

CASCADE WATER ALLIANCE

Financial Statements with
Independent Auditors' Report

December 31, 2008 and 2007

Table of Contents

| | <i>Page</i> |
|------------------------------------------------------------|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2 - 6 |
| Statements of Net Assets | 7 - 8 |
| Statements of Revenues, Expenses and Changes in Net Assets | 9 |
| Statements of Cash Flows | 10 - 11 |
| Notes to Financial Statements | 12 - 24 |

Independent Auditors' Report***Board of Directors
Cascade Water Alliance
Bellevue, Washington***Certified Public
Accountants
and Consultants

We have audited the accompanying statements of net assets of the Cascade Water Alliance ("Cascade") as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of Cascade. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial position of Cascade as of December 31, 2008 and 2007, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 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.

Certified Public Accountants
Bellevue, Washington
June 11, 2009

CASCADE WATER ALLIANCE

Management Discussion and Analysis

Management's Discussion and Analysis presents our review of Cascade's financial position as of December 31, 2008 and 2007, and Cascade's financial performance for the years then ended. These comments should be read in conjunction with Cascade's financial statements, which follow this section.

Overview of the Financial Statements

The financial statements include Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows and Notes to Financial Statements.

The Statements of Net Assets provides a record, or snapshot, of the assets and liabilities of Cascade at the close of the year. It provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It provides a basis for evaluating the capital structure of Cascade and for assessing its liquidity and financial flexibility.

The Statements of Revenues, Expenses and Changes in Net Assets present the results of the business activities over the course of the year. This information can be used to determine whether Cascade has successfully recovered all its costs through its user fees and other charges, and to evaluate its financial viability and credit worthiness.

The Statements of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operating, financing and investing activities over the course of the year. It presents information on where cash came from and what it was used for.

The Notes to Financial Statements provide useful information regarding Cascade's significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Cascade's overall financial position is strong with sufficient liquidity to finance operations and sufficient debt capacity to finance future capital asset acquisitions. Cascade is financed by equity and long-term debt. Capital assets are increasing due to Cascade's efforts to obtain sources of water supply and related water systems needed to deliver the supply. Cascade primarily serves a growing area east of Lake Washington in King County.

Major debt financing to date includes:

1. \$10,000,000 borrowed in 2004 from Member Sammamish Plateau Water and Sewer District for acquisition of water supply sources and water systems (repaid from bond proceeds in 2006);
2. \$25,904,442 owed to the City of Tacoma for acquisition of water supply sources and water systems (repaid from bond proceeds in 2006);
3. Twenty-year \$55,230,000 revenue bond proceeds (2006 revenue bonds) to pay the Sammamish Plateau Water and Sewer District and City of Tacoma and to finance system development.

CASCADE WATER ALLIANCE

Management Discussion and Analysis

| CONDENSED FINANCIAL STATEMENTS | | |
|----------------------------------------------------|------------------------------|------------------------------|
| Statements of Net Assets as of December 31, | | |
| | <u>2008</u> | <u>2007</u> |
| Current assets | \$ 27,489,607 | \$ 19,838,646 |
| Net capital assets | 84,292,091 | 72,199,283 |
| Other assets | 12,919,407 | 22,254,355 |
| Total Assets | <u>\$ 124,701,105</u> | <u>\$ 114,292,284</u> |
| Current liabilities | \$ 3,196,635 | \$ 4,690,108 |
| Long-term liabilities | 53,846,620 | 55,292,352 |
| Total Liabilities | <u>57,043,255</u> | <u>59,982,460</u> |
| Invested in capital assets, net of related debt | 30,751,038 | 17,450,837 |
| Restricted for debt service | 12,310,206 | 21,618,078 |
| Unrestricted | <u>24,596,606</u> | <u>15,240,909</u> |
| Total Liabilities & Net Assets | <u>\$ 124,701,105</u> | <u>\$ 114,292,284</u> |

| CONDENSED FINANCIAL STATEMENTS | | |
|---------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31, | | |
| | <u>2008</u> | <u>2007</u> |
| Water sales | \$ 22,465,785 | \$ 20,298,751 |
| Administrative dues | 1,247,488 | 1,139,257 |
| Conservation program | 733,086 | 706,732 |
| Total Operating Revenue | <u>24,446,359</u> | <u>22,144,740</u> |
| Cost of water sold | 16,508,432 | 15,081,172 |
| Other operating expenses | 3,149,247 | 2,921,107 |
| Total Operating Expenses | <u>19,657,679</u> | <u>18,002,279</u> |
| Operating Income | 4,788,680 | 4,142,461 |
| Non-operating revenue (expenses) | 14,867 | (240,657) |
| Capital contributions | 8,544,479 | 8,859,354 |
| Increase in Net Assets | 13,348,026 | 12,761,158 |
| Net Assets, Beginning of Year | <u>54,309,824</u> | <u>41,548,666</u> |
| Net Assets, End of Year | <u>\$ 67,657,850</u> | <u>\$ 54,309,824</u> |

CASCADE WATER ALLIANCE

Management Discussion and Analysis

Results of Operations

Operating revenues are received principally from water sales, administrative dues, and conservation charges.

Cascade commenced water sales in 2004 upon acquisition of the Seattle Water Contract from Seattle Public Utilities.

Cascade collects capital contributions from its Members. These contributions consist of Regional Capital Facilities Charges (RCFC's) and donated systems. RCFC's are due from Members for new residential equivalent customers connecting to the Members' systems. Donated systems consisted of a donation of a portion of the Bellevue Issaquah pipeline in 2004 valued at \$9,208,077.

Capital Assets and Long-Term Debt

The capital assets of Cascade have continued to increase over the last two years due to the acquisition of supply contracts with the City of Tacoma, Tacoma Cascade Pipeline development, and costs expended to obtain water rights to Lake Tapps.

Capital asset expenditures have been funded from capital contributions and the 2006 revenue bond.

