal	343,685	432,032	225,558	148,097	115,875
Assessment Income - Interest	90,834	80,855	50,080	41,020	34,550
Interest Revenue	2,013,815	3,269,973	5,294	6,366,534	3,359,305
Total Non-operating Revenues	$8,018,895	$8,926,348	$6,346,473	$12,025,985	$7,608,697
Available for Debt Service	$15,785,994	$15,921,677	$14,916,093	$21,257,363	$18,044,697
Parity Bond Debt Service	$3,720,684	$3,684,199	$3,685,518	$3,683,259	$3,669,146
Public Works Trust Fund Debt	$301,768	$299,660	$304,394	$401,672	$581,551
Debt Service Coverage-Parity Debt	4.24	4.32	4.05	5.77	4.92
Debt Service Coverage-All Debt	3.92	4.00	3.74	5.20	4.25

Management Discussion of 2008 Financial Results

The District's overall financial position continued to be strong in 2008 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 $46.517 million to $48.120 million in 2008 while non-depreciation expenses increased from $37.286 to $37.684. The Water System's revenues decreased by 1.3% while the Sewer System's revenues increased by 7.9%. The decrease in Water System revenues reflected the results of a decline in retail and wholesale demand which offset the impact of a 1.2% water rate increase for retail accounts and a slight rate decrease for wholesale accounts.

Non-depreciation operating expenses increased from $37.28 million to $37.68 million. This $400,000 increase in operating expenses reflected a 3% decrease in purchased water costs which was offset by higher general operation expenses for the Water and Sewer Systems and an increase in the Sewer System's maintenance expenses. Maintenance expenses for the Water System declined by approximately 2%.

Non-operating revenues declined to $3.6 million, a 57% percent decrease, primarily due to a decrease in interest earnings. Investment balances went from $120 million to $112 million. The interest rate on funds held by the District in the State investment pool rates averaged 5.09% in 2007 and 2.68% in 2008, a 47% decline in the rate of return. Interest income declined from $6,407,554 to $3,359,305 a 47% decline. There were no investment losses.

The combined System achieved a coverage ratio of 4.92x on the combined debt service of its Parity Bonds, exceeding the 1.25x minimum coverage covenant contained in the bond resolutions. A debt service coverage ratio of 4.25x was achieved on all of the District's outstanding debt.

Projected Customers, Revenues and Expenses

The following table sets forth a summary of the District's most recent projections of customers, revenues and expenses for the fiscal years ending December 31, 2009, through December 31, 2013. Notes for this table are provided on the following page.

IN THE PREPARATION OF THE PROJECTIONS IN THIS OFFICIAL STATEMENT, THE DISTRICT HAS MADE CERTAIN ASSUMPTIONS WITH RESPECT TO CONDITIONS THAT MAY OCCUR IN THE FUTURE. WHILE THE DISTRICT BELIEVES THESE ASSUMPTIONS ARE REASONABLE FOR THE PURPOSE OF THE PROJECTIONS, THEY DEPEND UPON FUTURE EVENTS, AND ACTUAL CONDITIONS MAY DIFFER FROM THOSE ASSUMED. THE DISTRICT DOES NOT REPRESENT OR GUARANTEE THAT ACTUAL RESULTS WILL REPLICATE THE ESTIMATES IN THE VARIOUS TABLES SET FORTH IN THIS OFFICIAL STATEMENT. POTENTIAL PURCHASERS OF THE BONDS SHOULD NOT RELY ON THE PROJECTIONS IN THIS OFFICIAL STATEMENT AS STATEMENTS OF FACT. SUCH PROJECTIONS ARE SUBJECT TO CHANGE, AND WILL CHANGE, FROM TIME TO TIME. THE DISTRICT HAS NOT COMMITTED ITSELF TO PROVIDE INVESTORS WITH UPDATED FORECASTS OR PROJECTIONS.

IN THE VIEW OF THE DISTRICT, THESE FINANCIAL PROJECTIONS ARE PREPARED ON A REASONABLE BASIS AND REFLECT THE BEST CURRENTLY AVAILABLE ESTIMATES AND PRESENT, TO THE BEST OF THE DISTRICT'S KNOWLEDGE AND BELIEF, THE EXPECTED COURSE OF ACTION AND THE EXPECTED FUTURE FINANCIAL PERFORMANCE OF THE WATER AND SEWER SYSTEM.

COMBINED WATER AND SEWER DEPARTMENTS
PROJECTED INCOME STATEMENT

(Years Ended December 31)

	2009	2010	2011	2012	2013
Operating Revenues					
Water & Sewer System Revenues	$51,298,632	$55,418,564	$61,353,357	$68,304,096	$73,717,929
Withdrawals from Rate Stabilization Fund	0	0	0	-333,333	0
Total Net Revenues	$51,298,632	$55,418,564	$61,353,357	$68,637,429	$73,717,929
Operating Expenses					
Operating Expense (2)	$11,014,835	$12,168,404	$12,818,595	$13,013,382	$13,668,524
Purchased Water /Wastewater (3)	26,028,704	28,495,496	31,878,728	35,066,165	38,312,031
Maintenance Expense (2)	3,787,087	3,649,569	3,916,519	4,618,361	4,984,370
Taxes (4)	996,739	1,147,674	1,183,408	1,367,158	1,485,941
Total Operating Expenses (excluding depreciation)	$41,827,365	$45,461,143	$49,797,250	$54,065,066	$58,450,866
Net Operating Income	$9,471,267	$9,957,421	$11,556,107	$14,572,363	$15,267,063
Non-Operating Revenues					
Federal Subsidy Payment (5)	0	$698,365	$860,998	$860,998	$860,998
Other non-operating revenue (6)	$746,782	1,137,704	1,439,072	1,775,605	2,436,386
Capital Facility Charges (7)	2,300,000	1,770,490	931,124	1,131,124	1,331,124
Assessment Income – Principal (8)	194,421	131,837	81,797	79,690	79,690
Assessment Income – Interest (8)	26,109	45,203	37,905	33,894	29,987
Total Non-operating Revenues	$3,267,312	$3,783,599	$3,350,896	$3,881,311	$4,738,185
Available for Parity Lien Debt Service	$12,738,579	$13,741,020	$14,907,003	$18,453,674	$20,005,248
Parity Lien Debt Service (9)	$806,278	$1,955,312	$3,295,950	$3,348,050	$3,356,400
Projected Parity Lien Debt Service for 2010 and 2012 Bonds (10)	0	$3,762,278	$2,902,270	$5,725,937	$6,046,670
Debt Service on Public Works Trust Fund & State Revolving Fund Loans (11)	$790,526	$791,992	$1,393,719	$1,388,787	$1,383,588
Net Revenue available for Other Purposes (12)	$11,932,301	$7,231,438	$7,315,064	$7,990,900	$9,218,590
Beginning Balance in Rate Stabilization Fund (13)	$3,548,163	$5,495,789	$5,695,789	$6,865,392	$7,232,059
Deposits to Rate Stabilization Fund	$1,947,626	200,000	1,169,603	700,000	0
Withdrawals from Rate Stabilization Fund.	0	0	0	-333,333	0
Ending Balance in Rate Stabilization Fund	$5,495,789	$5,695,789	$6,865,392	$7,232,059	$7,232,059
Debt Service Coverage on Parity Bonds Prior to Deposit in Rate Stabilization Fund.	15.80	2.40	2.41	2.03	2.13
Debt Service Coverage on all Debt Prior to Deposit in Rate Stabilization Fund	15.80	2.11	1.96	1.76	1.85

Notes for Projections

Operating Revenues

(1) Operating revenues are primarily comprised of water and wastewater rate charges to retail and wholesale customers and General Facility Charges for new connections to the water and wastewater systems. Revenue projections for the water system assume rate increases for retail customers of 14%% during 2010-2011-12, and 8% each year during 2013-2015. Revenue projections for the wastewater system assume retail and wholesale customer wastewater rate increases of: 7.5% during 2010-12 and 6.25%, 3.25%, 8.0%, and 7.0% for the years 2013-16 respectively. The Board of Commissioners have passed a resolution implementing the 2010-2012 rate increases as represented, the rest are estimated rate increases which have been prepared by District staff based on findings of an independent rate study and cost of service analysis.

Projected wholesale water rates increases for cities served by the District are 9% per year, based on the City of Everett's estimate of water rate increases. Water rate increases projected for the Clearview Water Supply Agency are also 9% annually, based on the City of Everett's estimate of rate increases.

Projections for General Facilities Charges (GFC) reflect the anticipation of significantly reduced new connection activity in the District during 2010 and 2011 and modest increases in 2012-13.

Operating Expenses

(2) Maintenance and operating expenses for the water system are estimated to increase at 6-7% through 2013. Maintenance and operating expenses for the wastewater system are projected to increase 7-8% through 2013; 2011 is 13% higher than 2010 due to increased costs associated with the completion of the Treatment Plant Capacity Expansion Project.

(3) Purchased water from the District's supplier, the City of Everett, is projected to increase at 9% per year. Projected increases for purchased wastewater treatment costs are based on increased costs projected by King County and the City of Everett.

(4) State taxes are approximately 2% of Net Revenues.

Non-Operating Revenues

(5) Reflects the 35% interest subsidy payment that District will receive from federal government for Series B Build America Bonds.

(6) Other non-operating revenues primarily include interest income and certain District fees. Interest rates on invested funds are projected for the years 2010-2013 as 1%, 2%, 3% and 4% respectively.

(7) Revenues from Capital Facility Charges, which are paid by developers, are projected to continue to decline through 2011 and slowly increase in 2012 and 2013 as economic activity returns to more typical levels.

(8) Projections for receipt of assessment revenues are based on payment requirements for existing ULIDs.

Debt

(9) Projections reflect actual debt service paid on outstanding Parity Bonds in 2009, actual debt service on the Series A and B Bonds and projected debt service for $40 million of additional Parity Bonds that the District anticipates issuing in 2012.

(10) Assumes that the District issues $53 million of Parity Bonds in January 2010 and $40 million of Parity Bonds in 2012.

(11) Payment of debt service on these loans is subordinated to payment of debt service on Parity Bonds.

Net Revenue Available for Other Purposes

(12) Includes Capital Funding from Rates (CFR) which represents funds available from rates charges that will be used for capital projects. In November of 2010, the Board of Commissioners increased the level of capital funding from rates to $5,000,000 for the years 2010-2011 and $5,500,000 for 2012.

Rate Stabilization Fund Balance

(13) During 2009, the District deposited $3,548,163 into the Rate Stabilization Fund. The District has adopted a financial policy which targets the amount of funds to be held in the Rate Stabilization Fund as 10% of annual rate revenues from the Water System and 5% of annual rate revenues from the Sewer System.

Debt Service Coverage Calculations

(13) Debt service coverage on Parity Bonds reflects Net Revenue Available for Other Purposes, prior to deposit of any funds into the Rate Stabilization Fund, divided by anticipated debt service on Outstanding Parity Debt, the Bonds and anticipated Parity Bonds to be issued in 2012. Debt service coverage on all debt reflects Net Revenue Available for Other Purposes, prior to deposit of any funds into the Rate Stabilization Fund, divided by debit service on Parity Bonds plus debt service on subordinated Public Works Trust Fund and State Revolving Fund Loans..

