

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 Bonds, interest on the Bonds is 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. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the 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 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. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See the captions "TAX EXEMPTION" and "CERTAIN OTHER FEDERAL TAX CONSEQUENCES."



\$55,230,000
Cascade Water Alliance
(King County, Washington)
Water System Revenue Bonds, 2006

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Water System Revenue Bonds, 2006 (the "Bonds") are being issued by Cascade Water Alliance ("Cascade"), a nonprofit corporation composed of municipal corporations and special purpose municipal corporations of the State of Washington and organized for the purpose of providing water supply to meet the growing demands of its Members. The Bonds are being issued for the purposes of paying the cost of carrying out a portion of the capital program described in its 2006 Watershed Management Plan, repaying a loan from the Sammamish Plateau Water and Sewer District, providing for a debt service reserve and paying the costs of issuing the Bonds. The Bonds are being issued only as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, in New York, New York ("DTC"), which will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in the principal amount of \$5,000 or any integral multiple thereof within a single maturity. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive certificates representing their ownership interests.

Interest on the Bonds is payable on March 1 and September 1, commencing September 1, 2006, until maturity or prior redemption, by the fiscal agent of the State of Washington, currently The Bank of New York in New York, New York, as paying agent and registrar (the "Bond Registrar"). So long as DTC or its nominee is the Registered Owner of the Bonds, such payments will be made by the Bond Registrar to DTC, which is obligated to remit that principal and interest to its broker-dealer Participants, which in turn are obligated to remit the payments to the Beneficial Owners of the Bonds as described herein.

The Bonds are payable from and secured by a pledge of and lien on Cascade's Net Revenue as described herein. The pledge of Net Revenue for the payment of the Bonds, all Future Parity Bonds, all Payment Agreement Payments and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution constitutes a charge upon the Net Revenue superior to any other charges whatsoever.

Maturity Schedule on Inside Cover

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by Ambac Assurance Corporation.

Ambac

The Bonds are subject to redemption prior to their stated maturities as described herein.

The Bonds will not be secured by a mortgage, deed of trust or other security interest in Cascade's physical assets. The Bonds do not constitute a debt, liability or obligation of the State of Washington or any political subdivision thereof, nor the contracting of indebtedness or a pledge of the faith and credit or taxing power of the State of Washington or any political subdivision thereof. The Bonds are payable solely from Cascade's Net Revenue and money and investments held in certain funds and are not secured by the full faith and credit or taxing power of any Member or the revenue, assets or funds of any Member, except as expressly provided in the Interlocal Contract and the 2006 Bond Resolution. The Bonds are not obligations of King County or the Members. Cascade has no taxing power.

The Bonds are offered for delivery when, as and if issued, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. Certain legal matters will be passed on for Cascade by its General Counsel, Inslee, Best, Doezie & Ryder, P.S., Bellevue, Washington, and for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer on or about May 10, 2006.

This cover page contains certain information for quick reference only. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

April 26, 2006

LEHMAN BROTHERS

\$55,230,000
Cascade Water Alliance
(King County, Washington)
Water System Revenue Bonds, 2006

Due September 1	Principal Amount	Interest Rate	Yield	CUSIP No. ⁽¹⁾
2007	\$ 1,185,000	4.50%	3.65%	14739HAA9
2008	1,235,000	4.50	3.72	14739HAB7
2009	995,000	4.00	3.74	14739HAD3
2009	300,000	5.00	3.74	14739HAC5
2010	660,000	4.00	3.77	14739HAF8
2010	690,000	5.00	3.77	14739HAE1
2011	1,410,000	5.00	3.84	14739HAG6
2012	1,480,000	5.00	3.95	14739HAH4
2013	1,555,000	5.00	4.06	14739HAJ0
2014	1,630,000	5.00	4.15	14739HAK7
2015	1,710,000	5.00	4.22	14739HAL5
2016	1,800,000	5.00	4.27	14739HAM3
2017	1,890,000	5.00	4.34 ⁽²⁾	14739HAN1
2018	1,980,000	5.00	4.39 ⁽²⁾	14739HAP6
2019	2,080,000	5.00	4.43 ⁽²⁾	14739HAQ4
2020	2,185,000	5.00	4.47 ⁽²⁾	14739HAR2
2021	2,295,000	5.00	4.49 ⁽²⁾	14739HAS0
2022	2,410,000	5.00	4.51 ⁽²⁾	14739HAT8
2023	2,000,000	5.00	4.53 ⁽²⁾	14739HAU5

\$8,880,000 4.75% Term Bonds due September 1, 2026, priced to yield 4.72% ⁽²⁾ (CUSIP No. 14739HAV3)
\$16,860,000 5.00% Term Bonds due September 1, 2031, priced to yield 4.62% ⁽²⁾ (CUSIP No. 14739HAW1)

⁽¹⁾ Copyright 2005, American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. These numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for the convenience of reference only. CUSIP numbers are subject to change. Neither Cascade nor the Underwriter takes any responsibility for the accuracy of such CUSIP numbers.

⁽²⁾ Priced to the first par call date of September 1, 2016.

No dealer, broker, sales representative or other person has been authorized by Cascade to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by Cascade. 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 from Cascade, Cascade's Members and other sources that Cascade believes to be reliable, but it is not guaranteed as to accuracy or completeness. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Cascade or any Member since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions that stabilize or maintain the market price of such Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." The words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as described in the continuing disclosure certificate of Cascade, the proposed form of which is attached as Appendix F, Cascade does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based occur.

The prospective financial information included in this Official Statement, including any forward-looking or prospective financial information, has been prepared by and is the responsibility of the management of Cascade.

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CASCADE WATER ALLIANCE

Bellefield Office Park, Careage Building
1400 112th Avenue SE, Suite 220
Bellevue, WA 98004
(425) 453-0930

Members of Cascade Water Alliance

City of Bellevue
Covington Water District
City of Issaquah
City of Kirkland
City of Redmond
Sammamish Plateau Water and Sewer District
Skyway Water and Sewer District
City of Tukwila

Board of Directors

Grant Degginger, City of Bellevue *	Chair
Lloyd Warren, Sammamish Plateau Water and Sewer District *	Vice-Chair
Jim Haggerton, City of Tukwila *	Secretary/Treasurer
Jon Ault, Skyway Water and Sewer District	Member
Mary-Alyce Burleigh, City of Kirkland *	Member
Lys Hornsby, Covington Water District	Member
David Kappler, City of Issaquah	Member
John Marchione, City of Redmond	Member

* Indicates Board members who serve on Cascade's Executive Committee.

General Manager

Michael A. Gagliardo

Treasury Operations

King County Department of Executive Services
Finance and Business Operations Division, Treasury Operations Section

General Counsel

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Bellevue, Washington

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Seattle, Washington

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Bellevue, Washington

Susan D. Musselman, Inc.
Mount Vernon, Washington

Bond Registrar

The Bank of New York
New York, New York

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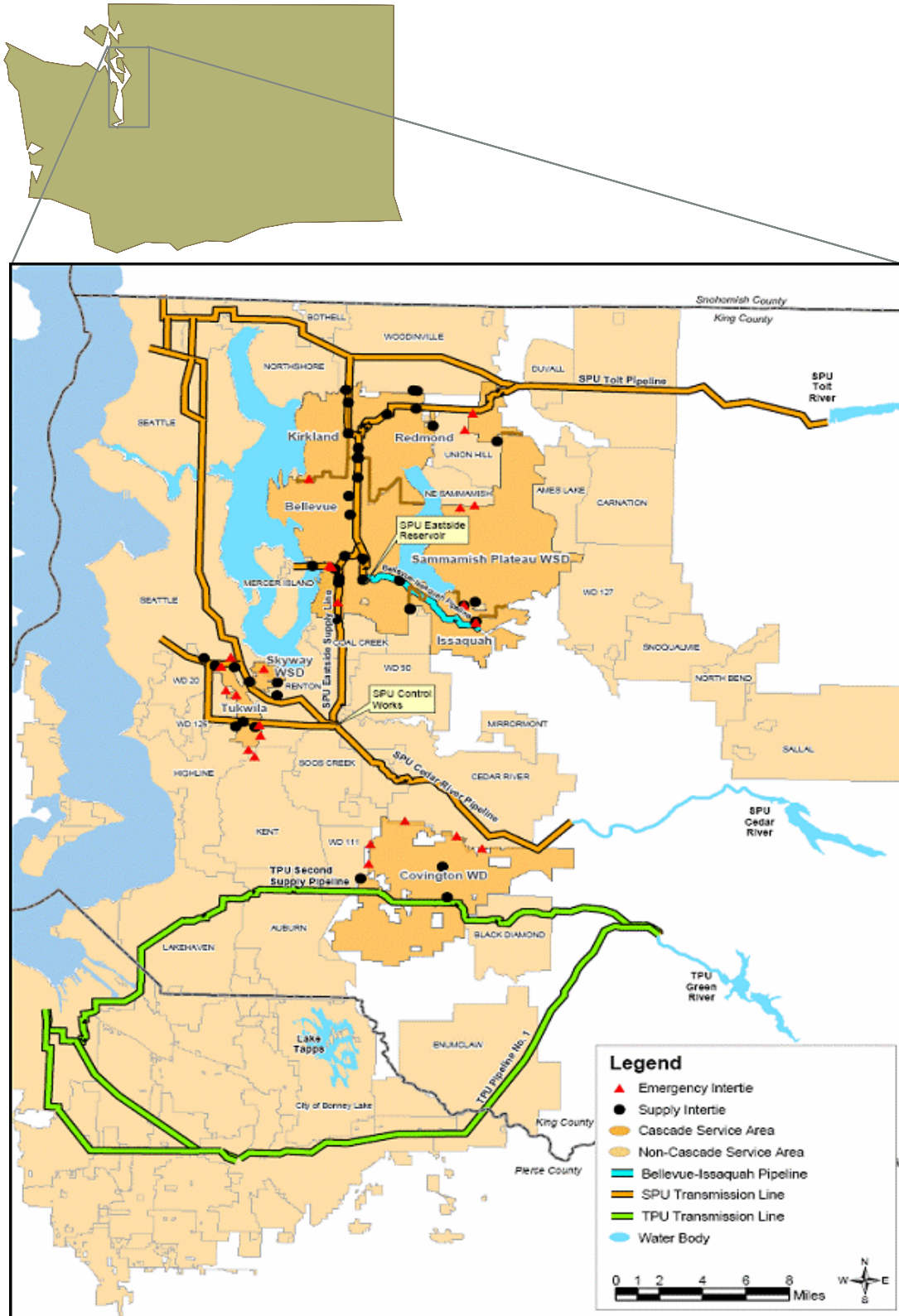
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Map of Cascade Water Alliance Service Area