Budget Variances

The 2008 Budget anticipated a bond issuance of \$85.0 million to fund combined Construction and Bond Fund expenditures of \$87.7 million. Due to a reduced pace of capital expansion plans for Cascade in 2008, however, no bonds were issued and capital expenditures were only \$14.75 million (for Lake Tapps water rights, the Tacoma Cascade Pipeline, and debt service). A later closing date for the acquisition of Lake Tapps also contributed to lower capital expenditures.

Regional Capital Facilities Charges to Members were budgeted to be \$6.5 million in 2008, but actual contributions were \$8.5million. This variance may be attributable to more construction activity among Members than previously forecast.

Operating Fund revenues in 2008 were within one percent of budget and expenditures were kept within the budget amount.

CASCADE WATER ALLIANCE

Management Discussion and Analysis

Additional Comments

In 2006, Cascade issued revenue bonds in the amount of \$55,230,000 and obtained Public Works Trust Fund loans in the amount of \$1,100,000. The proceeds of these obligations were used to pay off the Sammamish Plateau Water and Sewer District loan and the City of Tacoma loan and to finance planning for the Tacoma Cascade Pipeline and the acquisition of water supply from Lake Tapps.

Seattle water contract - The Seattle water contract entitles Cascade to a specified amount of water each year for a fifty-year period ending December 31, 2053. The amount of the block can be amended based on new members joining Cascade or existing members withdrawing from Cascade prior to December 31, 2011, or a reduction in water yield available to Seattle due to an order of an appropriate federal or state regulatory agency. Amortization of the Seattle water contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$5,978 and \$5,978 for the years ended December 31, 2008 and 2007, respectively. At the end of the contract term, Cascade may continue to purchase up to 5.3 million gallons per day for Members that cannot be economically served by any other means. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

Tacoma water contract - The Tacoma water contract entitles Cascade to purchase designated quantities of water from the City of Tacoma beginning on October 1, 2008, for as long as Tacoma continues to sell wholesale water to any entity. Cascade will be billed for a minimum amount of water regardless of usage (unless the City of Tacoma declares a supply curtailment whereupon Cascade shall be billed only for the water actually delivered). Cascade may also be entitled to purchase additional water in defined amounts. The ability to purchase additional water may be reduced if Tacoma's Howard Hansen Storage Project is not completed by October 1, 2012, or eliminated if Cascade has not requested delivery of the additional amounts by October 1, 2013.

Costs incurred to obtain the Tacoma contract consist of system development charges (\$16,484,000) and capacity reservation fees (\$25,904,442). The system development charges relate to the base amount of water and capacity reservation fees relate to the additional water to be supplied. The base water supply agreement is considered to have an indefinite term and therefore will be evaluated annually for impairment and not amortized. Through December 31, 2008, Management does not believe impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

Interest Capitalization - Interest costs incurred for the acquisition and/or construction of assets are subject to capitalization based on the guidelines established by Financial Accounting Standards Board Statements 34 and 62. Total interest incurred on bonds for the years ended December 31, 2008 and 2007, was \$2,657,325 and \$2,710,056, respectively. Interest capitalized in 2008 and 2007 was \$1,568,637 and \$1,049,017, respectively.

CASCADE WATER ALLIANCE

Management Discussion and Analysis

Projects in Process:

Lake Tapps Water Rights Project - Costs on this project represent costs incurred to date by Cascade in its efforts to secure water rights. These costs will be evaluated annually for impairment for acquired water rights with no expiration. The costs will be expensed immediately should Cascade abandon efforts to obtain the right. In August 2008, Cascade executed agreements with the Muckleshoot Indian Tribe and Puyallup Tribe of Indians regarding Lake Tapps Reservoir water rights. The White River Management Agreement establishes an Agreed Flow Regime that limits diversions to maintain in-stream flows in the White River, and contains other provisions with respect to the operation and maintenance of the Lake Tapps Reservoir that address the concerns of the Tribes.

Lake Tapps Purchase Agreement - Cascade entered into a purchase agreement with Puget Sound Energy to purchase Lake Tapps for a total of \$30,000,000 with a \$25,000,000 payment due on the closing date and another \$5,000,000 due upon issuance of the municipal water rights. The closing date of this agreement is contingent upon numerous ongoing events including approval from the Washington Utilities and Transportation Commission. Closing is expected to occur in 2009.

Tacoma Cascade Pipeline - An eighteen-mile pipeline extending from the Tacoma Water supply to Cascade's pipelines is under development to connect to the Bellevue Issaquah pipeline and to deliver the Tacoma water supply to Cascade Members. Property acquisitions are occurring for the entire eighteen-mile route and construction is underway for a 1.1-mile segment at the north end of the route. The development and construction schedule for this project is being evaluated in conjunction with Cascade's long-range water supply planning. Like other regional builders, Cascade faces escalating construction costs for transportation (fuel and oil) and materials (steel) for planned construction of the Tacoma Cascade Pipeline. At the same time, Cascade's recent analyses of growth and demand have been updated to reflect the most current projections, resulting in the need for less water than was previously anticipated for the next fifteen years or so until Lake Tapps comes on line. To meet current need, the City of Seattle has agreed to sell additional water to Cascade. This will allow Cascade to begin a new, long-term and inclusive regional planning process to determine next steps in its water supply planning and delivery from Lake Tapps.

Invested funds:

Cascade invests its funds through the King County investment pool. The pool holds four impaired commercial paper investments (Cheyne, Mainsail, Rhinebridge and Victoria). Each investment has been or is in the process of being restructured. The restructuring deals are progressing as planned and implementations are expected to be complete in 2009. The financial impacts for Pool members, including Cascade, cannot be determined until the outcome of each restructuring is completed.

As of December 31, 2008, the King County investment pool held four commercial paper assets that are impaired and part of enforcement events where a trustee/receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio. The four impaired investments represent \$207 million or 5 percent of the pool's total assets. Cascade's share of the unrealized loss on these impaired investments is \$399,571 as of December 31, 2008. The maximum risk of loss to Cascade is \$473,385.

In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. Standard & Poor's has taken this action because they have not been able to receive timely information about the impaired investments due to the confidential nature of the various enforcement events and related restructuring proceedings.