Management Discussion of 2009 Financial Performance

Water System. Total Water System revenues through October 30, 2009 were $22.0 million, compared to $18.7 million for the comparable period in 2008. This represents an increase of 18%. Water revenues in 2009 are trending higher than in 2008 due to a 10% rate increase for retail customers and a 17% rate increase for wholesale customers. Additionally, the District experienced a dryer than normal summer which tends to boost water usage. Water System expenses are tracking the 2009 budget with no unusual variations except for the additional water purchases from the District's supplier.

Sewer System. Total Sewer System revenues through October 30, 2009 were $22.6 million compared to $21.7 million for the comparable period during 2008. This represents an increase of 4.3% which is due to a 7% rate increase for residential customers and approximately a 1% rate increase for the other classes of customers. Residential customers represent about 52% of total revenue. Sewer System revenues are tracking the 2009 budget with no unusual variations noted.

Connection Charges. Both water and sewer connection charges are significantly down from the prior year reflecting the national trend of declining construction activity. The District is projecting water connection charges for 2009 to be $2.03 million, which is an increase of 11% over charges of $1.8 million during 2008. Sewer connection charges for 2009 are projected to be $256,000, which is a decrease of 83% from the $1.5 million of charges received in 2008. The District is projecting flat to modest increases in construction activity during 2010 and has adjusted its projections for connection charges to reflect this trend.

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DEMOGRAPHIC INFORMATION

Located in southwest Snohomish County (the "County"), the District encompasses the incorporated 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 Snohomish County population. Snohomish County, as a whole, and the District's service area have experienced steady growth in recent years. Total assessed values for property located in the above mentioned cities have increased by more than 67% since 2005.

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

Historical and current population figures for the six largest cities in the District and Snohomish County are given below.

HISTORICAL POPULATION

Snohomish County and Incorporated Communities
Within the District's Service Area

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Snohomish County	644,800	655,800	671,800	686,300	696,600	704,300
Bothell *part*	14,680	14,750	15,090	15,450	15,730	15,980
Brier	6,460	6,475	6,480	6,480	6,485	6,490
Edmonds	39,620	39,860	40,360	40,560	40,760	40,900
Lynnwood	34,540	34,830	35,230	35,490	35,680	35,740
Mill Creek	12,760	14,320	17,460	17,620	17,770	18,480
Mountlake Terrace	20,390	20,390	20,390	20,810	20,930	20,960

Source: Washington State Office of Financial Management.

Employment Indicators

The following tables provide information regarding major employers in Snohomish County and the Seattle-Bellevue-Everett metropolitan areas.

SNOHOMISH COUNTY
MAJOR PRIVATE SECTOR EMPLOYERS

Employer	Type of Business	Number of Employees
Boeing	Aircraft manufacturing	35,000
Providence Regional Medical Center	Medical services	3,220
Premera Blue Cross	Health Insurer	3,200
Tulalip Tribes Enterprises	Real estate, Retail, Gaming	2,300
Philips Medical Systems	Ultrasound technology	1,600
Zumiez	Sporting Goods	1,500
Verizon Northwest	Communications	1,500
Aviation Technical Services	Aircraft repair/maintenance/parts	1,400
Everett Clinic	Health care	1,400
CEMEX (Rinker Materials)	Sand/gravel mining operations	1,200
Fluke Corp. (Danaher)	Electronic test & measurement	1,000
Kimberly Clark	Paper products	860
Twin City Foods	Vegetable processing	850

Source: Snohomish County Economic Development Council, InfoUSA and Manta. As of December 2008.

SNOHOMISH COUNTY
MAJOR PUBLIC SECTOR EMPLOYERS

Employer	Type of Business	Number of Employees
Naval Station Everett	U.S. Navy Base	6,000
Washington State	State Government	3,000
Snohomish County Government	County Government	2,700
Everett School District	School District	1,700
Edmonds School District	School District	1,400
Marysville School District	School District	1,250
Monroe Correctional Complex	State Department of Corrections	1,200
City of Everett	City Government	1,200
Stevens Healthcare	Health care	1,200
Snohomish PUD (electric utility)	Electric Utility	900
Everett Community College	Higher Education	560
Community Transit	Public Transit	550
Edmonds Community College	Higher Education	540

Source: Snohomish County Economic Development Council, InfoUSA and Manta. As of December 2008.

CENTRAL PUGET SOUND AREA
MAJOR EMPLOYERS

Employer	Number of Employees
The Boeing Company	74,277
U.S. Army Fort Lewis	40,091
Microsoft	36,405
University of Washington	20,605
Providence Health System	14,090
King County Government	12,586
The City of Seattle	12,586
Group Health Cooperative of Puget Sound	9,946
MultiCare Health System	9,135
Costco	8,552
Weyerhaeuser	6,770
Alaska Air Group Inc.	6565
Starbucks Corp.	6,200
Safeway	4,884

Source: Puget Sound Business Journal, Book of Lists, 2009.

SEATTLE-BELLEVUE-EVERETT PMSA
NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
ANNUAL AVERAGES
(King and Snohomish Counties)

	2005	`2006	2007	2008	2009
Total Nonfarm	1,371.7	1,415.7	1,458.6	1,476.6	1,400.90
Goods Producing	235.1	253.2	267.1	264.7	235.2
Construction	82.6	91.3	99.0	96.2	79.6
Manufacturing	151.4	160.8	167.0	167.4	154.8
Durable Goods	120.3	129.4	135.8	137.4	126.7
Nondurable Goods	31.1	31.4	31.2	30.0	28.1
Services Providing	1,136.6	1,162.5	1,191.5	1,211.9	1,165.70
Trade, Transportation & Utilities	262.1	265.6	268.8	270.0	256.5
Wholesale Trade	69.2	71.2	71.7	72.5	69.0
Retail Trade	143.5	143.8	145.5	146.3	137.4
Trans.,Warehousing & Utilities	49.3	50.7	51.6	51.2	50.1
Information	74.2	77.7	81.7	85.3	82.7
Financial Activities	89.3	90.7	90.2	88.4	81.1
Professional and Business Services	192.4	202.6	213.5	216.9	201.4
Education and Health Services	144.1	147.0	151.7	158.5	165.9
Leisure and Hospitality	126.7	130.5	135.3	137.0	134.9
Other Services	50.0	50.0	50.2	51.4	50.2
Government	197.8	198.4	200.1	204.5	193.0
Federal Government	24.2	23.7	23.7	23.9	24.4
Total State Government	59.6	59.6	59.7	60.7	56.4
Total Local Government	114.0	115.1	116.8	119.8	112.2
Workers in Labor/Management Disputes	1.4	0.0	0.0	1.9	0

Source: Washington State Department of Employment Security. Data for 2009 represents average annualized employment through September 2009.

RESIDENT CIVILIAN LABOR FORCE AND EMPLOYMENT

	2005	2006	2007	2008	2009
State of Washington					
Civilian Labor Force	3,270,870	3,333,600	3,391,250	3,476,760	3,550,450
Total Employment	3,091,050	3,170,470	3,237,360	3,290,990	3,239,470
Total Unemployment	179,820	163,130	153,890	185,770	310,980
Percent of Labor Force	5.5	4.9	4.5	5.3	8.8
Snohomish County					
Civilian Labor Force	346,740	359,580	363,900	372,120	386,040
Total Employment	329,140	343,470	348,990	353,270	346,700
Total Unemployment	17,600	16,110	14,910	18,850	35,120
Percent of Labor Force	5.1	4.5	4.1	5.1	8.8
Seattle-Bellevue-Everett PMSA					
Civilian Labor Force	1,359,680	1,407,310	1,432,400	1,460,560	1,505,960
Total Employment	1,295,080	1,348,710	1,377,840	1,394,710	1,368,800
Total Unemployment	64,600	58,610	54,560	65,850	137,160
Percent of Labor Force	4.8	4.2	3.8	4.5	9.1

Source: Washington State Department of Employment Security as of October 1, 2009.

Additional Economic Indicators

The following tables present additional economic indicators for the major cities located in the District, the Seattle-Bellevue-Everett Primary Metropolitan Statistical Area, Snohomish County and the State.

LARGEST CITIES SERVED BY DISTRICT
TAXABLE RETAIL SALES (000)

	Bothell	Brier	Edmonds	Lynnwood	Mill Creek	Mountlake Terrace
2009*	N.A.	$9,054	$243,623	$818,383	$80,947	$37,717
2008	463,503	18,872	546,845	2,005,056	234,263	153,369
2007	501,966	16,895	607,095	2,239,842	263,342	155,135
2006	476,729	14,542	587,606	2,156,528	239,276	153,111
2005	423,716	16,467	543,637	2,005,221	199,638	154,315

*Retail sales for the portion of Bothell which is located in the District are not published on a quarterly basis.

Source: Washington State Department of Revenue. Data for 2009 only includes taxable retail sales for the first two quarters of the year.

PER CAPITA INCOME

	2004	2005	2006	2007	2008
Seattle-Tacoma-Bellevue-MSA	$42,131	$42,804	$46,054	$49,401	$50,471
Snohomish County	33,349	35,125	37,658	40,302	N.A.
State of Washington	35,986	36,773	38,623	41,020	42,857

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

LITIGATION

There is no litigation pending questioning the validity of the Bonds or the power and authority of the District to issue the Bonds.

APPROVAL OF COUNSEL

Legal matters incident to the authorization, issuance and sale of the Bonds by the District are subject to the approving legal opinions of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The forms of the opinions of Bond Counsel with respect to the Bonds are attached as Appendix B. The opinions of Bond Counsel are given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinions of Bond Counsel are an expression of its professional judgment on the matters expressly addressed in its opinions and do not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

CONFLICTS OF INTEREST

All or a portion of the fees of the Underwriter and Bond Counsel are contingent upon the issuance and sale of the Bonds. None of the Commissioners or other officers of the District has any conflict of interest in the issuance of the Bonds that is prohibited by applicable law.

TAX MATTERS

Series A Bonds (Tax-Exempt)

Exclusion from Gross Income.# In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Code that must be satisfied subsequent to the issue date of the Series A Bonds, interest on the Series A Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements.# The District is required to comply with certain requirements of the Code after the date of issuance of the Series A Bonds in order to maintain the exclusion of the interest on the Series A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of proceeds of the Series A Bonds and the facilities financed or refinanced with proceeds of the Series A Bonds, limitations on investing gross proceeds of the Series A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the Series A Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the

District fails to comply with those requirements, interest on the Series A Bonds could become taxable retroactive to the date of issuance of the Series A Bonds.

Alternative Minimum Tax. Under existing federal law, interest on the Series A Bonds received by individuals and corporations is *not* treated as an item of tax preference for purposes of the federal alternative minimum tax, and interest on the Series A Bonds received by corporations is *not* taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

Tax on Certain Passive Investment Income of S Corporations.# Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Series A Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax.# Interest on the Series A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Series A Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit.# The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Series A Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the Series A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Series A Bonds could adversely affect the market value and liquidity of the Series A Bonds until the audit is concluded, regardless of its ultimate outcome.

Series A Bonds "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code generally provides that 100% of any interest expense incurred by banks and other financial institutions that is allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than certain private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than $30,000,000 of tax-exempt obligations (other than certain private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The District is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing less than $30,000,000 of tax-exempt obligations (other than certain private activity bonds and other obligations not required to be included in such calculation) during the current calendar year, and has designated the Series A Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Therefore, only 20% of the interest expense deduction of a financial institution allocable to the Series A Bonds will be disallowed for federal income tax purposes.