OFFICIAL STATEMENT

\$55,230,000
Cascade Water Alliance
(King County, Washington)
Water System Revenue Bonds, 2006

INTRODUCTION

General

Cascade Water Alliance (“Cascade”) is an instrumentality of its members (the “Members”), all of which are municipal corporations of the State of Washington (the “State”), and is organized as a nonprofit corporation under the authority of the Interlocal Cooperation Act, chapter 39.34 of the Revised Code of Washington (“RCW”), and chapter 24.06 RCW. Cascade was formed to provide wholesale water supply to meet the current and future water supply needs of the Members. The current Members are the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, Covington Water District, Sammamish Plateau Water and Sewer District, and Skyway Water and Sewer District. Cascade furnishes this Official Statement, which includes the cover page and the appendices, in connection with the sale of \$55,230,000 aggregate principal amount of its Cascade Water Alliance Water System Revenue Bonds, 2006 (the “Bonds”).

The Bonds are being issued pursuant to chapters 39.34 and 39.46 RCW and Resolution No. 2006-07 adopted by the Board of Directors of Cascade (the “Board”) on April 19, 2006 and Resolution No. 2006-08 adopted by the Board on April 26, 2006 (together, the “2006 Bond Resolution”).

Capitalized terms not defined herein shall have the meanings assigned to them in Resolution No. 2006-07 or in the Interlocal Contract described below, copies of which are included as Appendix B and Appendix C, respectively.

Cascade Water Alliance

Cascade serves as a regional wholesale water supplier to the Members, which own independent water systems. Members of Cascade either have no independent water supply or limited independent water supply to serve the needs of their customers and rely upon a variety of water supply sources to provide water. The Members deliver water to their customers through their own distribution systems. Cascade’s current service area is an aggregate of the water service areas of its eight current Members, all of which are located in King County, Washington. This service area is non-contiguous because not all Members are adjacent to one another. Cascade does not serve water directly to the public and does not plan to own or operate retail water distribution facilities.

Cascade is responsible for managing, on behalf of the Members, a regional water supply system, pursuant to an interlocal contract among the Members adopted April 1, 1999, as amended and restated on December 15, 2004 (the “Interlocal Contract”), and is required to plan and to provide water to the Members for use within their existing and future water service area boundaries. Cascade has made water supply commitments to the Members under the Interlocal Contract.

Purpose of the Bonds

Cascade is issuing the Bonds to pay the cost of carrying out a portion of the capital program described in a Capital Program Coordination, Management and Finance Plan (the “2006 Watershed Management Plan”), adopted by the Board on March 22, 2006, to repay a loan from Sammamish Plateau Water and Sewer District, to provide for a debt service reserve and to pay costs of issuing the Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.”

Pledge of Revenues

The Bonds are payable from and secured by a pledge of Cascade’s Net Revenue and all money and investments held in a water revenue bond fund (the “Bond Fund”), an RCFC Fund, a rate stabilization fund and a construction fund. The pledge of Net Revenue constitutes a charge upon the Net Revenue superior to any other charges whatsoever, on a parity with certain bonds that may be issued by Cascade in the future (“Future Parity Bonds”) and payments to be made under certain interest rate management agreements related to Parity Bonds (“Payment Agreement Payments”) that may be entered into in the future, in each case subject to specific conditions. The Bonds and any Future Parity Bonds are referred to collectively as the “Parity Bonds.” See “SECURITY FOR THE BONDS.”

The Bonds will not be secured by a mortgage, deed of trust or other security interest in Cascade’s physical assets. The Bonds do not constitute a debt, liability or obligation of the State of Washington or any political subdivision thereof, nor the contracting of indebtedness or a pledge of the faith and credit or taxing power of the State of Washington or any political subdivision thereof. The Bonds are payable solely from Cascade’s Net Revenue and money and investments held in certain funds and are not secured by the full faith and credit or taxing power of any Member or the revenue, assets or funds of any Member, except as expressly provided in the Interlocal Contract and the 2006 Bond Resolution. The Bonds are not obligations of King County or the Members. Cascade has no taxing powers.

Bond Insurance

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by Ambac Assurance Corporation. See “BOND INSURANCE” and Appendix H.

Interlocal Contract

The following summarizes certain provisions and covenants contained in the Interlocal Contract. See “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT” and Appendix C.

Pledges Relating to Member Charges. Each Member has irrevocably covenanted in the Interlocal Contract to establish, maintain and collect rates, fees or other charges for water and other services, facilities and commodities related to the water supply it receives from Cascade and/or its water utility at levels that will provide revenues sufficient to enable the Member to: (a) make the payments required to be made to Cascade under the Interlocal Contract (“Member Charges”); and (b) pay or provide for payment of all other charges and obligations payable from or constituting a charge or lien upon that revenue.

Binding Nature of Member Obligation. Each Member is obligated under the Interlocal Contract to pay the Member Charges imposed on it whether or not the Water Supply Assets (as defined below) to be financed through the issuance of bonds are completed, operable or operating, and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of any Water Supply Assets for any reason, in whole or in part.

Member Step Up Provisions. The Interlocal Contract provides that if a Member fails to make any payment required by the Interlocal Contract in full for more than 50 days past the due date, Cascade is required to make written demand upon that Member to make payment in full within 10 days after the date that the written demand is sent by Cascade. If the failure to pay is not cured within the 10-day period, the Member is to be deemed to be in default, in which event the other Members must pay Cascade (in addition to Member Charges otherwise due) the defaulting Member’s Member Charges in proportion to each remaining Members’ Demand Share, in accordance with a schedule established by resolution of the Board. These provisions are known as the “Step Up Provisions” of the Interlocal Contract.

Member Disputes. Under the Interlocal Contract, if any Member disputes all or any portion of an invoice from Cascade, it is required to notify Cascade immediately upon receipt. If Cascade does not concur, the Member is required to remit payment of the invoice in full, accompanied by written notice to Cascade indicating the portions of the invoice that the Member disputes and the reasons for the dispute. The Member and Cascade are required to make a good faith effort to resolve any such dispute.

Member Withdrawal. A Member may notify Cascade of its intent to withdraw by delivery to Cascade of a resolution of its legislative authority. Under the Interlocal Contract, a withdrawing Member is responsible for its allocable share of then existing obligations of Cascade, including the Bonds that are outstanding at that time and any of the of the Member’s obligations under the Step Up Provisions.

Dissolution of Cascade. Cascade may be dissolved by a 65% Dual Majority Vote of the Members. Upon Cascade’s dissolution, all Members are responsible for their allocable share of then existing obligations of Cascade, including the Bonds that are outstanding at that time, and any of the Member’s obligations under the Step Up Provisions.

Bond Owner Reliance. Each Member has acknowledged in the Interlocal Contract that the covenants described under this subheading may be relied upon by Bond owners.

The Members

The eight current Members of Cascade are located within King County and are shown below, together with the number of equivalent residential units served by each Member (“Cascade equivalent residential units” or “CERUs”), the current share of water provided through Cascade (or estimated share of water to be provided through Cascade), expressed in millions of gallons per peak season day (the “Demand Share”), and total Member Charges projected to be paid during 2006. Demand Shares are calculated and established each year and are the basis for allocating fixed charges of Cascade. CERUs are established each year for each Member and are the basis for certain dues and charges. See “MEMBER PLEDGES UNDER THE INTERLOCAL CONTRACT – Member Charges” and “THE MEMBERS,” below, and Appendix A.

CERUs, Demand Share and Member Charges for Each Member for 2006

Member	Cascade Equivalent Residential Units		Demand Shares		Member Charges ⁽¹⁾	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
City of Bellevue	64,652	38.39%	22.46	55.05%	\$11,721,192	35.77%
Covington Water District	15,068	8.95	0.00	0.00	104,647	0.32
City of Issaquah	10,044	5.96	0.90	2.21	4,119,630	12.57
City of Kirkland	17,287	10.26	5.51	13.50	3,617,158	11.04
City of Redmond	28,634	17.00	7.44	18.24	7,892,106	24.09
Sammamish Plateau Water and Sewer District	20,209	12.00	0.85	2.08	3,548,387	10.83
Skyway Water and Sewer District	3,766	2.24	0.55	1.35	299,703	0.91
City of Tukwila	8,760	5.20	3.09	7.57	1,461,695	4.46

⁽¹⁾ Projected Member Charges for 2006.