CASCADE WATER ALLIANCE

Statements of Net Assets *December 31, 2008 and 2007*

| | <u>2008</u> | <u>2007</u> |
|----------------------------------------------------|-------------------------------------|-------------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 26,273,072 | \$ 15,419,303 |
| Accounts receivable | | 413,299 |
| Regional capital facility charges receivable | 1,205,681 | 3,999,235 |
| Prepaid expenses | <u>10,854</u> | <u>6,809</u> |
| Total Current Assets | 27,489,607 | 19,838,646 |
| Capital Assets | | |
| Equipment and furniture | 84,101 | 62,079 |
| Seattle water contract | 204,216 | 204,216 |
| Comprehensive plan | 766,091 | 731,857 |
| Bellevue Issaquah pipeline | <u>21,998,155</u> | <u>21,996,760</u> |
| | 23,052,563 | 22,994,912 |
| Less accumulated depreciation and amortization | <u>(1,171,768)</u> | <u>(716,332)</u> |
| | 21,880,795 | 22,278,580 |
| Projects in process and assets not yet in service: | | |
| Lake Tapps | 13,627,107 | 10,775,891 |
| Tacoma water contract | 25,904,442 | 25,904,442 |
| Tacoma Cascade pipeline | 22,751,612 | 13,240,370 |
| Eastside reservoir | <u>128,135</u> | |
| Total Capital Assets | <u>84,292,091</u> | <u>72,199,283</u> |
| Restricted cash and cash equivalents | 12,310,206 | 21,618,078 |
| Other long-term assets | <u>609,201</u> | <u>636,277</u> |
| Total Assets | <u><u>\$ 124,701,105</u></u> | <u><u>\$ 114,292,284</u></u> |

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

CASCADE WATER ALLIANCE

Statements of Net Assets
December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|------------------------------------------------------|------------------------------|------------------------------|
| <i>Liabilities and Net Assets</i> | | |
| Payables and accrued liabilities from current assets | \$ 659,235 | \$ 2,092,655 |
| Retroactive water credit | 503,388 | 640,415 |
| Long term debt, current portion | 59,474 | 42,500 |
| | <u>1,222,097</u> | <u>2,775,570</u> |
| Payables from restricted assets | | |
| Accrued interest | 679,538 | 679,538 |
| Long-term debt current portion | 1,295,000 | 1,235,000 |
| | <u>1,974,538</u> | <u>1,914,538</u> |
| Total Current Liabilities | 3,196,635 | 4,690,108 |
| Long-term debt, net of current portion | | |
| Long-term debt payable from unrestricted assets | 671,579 | 748,027 |
| Long-term debt payable from restricted assets | 51,515,000 | 52,810,000 |
| | <u>52,186,579</u> | <u>53,558,027</u> |
| Other long-term liabilities | | |
| Bond premium, net of amortization | 1,660,041 | 1,734,325 |
| | <u>1,660,041</u> | <u>1,734,325</u> |
| Total Liabilities | 57,043,255 | 59,982,460 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 30,751,038 | 17,450,837 |
| Restricted for debt service | 12,310,206 | 21,618,078 |
| Unrestricted | 24,596,606 | 15,240,909 |
| | <u>67,657,850</u> | <u>54,309,824</u> |
| Total Net Assets | 67,657,850 | 54,309,824 |
| Total Liabilities and Net Assets | <u>\$ 124,701,105</u> | <u>\$ 114,292,284</u> |

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

CASCADE WATER ALLIANCE

Statements of Revenues, Expenses and Changes in Net Assets For the Years Ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|-----------------------------------------------|----------------------|----------------------|
| Operating Revenue: | | |
| Water sales | \$ 22,465,785 | \$ 20,298,751 |
| Administrative dues | 1,247,488 | 1,139,257 |
| Conservation program | 733,086 | 706,732 |
| Total Operating Revenue | 24,446,359 | 22,144,740 |
| Operating Expenses: | | |
| Cost of water sold | 16,508,432 | 15,081,172 |
| Salaries and benefits | 970,463 | 608,581 |
| Professional services | 494,924 | 488,152 |
| Conservation rebate program | 640,629 | 517,275 |
| Depreciation and amortization | 408,229 | 419,968 |
| Communication and public information | 397,408 | 402,759 |
| Office expenses | 28,891 | 63,551 |
| Bank charges | 992 | 54,492 |
| Rent | 105,467 | 101,909 |
| Maintenance | 43,667 | 88,340 |
| Dues and subscriptions | 26,696 | 32,675 |
| Miscellaneous | 31,881 | 143,405 |
| Total Operating Expenses | 19,657,679 | 18,002,279 |
| Operating Income | 4,788,680 | 4,142,461 |
| Non-Operating Revenue (Expenses) | | |
| Interest income | 1,103,555 | 1,420,976 |
| Interest expense, net of amount capitalized | (1,088,688) | (1,661,633) |
| Total Non-Operating Revenue (Expenses) | 14,867 | (240,657) |
| Capital Contributions | | |
| Regional capital facilities charges | 8,544,479 | 8,859,354 |
| Increase in Net Assets | 13,348,026 | 12,761,158 |
| Net assets, beginning of year | 54,309,824 | 41,548,666 |
| Net Assets, End of Year | \$ 67,657,850 | \$ 54,309,824 |

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

CASCADE WATER ALLIANCE

Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Cash Flows from Operating Activities: | | |
| Cash received from members | \$ 24,709,438 | \$ 22,092,772 |
| Cash paid to suppliers | (20,148,567) | (18,022,076) |
| Cash paid to and for employees | (970,463) | (608,581) |
| | <u>3,590,408</u> | <u>3,462,115</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Regional capital facilities charges | 11,338,033 | 6,283,301 |
| Proceeds from long-term debt | | 10,000 |
| Payments on long-term debt | (1,294,474) | (1,244,473) |
| Acquisition of capital assets | (10,684,520) | (5,843,548) |
| Interest paid on bonds and other term debt | (2,657,325) | (2,741,448) |
| | <u>(3,298,286)</u> | <u>(3,536,168)</u> |
| Cash Flows from Investing Activities: | | |
| Interest received | 1,253,775 | 1,270,756 |
| | <u>1,253,775</u> | <u>1,270,756</u> |
| Net Change in Cash | 1,545,897 | 1,196,703 |
| Cash balance, beginning of year | <u>37,037,381</u> | <u>35,840,678</u> |
| Cash Balance, End of Year | <u>\$ 38,583,278</u> | <u>\$ 37,037,381</u> |
| Cash and Cash Equivalents Balance is Composed of the Following at December 31 | | |
| Cash and cash equivalents | \$ 26,273,072 | \$ 15,419,303 |
| Restricted cash and cash equivalents | 12,310,206 | 21,618,078 |
| | <u>\$ 38,583,278</u> | <u>\$ 37,037,381</u> |
| Supplemental Disclosure: | | |
| Fixed assets acquired through accounts payable | \$ 295,088 | \$ 1,564,616 |