*Original Issue Premium***.** The Series A Bonds maturing in 2010 through 2014, inclusive, have been sold at prices reflecting original issue premium ("Premium Bonds"). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies.# Under Section 832 of the Code, interest on the Series A Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits.# Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the Series A Bonds into account in determining gross income.

Other Possible Federal Tax Consequences.# Receipt of interest on the Series A Bonds may have other federal tax consequences as to which prospective purchasers of the Series A Bonds should consult their own tax advisors.

Series B Bonds (Build America Bonds)

THIS ADVICE WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SERIES B BONDS. THIS ADVICE IS NOT INTENDED OR WRITTEN BY FOSTER PEPPER PLLC TO BE USED, AND MAY NOT BE USED, BY ANY PERSON OR ANY ENTITY FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON ANY PERSON OR ENTITY UNDER THE CODE. PROSPECTIVE PURCHASERS OF THE SERIES B BONDS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Series B Bonds who have purchased the Series B Bonds in the initial offering and who hold the Series B Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either (a) a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a United States person under the applicable Treasury regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase the Series B Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. **Accordingly, before deciding whether to purchase any of the Series B Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owing and disposing of the Series B Bonds.**

In General.# As described herein under "Description of the Bonds—Designation of the Series B Bonds as Build America Bonds," the District has made irrevocable elections to have the Series B Bonds treated as Build America Bonds within the meaning of Section 54AA(d) of the Code that are "qualified bonds" within the meaning of Section 54AA(g) of the Code. As a result of these elections, interest on the Series BBonds is not excludable from the gross income of the Owners for federal income tax purposes, and Owners of the Series B Bonds will not be allowed any federal tax credits as a result of ownership or receipt of interest payments on the Series B Bonds.

Payments of Interest.# Interest paid on the Series B Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement.# Upon the sale, exchange or other disposition of a Series B Bond, or upon the retirement of a Series B Bond (including by redemption), an Owner will recognize a capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the Series B Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. If the District defeases any of the Series B Bonds, such Series B Bonds may be deemed to retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a Series B Bond would recognize a gain or loss on the Series B Bond at the time of defeasance.

Backup Withholding.# An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28 percent, but may change in the future) with respect to interest [or original issue discount] on the Series B Bonds. This withholding generally applies if the Owner of a Series B Bond (i) fails to furnish the Bond Registrar or other payor with its taxpayer identification number, (ii) furnishes the Bond Registrar or other payor with an incorrect taxpayer identification number, (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series B Bonds will be reported to the Owners and to the Internal Revenue Service.

RATINGS

Moody's Investors Service and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, have assigned ratings of Aa3 and AA+ respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

All forecasts, estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not intended to be construed as a contract or agreement between the District and the purchasers or holders of any of the Bonds. The information contained in this Official Statement is presented for the guidance of prospective purchasers of the Bonds described therein. The information has been compiled from official sources and, while not guaranteed by the District, is believed to be correct.

CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events. The District undertakes to provide or cause to be provided, either directly or through a designated agent, to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB: (i) Annual financial information and operating data of the type included in the final official statement for the Bonds and as generally described below ("annual financial information"); (ii) Timely notice of the occurrence of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes; and (iii) Timely notice of a failure by the District to provide required annual financial information on or before the date described below.

Type of Annual Financial Information Undertaken to be Provided. The annual financial information that the District undertakes to provide shall consist of (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 the Net Revenue of the System; (3) debt service coverage ratios; and (4) general customer statistics for the System. Such information shall be provided not later than the last day of the ninth month after the end of each fiscal year of the District (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the District's fiscal year ending December 31, 2010. Such information may be provided in single or multiple documents, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC.

Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency or the MSRB, under the circumstances and in the manner permitted by the Rule. The District will give notice to the MSRB of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

Termination of Undertaking. The District's obligations under the Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the District's obligations under the Undertaking shall terminate if those provisions of the Rule which require the District to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of Bond Counsel or other counsel familiar with federal securities laws delivered to the District, and the District provides timely notice of such termination to the MSRB.

Remedy for Failure to Comply with Undertaking. As soon as practicable after the District learns of any failure to comply with the Undertaking, the District will proceed with due diligence to cause such noncompliance to be corrected. No failure by the District or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the District or other obligated person to comply with the Undertaking.
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Other Continuing Disclosure Undertakings of the District. The District has previously entered into continuing disclosure undertakings in connection with issuance of bonds and is on compliance with those undertakings.

UNDERWRITING

Wells Fargo Advisors (the "Series A Bond Underwriter") has agreed to purchase the Series A Bonds at a price equal to 101.0231% of the principal amount of such Series A Bonds after payment of the Series A Bond Underwriter's discount and including original issue premium. The initial public offering prices may be changed, from time to time, by the Series A Bond Underwriter. The Series A Bond Underwriter may offer and sell the Series A Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside cover page hereof.

Piper Jaffray & Co. (the "Series B Bond Underwriter") has agreed to purchase the Series B Bonds at a price equal to 99.5824% of the principal amount of such Series B Bonds after payment of the Series B Bond Underwriter's discount. The initial public offering prices may be changed, from time to time, by the Series B Bond Underwriter. The Series B Bond Underwriter may offer and sell the Series B Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside cover page hereof.

Appendix A

Certain Definitions from the Bond Resolution

As used in this Official Statement, the following words have the following meanings:

"2009 Bonds" means the Water and Sewer Revenue Refunding Bonds, 2009, issued under date of November 3, 2009, pursuant to and for the purposes provided in Resolution No. 2543-2009.

"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 respect of Parity Payment Agreements, subject to the following:

(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 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.
>
> (D) Interest on Parity Bonds With Respect to Which a Payment Agreement is in Force. 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 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:

(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 assumed RBI-based rate, 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)(1), (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 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.

"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 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 Counsel" means Foster Pepper PLLC, attorneys of Seattle, Washington, or such other firm of lawyers nationally recognized and accepted as bond counsel and so employed by the District for any purpose under this resolution applicable to the use of that term.

"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 Register" means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the owners of each of the Bonds.

"Bond Registrar" means the Fiscal Agent.

"Bonds" means, collectively, the Series A Bonds and the Series B Bonds.

"Build America Bonds" means any Parity Bonds to which the District elects to have Section 54AA of the Code apply.

"Build America Bond Payment" means those amounts which the District is entitled to receive from the United States Treasury in respect of any bonds issued 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 District Treasurer by District Resolution No. SR 14.

"CIP" means the District's Capital Improvements Projects, Years 2010 through 2016, 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.

"Comprehensive Plans" means, 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 only the Alderwood Water and 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.

"District Manager" means the Manager of the District duly appointed by the Board.

"District Treasurer" means the Treasurer of the District duly appointed by the Board.

"DTC" means The Depository Trust Company, New York, New York.

"Fiscal Agent" means the fiscal agent of the State of Washington located in New York, New York, or any other paying agent/registrar of the District, as the same may be designated from time to time.

"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" means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

"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; 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, (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 between the District and DTC dated December 1, 1998, as it may be 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.

"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; State-imposed taxes; 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 Bonds" means the outstanding 2009 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" means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds.

"Parity Conditions" means the conditions for issuing Future Parity Bonds set forth in Exhibit A to this resolution, which is incorporated herein by this reference.

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

"Permitted Investment" means any investment that is a legal investment for water-sewer districts in the State of Washington at the time of such investment.

"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.

"Projects" means 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.

"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.

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

"Rating Agencies" means 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.

"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 paragraph (b)(5) of Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as such Rule may be amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Series A Bonds" means the Water and Sewer Revenue Bonds, 2010, Series A, authorized to be issued by this resolution.

"Series B Bonds" means the Water and Sewer Revenue Bonds, 2010, Series B (Taxable Build America Bonds – Direct Payment), authorized to be issued by this resolution.

"Sewer Comprehensive Plan" means the District's Comprehensive Sewer Plan dated February 2009, adopted by Resolution No. SR 965-2009

"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.

"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" means those Parity Bonds designated as such in the applicable Parity Bond Authorizing Resolution.

"ULID" means a utility local improvement district.

"ULID Assessments" means all assessments levied and collected in ULID No. 92 1, ULID No. 96 02, and 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.

"Undertaking" means the District's undertaking pursuant to Section 27 of this resolution to provide annual financial information and notice of material events.

"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" means, 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 2009 Water Comprehensive Plan adopted by Resolution No. 2538-2009.

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

Appendix B

Legal Opinions

[FORM OF APPROVING LEGAL OPINION
FOR TAX-EXEMPT SERIES A BONDS]

Alderwood Water and Wastewater District
Snohomish County, Washington

Re: Alderwood Water and Wastewater District, Snohomish County, Washington
$3,675,000 Water and Sewer Revenue Bonds, 2010, Series A

We have served as bond counsel to Alderwood Water and Wastewater District, Snohomish County, Washington (the "District"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the District pursuant to Resolution No. 2547-2010 (the "Bond Resolution") to provide part of the funds to carry out portions of the water and sewer comprehensive plans of the District and to fund a reserve for and pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Resolution.

The Bonds are payable solely out of the Water and Sewer Revenue Bond Fund (the "Bond Fund"), into which fund the District irrevocably has pledged and bound itself to pay all ULID Assessments upon their collection and certain fixed amounts out of the Net Revenue of the System, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Bonds as they respectively become due and to maintain a reserve, all at the times and in the manner set forth in the Bond Resolution. The Bonds are not general obligations of the District.

The Net Revenue of the System and ULID Assessments have been pledged to the payment of the Outstanding Parity Bonds, the Bonds, the District's Water and Sewer Revenue Bonds, 2010, Series B (Taxable Build America Bonds – Direct Payment) issued simultaneously with the Bonds, and any Future Parity Bonds, and this pledge constitutes a lien and charge upon the Net Revenue of the System and ULID Assessments prior and superior to any other liens and charges whatsoever.

Reference is made to the Bonds and the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the District is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The District has covenanted in the Bond Resolution to comply with those requirements, but if the District fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the District's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The District is a duly organized and legally existing municipal corporation under the laws of the State of Washington;

2. The Bonds have been duly authorized and executed by the District and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the District relating thereto;

3. The Bonds constitute valid obligations of the District payable from solely out of the Net Revenue of the System and ULID Assessments to be paid into the Bond Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases;

4. The Bonds are not general obligations of the District; and

5. Assuming compliance by the District after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax; however, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to 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.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

[FORM OF APPROVING LEGAL OPINION
FOR SERIES B TAXABLE BUILD AMERICA BONDS]

Alderwood Water and Wastewater District
Snohomish County, Washington

Re: Alderwood Water and Wastewater District, Snohomish County, Washington
$49,325,000 Water and Sewer Revenue Bonds, 2010, Series B
(Taxable Build America Bonds – Direct Payment)

We have served as bond counsel to Alderwood Water and Wastewater District, Snohomish County, Washington (the "District"), in connection with the issuance of the above-referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the District pursuant to Resolution No. 2547-2010 (the "Bond Resolution") to provide part of the funds to carry out portions of the water and sewer comprehensive plans of the District and to fund a reserve for and pay the costs of issuance and sale of the Bonds, all as set forth in the Bond Resolution.