Source: Cascade

As growth occurs over time, the relative proportions of Demand Shares and CERUs are expected to change, and the percentage of Member Charges received by Cascade from each of the Members could change significantly. Members that experience the most growth will pay increased percentages of Member Charges to Cascade. See “MEMBERS – Demand Shares” and “– Cascade Equivalent Residential Units.”

Any municipal water utility within the central Puget Sound region may be admitted to Cascade in the future on the terms and conditions set forth in the Interlocal Contract, at the discretion of the Board, subject to restrictions on future Cascade water rights and to limitations imposed by contract or permit. Under the Interlocal Contract, the Board is authorized to determine whether to extend a membership offer to an applicant, taking into consideration findings from a water supply audit required under the Interlocal Contract, Cascade water resources, and any other factors the Board deems advisable.

Under the Interlocal Contract, Cascade has reserved the right to convert itself into a joint operating agency or other municipal corporation if permitted under State law. In that event, all rights and obligations of Cascade and the Members would become obligations of the successor entity and the members thereof.

Forward-Looking Statements

Certain statements contained in this Official Statement reflect not historical facts but forecasts and “forward-looking statements.” The words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. The achievement of certain results or other expectations contained in forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as described in the continuing disclosure certificate of Cascade, the proposed form of which is attached as Appendix F, Cascade does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based occur.

DESCRIPTION OF THE BONDS

General

The Bonds are dated as of their date of delivery and are issued in the aggregate principal amount of \$55,230,000 in denominations of \$5,000 or any integral multiple thereof within a single maturity and bear interest from their dated date (or the most recent date to which interest has been paid thereon) at the rates shown on the inside cover. Interest on the Bonds is to be payable semiannually on each March 1 and September 1, commencing September 1, 2006. The Bonds are to mature, subject to redemption prior to maturity, on the dates and in the amounts set forth on the inside cover page. Interest is to be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Registration and Payment

The Bonds are being issued only as fully registered bonds under a book-entry system and will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”) in New York, New York, which is to act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of principal of and interest on the Bonds are to be made by the fiscal agent of the State, currently The Bank of New York in New York, New York (the “Bond Registrar”), to DTC, which is obligated to remit such payments to its participants for subsequent disbursement to Beneficial Owners. See Appendix D for a description of DTC and its book-entry system.

If the book-entry system of transfer for the Bonds is discontinued, Cascade is required to execute, and the Bond Registrar is required to deliver to the Beneficial Owners, Bond certificates in fully registered form. Thereafter, interest on the Bonds is to be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the Registered Owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date (the “2006 Record Date”) or, at the request of a Registered Owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by that Registered Owner prior to the 2006 Record Date, and principal of and premium, if any, on the Bonds are to be payable upon presentation and surrender of the Bonds by the Registered Owners to the Bond Registrar.

For so long as any Bonds are held in fully immobilized form, DTC, its nominee or a successor depository will be deemed to be the Registered Owner for all purposes under the 2006 Bond Resolution and all references to Registered Owners will mean DTC or its nominee or a successor depository and will not mean the Beneficial Owners. Neither Cascade nor the Bond Registrar has any responsibility or obligation to DTC participants or to the persons for whom the participants act as nominees with respect to the Bonds regarding the accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or interest on the Bonds, or any notice that is permitted or required to be given to Registered Owners under the 2006 Bond Resolution (except such notice as is required to be given by the Bond Registrar to DTC or its nominee or a successor depository).

Transfer and Exchange

General. So long as the Bonds are registered in the name of DTC or its nominee, beneficial ownership interests in the Bonds will be subject to transfer and exchange pursuant to the operational arrangements of DTC in effect from time to time, as described in Appendix D.

Transfer and Exchanges of Bonds if the Book-Entry System is Discontinued. During any period in which the Bonds are not registered in the name of DTC or its nominee or a successor depository, Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer will be without cost to the Registered Owner or transferee, except that the Bond Registrar may make charge to any Registered Owner requesting such exchange or transfer in the amount of any related tax or other governmental charge required to be paid. The Bond Registrar is not required to exchange or transfer any Bond after the giving of notice of calling the Bonds for redemption, in whole or in part.

Redemption Provisions

Optional Redemption. The Bonds maturing in the years 2007 through 2016, inclusive, are not subject to redemption prior to maturity. The Bonds maturing on or after September 1, 2017, are subject to redemption prior to their stated maturity dates, at any time on or after September 1, 2016, as a whole or in part (within one or more maturities selected by Cascade and randomly within a maturity in such manner as the Bond Registrar determines) at a redemption price equal to 100 percent of the principal amount thereof, plus accrued interest to the date fixed for redemption. Cascade may reserve the right to rescind any optional redemption on or prior to the date scheduled for redemption (see “Redemption Provisions - Notice of Redemption”).

Mandatory Redemption. Bonds maturing in 2026 and 2031 are Term Bonds and, if not previously redeemed under the optional redemption provisions or purchased for cancellation, are to be called for redemption randomly (in such manner as the Bond Registrar determines) at par plus accrued interest to the date fixed for redemption on September 1 in the years and amounts set forth below.

Term Bonds Maturing in 2026

<u>Years</u>	<u>Amounts</u>
2023	\$ 530,000
2024	2,655,000
2025	2,780,000
2026*	2,915,000

* Maturity.

Term Bonds Maturing in 2031

<u>Years</u>	<u>Amounts</u>
2027	\$ 3,050,000
2028	3,205,000
2029	3,365,000
2030	3,530,000
2031*	3,710,000

* Maturity.

If Cascade redeems under the optional redemption provisions or purchases for cancellation Term Bonds, the principal amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) may be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. Cascade may determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of that allocation at least 45 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.

Notice of Redemption. So long as the Bonds are held by DTC in book-entry form, notice of redemption is to be given as provided in the Letter of Representations. Notice of redemption is to 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 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 each nationally recognized municipal securities information repository (“NRMSIR”), or to the Municipal Securities Rulemaking Board (the “MRSB”), and to the state information depository for the State, if any is created, (the “SID”).

In the case of an optional redemption, the notice of redemption may state that Cascade 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 Cascade gives notice to the affected Registered Owners at any time prior to the redemption date that Cascade is rescinding the redemption notice in whole or in part. Any Bonds subject to a rescinded notice of redemption are to remain outstanding, and the rescission will not constitute an Event of Default.

Effect of Redemption. Interest on each 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 Bond is not redeemed when presented pursuant to the call.

Purchase of Bonds. Cascade has reserved the right and option to purchase for cancellation any or all of the Bonds at any time at any price plus accrued interest to the date of purchase.

PURPOSE AND APPLICATION OF BOND PROCEEDS

Cascade is issuing the Bonds for the purposes of paying the cost of carrying out a portion of the capital program described in the 2006 Watershed Management Plan, repaying a loan from Sammamish Plateau Water and Sewer District, providing for a debt service reserve, and paying the costs of issuing the Bonds.

2006 Watershed Management Plan

The 2006 Watershed Management Plan describes Cascade’s water system and its current water supply strategy, system analysis, infrastructure needs and current capital improvement and financial programs. Cascade plans to use a combination of local and regional water sources to provide water to the Members. Cascade expects that demand management implemented through its water conservation program will remain a vital element in Cascade’s water resource management

program. As part of its capital improvement program, Cascade intends to build transmission and storage facilities to transport the local and regional water sources to meet the water supply needs of the Members. See “CASCADE WATER ALLIANCE – Water Supply and Transmission.”

In accordance with the 2006 Watershed Management Plan, regional transmission projects are needed to deliver water purchased from the City of Tacoma (“Tacoma”) to the Members. A portion of the Bond proceeds will be used to finance transmission planning and design. Cascade is conducting a transmission system routing study to determine the sizing and routing of the proposed transmission pipelines. The results of the routing study will determine the pipe diameters and potential routes for the different segments of the transmission system. Three options for the transmission system are currently being considered, any of which is expected to be developed in stages.

As described below under “CASCADE WATER ALLIANCE – Water Supply and Transmission,” Cascade expects to apply a portion of the proceeds of the Bonds to make payments to Tacoma under a wholesale water purchase agreement, to make payments to Puget Sound Energy, Inc. (“PSE”) relating to certain assets at Lake Tapps, and to provide for payment of costs of planning, design, route assessment and environmental review relating to Lake Tapps and required water transmission lines, all consistent with the 2006 Watershed Management Plan. None of the payments or activities being financed with proceeds of the Bonds is subject to the State Environmental Policy Act (“SEPA”) or other regulatory review.

Estimated Sources and Uses of Funds

Cascade expects to use Bond proceeds as follows:

Estimated Sources and Uses of Funds	
<u>Sources of Funds</u>	
Par Amount of the Bonds	\$55,230,000
Original Issue Premium	<u>1,857,106</u>
Total Sources of Funds	\$57,087,106
<u>Uses of Funds</u>	
Deposit to Construction Fund	\$42,046,000
Repayment of Loan from Sammamish Plateau Water and Sewer District ⁽¹⁾	10,450,000
Deposit to Reserve Account	3,896,950
Costs of Issuance ⁽²⁾	<u>694,156</u>
Total Uses of Funds	\$57,087,106

(1) See “CASCADE DEBT – Outstanding Debt” for discussion of the loan from Sammamish Plateau Water and Sewer District to Cascade.