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

CASCADE WATER ALLIANCE

Statements of Cash Flows

For the Years Ended December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| Reconciliation of Operating Income to Net Cash from Operating Activities: | | |
| Net operating income | \$ 4,788,680 | \$ 4,142,461 |
| Adjustments to reconcile change in operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 408,229 | 419,968 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 263,079 | (51,968) |
| Prepaid expenses | (4,045) | 8,895 |
| Accounts payable | (1,728,508) | (477,856) |
| Retroactive water credit | (137,027) | (579,385) |
| Net Cash Provided by Operating Activities | <u>\$ 3,590,408</u> | <u>\$ 3,462,115</u> |

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Cascade Water Alliance (Cascade) is a Washington State non-profit corporation established on April 1, 1999, in accordance with the Interlocal Cooperation Act (Chapter 39.34) and the Nonprofit Miscellaneous and Mutual Corporations Act (Chapter 24.06) as a public governmental body and an instrumentality of its Members, exercising essential governmental functions by providing wholesale water to meet the current and future water supply needs of its Members in a cost-effective and environmentally responsible manner.

Cascade Members include the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, along with the Covington Water District, the Sammamish Plateau Water and Sewer District and the Skyway Water and Sewer District.

Basis of Accounting - The financial statements of Cascade are prepared utilizing the flow of economic resources measurement focus and full accrual basis accounting in accordance with GASB 14. Cascade applies statements issued by the Governmental Accounting Standards Board (GASB) due to the fact that its members are governmental and all of its board members are appointed by other governmental entities. Cascade applies all statements and interpretations issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989 that are not in conflict with standards issued by the GASB. All activities are accounted for as a single proprietary (enterprise) fund.

Cash Equivalents - For purposes of the statements of cash flows, Cascade considers all highly liquid instruments purchased with a maturity of three months or less and investments in the King County Treasurer's Investment Pool to be cash equivalents. Investments in the King County Treasurer's Investment Pool are stated at fair market value.

Concentration of Credit Risk - Cascade maintains cash balances at financial institutions that at times exceed FDIC insured limits. Cascade has not experienced any losses and believes there is minimal risk associated with these excess balances.

As of December 31, 2007, the King County Investment Pool which holds Cascade investments was rated 'AAA' by Standard & Poor's Rating Services, Standard & Poor's is a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A_1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office. In January 2008, the rating of the King County investment pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. The rating had not been restored as of December 31, 2008.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to change in unrestricted net assets and a credit to accounts receivable.

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 1 - Continued

Capital Assets - Capital assets are recorded at cost. Water systems conveyed to Cascade by bill of sale are recorded at the contributing party's cost, contract price or appraised value. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are expensed when incurred. Estimated useful lives for capital assets are as follows:

| | <i>Years</i> |
|-------------------------|--------------|
| Computer Equipment | 5 |
| Furniture and Equipment | 3 - 7 |
| Pipelines | 50 |

Long-Term Debt - Long-term debt is reported net of discounts, premiums and issue costs. Discounts, premiums and issue costs incurred on issuance of long-term debt are amortized by the interest method over the period the related debt is outstanding.

Net Assets - Net assets are classified in the following three components: 1) Invested in capital assets, net of related debt - This component of net assets consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. 2) Restricted - This component of net assets consists of restrictions placed on net asset use by external creditors (such as through debt covenants), grantors or contributors. 3) Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt". Cascade applies unrestricted and restricted resources to purposes for which both unrestricted and restricted net assets are available based on management's discretion.

Revenues and Expenses - Revenues and expenses are distinguished between operating and non-operating items. Operating revenues result from providing products in connection with the water system and services to members. Operating expenses include the costs associated with providing the products and services, general and administrative expenses and depreciation and amortization on capital assets. All revenues and expenses not meeting these definitions are classified as non-operating revenues and expenses.

Regional Capital Facility Charges - RCFC are paid to Cascade Water Alliance by each member for each new equivalent residential unit connected to its water distribution system, and are intended to allocate growth costs to those members that require capacity increases due to growth in customer demand. The RCFC for 2008 is \$5,675 per new Cascade Equivalent Residential Unit (CERU).

Federal Tax Status - Cascade Water Alliance is an authority and instrumentality of its governmental members, organized as a nonprofit corporation pursuant to Washington State's Interlocal Cooperation Act (Chapter 39.34 RCW). As a governmental entity formed by political subdivisions of the State of Washington, it is exempt from federal income taxation under Section 115 of the Internal Revenue Code. As an instrumentality of its members, Cascade may issue obligations the interest of which is exempt from federal income taxation under Section 103 of the Code.

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 1 - Continued

Use of Estimates - The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses, as appropriate, during the reporting period. Actual results could differ from those estimates.

Compensated Absences - At termination of employment, employees may receive cash payments for accumulated vacation leave, based on current wages at termination for which an accrual has been provided.

Reclassifications - Certain reclassifications were made to the 2007 financial statements to conform to the current year presentation. The reclassifications have no effect on previously reported operating income or net assets.