The Bonds are payable solely out of the Water and Sewer Revenue Bond Fund (the "Bond Fund"), into which fund the District irrevocably has pledged and bound itself to pay all ULID Assessments upon their collection and certain fixed amounts out of the Net Revenue of the System, without regard to any fixed proportion, namely, amounts sufficient to pay the principal of and interest on the Bonds as they respectively become due and to maintain a reserve, all at the times and in the manner set forth in the Bond Resolution. The Bonds are not general obligations of the District.

The Net Revenue of the System and ULID Assessments have been pledged to the payment of the Outstanding Parity Bonds, the Bonds, the District's Water and Sewer Revenue Bonds, 2010, Series A issued simultaneously with the Bonds, and any Future Parity Bonds, and this pledge constitutes a lien and charge upon the Net Revenue of the System and ULID Assessments prior and superior to any other liens and charges whatsoever.

Reference is made to the Bonds and the Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The District is a duly organized and legally existing municipal corporation under the laws of the State of Washington;

2. The Bonds have been duly authorized and executed by the District and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of the District relating thereto;

3. The Bonds constitute valid obligations of the District payable from solely out of the Net Revenue of the System and ULID Assessments to be paid into the Bond Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases;

4. The Bonds are not general obligations of the District; and

5. Interest on the Bonds is includable in gross income for federal income tax purposes.

This opinion is given as of the date hereof, and we assume no obligation to 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.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

Appendix C

Audited Financial Statements

Washington State Auditor's Office

Financial Statements Audit Report

Alderwood Water and Wastewater District

Snohomish County

Audit Period

January 1, 2008 through December 31, 2008

Report No. 1002302

Issue Date

October 5, 2009

WASHINGTON
BRIAN SONNTAG
STATE AUDITOR

Washington State Auditor
Brian Sonntag

October 5, 2009

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,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Insurance Building, P.O. Box 40021 • Olympia, Washington 98504-0021 • (360) 902-0370 • TDD Relay (800) 833-6388
FAX (360) 753-0646 • http://www.sao.wa.gov

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Snohomish County
January 1, 2008 through December 31, 2008

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Independent Auditor's Report on Financial Statements 3

Financial Section 5

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, 2008 through December 31, 2008

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, 2008 and 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 2, 2009.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2009

Independent Auditor's Report on Financial Statements

Alderwood Water and Wastewater District
Snohomish County
January 1, 2008 through December 31, 2008

Board of Commissioners
Alderwood Water and Wastewater District
Lynnwood, Washington

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, 2008 and 2007, which collectively comprise the District's basic financial statements, as listed on page 5. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

The management's discussion and analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedules of Long-Term Debt are supplemental information presented for purposes of additional analysis. These schedules are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

September 2, 2009

Financial Section

Alderwood Water and Wastewater District
Snohomish County
January 1, 2008 through December 31, 2008

REQUIRED SUPPLEMENTAL INFORMATION

Management's Discussion and Analysis – 2008

BASIC FINANCIAL STATEMENTS

Comparative Statement of Net Assets – 2008 and 2007
Comparative Statement of Revenues, Expenses and Changes in Net Assets – 2008 and 2007
Comparative Statement of Cash Flows – 2008 and 2007
Notes to Financial Statements – 2008 and 2007

SUPPLEMENTAL INFORMATION

Schedule of Long Term Debt – 2008 and 2007

Management's Discussion and Analysis
For the years ended December 31, 2008 and December 31, 2007

Overview of the Financial Statements

As Management of the Alderwood Water and 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, 2008 and December 31, 2007. Please read this in conjunction with the financial statements, including the footnotes which can be found on pages 12-26.

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

Comparative Statement of Net Assets
Comparative Statement of Revenues, Expenses, and Changes in Net Assets
Comparative Statement of Cash Flows

The comparative statement of net assets presents detailed information on all of the District's assets and liabilities, with the difference between total net assets and total liabilities, represented as net assets. This statement reports all of the Districts 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 net assets represents twelve months worth of revenue and expenses beginning January 1 and ending December 31, the same ending date as the statement of net assets. 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 sewer 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 assets, 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.

In addition to the financial statements and the notes, this report also presents certain required supplemental information concerning the details of: the District's Long Term Debt (schedule 9), and information about the District's Labor Relations Consultant (schedule 19). This information can be found on pages 28 and 29 of the report.

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

Financial Position

The Districts overall financial position continues to be strong and provides sufficient liquidity to support stable, ongoing operations Capital assets have continued to increase as new connections have been added to our water and sewer system and investments continue to be made to upgrade and replace necessary capital infrastructure and facilities.

Total Net Assets (Dollars in Millions)

	Water			Wastewater			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Current and Other Assets	$ 46.9	$ 51.6	$ 52.2	$ 75.7	$ 78.5	$ 79.2	$ 122.6	$ 130.1	$ 131.4
Capital Assets	149.1	139.5	130.6	139.9	116.8	101.8	289.0	256.3	232.4
Total Assets	196.0	191.1	182.8	215.6	195.3	181.0	411.6	386.4	363.8
Long-Term Liabilities	27.2	29.5	31.7	9.6	5.0	3.9	36.8	34.5	35.6
Other Liabilities	5.3	5.2	5.6	4.6	3.5	5.0	9.9	8.7	10.6
Total Liabilities	32.5	34.7	37.3	14.2	8.5	8.9	46.7	43.2	46.2
Invested in Capital Assets Net of Related Debt	119.7	107.9	97.0	129.6	111.3	96.1	249.3	219.2	193.0
Restricted	5.0	4.8	4.6	3.1	3.3	3.4	8.0	8.2	8.0
Unrestricted	38.8	43.6	44.0	68.8	72.2	72.6	107.6	115.7	116.6
Total Net Assets	$ 163.5	$ 156.4	$ 145.5	$ 201.4	$ 186.8	$ 172.1	$ 364.9	$ 343.1	$ 317.6

Analysis of changes in Total Net Assets from 2007-2008:

For the twelve months ending December 31, 2008, the total net assets of the District increased by $21.8 million or 6% ($343.1 million to $364.9 million). The major components of the increase are; developer contributions of $12.6 million in system improvements (water and sewer lines), new customer contributions of $3.3 million in general facilities charges, and $3.3 million in interest earnings, which increased our cash and investment balances. The other material component is an increase of long-term liabilities; our long-term bond debt was paid down by $2.3 million, however a Public Works Loan of $5.5 million was added during the year resulting in a net increase in debt of $3.2 million. As of December 31, 2008, the District had $107.8 million in unrestricted net assets 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 assets, $257 million, are capital assets such as land, buildings, mains, reservoirs, or cash restricted to a specific use such as debt service payments and reserves.

Analysis of changes in Total Net Assets from 2006-2007:

For the twelve months ending December 31, 2007, the total net assets of the District increased by $25.5 million or 8% ($317.6 million to $343.1 million). The major components of the increase are; developer contributions of $12.5 million in system improvements (water and sewer lines), new customer contributions of $5.4 million in general facilities charges, and $6.4 million in interest earnings, which increased our cash and investment balances. The other material component is a reduction of long-term liabilities; our long-term bond debt was paid down by $2.2 million. As of December 31, 2007, the District had $115.7 million in unrestricted net assets 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 assets, $227 million, are capital assets such as land, buildings, mains, reservoirs, or cash restricted to a specific use such as debt service payments and reserves.

Revenues, Expenses and Changes in Net Assets (Dollars in Millions)

	Water			Wastewater			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Utility Revenue	$ 22.3	$ 22.6	$ 22.2	$ 25.8	$ 23.9	$ 21.0	$ 48.1	$ 46.5	$ 43.2
Non Operating Revenue	1.6	2.6	2.2	2.1	3.9	3.2	3.7	6.5	5.4
Total Revenues	23.9	25.1	24.4	27.9	27.8	24.3	51.8	53.0	48.6
Operation Expenses	15.4	15.6	15.5	17.8	17.4	15.4	33.2	33.0	31.0
Maintenance Expenses	1.9	1.8	1.5	1.4	1.4	1.2	3.4	3.2	2.7
Depreciation Expenses	4.1	3.8	3.2	3.1	2.8	2.6	7.1	6.6	5.8
Taxes	0.8	0.8	0.8	0.3	0.2	0.2	1.1	1.0	1.0
Total Operating Expenses	22.3	22.1	21.1	22.5	21.8	19.3	44.8	43.9	40.4
Non Operating Expenses	1.3	1.4	1.5	0.1	0.2	0.2	1.5	1.6	1.6
Total Expenses	23.6	23.5	22.6	22.7	22.0	19.5	46.3	45.4	42.0
Inc. Before Cap. Contributions	0.2	1.7	1.8	5.3	5.9	4.8	5.5	7.5	6.6
Capital Contributions									
Contributed Systems	4.7	5.0	3.9	7.8	7.5	5.0	12.5	12.5	8.9
Other Capital Contributions	2.2	4.1	4.7	1.6	1.3	1.2	3.8	5.4	6.0
Change in Net Assets	7.2	10.8	10.4	14.7	14.7	11.0	21.8	25.5	21.4
Beginning Net Assets	156.4	145.5	135.1	186.8	172.1	161.1	343.1	317.6	296.2
Ending Net Assets	$ 163.5	$ 156.4	$ 145.5	$ 201.4	$ 186.8	$ 172.1	$ 364.9	$ 343.1	$ 317.6

Analysis of changes in Revenues, Expenses, and Changes in Net Assets from 2007-2008:

Income before Capital Contributions for 2008 decreased from Income before Capital Contributions in 2007 by $2 million or 27% ($5.5 million from $7.5 million). This is essentially due to a reduction in Non Operating Revenue of $2.8 million or 38% ($3.7 million from $6.5 million). The majority of the decline was $3 million of interest income ($3.4 million from 6.4 million). The Washington State Local government Investment Pool (WSLGIP) yield rate went from 4.36% in January of 2008 to 1.86% in December 2008. The majority of the District's investable funds were on deposit with the WSLGIP.

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 Assets. Developers contributed $12.5 million in water and sewer mains and $3.8 million in capital contribution (general facilities charges). This represents a decline from prior year of $1.6 million or 30% ($3.8 million from $5.4 million) reflecting a national trend in declining residential construction activity.

Analysis of changes in Revenues, Expenses, and Changes in Net Assets from 2006-2007:

Income before Capital Contributions for 2007 increased over Income before Capital Contributions in 2006 by $.9 million (or 14%) ($6.6 million to $7.5 million), which is due to the following factors:
Revenues:
Total revenue increased $4.4 million or 9% ($48.6 million to $53 million). The wastewater component of revenues increased by $2.9 million or 14% ($21 million to $23.9 million) mainly due to an 11.4% rate increase. Water revenues increased $.4 million or 2% ($22.2 million to $22.6 million) due a 2.5% rate increase and lower water consumption due to a wet summer.
Expenses:
Total operating expenses increased by $3.5 million or 9% ($40.4 million to $43.9 Million). Purchased sewer treatment costs increased $1.6 million due to growth and a 9% rate increase by King County for wastewater treatment.

Capital contributions:
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 Assets. Developers contributed $12.5 million in water and sewer mains and $5.4 million in capital contribution (general facilities charges) reflecting significant developer activity in our District.