(2) Includes the Underwriter’s discount, bond insurance premium, fees and expenses of bond counsel, underwriter’s counsel, the Bond Registrar, financial advisor, general counsel and rating agencies, and other costs of issuance.

SECURITY FOR THE BONDS

Pledge Under the 2006 Bond Resolution

Cascade has pledged the Net Revenue and all money and investments held in the Bond Fund, the Rate Stabilization Fund, the RCFC Fund and the Construction Fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) to the payment of principal of and premium, if any, and interest on the Bonds and all Future Parity Bonds, all Payment Agreement Payments and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolutions. The 2006 Bond Resolution provides that the pledge of Net Revenue constitutes a charge upon the Net Revenue superior to any other charges whatsoever.

“Net Revenue” for any fiscal year (or other designated twelve-month period) means the Gross Revenue for that fiscal year (or other designated twelve-month period) less Operations and Maintenance Costs for that fiscal year (or other designated twelve-month period). In calculating Net Revenue, Cascade is not to 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.

“Gross Revenue” means all of the earnings and revenues received by Cascade from any source whatsoever including but not limited to: (a) Member Charges; (b) revenues from the sale, lease or furnishing of other commodities, services, properties or facilities; (c) the receipt of earnings from the investment of money in any maintenance fund or similar fund; and (d) withdrawals from the Rate Stabilization Fund. Member Charges include all payments that Members are required by the Interlocal Contract to make to Cascade, including but not limited to all Rates and Charges, Regional Capital Facilities Charges (“RCFCs”), dues, assessments and other payments from Members. See “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT – Member Charges.” Gross Revenue does not include: (a) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the System (until commingled with other earnings and revenues included in the

Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (b) income and revenue which may not legally be pledged for revenue bond debt service; (c) improvement district assessments; (d) federal or state grants allocated to capital projects; (e) payments under bond insurance or other credit enhancement policy or device; (f) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (g) earnings in any construction fund or bond redemption fund; (h) deposits to the Rate Stabilization Fund; or (i) any revenues generated by any Member's Water Supply Assets that are not part of the System, except those amounts that are payable to Cascade pursuant to the Interlocal Contract or another interlocal agreement. "Water Supply Assets" are defined in the Interlocal Contract as tangible and intangible assets usable in connection with the provision of water supply, including real property, physical facilities, water rights, capacity and/or contractual rights in facilities or resources owned by other entities and investments in conservation programs and facilities.

"Operations and Maintenance Costs" means all expenses incurred by Cascade to operate and maintain the System in good repair, working order and condition, including payments made to any other public or private entity for water or other utility service. Operations and Maintenance Costs do not include any depreciation, capital additions or capital replacements to the System.

The Bonds are additionally secured by a Reserve Account in the Bond Fund. See "SECURITY FOR THE BONDS – Bond Fund – *Reserve Account*."

The Interlocal Contract

The Members have made certain covenants to Cascade, including pledges regarding payment of Member Charges, Step Up Provisions, the binding nature of Member obligations, Member disputes, Member withdrawal, dissolution of Cascade, preservation of tax exemption for interest on the Bonds, Bond owner reliance, and sale of water to non-Members. See "MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT."

Flow of Funds

All funds and accounts are held by the Treasury Operations Section of the Finance and Operations Division of the King County Department of Executive Services, as manager of treasury operations for Cascade.

Gross Revenue of Cascade may be used for the following purposes only and is to be applied in the following order of priority.

- (a) To pay when due the Operations and Maintenance Costs;
- (b) To make when due all payments required to be made into the Debt Service Account in respect of interest on Parity Bonds and Payment Agreement Payments;
- (c) To make when due all payments required to be made into the Debt Service Account in respect of principal of and premium, if any, on Parity Bonds, whether at maturity or pursuant to prior redemption, and to make payments due under any reimbursement agreement with a Bond Insurer that requires those payments to be made on a parity with the Parity Bonds;
- (d) To make when due all payments required to be made into the Reserve Account (or any separate reserve account established in accordance with the 2006 Bond Resolution), all payments required to be made under any agreement relating to the provision of Reserve Insurance, and all payments required to be made under any reimbursement agreement with a Reserve Insurance provider that requires those payments to be made on a parity with the payments required to be made into the Reserve Account;
- (e) To make when due all payments required to be made under any reimbursement agreement with a Bond Insurer other than payments to be made on a parity with the Parity Bonds, and all payments required to be made under any reimbursement agreement with a Reserve Insurance provider other than payments to be made on a parity with the payments required to be made into the Reserve Account, in any priority not inconsistent with the 2006 Bond Resolution that Cascade may establish by resolution;
- (f) To make when due 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 to secure the payment of any revenue bonds, notes, warrants or other obligations of Cascade having a charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the principal of and premium, if any, and interest on Parity Bonds, all payments to be made under Payment Agreements, and any payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution, in any priority not inconsistent with the 2006 Bond Resolution that Cascade may establish by resolution; and
- (g) For any other lawful System purposes, in any priority not inconsistent with the 2006 Bond Resolution that Cascade may establish by resolution.

Cascade may transfer any money from any funds or accounts of the System legally available therefor, except money irrevocably deposited in redemption, retirement or defeasance trust accounts for Parity Bonds, to meet the required payments to be made into the Bond Fund.

Rate Covenant

Cascade has covenanted, for so long as any Parity Bonds are outstanding, to establish, maintain and collect Member Charges consistent with the Interlocal Contract so that:

- (a) The Gross Revenue in each fiscal year will be sufficient to pay when due (i) all Operations and Maintenance Costs for that fiscal year, (ii) all amounts that Cascade is obligated to pay into the Bond Fund and the accounts therein for that fiscal year, (iii) all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof for that fiscal year and (iv) any and all other amounts that Cascade is obligated to pay from the Gross Revenue by law or contract in that fiscal year; and
- (b) The Coverage Requirement will be satisfied in each fiscal year.

Coverage Requirement in any fiscal year (or other designated twelve-month period) means that Net Revenue in that fiscal year (or other designated twelve-month period) minus RCFCs received in that year (or other designated twelve-month period) plus amounts on deposit in the Debt Service Account on the last business day prior to the commencement of that fiscal year (or other designated twelve-month period) is at least equal to the Annual Debt Service on all outstanding Parity Bonds and the amount, if any, required to be deposited in any reserve account securing Parity Bonds in that fiscal year (or other designated twelve-month period).

Cascade has also covenanted that, consistent with its obligations under the Interlocal Contract, and except as may be required under the provisions of any federal or State statute, regulation or license, Cascade will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the System free of charge to any person, firm or corporation, public or private.

Covenant to Enforce the Interlocal Contract

Cascade has covenanted in the 2006 Bond Resolution to enforce the provisions of the Interlocal Contract, including the provisions providing for payment of Member Charges, the Step Up Provisions and provisions requiring any withdrawing Member to continue payment of its allocable share of debt service on the Bonds as a “then-existing obligation of Cascade.” Cascade is not permitted to waive any right or to fail to declare any default under or in connection with the Interlocal Contract that would reduce the payments or extend the dates for payments to Cascade provided therein or would materially adversely affect the security of the Registered Owners of any Parity Bonds then outstanding.

Certain Additional Covenants

In the 2006 Bond Resolution, Cascade has also made covenants and agreements relating to operation and maintenance of the System; sale, transfer or disposition of the System; liens upon the Net Revenue; maintenance of books and accounts; maintenance of insurance; and application of condemnation awards and insurance proceeds. See Appendix B - Resolution No. 2006-07, Section 18.

Bond Fund

Cascade has established the Bond Fund, which is divided into two accounts: the Debt Service Account and the Reserve Account. So long as any Parity Bonds are outstanding, Cascade has agreed to set aside and to pay into the Bond Fund out of the Net Revenue, certain fixed amounts without regard to any proportion, as follows:

Debt Service Account. On the first business day of each month, an amount equal to 1/6th of the interest on the outstanding Bonds to become due and payable on the next interest payment date and 1/12th of the principal on the outstanding Bonds to become due and payable on the next principal payment date for the Bonds, except that the monthly deposits with respect to any payment date may be reduced to the extent the amount on deposit in the Debt Service Account and available to be used therefor is sufficient to make that payment on that payment date.

Reserve Account. Except as otherwise expressly provided in the 2006 Bond Resolution, the amount necessary to make the amount on deposit in the Reserve Account equal to the Reserve Requirement.

On the date of issuance of the Bonds, Cascade is required to deposit into the Reserve Account any combination of Bond proceeds, Reserve Insurance or other money legally available, in the amount necessary to make the amount on deposit therein equal to the Reserve Requirement. Cascade intends to meet the Reserve Requirement from Bond proceeds. Reserve Requirement means, as of any date of calculation, the lesser of Maximum Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account or 125% of Average Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account, but at no time may the Reserve Requirement exceed 10% of the original proceeds of the Parity Bonds secured by the Reserve Account.

The 2006 Bond Resolution provides that, in the event there is a deficiency in the Debt Service Account that prevents making any payment secured by the Reserve Account, that deficiency is to be made up from the Reserve Account, first, by the withdrawal of cash therefrom, second, from the proceeds of the sale of investments held therein, and third, from pro rata draws under each Reserve Insurance, if any. Any deficiency created in the Reserve Account by reason of any such withdrawal is to be made up from Net Revenue first available after making necessary provisions for the required payments into the Debt Service Account, first, to reinstate each Reserve Insurance, pro rata, and second, to make up any remaining deficiency. The money in the Reserve Account may be applied against the last outstanding Parity Bonds secured by the Reserve Account. If the Reserve Requirement is fully provided for, any money in excess of the Reserve Requirement may be withdrawn and deposited consistent with the 2006 Bond Resolution. See Appendix B - Resolution No. 2006-07, Section 13(b).