Note 2 - Capitalizable Contracts

Seattle Water Contract - The Seattle Water Contract entitles Cascade to a specified amount (block) of water each year for a fifty year period ending December 31, 2053. The amount of the block can be amended based on new members joining Cascade or existing members withdrawing from Cascade prior to December 31, 2011 or a reduction in water yield available to Seattle due to an order of an appropriate federal or state regulatory agency. The amount of water generally to be supplied to Cascade in each year of the contract is as follows:

| <u>Year Beginning</u> <u>January 1</u> | <u>Year Ending</u> <u>December 31</u> | <u>Average Daily Demand (million</u> <u>Gallons per Day - mgd)</u> |
|-------------------------------------------|------------------------------------------|-----------------------------------------------------------------------|
| 2004 | 2023 | 30.3 |
| 2024 | 2029 | 25.3 |
| 2030 | 2034 | 20.3 |
| 2035 | 2039 | 15.3 |
| 2040 | 2044 | 10.3 |
| 2045 | 2053 | 5.3 |

Amortization of the Seattle Water Contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$5,978 and \$5,978 for the years ended December 31, 2008 and 2007, respectively.

At the end of the contract term, Cascade may continue to purchase up to 5.3 MGD for members that cannot be economically served by any other means.

In December 2008, this agreement was amended to entitle Cascade to a supplemental block of water as follows:

| <u>Year Beginning</u> <u>January 1</u> | <u>Year Ending</u> <u>December 31</u> | <u>Average Daily Demand (million</u> <u>Gallons per Day - mgd)</u> |
|-------------------------------------------|------------------------------------------|-----------------------------------------------------------------------|
| 2009 | 2017 | 3.0 |
| 2018 | 2023 | 5.0 |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 2 - Continued

The Tacoma Water Contract - The Tacoma Water Contract entitles Cascade to purchase designated quantities of water from the City of Tacoma beginning on October 1, 2008 for as long as Tacoma continues to sell wholesale water to any entity (Base Amount). Cascade will be billed for a minimum amount of water regardless of usage (unless the City of Tacoma declares a supply curtailment whereupon Cascade shall be billed only for the water actually delivered) as follows:

| <u>Year Beginning</u> <u>January 1</u> | <u>Year Ending</u> <u>December 31</u> | <u>Average Daily Demand (Million</u> <u>Gallons per Day - mgd)</u> |
|-------------------------------------------|------------------------------------------|-----------------------------------------------------------------------|
| 2009 | 2011 | 2 |
| 2012 | 2014 | 3 |
| 2015 | 2017 | 4 |
| 2018 | 2019 | 5 |
| 2020 | 2021 | 6 |
| 2022 | 2023 | 7 |
| 2024 | 2025 | 8 |

In addition to the base quantities of water, Cascade may also be entitled to purchase water in the following amounts (Additional Water):

| <u>Year</u> | <u>Average Daily Demand (Million</u> <u>Gallons per Day - mgd)</u> |
|-------------|-----------------------------------------------------------------------|
| 2026 | 6 |
| 2027 | 4 |
| 2028 | 3 |
| 2029 | 2 |
| 2030 | 1 |

The ability to purchase the additional water may be reduced if the City's Howard Hansen Storage Project is not completed by October 1, 2012 or eliminated if Cascade has not requested delivery of the additional amounts by October 1, 2013.

Costs incurred to obtain the Tacoma contract consist of the following:

| | |
|----------------------------|-----------------------------|
| System development charges | \$ 16,484,000 |
| Capacity reservation fees | <u>9,420,442</u> |
| | <u>\$ 25,904,442</u> |

The system development charges relate to the base amount of water and the capacity reservation fees relate to the additional water to be supplied. The base water supply agreement is considered to have an indefinite term and therefore will be evaluated annually for impairment and not amortized. Through December 31, 2008, management does not believe impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 2 - Continued

Interest Capitalization - Interest costs incurred for the acquisition and/or construction of assets are subject to capitalization based on the guidelines established by Financial Accounting Standards Board Statements 34 and 62.

Total interest incurred on bonds for the years ended December 31, 2008 and 2007 was \$2,657,325 and \$2,710,056, respectively. Interest capitalized in 2008 and 2007 was \$1,568,637 and \$1,049,017, respectively.

Projects in Process:

Lake Tapps Water Rights Project - These costs represent costs incurred to date by Cascade in its efforts to secure water rights. These costs will be evaluated annually for impairment for acquired water rights with no expiration. The costs will be expensed immediately should Cascade abandon efforts to obtain the right.

Lake Tapps Purchase Agreement - Cascade entered into a purchase agreement with Puget Sound Energy to purchase Lake Tapps for a total of \$30,000,000 with a \$25,000,000 payment due on the closing date and another \$5,000,000 due upon issuance of the municipal water rights. The closing date of this agreement is contingent upon numerous events transpiring including approval from Washington Utilities and Transportation Commission.

Tacoma Cascade Pipeline - A pipeline extending from the Tacoma Water supply pipelines is under development to be completed by 2024 to connect to the Bellevue Issaquah pipeline and deliver the Tacoma water supply to Cascade members.

Note 3 - Cash and Cash Equivalents

In accordance with state investment laws, Cascade's governing body has entered into a formal interlocal agreement with Cascade's ex officio treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the Pool are stated at the fair value of the Pool's underlying assets. The stated value per share is \$1. The King County Executive Finance Committee provides oversight of the Pool.

As of December 31, the organization had the following on deposit in the pool:

| | <u>2008</u> | <u>2007</u> |
|-------------------|-----------------------------|-----------------------------|
| Unrestricted cash | \$ 26,618,901 | \$ 15,407,919 |
| Restricted cash | <u>12,192,198</u> | <u>21,618,078</u> |
| Total | <u>\$ 38,811,099</u> | <u>\$ 37,025,997</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 4 - Restricted Assets

In accordance with the bond agreements separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service and other special reserve requirements. Current year disbursements from the restricted asset accounts are included in total expenditures in the financial statements.