Capital Assets (Dollars in Millions)

	Water			Wastewater			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Land and Land Rights	$ 0.5	$ 0.5	$ 0.3	$ 0.4	$ 0.4	$ 0.4	$ 0.8	$ 0.8	$ 0.7
Construction in Progress	13.6	6.4	2.2	38.1	22.5	14.2	51.7	28.9	16.4
Total Plant not depreciated	14.1	6.9	2.5	38.4	22.8	14.5	52.5	29.7	17.1
							-	-	-
Miscellaneous Intangible Plant	1.0	1.0	1.0	0.5	0.5	0.5	1.5	1.5	1.5
Structures & Improvements	16.3	15.9	14.4	16.3	16.2	15.5	32.5	32.1	29.9
Mains, Meters, Hydrants	156.0	150.3	144.3	117.8	108.0	99.8	273.8	258.3	244.1
Computers, Equipment & Furniture	3.9	3.7	3.5	7.2	6.5	6.0	11.0	10.3	9.5
Total Plant being depreciated	177.2	170.9	163.2	141.7	131.2	121.8	318.9	302.1	285.0
							-	-	-
Less Accumulated Depreciation	(43.0)	(39.1)	(35.9)	(40.2)	(37.2)	(34.5)	(83.2)	(76.4)	(70.4)
							-	-	-
Total Utility Plant	$ 148.3	$ 138.7	$ 129.8	$ 139.9	$ 116.8	101.8	$ 288.2	$ 255.5	$ 231.6

Analysis of changes in Capital Assets from 2007-2008:
Total Plant being depreciated increased $16.8 million (from $302.1million to $318.9 million). The water division added $6.3 million in depreciable assets or 4% ($170.9 million to $177.2 million). The wastewater utility added $10.5 million in depreciable assets, or 8% ($131.2 million to $141.7 million). The increase is primarily due to the addition of $15.5 million in mains. The District is expanding the Picnic Point Wastewater Treatment Plant capacity from 3 to 6 million gallons a day, ultimate build out, at an estimated cost of $106 million.

Analysis of changes in Capital Assets from 2006-2007:
The water division added $7.7 million in depreciable assets or 5% ($163.2 million to $170.9 million). The wastewater utility added $9.4 million in assets, or 8% ($121.8 million to $131.2 million). The increase is primarily due to the addition of $8.2 million in mains. The District is expanding the Picnic Point Wastewater Treatment Plant adding 3 million gallons a day, ultimate build out, of treatment capacity, at an estimated cost of $106 million.

Additional utility plant information can be found on Note 3, page 15, of the notes to the financial statements.

Debt Administration

During the year the District reduced its long-term bond debt by $2.3 million, leaving a balance of $28.5 million. The District received a Standard and Poors (S&P) rating upgrade from AA- to AA+ in May of 2008. Additional detailed information about the District's long-term debt can be found in Note 5, pages 22 of this report.

Alderwood Water and Wastewater District
Comparative Statement of Net Assets
December 31, 2008 and 2007

	2008		
	Water Department	Sewer Department	Total
Assets			
Current Assets:			
Cash and cash equivalents	$ 33,382,005	$ 65,949,126	$ 99,331,131
Working Fund	3,200		3,200
Investments	4,000,000	1,013,340	5,013,340
Receivables, net	3,237,771	4,846,144	8,083,916
Assessments Receivable		446,214	446,214
Inventories	715,110	30,427	745,537
Prepayments	296,343	256,719	553,061
Unamortized Debt Discount/Expense	255,844	28,111	283,955
Other Current/Accrued Assets	36,126	27,631	63,756
Total Current Assets	41,926,399	72,597,713	114,524,111
Noncurrent Assets:			
Restricted cash/equivalents	4,970,498	3,079,286	8,049,784
Investment in Clearview Water Supply Agency	811,183		811,183
Capital Assets:			-
Land	460,838	314,243	775,081
Plant	17,241,137	16,790,954	34,032,091
Distribution and collection systems	154,532,713	117,778,313	272,311,026
Machinery and equipment	5,382,785	7,170,588	12,553,374
Construction Works in Progress	13,627,323	38,069,836	51,697,159
Other Utility Plant		50,494	50,494
Less accumulated depreciation	(42,952,527)	(40,233,920)	(83,186,447)
Total Noncurrent Assets	154,073,950	143,019,795	297,093,744
Total Assets	196,000,348	215,617,507	411,617,856
Liabilities			
Current Liabilities:			
Accounts Payable	2,250,723	3,059,013	5,309,736
Other Current/Accrued Liabilities	5,304		5,304
Compensated Absences	301,627	300,443	602,070
Customer Deposits	451,424	421,637	873,061
Bonds, Notes and Loans Payable	2,279,897	851,228	3,131,125
Total Current Liabilities	5,288,975.86	4,632,321	9,921,297
Noncurrent Liabilities:			
Arbitrage Liability			
Bonds, Notes and Loans Payable	27,091,750	9,524,883	36,616,633
Interest Accrued	113,223	25,846	139,069
Total Noncurrent Liabilities	27,204,973	9,550,729	36,755,701
Total Liabilities	32,493,949	14,183,050	46,676,998
Net Assets			
Invested in capital assets, net of related debt	119,731,805	129,564,397	249,296,202
Restricted for debt service	4,970,498	3,079,286	8,049,784
Unrestricted	38,804,097	68,790,774	107,594,871
Total Net Assets	163,506,400	201,434,458	364,940,857
Total Liabilities and Net Assets	$ 196,000,348	$ 215,617,507	$ 411,617,856

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

Alderwood Water and Wastewater District
Comparative Statement of Net Assets
December 31, 2008 and 2007

2007		
Water Department	Sewer Department	Total
$ 38,196,367	$ 68,844,629	$ 107,040,996
3,200		3,200
4,013,679	1,606,998	5,620,677
3,157,059	3,827,099	6,984,158
	562,089	562,089
817,481	26,326	843,807
225,960	207,401	433,360
293,887	34,611	328,498
19,334	47,510	66,844
46,726,967	75,156,663	121,883,629
4,849,569	3,320,779	8,170,348
811,183		811,183
		-
460,838	314,243	775,081
16,829,085	16,738,477	33,567,562
148,832,583	107,950,634	256,783,217
5,269,456	6,526,328	11,795,784
6,421,489	22,458,622	28,880,111
	50,494	50,494
(39,114,880)	(37,242,583)	(76,357,462)
144,359,323	120,116,994	264,476,317
191,086,289	195,273,657	386,359,946
2,294,342	2,177,635	4,471,977
5,670		5,670
295,767	295,767	591,533
457,987	500,529	958,516
2,189,897	532,257	2,722,155
5,243,662	3,506,188	8,749,851
29,371,647	4,990,637	34,362,285
120,956	15,245	136,201
29,492,603	5,005,882	34,498,485
34,736,265	8,512,071	43,248,336
107,948,209	111,273,321	219,221,530
4,849,569	3,320,779	8,170,348
43,552,246	72,167,487	115,719,733
156,350,024	186,761,586	343,111,610
$ 191,086,289	$ 195,273,657	$ 386,359,946

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

Alderwood Water and Wastewater District

Comparative Statement of Revenue, Expenses & Changes in Net Assets

For the Years Ended December 31, 2008 and 2007

	2008		
	Water Department	**Sewer Department**	**Total**
Operating Revenue			
Utility Revenue	$ 22,273,075	$ 25,847,905	$ 48,120,980
Total Operating Revenue	22,273,075	25,847,905	48,120,980
Operating Expenses:			
General Operations	5,402,634	4,484,209	9,886,843
Purchased Water/Wastewater	10,040,330	13,287,674	23,328,004
Maintenance Expense	1,939,898	1,413,838	3,353,735
Depreciation Expense	4,082,226	3,061,553	7,143,779
Taxes	842,102	274,196	1,116,298
Total Operating Expenses	22,307,190	22,521,470	44,828,660
Operating Income (Loss)	(34,114)	3,326,435	3,292,320
Nonoperating Revenues (Expenses)			
Interest Revenue	1,288,715	2,070,590	3,359,305
Rent	274,499		274,499
Gains (Losses) on Capital Asset Disposition	21,050	12,310	33,360
Interest on Long-Term Debt	(1,283,896)	(141,897)	(1,425,794)
Amortization Debt Discount Expense	(38,043)	(6,500)	(44,543)
Total Nonoperating Revenues (Expenses)	262,325	1,934,503	2,196,828
Income Before Capital Contributions	228,211	5,260,938	5,489,149
Capital Contributions			
Contributed Systems	4,717,391	7,831,599	12,548,990
Other Capital Contributions	2,210,774	1,580,335	3,791,108
Total Capital Contributions	6,928,165	9,411,934	16,340,098
Change in Net Assets	7,156,376	14,672,871	21,829,247
Total Net Assets, January 1	156,350,024	186,761,586	343,111,610
Total Net Assets, December 31	$ 163,506,400	$ 201,434,458	$ 364,940,857

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

Alderwood Water and Wastewater District

Comparative Statement of Revenue, Expenses & Changes in Net Assets

For the Years Ended December 31, 2008 and 2007

2007		
Water Department	Sewer Department	Total
$ 22,571,306	$ 23,946,417	$ 46,517,724
22,571,306	23,946,417	46,517,724
5,247,723	4,292,164	9,539,888
10,399,613	13,075,128	23,474,741
1,783,020	1,443,220	3,226,240
3,818,508	2,780,466	6,598,974
828,118	217,360	1,045,477
22,076,982	21,808,338	43,885,320
494,324	2,138,079	2,632,403
2,541,196	3,866,359	6,407,554
4,749		4,749
30,580	17,501	48,081
(1,360,763)	(144,806)	(1,505,569)
(38,043)	(6,500)	(44,543)
1,177,720	3,732,554	4,910,273
1,672,044	5,870,633	7,542,676
5,004,765	7,525,262	12,530,027
4,126,074	1,291,430	5,417,504
9,130,839	8,816,692	17,947,531
10,802,883	14,687,325	25,490,207
145,547,142	172,074,261	317,621,403
$ 156,350,024	$ 186,761,586	$ 343,111,610

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

Alderwood Water and Wastewater District
Comparative Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