For any issue of Future Parity Bonds Cascade may establish a separate reserve requirement for that issue and any related Payment Agreement Payments to be held in a separate account in the Bond Fund. That special account will secure that issue of Future Parity Bonds, and those Payment Agreement Payments, and that issue of Future Parity Bonds and those Payment Agreement Payments will not have any claim on or to the money or Reserve Insurance in the Reserve Account that provides for the Reserve Requirement on the Bonds.

RCFC Fund

Cascade has established the RCFC Fund for the deposit of RCFCs each year. RCFCs are paid to Cascade 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.

Rate Stabilization Fund

Cascade has established a Rate Stabilization Fund. The 2006 Bond Resolution provides that Cascade may at any time, as determined by Cascade and consistent with the 2006 Bond Resolution, deposit Gross Revenue other than RCFCs in the Rate Stabilization Fund. Cascade may at any time withdraw any or all of the money from the Rate Stabilization Fund for inclusion in the Gross Revenue and disbursement consistent with the Flow of Funds established in the 2006 Bond Resolution. If a deposit or withdrawal is made within 90 days after the end of a fiscal year, Cascade may specify that the deposit or withdrawal is to be allocated to the prior fiscal year rather than to that fiscal year. Deposits to the Rate Stabilization Fund are excluded from the definition of "Gross Revenue" and will not be treated as Gross Revenue until withdrawn from the Rate Stabilization Fund. No deposit of Gross Revenue may be made into the Rate Stabilization Fund to the extent that such deposit would prevent Cascade from satisfying the Coverage Requirement in any fiscal year. See "SECURITY FOR THE BONDS – Flow of Funds."

Future Parity Bond and Payment Agreements

Cascade may issue Future Parity Bonds and enter into Payment Agreements only for lawful System purposes and only if the conditions set forth in the 2006 Bond Resolution, and summarized below, are met and complied with at the time of the issuance of those Future Parity Bonds or entry into that Payment Agreement. Based on present State law, Cascade does not have authority to enter into Payment Agreements. Cascade may or may not gain such legal authority in the future.

- (a) There may be no deficiency in the Bond Fund;
- (b) Except in the case of Future Parity Bonds being issued for the sole purpose of providing for the costs of refunding Parity Bonds for which no coverage certification is required by the 2006 Bond Resolution, no Event of Default, nor any event or condition which with notice and/or the passage of time would constitute an Event of Default, has occurred and is continuing, nor may the issuance of those Future Parity Bonds or the entry into that Payment Agreement, in and of itself, cause an Event of Default or any event or condition which with notice and/or the passage of time would constitute an Event of Default.
- (c) The Parity Bond Authorizing Resolution must provide for the payment of the principal of and interest on those Future Parity Bonds or Payment Agreement Payments out of the Bond Fund;
- (d) Unless a separate reserve is provided for in accordance with the 2006 Bond Resolution, the Parity Bond Authorizing Resolution must provide for the deposit into the Reserve Account of any combination of Future Parity Bond proceeds, Reserve Insurance, or other money legally available, in the amount, if any, necessary to make the amount on deposit in the Reserve Account equal to the Reserve Requirement upon the issuance of those Future Parity Bonds; and
- (e) There must be on file with Cascade a certificate of the General Manager or an Independent Consulting Engineer, as the case may be, demonstrating compliance with the requirements of the 2006 Bond Resolution. The certificate may take into account certain adjustments, as set forth in the 2006 Bond Resolution. See Appendix B - Resolution No. 2006-07, Section 20(e).

If the Future Parity Bonds are for the sole purpose of refunding Parity Bonds (including costs of issuance and providing for the Reserve Requirement), no certificate is required under the 2006 Bond Resolution if, as a result of the issuance of those

Future Parity Bonds, (i) the various annual maturities of the refunding Future Parity Bonds will not extend more than a year longer than the Parity Bonds being refunded, and (ii) the Annual Debt Service on all outstanding Parity Bonds will not increase more than \$5,000 in any fiscal year in which the Parity Bonds to be refunded were scheduled to remain outstanding.

Nothing in the 2006 Bond Resolution prevents Cascade from issuing (i) Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or (ii) revenue bonds that are a charge upon the Gross Revenue subordinate to the charge for the payment of the principal of and premium, if any, and interest on the Parity Bonds, all payments to be made under Payment Agreements and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution, and then only if the remedy of acceleration is expressly denied to the owners of those subordinate bonds under all circumstances.

No Acceleration

Neither a Registered Owner nor any Bondowners' Trustee has the right under the 2006 Bond Resolution to accelerate the payment of debt service on the Bonds upon the occurrence of an Event of Default. Cascade thus would be liable only for principal and interest payments as they became due, and the Registered Owners would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under State law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due. See Appendix B - Resolution No. 2006-07, Section 27.

Bond Insurer Rights

The 2006 Bond Resolution provides that the Bond Insurer, and not the Registered Owners of the Bonds, shall be deemed to be the Registered Owner of the Bonds at all times for the purposes of (i) giving any approval or consent to the effectiveness of any resolution amendatory or supplemental to the 2006 Bond Resolution other than a resolution providing for (A) a change in the times, amounts or currency of payment of any outstanding Parity Bond, or a reduction in the principal amount of any outstanding Parity Bond or a change in the rate or method of determining the rate of interest thereon or the redemption or tender provisions thereof, or (B) a preference or priority of any Parity Bond over any other Parity Bond, or (C) a reduction in the aggregate principal amount of Parity Bonds, the consent of the Registered Owners of which is required for any supplemental resolution; (ii) appointing a Bond Owners' Trustee; (iii) giving any approval or consent or exercising any remedies in connection with the occurrence of an Event of Default; and (iv) giving any approval or consent to a supplemental resolution or amendment to the Interlocal Contract requiring the consent of the Registered Owners of the Bonds. See "SECURITY FOR THE BONDS – Amendments to the 2006 Bond Resolution and Interlocal Contract."

Defeasance

If Cascade deposits irrevocably with an escrow agent money and/or noncallable Government Obligations (as defined in the 2006 Bond Resolution) which, together with the earnings thereon, are sufficient to pay the principal of any particular Parity Bond or Parity Bonds or portions thereof becoming due (the "Defeased Bonds"), together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, all liability of Cascade with respect to the Defeased Bonds will cease, the Defeased Bonds will be deemed not to be outstanding under the 2006 Bond Resolution and the Registered Owners of the Defeased Bonds will be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds. The escrow agent is required to hold the money, Government Obligations and earnings in trust exclusively for those Registered Owners, and that money, Government Obligations and earnings will not secure any other Parity Bonds under the 2006 Bond Resolution.

In determining the sufficiency of the money and Government Obligations deposited pursuant to the 2006 Bond Resolution, that escrow agent is required to receive, at the expense of Cascade, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to Cascade and that escrow agent; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in the 2006 Bond Resolution regarding defeasance have been satisfied and (2) defeasance of the Defeased Bonds will not cause interest on any Parity Bonds to be includable in gross income for federal income tax purposes. The 2006 Bond Resolution provides that the Defeased Bonds will no longer be secured by or entitled to the benefits of the Parity Bond Authorizing Resolution, except for the purposes of any payment from the money or Government Obligations deposited with that escrow agent and except for the provisions of the 2006 Bond Resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of the Parity Bonds.

Amendments to the 2006 Bond Resolution and Interlocal Contract

The 2006 Bond Resolution may not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of the 2006 Bond Resolution. Cascade has reserved the right to make certain amendments to the 2006 Bond Resolution without the consent of or notice to the Registered Owners, subject to certain conditions. The conditions include delivery to Cascade and the Bond Registrar an opinion of Bond Counsel stating that the supplemental resolution is authorized or permitted by the 2006 Bond Resolution

and, upon the execution and delivery thereof, will be valid and binding upon Cascade in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding. See Appendix B - Resolution No. 2006-07, Section 25.

Cascade has covenanted in the 2006 Bond Resolution that it will not permit the Interlocal Contract to be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as consistent with and subject to the provisions of the 2006 Bond Resolution. Cascade may amend the Interlocal Contract without the consent of or notice to the Registered Owners for certain purposes, subject to certain conditions. The conditions include delivery to Cascade and the Bond Registrar of an opinion of Bond Counsel stating that the amendment is authorized or permitted by the 2006 Bond Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2006 Bonds. See Appendix B - Resolution No. 2006-07, Section 26(a). Cascade has agreed that it will not amend provisions of the Interlocal Contract that eliminate or materially diminish certain obligations of the Members, without the prior written consent of each Registered Owner of each Parity Bond at the time outstanding. See Appendix B – Resolution No. 2006-07, Section 26(b). So long as Bond Insurance is in effect, the Bond Insurer for the Bonds may exercise certain approval rights of Registered Owners of the Bonds. See Appendix B – Resolution No. 2006-07, Section 29. In addition, where rights of approval of certain amendments to the 2006 Bond Resolution have been retained by the Registered Owners of the Bonds under Section 29(a) of the Resolution No. 2006-07, the Bond Insurer will also have approval rights over those same proposed amendments.