Changes in restricted assets for year ended December 31 are as follows:

| | <i>Balance</i> <i>12/31/2007</i> | <i>Additions</i> | <i>Disbursements</i> | <i>Interest/ Unrealized Loss</i> | <i>Balance</i> <i>12/31/08</i> |
|--------------------|-------------------------------------|----------------------------|-------------------------------|------------------------------------------|-----------------------------------|
| Revenue bond funds | \$ 9,959,838 | \$ 4,300,000 | \$ (3,892,325) | \$ 328,586 | \$ 10,696,099 |
| Construction funds | <u>11,658,240</u> | <u>1,000,000</u> | <u>(10,943,166)</u> | <u>(100,967)</u> | <u>1,614,107</u> |
| | <u>\$ 21,618,078</u> | <u>\$ 5,300,000</u> | <u>\$ (14,835,491)</u> | <u>\$ 227,619</u> | <u>\$ 12,310,206</u> |

Included in this schedule are interest earnings of \$266,884 and unrealized gain of \$61,702 for the revenue bonds funds, and interest earnings of \$268,232 netted against unrealized losses of \$369,199 for the construction funds.

Note 5 - Capital Assets

The following summarizes the changes in fixed assets of Cascade:

| | <i>Balance</i> <i>12/31/2007</i> | <i>Additions</i> | <i>Transfers</i> | <i>Deletions</i> | <i>Balance</i> <i>12/31/2008</i> |
|---------------------------------------------------------|-------------------------------------|-----------------------------|--------------------|--------------------|-------------------------------------|
| 2008 Capital assets: | | | | | |
| Equipment and furniture | \$ 62,079 | \$ 22,022 | \$ - | \$ - | \$ 84,101 |
| Seattle water contract | 204,216 | | | | 204,216 |
| Comprehensive plan | 731,857 | 34,234 | | | 766,091 |
| Bellevue Issaquah pipeline | 21,996,760 | 1,395 | | | 21,998,155 |
| Less accumulated depreciation and amortization | <u>(716,332)</u> | <u>(455,436)</u> | | | <u>(1,171,768)</u> |
| Total Capital Assets being Depreciated | <u>22,278,580</u> | <u>(397,785)</u> | | | <u>21,880,795</u> |
| Capital assets in process not being depreciated: | | | | | |
| Lake Tapps | 10,775,891 | 2,851,216 | | | 13,627,107 |
| Tacoma water contract | 25,904,442 | | | | 25,904,442 |
| Tacoma Cascade pipeline | 13,240,370 | 9,511,242 | | | 22,751,612 |
| Eastside reservoir | | <u>128,135</u> | | | <u>128,135</u> |
| Total | <u>\$ 72,199,283</u> | <u>\$ 12,092,808</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 84,292,091</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 5 - Continued

| | <u>Balance</u> <u>12/31/2006</u> | <u>Additions</u> | <u>Transfers</u> | <u>Deletions</u> | <u>Balance</u> <u>12/31/2007</u> |
|------------------------------------------------|-------------------------------------|----------------------------|--------------------|--------------------|-------------------------------------|
| <u>2007 Capital assets:</u> | | | | | |
| Equipment and furniture | \$ 40,017 | \$ 22,062 | \$ - | \$ - | \$ 62,079 |
| Seattle water contract | 204,216 | | | | 204,216 |
| Comprehensive plan | 731,857 | | | | 731,857 |
| Bellevue Issaquah pipeline | 21,989,808 | 6,952 | | | 21,996,760 |
| Less accumulated depreciation and amortization | <u>(262,694)</u> | <u>(453,638)</u> | | | <u>(716,332)</u> |
| Total Capital Assets being Depreciated | <u>22,703,204</u> | <u>(424,624)</u> | | | <u>22,278,580</u> |
| <u>Capital assets not being depreciated:</u> | | | | | |
| Lake Tapps | 9,335,597 | 1,440,294 | | | 10,775,891 |
| Tacoma water contract | 25,904,442 | | | | 25,904,442 |
| Tacoma Cascade pipeline | <u>6,219,822</u> | <u>7,020,547</u> | | | <u>13,240,370</u> |
| Total | <u>\$ 64,163,066</u> | <u>\$ 8,036,217</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 72,199,283</u> |

Note 6 - Long-Term Debt - Unrestricted

Long-term debt payable from unrestricted assets consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| Public Works Trust Fund Loans (PWTF): | | |
| \$100,000 loan authorized, payable in equal annual principal payments based on the amount of the loan drawn to the payment due date with the first payment due in July 2007 and the last payment due July 2025, interest at 0%. | \$ 60,000 | \$ 80,000 |
| \$1,000,000 loan authorized, payable in equal annual principal payments based on the amount of the loan drawn to the payment due date with the first payment due July 2007 and the last payment due July 2025, plus interest at .50% | <u>671,053</u> | <u>710,527</u> |
| Total long-term debt | 731,053 | 790,527 |
| Less current portion | <u>(59,474)</u> | <u>(42,500)</u> |
| | <u>\$ 671,579</u> | <u>\$ 748,027</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 6 - Continued

The estimated annual debt service requirements on long-term debt, payable from unrestricted assets are as follows:

| <i>For the Years Ending December 31,</i> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------------|--------------------------|-------------------------|
| 2009 | \$ 59,474 | \$ 3,355 |
| 2010 | 59,474 | 3,158 |
| 2011 | 59,474 | 2,961 |
| 2012 | 39,474 | 2,763 |
| 2013 | 39,474 | 2,566 |
| Thereafter | <u>473,683</u> | <u>15,394</u> |
| | <u>\$ 731,053</u> | <u>\$ 30,197</u> |

Long-term debt, payable from unrestricted assets, activity was as follows:

| | <u>Balance</u> <u>12/31/2007</u> | <u>Proceeds</u> | <u>Repayments</u> | <u>Balance</u> <u>12/31/2008</u> |
|-------------|-------------------------------------|-------------------------|---------------------------|-------------------------------------|
| <u>2008</u> | | | | |
| PWTF 1 | \$ 80,000 | \$ - | \$ (20,000) | \$ 60,000 |
| PWTF 2 | <u>710,527</u> | | <u>(39,474)</u> | <u>671,053</u> |
| | <u>\$ 790,527</u> | <u>\$ -</u> | <u>\$ (59,474)</u> | <u>\$ 731,053</u> |
| | | | | |
| | <u>Balance</u> <u>12/31/2006</u> | <u>Proceeds</u> | <u>Repayments</u> | <u>Balance</u> <u>12/31/2007</u> |
| <u>2007</u> | | | | |
| PWTF 1 | \$ 90,000 | \$ 10,000 | \$ (20,000) | \$ 80,000 |
| PWTF 2 | <u>750,000</u> | | <u>(39,473)</u> | <u>710,527</u> |
| | <u>\$ 840,000</u> | <u>\$ 10,000</u> | <u>\$ (59,473)</u> | <u>\$ 790,527</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 7 - Long-Term Debt - Restricted