	2008		
	Water Department	Sewer Department	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 22,182,450	$ 24,828,859	$ 47,011,309
Cash paid for purchased water	(10,026,562)		(10,026,562)
Cash paid to other municipalities for sewage treatment		(13,156,283)	(13,156,283)
Cash payments to suppliers for goods & services	(4,147,551)	(3,256,938)	(7,404,488)
Cash payments to employees for services	(3,397,214)	(2,621,872)	(6,019,086)
Cash payments of taxes	(809,181)	(271,399)	(1,080,580)
Net Cash Provided by Operating Activities	3,801,942	5,522,366	9,324,308
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Investment in Clearview Water Supply Agency			
Net Cash Provided (Used) for Non-Capital Financing Activities			
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(8,365,620)	(17,261,798)	(25,627,418)
Cash payments to employees for services	(471,202)	(440,766)	(911,968)
Principal received on ULID assessments		115,875	115,875
Interest received on ULID assessments		39,474	39,474
Proceeds from PWTF Loan		5,500,000	5,500,000
Principal paid on PWTF Loan	(259,897)	(271,784)	(531,681)
Principal paid on long-term debt	(1,930,000)	(375,000)	(2,305,000)
Interest paid on revenue and refunding bonds	(1,291,629)	(131,297)	(1,422,927)
Proceeds from sale and maturities of investments	8,026,719	1,606,998	9,633,718
Purchase of investments	(8,013,040)	(1,013,340)	(9,026,380)
Interest received on investments	1,132,670	1,833,303	2,965,973
Capital contributed by developers	2,210,774	1,580,335	3,791,107
Proceeds from sale of equipment / real estate	51,510	12,938	64,447
Cash received on rental of real estate	274,499		274,499
Net receipts from customer deposits & performance bonds	954	(71,993)	(71,039)
Net Cash Provided (Used) for Capital Financing Activities	(8,634,264)	(8,877,054)	(17,511,318)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	138,887	217,693	356,580
Net Cash Provided (Used) by Investing Activities	138,887	217,693	356,580
NET INCREASE (DECREASE) IN CASH	(4,693,434)	(3,136,995)	(7,830,429)
Cash and Equivalents at Beginning of Year	43,045,936	72,165,407	115,211,344
Cash and Equivalents at End of Year (Note 7) *	$ 38,352,503	$ 69,028,412	$ 107,380,915
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Operating Income	$ (34,114)	$ 3,326,435	$ 3,292,320
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	4,082,226	3,061,553	7,143,779
Changes in assets and liabilities:			
Decrease (Increase) in accounts receivable	(304,221)	(1,182,382)	(1,486,603)
Decrease (Increase) in petty cash			-
Decrease (Increase) in materials and supplies	102,371	(4,101)	98,270
Decrease (Increase) in prepayments	(70,383)	(49,318)	(119,700)
Decrease (Increase) in accrued revenue	223,509	163,336	386,845
Increase (Decrease) in accounts payable	(203,306)	202,167	(1,139)
Increase (Decrease) in misc. current and long term liabilities	5,861	4,676	10,537
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,801,942	$ 5,522,366	$ 9,324,307
*** RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS:**			
Cash and Cash Equivalents	$ 33,382,005	$ 65,949,126	$ 99,331,131
Restricted Funds	4,970,498	3,079,286	8,049,784
Total Cash and Cash Equivalents	$ 38,352,503	$ 69,028,412	$ 107,380,915

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

Alderwood Water and Wastewater District
Comparative Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

2007		
Water Department	Sewer Department	Total
$ 22,240,978	$ 23,490,594	$ 45,731,572
(11,154,269)		(11,154,269)
	(13,623,952)	(13,623,952)
(3,776,753)	(3,225,248)	(7,002,001)
(3,238,690)	(2,452,644)	(5,691,334)
(812,592)	(210,601)	(1,023,193)
3,258,673	3,978,149	7,236,822
(7,325,911)	(9,683,451)	(17,009,361)
(396,805)	(393,161)	(789,966)
	148,097	148,097
	47,377	47,377
	250,000	250,000
(259,897)	(92,105)	(352,003)
(1,850,000)	(365,000)	(2,215,000)
(1,368,228)	(145,410)	(1,513,639)
12,500,000	32,835,848	45,335,849
(8,061,779)	(1,981,563)	(10,043,341)
2,299,333	3,687,748	5,987,081
4,135,987	1,277,115	5,413,101
35,644	17,501	53,145
4,749		4,749
70,001	92,897	162,898
(216,905)	25,695,894	25,478,989
317,501	443,675	761,176
317,501	443,675	761,176
3,359,269	30,117,718	33,476,987
39,686,668	42,047,690	81,734,357
$ 43,045,936	$ 72,165,407	$ 115,211,344
$ 494,324	$ 2,138,079	$ 2,632,403
3,818,508	2,780,466	6,598,974
19,325	72,406	91,731
		-
(183,405)	(3,045)	(186,449)
(51,848)	(37,908)	(89,756)
(350,162)	(528,229)	(878,391)
(520,964)	(476,006)	(996,970)
32,895	32,386	65,280
$ 3,258,673	$ 3,978,149	$ 7,236,821
$ 38,196,367	$ 68,844,629	$ 107,040,996
4,849,569	3,320,779	8,170,348
$ 43,045,936	$ 72,165,407	$ 115,211,344

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

ALDERWOOD WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

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. The District has elected to apply Financial Accounting Standards Board (FASB) guidance issued after 1989 to the extent that it does not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In June 1999, GASB approved Statement 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This and consecutive statements are reflected in the accompanying financial statements (including notes to the financial statements). 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 5 member Board of Commissioners. As required by generally accepted accounting principles, 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 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 full-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 between operating revenues and expenses from non operating 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 revenue and expenses meeting this definition are reported as operating revenue 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

e. Restricted Funds

In accordance with bond resolutions (and certain related agreements), separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service and other special reserve requirements. Assets and liabilities shown as current in the accompanying statement of net assets 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 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 35% 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 their then current hourly rate. Vacation benefits are accrued for all employees. Sick leave benefit amounts for employees that may retire within 3 years are accrued.

The recorded liability for unpaid vacation and sick leave benefits at December 31, 2008 and 2007 are $602,070 and $591,533 respectively.

j. Debt:

Unamortized Debt Expenses

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

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, 2008 and 2007.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

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 encompassed various sewer projects of which all, except for the last, were completed in 1993. The final phase of the Everett Sewer Treatment Plant expansion, estimated for completion in 2015, will obligate the District for approximately 3.7% of the total improvement cost. Our share is currently estimated to be $2,300,000.

(2) Water Filtration Plant - City of Everett

The City of Everett provides water to the Alderwood Water and Wastewater District from the Sultan Basin Watershed. In January of 2005 the District and the City of Everett renegotiated a long-term supply agreement that continues until January 1, 2055. The District, in turn, provides water to the cities of Mountlake Terrace, Lynnwood, Edmonds, the Clearview Water Supply Agency, and other South Snohomish County areas.

The Alderwood Water and Wastewater District and the cities of Mountlake Terrace, Lynnwood, and Edmonds signed a joint agreement with the City of Everett on December 15, 1980. This agreement provides commitments from all parties through September 20, 2010, in order to provide for the financing and construction of the City of Everett's Water Filtration Plant, which was required to be built to meet the Federal Government's Environmental Protection Agency (EPA) drinking water standards. The District is currently negotiating a new long term wholesale water supply agreement with the Cities.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Alderwood Water and Wastewater District's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

As of December 31, 2008, and December 31, 2007, the District had the following deposits and investments:

	Value 12/31/2008	Value 12/31/2007
Deposits:	$ 352,071	$ 215,134
Government Sponsored Enterprises:		
Current Assets-Investments	5,013,340	5,620,677
Investment in State Treasurer's Investment Pool:		
Current Assets-Cash and Equivalents	98,979,060	106,825,862
Restricted Funds	8,049,784	8,170,348
Total State Treasurer's Investment Pool	107,028,844	114,996,210
Total Deposits, Securities and Investment Pool	$ 112,394,255	$ 120,832,021

Investments are stated at fair value on the comparative statement of net assets. Changes in fair value, when material, are recorded and presented in the comparative statement of revenues, expenses, and changes in net assets as an increase or decrease in fair value.

NOTE 2 - DEPOSITS AND INVESTMENTS-continued

The District's investments are held in the District's name by a third party custodian. While the District's investment policy allows for a wide range of investment vehicles, the District is currently trading in Government Sponsored Enterprise bonds; therefore the District has no concentration or credit risk. 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, thus the District does not recognize temporary increases or declines in the market value due to interest rate fluctuations. As of December 31 2008 and 2007 the amount of increase in market value was $32,910 and $16,823 respectively.

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 the date of purchase. Capitalized Construction Works in Progress receive one half years worth of depreciation in the year it is placed in service.

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

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

ALDERWOOD WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2008 is as follows:

	Beginning Balance 01/01/2008	Increase	Decrease	ENDING BALANCE 12/31/2008
Water				
Utility Plant not being depreciated:				
Land and Land Rights	460,838			460,838
Construction in Progress	6,421,488	9,288,980	2,083,146	13,627,323
Total Utility Plant not being depreciated	6,882,326	9,288,980	2,083,146	14,088,161
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	983,817			983,817
Structures & Improvements	15,878,263	412,053		16,290,316
Wells & Supply Mains	653,889			653,889
Pumping Equipment	1,510,085			1,510,085
Water Treatment Equipment	16,494			16,494
Reservoirs & Standpipes	15,724,790			15,724,790
Mains	111,873,773	3,432,324		115,306,097
Meters, Meter Installations & Hydrants	20,547,135	2,267,806		22,814,941
Computers,Office Equipment & Furniture	784,257	69,963		854,220
Transportation Equipment	1,530,272	1,458	156,310	1,375,420
Other General Plant Equipment	1,428,349	316,947	118,728	1,626,567
Total Utility Plant being depreciated	170,931,123	6,500,550	275,038	177,156,635
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(915,627)		60,823	(976,450)
Structures & Improvements	(3,546,259)		538,304	(4,084,564)
Wells & Supply Mains	(326,188)		4,938	(331,126)
Pumping Equipment	(1,304,878)		53,582	(1,358,460)
Water Treatment Equipment	(16,494)			(16,494)
Reservoirs & Standpipes	(1,572,782)		315,872	(1,888,655)
Mains	(20,785,167)		1,529,335	(22,314,502)
Meters, Meter Installations & Hydrants	(8,324,491)		1,255,093	(9,579,584)
Computers,Office Equipment & Furniture	(494,120)		76,531	(570,651)
Transportation Equipment	(861,550)	133,967	104,194	(831,776)
Other General Plant Equipment	(967,324)	67,730	100,672	(1,000,266)
Total Accumulated Depreciation	(39,114,880)	201,697	4,039,345	(42,952,527)
Total Utility Plant being depreciated, net	131,816,243	6,702,247	4,314,383	134,204,107
Total Utility Plant, Net	138,698,569	15,991,227	6,397,529	148,292,268

ALDERWOOD WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2008 is as follows:

	Beginning Balance 01/01/2008	Increase	Decrease	ENDING BALANCE 12/31/2008
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	$ 364,737			$ 364,737
Construction in Progress	22,458,622	27,471,627	11,860,410	38,069,839
Total Utility Plant not being depreciated	22,823,359	27,471,627	11,860,410	38,434,576
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	539,181			539,181
Structures & Improvements	16,199,296	52,476		16,251,772
Mains	107,950,634	9,827,679		117,778,313
Pumping Equipment	408,530	15,459		423,988
Sewage Treatment Equipment	4,059,912			4,059,912
Computers,Office Equipment & Furniture	345,462	74,503		419,964
Transportation Equipment	954,835	567,000	68,988	1,452,847
Other General Plant Equipment	757,589	58,143	1,855	813,877
Total Utility Plant being depreciated	131,215,439	10,595,259	70,843	141,739,855
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(480,945)		23,320	(504,265)
Structures & Improvements	(4,160,128)		369,614	(4,529,742)
Mains	(28,277,105)		2,278,309	(30,555,414)
Pumping Equipment	(277,221)		22,622	(299,843)
Sewage Treatment Equipment	(2,936,570)		140,380	(3,076,950)
Computer Equipment	(63,241)		71,102	(134,343)
Transportation Equipment	(699,902)	60,727	71,443	(710,618)
Other General Plant Equipment	(347,471)	1,123	76,396	(422,745)
Total Accumulated Depreciation	(37,242,583)	61,850	3,053,187	(40,233,920)
Total Utility Plant being depreciated, net	93,972,856	10,657,109	3,124,030	101,505,935
Total Utility Plant, Net	$ 116,796,216	$ 38,128,736	$ 14,984,440	$ 139,940,511