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by Cascade (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Bond Registrar. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Bond Registrar has notice that any payment of principal of or interest on an Bond which has become Due for Payment and which is made to a registered owner by or on behalf of Cascade has been deemed a preferential transfer and theretofore recovered from such registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of registered owner entitlement to interest payments and an appropriate assignment of the registered owner’s right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering registered owner's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,994,000,000 (unaudited) and statutory capital of approximately \$5,649,000,000 (unaudited) as of December 31, 2005. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by Cascade.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006; and
- 2) The Company's Current Report on Form 8-K dated and filed on April 26, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT

The following describes certain Member covenants and certain other provisions under the Interlocal Contract. A copy of the Interlocal Contract is attached as Appendix C.

Pledges Relating to Member Charges

Each Member has irrevocably covenanted in the Interlocal Contract to establish, maintain and collect rates, fees or other charges for water and other services, facilities and commodities related to the water supply it receives from Cascade and/or its water utility at levels adequate to provide revenues sufficient to enable the Member to: (a) make the payments required to be made under the Interlocal Contract; and (b) pay or provide for payment of all other charges and obligations payable from or constituting a charge or lien upon that revenue.

Pursuant to the Interlocal Contract, if, in connection with the issuance of obligations, any Member establishes a new lien position on revenues relating to its water utility, that Member is required to covenant in the relevant documents that the Member Charges will be treated: (a) as part of that Member's internal operation and maintenance costs payable prior to debt service on those obligations; and/or (b) for any portion of those Member Charges that is allocable to capital costs, as a

contract resource obligation payable prior to debt service on those obligations. If any Member has existing revenue obligations relating to its water utility with covenants inconsistent with those described in this paragraph, the Member is obligated to include similar covenants in the documents relating to any new parity obligations, to take effect upon payment of those existing obligations.

Binding Nature of Member Obligation

Each Member is obligated under the Interlocal Contract to pay the Member Charges imposed on it whether or not the projects to be financed through the issuance of bonds are completed, operable or operating, and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of any Water Supply Assets for any reason whatsoever, in whole or in part. The Interlocal Contract provides that Member Charges are not subject to any reduction, whether by offset or otherwise (except for permitted credits against future Member Charges as provided in the Interlocal Contract), and are not to be conditioned upon the performance or nonperformance of any Member, or of any entity under the Interlocal Contract or any other agreement or instrument. See Appendix C – Interlocal Contract, Section 5.3.2.

Member Step Up Provisions

The Interlocal Contract provides that if any Member fails to pay any Member Charges in full for more than 50 days past the due date, Cascade is required to make written demand upon that Member to make payment in full within 10 days of the date that the written demand is sent by Cascade. If the failure to pay is not cured within the 10-day period, the Member shall be deemed to be in default. In this event, the other Members are required to pay Cascade (in addition to Member Charges otherwise due) the defaulting Member's Member Charges in proportion to each remaining Members' Demand Share, in accordance with a schedule established by resolution of the Board. The payment of a proportionate share of the existing defaulted Member's Member Charges by Members does not relieve the defaulting Member of its liability for those payments. See Appendix C – Interlocal Contract, Section 7.9.2

Member Disputes

Under the Interlocal Contract, if any Member disputes all or any portion of an invoice from Cascade, it is required to notify Cascade immediately upon receipt. If Cascade does not concur, the Member is required to remit payment of the invoice in full, accompanied by written notice to Cascade indicating the portions of the invoice that the Member disputes and the reasons for the dispute. The Member and Cascade are required to make a good faith effort to resolve any such dispute.

Member Withdrawal

A Member may notify Cascade of its intent to withdraw by delivery to Cascade of a resolution of its legislative authority. Upon receipt of the resolution, Cascade's Board is required to determine the withdrawing Member's allocable share of the cost of the then-existing obligations of Cascade (including Cascade's debt service obligations, contract obligations and cash financed capital projects, but not including obligations for future expenses for which Cascade has not incurred a legal obligation) and the Member's obligations to Cascade. The Member's withdrawal is to be effective upon payment, or provision for payment, of the costs, and the withdrawing Member will no longer have any rights to service or supply from Cascade. Under the Interlocal Contract, a withdrawing Member is responsible for its allocable share of then-existing obligations of Cascade, including the Bonds outstanding at that time, and any of the Member's obligations under the Step Up Provisions. See Appendix C – Interlocal Contract, Section 10.2.

Dissolution of Cascade

Cascade may be dissolved by a 65% Dual Majority Vote of the Members. Upon Cascade's dissolution, all Members are responsible for their allocable share of then-existing obligations of Cascade, including the Bonds outstanding at that time, and any of the Member's obligations under the Step Up Provisions. A 65% Dual Majority Vote means Board approval of a proposal on the basis of a 65% supermajority of all Members (not just those present and voting), allowing one vote per Member, together with a 65% supermajority of all Members (not just those present and voting), on the basis of each Member's Demand Share (with no Member having a vote of less than one). The Interlocal Contract provides that upon dissolution, except as provided in an agreement between Cascade and a Member by which the Member transfers title to Water Supply Assets to Cascade, with or without monetary consideration, to be operated and maintained as part of the Cascade Water System, Cascade's assets initially shall be held by its then current Members as tenants in common. Each Member's ownership interest must be based on that Member's Demand Share as of the time of the dissolution. Cascade's liabilities (including bonds and other contractual obligations) initially are to be distributed based on Members' Demand Shares as of the time of the dissolution. Assets and liabilities must be distributed in accordance with agreement or contract, under a voluntary mediation process, or by a court of law. Distribution is to be based on the best interests of efficient and economic water supply in the entire area served by the Members, subject to a rebuttable presumption that Water Supply Assets will be returned to the Member that originally transferred them to Cascade. That presumption may be overcome by a showing that another asset distribution is in the best interests of efficient and economic water supply. The proceeds of any sale of assets must be distributed among the then current Members based on the Demand Shares at the time of dissolution. See Appendix C – Interlocal Contract, Section 10.3.

Preservation of Tax Exemption for Interest on the Bonds

Each Member has covenanted that it will take all actions necessary to prevent interest on tax-exempt bonds issued by or on behalf of Cascade (such as the Bonds) from being included in gross income for federal income tax purposes and that it will neither take any action nor make or permit any use of proceeds of tax-exempt bonds issued by or on behalf of Cascade or other funds treated as proceeds of those bonds at any time during the term of those bonds that will cause interest on those bonds to be included in gross income for federal income tax purposes.

Member Charges

The Members have agreed in the Interlocal Contract to pay Member Charges, which include but are not limited to all Water Supply Rates and Charges, RCFCs, dues, assessments and other payments from Members. Certain components of Member Charges are described below.

Water Supply Rates and Charges. The Board sets rates and charges for delivery of water (called “Demand Share Charges”) according to a Rate Calculation Methodology adopted by the Board in accordance with the Interlocal Contract. The Rate Calculation Methodology provides for the definition and calculation of Demand Shares and for a uniform price structure with a commodity charge and fixed charges allocated by Demand Share. Cascade’s Demand Share Charge for 2006 is \$404,951 per Demand Share.

Regional Capital Facilities Charge. Each Member is required to pay RCFCs to Cascade for each new equivalent residential unit connected to that Member’s water distribution system. RCFCs are intended to allocate growth costs to those Members that require capacity increases due to growth in customer demand. Any new Member with adequate water supply is required to begin paying RCFCs fifteen years prior to the date that its own supply is expected to be insufficient. Members that lose their independent supply are required to pay an amount equal to the RCFCs allocable to the number of equivalent residential units that can be served by the replacement supply to be provided by Cascade. The RCFC for 2006 is set at \$4,648 per new CERU.

Administrative Dues. Each Member is required to pay annual dues to defray part of Cascade’s administrative costs, based upon the number of equivalent residential units served by that Member’s water system, regardless of water usage or capacity, and whether or not those units are served by water from Cascade. Total dues collected from the Members in any year may not exceed the greater of \$1 million or 5 percent of Cascade’s annual revenue requirement less debt service. Dues for 2006 are assessed at the rate of \$4.25 per CERU.

New Water Surcharge. A new water surcharge is applied by Cascade to all water purchased by a Member that is above the amount that Member was allowed to receive from Seattle (pursuant to a separate, previous agreement with Seattle) prior to the effective date of the Seattle Agreement (as later defined), or to all water purchased by Members that did not previously receive water from Seattle. The new water surcharge is effective through December 31, 2011, and is \$0.75 per 100 cubic feet plus recovery of any penalties imposed by Seattle under the Seattle Agreement.

Conservation Program Charge. A conservation program charge is assessed to each Member at a rate of \$3.85 per CERU. A Member that does not have a supply commitment from Cascade or a Member with a Supply Commitment but not subject to payment of RCFCs pays 70 percent of the conservation program charge.

Sale of Water to Non-Members

Cascade may sell water to a non-Member under terms and conditions established by the Board. The terms and conditions may not be more favorable than the terms and conditions under which water is sold to Members. Revenue received from the sale of water to non-Members is to be used to offset or reduce Rates and Charges to Members to the extent practicable, except that such revenue need not be treated as reducing or offsetting those amounts that are necessary for the payment of debt service on Bonds and for the provision of reserve and coverage requirements for the Bonds. Unless approved by the Board, no Member may sell water supplied by Cascade (or the Member’s water that is offset by water supplied by Cascade) to a non-Member, except to the extent required by a contract in effect as of the date the Member joins Cascade.

Bond Owner Reliance

Each Member has acknowledged in the Interlocal Contract that the covenants described under “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT” may be relied upon by Bond owners. Each Member has approved the Interlocal Contract by resolution, motion or ordinance of its governing board or council.