Long-term debt outstanding payable from restricted assets consisted of the following:

| | <u>2008</u> | <u>2007</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Revenue Bonds: | | |
| \$55,230,000 issued May 10, 2006 for supporting capital program, payment for Sammamish Plateau Water and Sewer District Loan and cost of issuing the Bonds. The bonds are payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund. | | |
| (a) \$29,490,000 due serially through the year 2023, interest payable semi-annually 4.50 to 5.00 annual percentage rate. | \$ 27,070,000 | \$ 28,305,000 |
| (b) \$8,880,000 term bonds due September 1, 2026 with interest payable semi-annually at 4.75 annual percentage rate. | 8,880,000 | 8,880,000 |
| (c) \$16,860,000 term bonds due September 1, 2031 with interest payable semi-annually at 5.0 annual percentage rate. | <u>16,860,000</u> | <u>16,860,000</u> |
| Total long-term debt | 52,810,000 | 54,045,000 |
| Less current portion | <u>(1,295,000)</u> | <u>(1,235,000)</u> |
| Long-term portion | <u>\$ 51,515,000</u> | <u>\$ 52,810,000</u> |

The bonds were issued at a premium of \$1,857,106 which is being amortized over the 25 year life of the bonds. Amortization expense for the years ending December 31, 2008 and 2007 was \$74,284 and \$74,284, respectively.

The estimated annual debt service requirements on long-term debt payable from restricted assets are as follows:

| <i>For the Years Ending December 31,</i> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------------|-----------------------------|-----------------------------|
| 2009 | \$ 1,295,000 | \$ 2,601,750 |
| 2010 | 1,350,000 | 2,546,950 |
| 2011 | 1,410,000 | 2,486,050 |
| 2012 | 1,480,000 | 2,415,550 |
| 2013 | 1,555,000 | 2,341,550 |
| 2014 - 2018 | 9,010,000 | 10,462,000 |
| 2019 - 2023 | 11,500,000 | 7,972,750 |
| 2024 - 2028 | 14,605,000 | 4,868,101 |
| 2029 - 2031 | <u>10,605,000</u> | <u>1,077,750</u> |
| | <u>\$ 52,810,000</u> | <u>\$ 36,772,451</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 7 - Continued

Long-term debt, payable from restricted assets, activity was as follows:

| | <u>Balance</u> <u>12/31/2007</u> | <u>Proceeds</u> | <u>Repayments</u> | <u>Balance</u> <u>12/31/2008</u> |
|--------------------|-------------------------------------|-----------------|-------------------|-------------------------------------|
| <u>2008</u> | | | | |
| 2008 Revenue Bonds | \$ 54,045,000 | \$ - | \$ (1,235,000) | \$ 52,810,000 |

| | <u>Balance</u> <u>12/31/2006</u> | <u>Proceeds</u> | <u>Repayments</u> | <u>Balance</u> <u>12/31/2007</u> |
|--------------------|-------------------------------------|-----------------|-------------------|-------------------------------------|
| <u>2007</u> | | | | |
| 2007 Revenue Bonds | \$ 55,230,000 | \$ - | \$ (1,185,000) | \$ 54,045,000 |

Note 8 - Commitments

Lease Commitments - Cascade leases office space under a non-cancelable lease agreement expiring in December 2012. The lease calls for payments of \$8,649 per month with annual stepped increases.

Cascade has entered into a five year operating lease agreement for its copier that expires August 2013 with a monthly payment of \$400. Total lease expense during the years ended December 31, 2008 and 2007 was \$5,226 and \$0, respectively.

Future minimum rentals as of December 31 under non-cancelable operating leases are as follows:

| <i>Years Ending December 31,</i> | |
|--------------------------------------|--------------------------|
| 2009 | \$ 118,882 |
| 2010 | 123,472 |
| 2011 | 127,338 |
| 2012 | 25,330 |
| 2013 | <u>3,196</u> |
| Total Minimum Rental Payments | <u>\$ 398,218</u> |

Rent expense for operating leases totaled \$105,467 and \$101,909 for the years ended December 31, 2008 and 2007, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 8 - Continued

Contracts - Cascade has entered into contracts with various vendors in relation to ongoing consulting services, construction services and financial services that extend beyond December 31, 2008.

Contracted services agreed to and expected to be received in 2009 include the following:

| | |
|----------------------------------|----------------------------|
| Construction and design services | \$ 3,137,168 |
| Consulting contracted services | <u>1,285,915</u> |
| | <u>\$ 4,423,083</u> |

Note 9 - Retirement Benefits

Cascade provides a Section 401(a) defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute 4% of their annual salary. Cascade contributes 7% of employee's salary. Employee and employer contributions were \$26,532 and \$46,275, respectively, for the year ended December 31, 2008 and \$17,930 and \$31,377, respectively, for the year ended December 31, 2007.

Cascade also provides a Section 457 retirement plan available to all employees. Employees may make salary deferral contributions up to the maximum allowed by law. After twelve months of employee contributions, employee contributions are matched 100% by Cascade. Employee salary deferrals and Cascade matching contributions were \$44,876 and \$37,264, respectively, for the year ended December 31, 2008 and \$37,475 and \$30,475, respectively, for the year ended December 31, 2007.