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2007 is as follows:

	Beginning Balance 01/01/2007	Increase	Decrease	Ending Balance 12/31/2007
Water				
Utility Plant not being depreciated:				
Land and Land Rights	$ 301,169	159,668	-	$ 460,838
Construction in Progress	2,243,285	7,084,048	2,905,845	6,421,488
Total Utility Plant not being depreciated	2,544,454	7,243,717	2,905,845	6,882,326
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	983,817	-	-	983,817
Structures & Improvements	14,375,216	1,503,047	-	15,878,264
Wells & Supply Mains	653,889	-	-	653,889
Pumping Equipment	1,510,085	-	-	1,510,085
Water Treatment Equipment	16,494	-	-	16,494
Reservoirs & Standpipes	15,724,790	-	-	15,724,790
Mains	108,247,845	3,750,928	125,000	111,873,773
Meters, Meter Installations & Hydrants	18,164,404	2,382,731	-	20,547,135
Computers,Office Equipment & Furniture	923,795	337,344	476,883	784,257
Transportation Equipment	1,169,939	526,066	165,733	1,530,272
Other General Plant Equipment	1,397,447	61,194	30,292	1,428,349
Total Utility Plant being depreciated	163,167,721	8,561,310	797,907	170,931,124
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(797,885)	-	117,742	(915,627)
Structures & Improvements	(3,053,223)	-	493,037	(3,546,259)
Wells & Supply Mains	(321,264)	-	4,924	(326,188)
Pumping Equipment	(1,235,247)	-	69,631	(1,304,878)
Water Treatment Equipment	(16,494)	-	-	(16,494)
Reservoirs & Standpipes	(1,257,773)	-	315,009	(1,572,782)
Mains	(19,307,130)	-	1,478,038	(20,785,167)
Meters, Meter Installations & Hydrants	(7,247,744)	-	1,076,747	(8,324,491)
Computers,Office Equipment & Furniture	(893,755)	448,391	48,756	(494,120)
Transportation Equipment	(869,915)	139,282	130,917	(861,550)
Other General Plant Equipment	(897,715)	15,009	84,617	(967,324)
Total Accumulated Depreciation	(35,898,143)	602,682	3,819,418	(39,114,880)
Total Utility Plant being depreciated, net	127,269,578	9,163,992	4,617,326	131,816,244
Total Utility Plant, Net	$ 129,814,033	$ 16,407,708	$ 7,523,170	$ 138,698,570

NOTE 3 - UTILITY PLANT AND DEPRECIATION-continued

Utility Plant activity for the year ended December 31, 2007 is as follows:

	Beginning Balance 01/01/2007	Increase	Decrease	Ending Balance 12/31/2007
Wastewater				
Utility Plant not being depreciated:				
Land and Land Rights	$ 364,737	-	-	$ 364,737
Construction in Progress	14,165,709	11,278,697	2,985,784	22,458,622
Total Utility Plant not being depreciated	14,530,446	11,278,697	2,985,784	22,823,359
Utility Plant being depreciated:				
Miscellaneous Intangible Plant	469,348	69,833	-	539,181
Structures & Improvements	15,499,585	699,711	-	16,199,296
Mains	99,819,634	8,207,681	76,681	107,950,634
Pumping Equipment	398,788	9,742	-	408,530
Sewage Treatment Equipment	4,059,912	-	-	4,059,912
Computers,Office Equipment & Furniture	58,394	324,006	36,939	345,462
Transportation Equipment	827,245	189,212	61,621	954,835
Other General Plant Equipment	668,964	88,655	30	757,589
Total Utility Plant being depreciated	121,801,871	9,588,840	175,271	131,215,439
Less Accumulated Depreciation for:				
Miscellaneous Intangible Plant	(469,348)	-	11,596	(480,945)
Structures & Improvements	(3,802,184)	-	357,944	(4,160,128)
Mains	(26,184,707)	-	2,092,398	(28,277,105)
Pumping Equipment	(256,873)	-	20,348	(277,221)
Sewage Treatment Equipment	(2,796,574)	-	139,996	(2,936,570)
Computers,Office Equipment & Furniture	(53,971)	25,052	34,322	(63,241)
Transportation Equipment	(698,508)	50,675	52,068	(699,902)
Other General Plant Equipment	(275,678)	-	71,793	(347,471)
Total Accumulated Depreciation	(34,537,844)	75,727	2,780,466	(37,242,583)
Total Utility Plant being depreciated, net	87,264,027	9,664,567	2,955,737	93,972,856
Total Utility Plant, Net	$ 101,794,473	$ 20,943,263	$ 5,941,521	$ 116,796,216

ALDERWOOD WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress as of 12/31/2008 is composed of the following:

Water Department	Project Number	Project Authorization	Expended Through 12/31/08	Future Funds Committed at 12/31/08	Est Required Future Financing
Telemetry System	AWD 294-00	$ 1,760,855	$ 1,760,855	$ -	
Pump Station 1 & 2 Backup Power	AWD 328-03	26,957	26,957	-	
Res 2&3 & Canyon Park Tank Improv.	AWD 382-05	10,326,401	8,371,413	1,954,988	
Snoh Cty Swamp Creek Bridge Rep	AWD 384-05	175,870	30,301	145,569	
Pump Station #1 & #2 Assessment	AWD 401-05	1,360,912	534,091	826,821	
Meridian (D-5) & 234th Pl W (D-6)	AWD 407-05	895,856	807,459	88,397	
Hwy 99 Distribution System	AWD 409-05	2,113,811	570,576	1,543,235	
Sno. Co. Bev-Ed / 148th St.	AWD 418-06	246,101	204,312	41,789	
Water Comprehensive Plan	AWD 441-07	612,781	571,883	40,898	
Pedestrian Improv-E Shore- 2nd Ave W	AWD 448-07	40,797	40,797	-	
PSI-Pump 1 & 2 Starter Replacement	AWD 471-08	260,601	254,187	6,414	
Snoh Cty N. Creek & Sitka Creek Storm	AWD 478-08	125,984	125,984	-	
All other projects		765,361	328,509	436,853	
Total		$ 18,712,286	$ 13,627,323	$ 5,084,963	

Sewer Department	Project Number	Project Authorization	Expended Through 12/31/08	Future Funds Committed at 12/31/08	Est Required Future Financing
Everett Wastewater Capital Improvements	S9-97	$ 2,546,256	$ 2,546,256	$ -	$ -
Telemetry System	S3-2000	1,157,718	1,157,718	-	
Picnic Point Wastewater Treatment Plant	S1-2001	105,152,150	29,589,868	75,562,282	40,000,000
ULID 2003-02 Martha Lake/Larch Way	S3-2004	1,130,404	645,373	485,030	
2005/ 2006 Comprehensive Sewer Plan	S3-2005	652,395	652,395	-	
Lift Station Assessment	S4-2005	1,231,036	810,563	420,472	
King Cty-N Creek/ Olympus Meadows	S5-2005	4,919,982	1,840,432	3,079,551	
I-5/164th Martha Lake Gateway Sewer	S7-2007	731,015	456,278	274,737	
Rate/GFC Study (AWD 477-08)	S2-2008	55,065	26,566	28,499	
All other projects		397,343	344,388	62,999	
Total		$ 117,973,365	$ 38,069,839	$ 79,913,569	$ 40,000,000

Note: Project Authorizations do not include District staff labor.

ALDERWOOD WATER AND WASTEWATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

NOTE 4 - CONSTRUCTION IN PROGRESS-continued

Construction in progress as of 12/31/2007 is composed of the following:

Water Department	Project Number	Project Authorization	Expended Through 12/31/07	Future Funds Committed at 12/31/07	Est Required Future Financing
196th St SW from 24th Ave W to SR 527	AWD 277-98	$ 327,041	$ 334,662	$ -	
Telemetry System	AWD 294-00	1,053,655	1,181,988	-	
Res 2&3 & Canyon Park Tank Improv.	AWD 382-05	870,726	521,356	349,370	
Res 2&3 & Canyon Park Tank Improv.	AWD 382-05B	8,496,862	2,251,017	6,245,845	
Pump Station #1 & #2 Assessment	AWD 401-05	563,485	346,338	217,147	
Brightwater Supply -53rd & 228th	AWD 403-05	541,104	233,128	307,976	
Meridian (D-5) & 234TH PL W (D-6)	AWD 407-05	895,856	807,331	88,525	
Hwy 99 Distribution System	AWD 409-05	431,974	323,218	108,756	
Water Comprehensive Plan	AWD 441-07	496,382	175,586	320,796	
CMMS-(S4-2007 reference only)	AWD 449-07		58,408	-	
All other projects		703,034	188,456	514,578	
Total		14,380,119	6,421,489	8,152,993	

Sewer Department					
Everett Wastewater Capital Improvements	S9-97	$ 2,536,815	$ 2,536,815	$ -	
Telemetry System	S3-2000	1,053,655	843,214.72	210,440	
Picnic Point Wastewater Treatment Plant	S1-2001	20,643,455.05	14,596,516.14	6,046,939	
Picnic Point Wastewater Treatment Plant	S1-2001-A	302,345.00	527,683.19	-	
ULID 2003-02 Martha Lake/ Larch Way	S3-2004	1,130,403.70	551,863.93	578,540	
2005/ 2006 Comprehensive Sewer Plan	S3-2005	608,241.00	561,429.79	46,811	
Lift Station Assessment	S4-2005	660,505.00	444,049.05	216,456	
King Cty-N Creek/ Olympus Meadows	S5-2005	4,305,152.85	482,964.22	3,822,189	
King Cty-N Creek/ Olympus Meadows	S5-2005A	1,642,472.00	41,558.76	1,600,913	
Swamp Creek Sewer Ext Phase 1	S9-2005	1,832,387.94	1,643,405.75	188,982	
HWY 99 Dist Sys 148th TO 116th	S5-2006	34,904.38	75,469.35	-	
CMMS - (AWD 449-07 reference only)	S4-2007		52,948.06		
All other projects		406,116	100,704	305,412	
Total		35,156,452	22,458,622	13,016,681	

Note: Project Authorizations do not include District staff labor.

NOTE 5 - LONG-TERM DEBT

a. Bonds

In May of 2001 the District issued $3,240,000 of water and sewer revenue bonds on a parity of lien with the 1995 Bonds, the 1998 Bonds and the 1999 Bonds, to provide funds to reimburse the District for the cost of the improvements, and to capitalize a reserve for the bonds, relating to Utility Local Improvement District No. 96-02. Sewer department special assessments receivable (ULID's) in the amount of $446,214 and $562,089 at December 31, 2008 and 2007, respectively, are pledged for the payment of the bonds.