CASCADE DEBT

Scheduled Debt Service on the Bonds

The scheduled annual debt service requirements for the Bonds, shown on the basis of a fiscal year ending December 31, are set forth in the following table. Principal payments on Term Bonds are shown in the years in which they are subject to mandatory redemption in accordance with the 2006 Bond Resolution.

Scheduled Debt Service Requirements

	Principal	Interest	Total
2006		\$ 835,784	\$ 835,784
2007	\$ 1,185,000	2,710,650	3,895,650
2008	1,235,000	2,657,325	3,892,325
2009	1,295,000	2,601,750	3,896,750
2010	1,350,000	2,546,950	3,896,950
2011	1,410,000	2,486,050	3,896,050
2012	1,480,000	2,415,550	3,895,550
2013	1,555,000	2,341,550	3,896,550
2014	1,630,000	2,263,800	3,893,800
2015	1,710,000	2,182,300	3,892,300
2016	1,800,000	2,096,800	3,896,800
2017	1,890,000	2,006,800	3,896,800
2018	1,980,000	1,912,300	3,892,300
2019	2,080,000	1,813,300	3,893,300
2020	2,185,000	1,709,300	3,894,300
2021	2,295,000	1,600,050	3,895,050
2022	2,410,000	1,485,300	3,895,300
2023	2,530,000	1,364,800	3,894,800
2024	2,655,000	1,239,625	3,894,625
2025	2,780,000	1,113,513	3,893,513
2026	2,915,000	981,463	3,896,463
2027	3,050,000	843,000	3,893,000
2028	3,205,000	690,500	3,895,500
2029	3,365,000	530,250	3,895,250
2030	3,530,000	362,000	3,892,000
2031	3,710,000	185,500	3,895,500
Total	<u>\$55,230,000</u>	<u>\$42,976,209</u>	<u>\$98,206,209</u>

Note: Totals may not add due to rounding.

Capital Plan

The 2006 Watershed Management Plan includes a capital program. Over six years, depending on the alternatives chosen, Cascade's capital needs are estimated to range from \$196 million to \$241 million, including the projects to be funded with proceeds of the Bonds. See "CASCADE WATER ALLIANCE – Transmission and Supply Plan."

Future Financing

Cascade expects to incur additional long term indebtedness through issuance of approximately \$92 million of Parity Bonds within the next three years. Should Cascade proceed with the development of Lake Tapps as a municipal water supply, it expects to issue approximately \$237 million of additional Parity Bonds (in 2006 dollars) beginning in 2018.

Outstanding Debt

Cascade has no outstanding bonds.

Cascade has outstanding a \$10 million loan from the Sammamish Plateau Water and Sewer District which is due no later than December 1, 2006, which Cascade plans to repay in full, together with interest, from proceeds of the Bonds. Proceeds of the loan were used to acquire a portion of a transmission pipeline to deliver water from Bellevue to Issaquah. Cascade paid interest as required on December 1, 2005, and is obligated to pay interest on the loan from that date to the date of maturity or earlier prepayment.

Cascade has two outstanding Public Works Trust Fund Loans from the State: a \$100,000 loan with no interest, to be used for planning purposes and with a final maturity date of July 1, 2011, and a \$1,000,000 loan with an interest rate of 0.5 percent, to be used for pre-construction activities with a final maturity date of July 1, 2010. Cascade is obligated to make payments on the loans beginning July 1, 2006. The loans represent subordinate lien obligations and are not subject to acceleration. Cascade's obligation under the Tacoma Agreement to pay system development charges and capacity reservation fees, together with interest thereon, is treated as long-term debt for accounting purposes. See "CASCADE WATER ALLIANCE –

Water Supply and Transmission – Tacoma Agreement” below. Cascade expects to repay these fees, in the amount of \$20,723,554 plus accrued interest, with a portion of the proceeds from the sale of the Bonds.

CASCADE WATER ALLIANCE

General

Cascade was created on April 1, 1999 as an instrumentality of the Members to exercise essential governmental functions on behalf of the Members. Cascade is organized as a nonprofit corporation as authorized by the Interlocal Cooperation Act, chapter 39.34 RCW, and chapter 24.06 RCW and constitutes a “watershed management partnership” as provided in chapter 39.34 RCW.

Cascade’s current service area is an aggregate of the water service areas of its eight current Members, all of which are located in King County, Washington. This service area is non-contiguous because not all Members are adjacent to one another. Cascade’s Board and management are not aware of any municipalities intending to request membership, or Members intending to withdraw from Cascade.

Cascade was created by the Interlocal Contract, a copy of which is included as Appendix C. Among other things, the Interlocal Contract established the membership, purpose and powers of Cascade; set forth the organizational structure, powers, committees and voting rights for its Board; outlined agreements for budgeting dues and financial management of Cascade; provided for asset development, supply commitment, and financing; established a method of determining and assessing Member Charges; and addressed issues relating to dissolution, withdrawal by Members, and amendments. Each Member has approved the Interlocal Contract by resolution, motion or ordinance of its governing board or council.

In the Interlocal Contract, Cascade has reserved the right to convert into a municipal corporation or joint operating agency if permitted by applicable law. In such event, all rights and obligations of Cascade and the Members, respectively, would transfer and become rights and obligation of the new entity and the Members thereof.

Cascade Purposes

Cascade serves solely as a regional water supplier to the Members, which are owners of independent water systems. Members of Cascade either have no independent water supply or have limited independent water supply to serve the needs of their customers, and therefore have relied on a variety of water supply sources to provide water to customers. Each Member delivers water to its customers through its own distribution system. Prior to formation of Cascade, Members relied primarily on their own independent water supplies (if any), wholesale water purchased from non-Member water utilities including Seattle and the City of Renton, and a limited amount of reclaimed water. The Members formed Cascade to enhance their ability to supply water to their respective service areas and the region by developing, owning, and operating regional water supply and transmission assets. Cascade does not provide water directly to the public and does not plan to own or operate retail distribution facilities.

The Interlocal Contract limits Cascade’s purposes to those related to water resources, specifically to: (a) provide a safe, reliable and high quality drinking water supply to meet the current and projected demands of Cascade Members, and to carry out this task in a coordinated, cost-effective, and environmentally sensitive manner; (b) develop, contract for, manage, acquire, own, maintain and operate Water Supply Assets; (c) contract with Seattle to transfer to Cascade and to modify Seattle’s rights and duties with respect to the Members that are or were a party to a water purveyor contract with Seattle; (d) contract for, or assume certain contractual rights and duties related to, the Tacoma Second Supply Pipeline project (a pipeline owned by Tacoma that traverses south King County, thereby making water available to areas north and east of Tacoma); (e) purchase and provide water supply, transmission services, treatment facilities and other related services; (f) provide conservation programs to promote the wise and efficient use of resources; (g) carry out emergency water supply and shortage management programs for the Members when demands exceed available supply; (h) coordinate and plan cooperatively with other regional or local water utilities and other entities to maximize supply availability and to minimize system costs; (i) develop a Water Supply Plan addressing the needs of the Members and develop a Watershed Management Plan serving the needs of the Members and Cascade itself and develop a regional water supply plan with other water providers as Cascade may find convenient or necessary to meet regional, state and federal planning requirements, and to take a leadership role in developing and coordinating those supply plans; (j) share costs and risks among Members commensurate with benefits received; and (k) carry out, or to further other water supply purposes that the Members determine, consistent with Cascade’s purposes.

Cascade Powers

Cascade has the authority to exercise all powers authorized or permitted under chapter 39.34 RCW, and to engage in activities necessary to meet its purposes. These powers include, but are not limited to, the authority to acquire, construct, receive, own, manage, lease and sell real property, personal property, intangible property and other Water Supply Assets; operate and maintain facilities; enter into contracts; hire and fire personnel; sue and be sued; exercise the power of eminent domain (through the Members at their individual discretion, unless and until Cascade has that power under applicable law); impose, alter, regulate, control and collect rates, charges, and assessments; purchase and sell water and services within and

outside the geographic boundaries of the Members; borrow money (through the Members or other entities at their individual discretion or as authorized by chapter 39.34 RCW now or in the future), or enter into other financing arrangements; lend money or provide services or facilities to any Member, other governmental water utilities, or governmental service providers; invest its funds; and establish policies, guidelines, or regulations to carry out its powers and responsibilities.

Water Supply and Transmission

Pursuant to the Interlocal Contract, Cascade has made water supply commitments to the Members. Cascade has completed a Transmission and Supply Plan, adopted by the Board on September 28, 2005, which defines a resource strategy designed to meet the projected supply needs of the Members through 2050, including purchase of water from Seattle and Tacoma, acquisition and development of transmission facilities, and development of new water supply sources and treatment facilities. The Board also adopted the 2006 Watershed Management Plan relating to financing regional water supply, water transmission, water quality and protection, and other water-related purposes.

To meet the water supply requirements in excess of the Members’ own resources, Cascade purchases water from Seattle under a 50-year Declining Block Water Supply Agreement (the “Seattle Agreement”) that became effective January 1, 2004 and extends through December 31, 2053. Cascade has entered into a wholesale water purchase agreement with Tacoma to supplement water purchased from Seattle (the “Tacoma Agreement”). Cascade expects to have the ability to transport water from Tacoma to the Members by 2008 or 2010, depending on which transmission option is used. Cascade anticipates developing Lake Tapps, located in Pierce County (adjacent to King County), for long term water supply. Cascade has entered into a memorandum of understanding and a term sheet with PSE for the purchase of water rights and facilities related to Lake Tapps. Based on Cascade’s demand forecast, the Lake Tapps supply would offer capacity sufficient to meet the needs of the current Members beyond the needs to be met through the Seattle Agreement and the Tacoma Agreement. In December 2004, Cascade acquired a portion of the 24-inch diameter transmission pipeline between Bellevue and Issaquah. Cascade owns the eastern portion of the pipeline, and expects to negotiate with Bellevue for acquisition of the remaining western portion of the pipeline. In addition, Cascade provides a regional conservation program to the Members.