Note 10 - Concentrations

Water sales, conservation revenues, administration dues, regional capital facilities charges and contributions for member cities in 2008 and 2007 are as follows:

2008 Member Charges

| Members: | <u>Water Sales</u> | <u>Water Usage Adjustment</u> | <u>Conservation Revenues</u> | <u>Administration Dues</u> | <u>Regional CF charges</u> | <u>Total</u> |
|--------------|-----------------------------|-----------------------------------|----------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Bellevue | \$ 11,757,750 | \$ (195,182) | \$ 286,801 | \$ 474,580 | \$ 1,749,487 | \$ 14,073,436 |
| Covington | | | 48,542 | 114,750 | | 163,292 |
| Issaquah | 1,098,348 | (109,582) | 48,736 | 80,645 | 786,415 | 1,904,562 |
| Kirkland | 3,057,542 | (60,230) | 76,437 | 126,482 | 550,378 | 3,750,609 |
| Redmond | 4,669,605 | (248,923) | 128,319 | 212,334 | 3,773,210 | 8,534,545 |
| Sammamish | 386,661 | 369,477 | 89,567 | 148,209 | 1,449,142 | 2,443,056 |
| Skyway | 258,941 | | 16,352 | 27,059 | 87,947 | 390,299 |
| Tukwila | <u>1,481,378</u> | | <u>38,332</u> | <u>63,429</u> | <u>147,900</u> | <u>1,731,039</u> |
| Total | <u>\$ 22,710,225</u> | <u>\$ (244,440)</u> | <u>\$ 733,086</u> | <u>\$ 1,247,488</u> | <u>\$ 8,544,479</u> | <u>\$ 32,990,838</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 10 - Continued

2007 Member Charges

| <u>Members:</u> | <u>Water Sales</u> | <u>Water Usage Adjustment</u> | <u>Conservation Revenues</u> | <u>Administration Dues</u> | <u>Regional CF Charges</u> | <u>Total</u> |
|-----------------|-----------------------------|-----------------------------------|----------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Bellevue | \$ 10,492,981 | \$ 308,300 | \$ 277,151 | \$ 434,521 | \$ 2,976,981 | \$ 14,489,934 |
| Covington | | | 46,482 | 104,108 | | 150,590 |
| Issaquah | 435,504 | 12,796 | 45,220 | 70,897 | 2,088,368 | 2,652,785 |
| Kirkland | 2,726,863 | 80,119 | 73,723 | 115,583 | 818,387 | 3,814,675 |
| Redmond | 4,260,501 | 125,180 | 124,141 | 194,630 | 2,251,228 | 6,955,680 |
| Sammamish | 236,207 | 6,940 | 87,057 | 136,489 | 491,580 | 958,273 |
| Skyway | 240,259 | 7,059 | 15,923 | 24,964 | 42,376 | 330,581 |
| Tukwila | 1,327,051 | 38,991 | 37,035 | 58,065 | 190,434 | 1,651,576 |
| Total | <u>\$ 19,719,366</u> | <u>\$ 579,385</u> | <u>\$ 706,732</u> | <u>\$ 1,139,257</u> | <u>\$ 8,859,354</u> | <u>\$ 31,004,094</u> |

All water purchases by Cascade were from the City of Seattle.

Note 11 - Puget Sound Energy Memorandum of Understanding

Cascade entered into an agreement with Puget Sound Energy (PSE) for exclusive negotiating rights to obtain all or a portion of the Lake Tapps water rights from PSE should PSE be able to obtain the rights. The agreement expires upon completion of the asset purchase agreement currently being negotiated unless extended. In consideration of the exclusive right, Cascade paid PSE \$225,000 of lump sum payments, and 50% of certain costs incurred to obtain the water rights (process costs).

The agreement may be terminated with 30 days written notice by either party. In the event the agreement is terminated by PSE, PSE shall refund Cascade the process costs paid by Cascade up to the date of termination. In addition, if PSE should continue to develop the Lake Tapps water supply project, PSE shall also refund all lump sum payments made by Cascade. In the event the agreement is terminated by Cascade, Cascade will be obligated to reimburse PSE for all process costs paid from PSE up to the date of termination.

Total costs recognized as of December 31, 2008 and 2007 are as follows:

| | <u>2008</u> | <u>2007</u> |
|----------------------------------------|--------------------------|-----------------------------|
| Lump sum payments | \$ - | \$ 225,000 |
| Process costs (at 50% - Cascade share) | 438,622 | 3,268,807 |
| Other | | 7,282,084 |
| | <u>\$ 438,622</u> | <u>\$ 10,775,891</u> |

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 12 - Outstanding Contingency

In August 2008, Cascade executed agreements with the Muckleshoot Indian Tribe and Puyallup Tribe of Indians regarding Lake Tapps Reservoir water rights. The White River Management Agreement establishes an Agreed Flow Regime, that limits diversions to maintain instream flows in the White River, and contains other provisions with respect to the operation and maintenance of the Lake Tapps Reservoir that address the concerns of the Tribes. On September 4, 2008, Cascade made a payment of \$1,500,000 to the Puyallup Tribe of Indian.

Pending Compensation to the Tribes is as follows:

Muckleshoot Agreement:

- (a) An initial mitigation payment of \$600,000 is required to be paid to the Muckleshoot Tribe at the closing of acquisition of the White River assets and Lake Tapps hydroelectric plant from Puget Sound Energy by Cascade.
- (b) Additional \$6,200,000 to the Tribe after receiving the water rights to the White River and Lake Tapps Reservoir for municipal water supply purposes.

Puyallup Agreement:

- (a) Payment of \$6,000,000 to the Tribe for capital projects to restore, protect and enhance fishery resources, to be paid after receiving the water rights to the White River and Lake Tapps Reservoir for municipal water supply purposes.
- (b) Operations Payment of \$7,000,000 to the Tribe for work conducted by employees of the Tribe for monitoring, maintenance, research, restoration and enhancement of fish and fish habitat in the White River and Lake Tapps Reservoir, to be paid after receiving the water rights to the White River and Lake Tapps Reservoir for municipal water supply purposes.

Note 13 - Stewardship, Compliance, and Accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations.

Note 14 - Subsequent Events

In March 2009, the Board of Directors authorized the acquisition of the Noonan property which is a 1.21 acre parcel with residential zoning which is related to the Tacoma Cascade Pipeline project. Cascade intends to demolish the existing structure on the site and use the property for pipeline construction activities, including potentially locating a portion of the pipeline on the property. The cost of acquiring the Noonan property is approximately \$234,050. The estimated closing date for the transaction is summer 2009.