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

Class and Series of Obligation	Date of Issue	Maturity Date	Original Issue	Outstanding 12/31/2008	Outstanding 12/31/2007
Combined Water Sewer Utility:					
1995 Water / Sewer Revenue	06/01/1995	07/01/2010	$2,500,000	$ 330,000	$ 495,000
1998 Water Capital Improvement	12/22/1998	12/01/2018	10,000,000	10,000,000	10,000,000
1999 Water Capital Improvement	02/16/1999	12/01/2015	30,000,000	16,435,000	18,365,000
2001 Sewer ULID	05/22/2001	12/01/2015	3,240,000	1,760,000	1,970,000
Total Bonds Outstanding				$28,525,000	$30,830,000

Schedule 9, which accompanies this report, contains a list of the outstanding debt at December 31, 2008 and December 31, 2007, and identifies the range of variable interest rates of the bond debt. The annual requirements to amortize all debts outstanding from December 31, 2007, including interest, are as follows:

Years Ending December 31	Principal	Interest	Total
2007	2,567,006	1,517,928	4,084,934
2008	2,836,681	1,427,298	4,263,979
2009	3,131,125	1,349,904	4,481,030
2010	3,231,125	1,249,256	4,480,381
2011	3,251,125	1,135,621	4,386,746
2012 - 2015	18,620,627	3,757,615	22,378,242
2016 - 2020	9,288,609	541,151	9,829,760
2021 - 2025	2,225,146	32,317	2,257,463
2026 - 2027	-	-	-
	$ 45,151,445	$ 11,011,090	$ 56,162,535

(2) All bond debt is secured by the total of all District revenues. Water Restricted Assets as of December 31, 2008 and December 31, 2007 are $4,970,498 and $4,489,569 respectively. Sewer Restricted Assets as of December 31, 2008 and December 31, 2007 are $3,079,286 and $3,320,779 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.

NOTE 6 - PENSION PLAN

Plan Description

Substantially all Alderwood Water and 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 and defined contribution 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. The following disclosures are made pursuant to GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures, an amendment of GASB Statement No. 25 and No. 27*

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

Plan Description

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.

Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not participating in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

PERS participants 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 exercise an option to transfer their membership to Plan 3. PERS participants 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 PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS 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 defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement at any age 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 annual benefit is two percent of the average final compensation (AFC) per year of service, capped at 60 percent. The (AFC) is based on the greatest compensation during any 24 eligible consecutive compensation months. Plan 1 members who retire from inactive status prior to the age of 65 may receive actuarially reduced benefits. The benefit is actuarially reduced to reflect the choice of a survivor option. A cost-of living allowance (COLA) is granted at age 66 based upon years of service times the COLA amount, increased by three percent annually. Plan 1 members may also elect to receive an optional COLA amount that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at three percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

NOTE 6 - PENSION PLAN-continued

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of two percent of the average final compensation (AFC) per year of service. (The AFC is based on the greatest

compensation during any eligible consecutive 60-month period). Plan 2 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced 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 three percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at one percent of the AFC per year of service. The AFC is based on the greatest compensation during any eligible consecutive 60-month period. Effective June 7, 2006, 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 prior to June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan. Vested Plan 3 members are eligible to retire with full benefits at age 65, or they may retire at age 55 with 10 years of service. Plan 3 members who retire prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a three percent per year reduction applies; otherwise an actuarial reduction will apply. The benefit is also actuarially reduced to reflect the choice of a survivor option. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.
The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,190 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2007:

Retirees and Beneficiaries Receiving Benefits	71,244
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	26,583
Active Plan Members Vested	105,447
Active Plan Members Nonvested	52,575
Total	255,849

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and 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. All employers are required to contribute at the level established by the Legislature. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. 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, 2008, were as follows:

NOTE 6 - PENSION PLAN-continued

	PERS Plan I	PERS Plan II	PERS Plan III
Employer	8.31%	8.31%	8.31%
Employee	6.00%	5.45%	Varies

* The employer rates include the employer administrative expense fee currently set at 0.16%.

** The employer rate for state elected officials is 12.39% for Plan 1 and 8.31% 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 5.45% 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:

	PERS Plan I	PERS Plan II	PERS Plan III
2008	$ 40,685.87	$ 413,696.23	$ 33,760
2007	$ 33,877.84	$ 305,602.96	$ 24,566
2006	$ 24,279.07	$ 137,416.30	$ 10,270

NOTE 7 - STATEMENT OF CASH FLOWS

Cash and Equivalent balances are as follows:

	Water Department		Sewer Department	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Cash	$ 52,676	$ 28,949	$ 299,394	$ 186,185
State Treasurer Investment Pool	38,299,826	43,016,988	68,729,018	71,979,222
Cash and Equivalents	$ 38,352,503	$43,045,936	$ 69,028,412	$ 72,165,407

The State Treasurer's 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 64 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess

NOTE 8 - RISK MANAGEMENT-continued

Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis. Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters which are subject to a per occurrence deductible or self-insured retention as follows: General Liability of $200,000 (including general liability, Public Officials Liability and Automobile Liability; Property Insurance of $25,000 (except earthquake and flood. Earthquake 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. For flood, those properties that are NOT located in NFIP Flood Zones A and V are subject to a $100,000 deductible while those properties located in NFIP Flood Zones A and V are subject to a $250,000 deductible); Boiler & Machinery which is $25,000; and Crime which is $15,000 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. 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, 2009, written notice must be in the Pool possession by April 31, 2009). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, 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 is responsible for conducting the business affairs of the Pool and providing direction to the Pool's Executive Director.

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	$ 1,170,916.00	$ 811,183.00	$ 327,761.00	$ 31,972.00

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 Agencies expenses based on metered water use and an agreed upon expense allocation formula.

ALDERWOOD WATER AND WASTEWATER DISTRICT
SCHEDULE OF LONG TERM DEBT (Schedule 09)
FOR THE YEARS ENDED
DECEMBER 31, 2008 and 2007

REVENUE DEBT - 2008

I.D. NUMBER AND CLASS DESCRIPTION	PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATES	AMOUNT ORIGINALLY ISSUED	BEGINNING UNMATURED DEBT 1/1/2008	AMOUNT ISSUED IN CURRENT YEAR	AMOUNT THAT CAME DUE THIS PERIOD	ENDING OUTSTANDING DEBT 12/31/2008
WATER DEPARTMENT									
263.82 - Public Works Trust Fund Loan	Water CIP	7/13/1999	7/1/2019	1%	$ 3,420,060	$ 2,185,450		$ 182,121	$ 2,003,329
263.82 - Public Works Trust Fund Loan	Water CIP	6/28/2000	7/1/2020	1%	$ 1,402,800	$ 1,011,095		$ 77,777	$ 933,318
Total Water Debt					$ 4,822,860	$ 3,196,545	$ -	$ 259,897	$ 2,936,647
SEWER DEPARTMENT									
252-11- 2001 Sewer Revenue	ULID 96-02	Jun-01	12/1/2015	4% -4.85%	$ 3,240,000	$ 1,970,000		$ 210,000	$ 1,760,000
263.82 - Public Works Trust Fund Loan	Sewer CIP	May-05	7/1/2025	0.50%	$ 750,000	$ 947,368		$ 52,632	$ 894,736
263.82 - Public Works Trust Fund Loan	Sewer CIP	Aug-05	7/1/2025	0.50%	$ 750,000	$ 710,526	$ 250,000	$ 53,363	$ 907,163
263.82 - Public Works Trust Fund Loan	Sewer CIP	Jun-06	7/1/2026	0.50%	$ 1,400,000	$ 1,400,000	$ 5,250,000	$ 165,789	$ 6,484,211
Total Sewer Debt					$ 6,140,000	$ 5,027,894	$ 5,500,000	$ 481,784	$ 10,046,110
COMBINED WATER / SEWER UTILITY									
252.11 - 1995 Water/Sewer Revenue	ULID 92-1	6/1/1995	7/2/2010	4.1% - 5.4%	$ 2,500,000	$ 495,000		$ 165,000	$ 330,000
252.11-1998 Water/Sewer Revenue	Water CIP	12/1/1998	12/1/2018	4.5%-4.7%	$ 10,000,000	$ 10,000,000			$ 10,000,000
252.11- 1999 Water/Sewer Revenue	Water CIP	2/16/1999	12/1/2015	4.0%-4.5%	$ 30,000,000	$ 18,365,000		$ 1,930,000	$ 16,435,000
Total Combined Water/Sewer Utility					$ 42,500,000	$ 28,860,000	$ -	$ 2,095,000	$ 26,765,000

REVENUE DEBT - 2007

I.D. NUMBER AND CLASS DESCRIPTION	PURPOSE	DATE OF ISSUE	DATE OF FINAL MATURITY	INTEREST RATES	AMOUNT ORIGINALLY ISSUED	BEGINNING UNMATURED DEBT 1/1/2007	AMOUNT ISSUED IN CURRENT YEAR	AMOUNT THAT CAME DUE THIS PERIOD	ENDING OUTSTANDING DEBT 12/31/2007
WATER DEPARTMENT									
263.82 - Public Works Trust Fund Loan	Water CIP	7/13/1999	7/1/2019	1%	$ 3,420,060	$ 2,367,571		$ 182,121	$ 2,185,450
263.82 - Public Works Trust Fund Loan	Water CIP	6/28/2000	7/1/2020	1%	$ 1,402,800	$ 1,088,871		$ 77,777	$ 1,011,095
Total Water Debt					$ 4,822,860	$ 3,456,442	$ -	$ 259,897	$ 3,196,545
SEWER DEPARTMENT									
252-11- 2001 Sewer Revenue	ULID 96-02	Jun-01	12/1/2015	4% -4.85%	$ 3,240,000	$ 2,170,000		$ 200,000	$ 1,970,000
263.82 - Public Works Trust Fund Loan	Sewer CIP	May-05	7/1/2010	0.50%		$ 750,000	$ 250,000	$ 52,632	$ 947,368
263.82 - Public Works Trust Fund Loan	Sewer CIP	Aug-05	7/1/2010	0.50%		$ 750,000		$ 39,474	$ 710,526
263.82 - Public Works Trust Fund Loan	Sewer CIP	Jun-06	7/1/2027	0.50%	$ 1,400,000	$ 1,400,000			$ 1,400,000
Total Sewer Debt					$ 4,640,000	$ 5,070,000	$ 250,000	$ 292,106	$ 5,027,894
COMBINED WATER / SEWER UTILITY									
252.11 - 1995 Water/Sewer Revenue	ULID 92-1	6/1/1995	7/2/2015	4.1% - 5.4%	$ 2,500,000	$ 660,000		$ 165,000	$ 495,000
252.11-1998 Water/Sewer Revenue	Water CIP	12/1/1998	12/1/2018	4.5%-4.7%	$ 10,000,000	$ 10,000,000			$ 10,000,000
252.11- 1999 Water/Sewer Revenue	Water CIP	2/16/1999	12/1/2015	4.0%-4.5%	$ 30,000,000	$ 20,215,000		$ 1,850,000	$ 18,365,000
Total Combined Water/Sewer Utility					$ 42,500,000	$ 30,875,000	$ -	$ 2,015,000	$ 28,860,000

About The State Auditor's Office

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

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

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

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

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

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Appendix D

Book Entry System

BOOK-ENTRY SYSTEM

The information in this section concerning the Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined). For purposes of this section, references to the Issuer mean the District, and references to Agent mean the Bond Registrar. For the purposes of this Official Statement, the term "Beneficial Owner" includes the person for whom the Participant acquires an interest in the Bonds.

1. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-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 Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

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 services. 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, and 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 highest rating: AAA. 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 and www.dtc.org.

3. Purchases of the Bonds under the DTC system, in denominations of $5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by 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 Bonds 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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. When notices are given, they will be sent by the Bond Registrar to DTC only. 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.

6. Redemption notices will be sent to DTC. If less than all of the Bonds 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 the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Bonds 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 the District or the Bond Registrar, 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, the Bond Registrar, or the District, 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 any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Bond Registrar, 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. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer and the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. 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.