Seattle Agreement. The Seattle Agreement entitles Cascade to a specified amount (block) of water supply and transmission each year for a fifty-year period ending December 31, 2053, on a “take or pay” basis. 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 Seattle Agreement does not include provisions for termination. Increased amounts are available during the peak season and peak month. At the end of the Seattle Agreement term, Cascade may continue to purchase from Seattle up to 5.3 million gallons per day (“MGD”) of water (average daily demand) for Members that cannot be served economically by any other means.

The amount of water generally to be supplied to Cascade in each year of the contract, shown as average daily demand in MGD, is shown in the following table.

<u>Amount of Water to be Supplied to Cascade from Seattle</u>		
<u>Year Beginning</u>	<u>Year Ending</u>	<u>Average Daily Demand (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

Source: Cascade

Tacoma Agreement. The Tacoma Agreement entitles Cascade to a permanent supply of 4 MGD of water (average daily demand) each year, and an additional guaranteed reserved supply of 6 MGD (average daily demand) through 2026, declining to 1 MGD (average daily demand) in 2030 (the “Additional Supply”), and discontinuing thereafter. Increased deliveries are available during peak season. The Tacoma Agreement includes minimum purchase requirements from 2009 though 2025, and entitles Cascade to additional temporary water, based on availability. The Tacoma Agreement requires that Cascade pay system development charges and capacity reservation fees, with interest thereon, to Tacoma, in addition to paying for the metered water based on wholesale water rates. A portion of the proceeds of the Bonds is to be used to pay or to reimburse Cascade for the payment to Tacoma of a portion of the system development charges and capacity reservation fees, together with accrued interest thereon. Cascade’s obligation to pay these fees plus interest is treated as a loan for accounting purposes. Should Cascade not meet certain obligations to begin taking water, Tacoma may terminate its obligation to provide the Additional Supply. Cascade is obligated to provide Tacoma with a plan by December 1, 2015 that demonstrates Cascade’s ability to provide for the long term water needs of the Members; if Cascade does not do so, Tacoma may terminate its obligation to provide the Additional Supply. Termination for the reasons described in the previous sentence applies only to Additional Supply, and not to the permanent supply of 4 MGD (average daily demand). Should Cascade be in default in

payments under the Tacoma Agreement, Tacoma may terminate the entire Tacoma Agreement by providing at least six months written notice of termination.

Puget Sound Energy Agreement. Cascade has entered into a memorandum of understanding and a term sheet with PSE that sets forth principles for exclusive negotiating rights for Cascade to obtain all or a portion of the Lake Tapps water rights and other related facilities from PSE. These water rights include existing hydro rights for which PSE has applied for a change in use, and municipal water rights. PSE has applied to the State Department of Ecology for the municipal water rights. The parties have agreed that Cascade and PSE will complete the purchase and sale upon certain conditions, whether or not those municipal water rights are first obtained by PSE.

The term sheet provides for Cascade to purchase assets (the lake bed, certain lands adjacent to the lake, and the hydroelectric and canal infrastructure associated with Lake Tapps) needed to put the water rights to beneficial use regardless of the outcome of the municipal water rights process. The minimum purchase price for these assets is \$10 million, which is due within 24 months of execution of the definitive purchase agreement. Following final issuance of permits, the term sheet provides for Cascade to pay a contingent additional purchase price of \$27 million. This amount is not payable unless and until the final permits are issued or Cascade waives the condition for final permits. In addition to the purchase of water rights and assets, the term sheet provides for development of an asset management agreement by which PSE will operate the Lake Tapps project on behalf of Cascade.

Development of Lake Tapps for water supply will require construction of a water treatment plant, pump stations, and additional transmission pipelines to transport water from Lake Tapps to the Members. Cascade is proceeding with permitting and environmental review for necessary capital improvements, assessment of engineering considerations for infrastructure development, financial planning, and other steps needed to develop the Lake Tapps facility. A portion of the proceeds of the Bonds will be used to pay or to reimburse Cascade for the payment of costs relating to the Lake Tapps project.

The memorandum of understanding and term sheet currently run through completion of a definitive purchase agreement unless terminated earlier. In consideration of the exclusive negotiation right, Cascade has paid PSE lump sum payments totaling \$225,000 and process costs (50% of certain costs incurred to obtain the water rights) totaling \$2,220,452 since 2001, in addition to other costs totaling \$3,413,799. Each party has the right to terminate the memorandum of understanding with 30 days written notice to the other, or upon Cascade's failure to pay any lump sum payments when due, subject to payment of certain costs to the other party.

Transmission Facilities. In December 2004 Cascade acquired a portion of the 24-inch diameter transmission pipeline between Bellevue and Issaquah. Cascade owns the eastern portion of the pipeline, and expects to negotiate with Bellevue for acquisition of the remaining western portion of the pipeline.

To transport water from Tacoma and Lake Tapps, Cascade will be required to construct additional pipelines. Cascade is conducting a transmission system routing study to determine the sizing and routing of the proposed transmission pipelines. The results of this routing study will determine the pipe diameters and potential routes for the different segments of the transmission system. Three options are being considered relating to the size and number of pipelines to be constructed. Additional regional storage is expected to be included in the Cascade transmission system. Regional storage is expected to provide a continuous supply of water when peak use exceeds the hydraulic capacity of the transmission pipeline system. A portion of the proceeds of the Bonds will be used to pay or reimburse Cascade for the cost of design of the transmission facilities.

Transmission and Supply Plan

The Transmission and Supply Plan fulfills the 20-year planning requirement contained in the Interlocal Contract, and the 6-year and 20-year planning horizons required by the State Department of Health. Additional information is provided through 2050 to provide a planning context for the capital facilities Cascade intends to undertake. The Transmission and Supply Plan addresses water supply and transmission needs, rather than local distribution needs, which are the responsibility of the Members.

The Transmission and Supply Plan contains data and technical analysis addressing existing water supply and transmission contracts, assets and infrastructure; demand forecasts; conservation program; reclaimed water program; water supply strategy; system analysis, infrastructure needs and capital program; source water protection; water quality maintenance and monitoring; operation and maintenance programs; and financial program. The capital program contained in the 2006 Watershed Management Plan is derived from the technical analysis contained in the Transmission and Supply Plan.

Certain elements of the Transmission and Supply Plan are currently undergoing SEPA and other review and review by the State Department of Health.

Governance and Administration

Cascade is governed by a Board consisting of one individual representative of each respective Member's legislative authority. Members may appoint alternative representatives to the Board, although each Board member and alternative Board member must be an elected official of the Member. Board member terms do not expire, therefore Board members

continue in their positions until replaced by resolution or motion of the Member being represented, or until they are no longer an elected official of the Member being represented. The Board adopted corporate By-laws, which were amended and restated on November 13, 2002, which specify the powers and duties of the Board and its Executive Committee, standing committees, officers and employees. The Board holds an annual meeting in February of each year, and has monthly meetings to conduct the business of Cascade. All meetings of the Board are required to be conducted as open public meetings under the State's Open Public Meetings Act and other applicable law.

All Board actions must be approved by Dual Majority Vote of all Members, except where the Interlocal Contract requires either a 65% Dual Majority Vote, or ratification by the legislative authorities of the Members. A "Dual Majority Vote" means approval of a proposal must be made on the basis of both a simple majority of all Members, allowing one vote per Member, and a simple majority of all Members on a weighted basis, as described in the Interlocal Contract. Any Member that has been declared by the Board to be in default of its obligations under the Interlocal Contract will lose its right to vote until the Board has declared the default to be cured.

Board Members. Current Board members and the Member represented by each are set forth below.

<u>Board Member</u>	<u>Member Represented and Elected Position</u>	<u>Date of Initial Appointment</u>
Grant Degginger, Chair	Mayor, City of Bellevue	March 2001
Lloyd Warren, Vice Chair	Commissioner, Sammamish Plateau Water and Sewer District	January 2005
Jim Haggerton, Secretary/Treasurer	Councilmember, City of Tukwila	March 2000
Jon Ault	Commissioner, Skyway Water and Sewer District	February 2004
Mary-Alyce Burleigh	Councilmember, City of Kirkland	June 2002
Lys Hornsby	Commissioner, Covington Water District	April 2000
David Kappler	Councilmember, City of Issaquah	December 2005
John Marchione	Councilmember, City of Redmond	April 2004

Executive Committee. The Interlocal Contract and Cascade's corporate By-laws provide for an Executive Committee consisting of the officers of the Board, and the chairs of each standing committee. The Board has delegated certain decisions that do not require Board approval to the Executive Committee. The Chair of the Board serves as chair of the Executive Committee. The Executive Committee is responsible for ongoing oversight of the administrative, financial and other affairs of Cascade and may take any actions on behalf of Cascade except actions expressly reserved to the Board. Current members of the Executive Committee are Grant Degginger, Chair; Mary-Alyce Burleigh; Jim Haggerton; and Lloyd Warren.

Management. Day to day management is provided by the General Manager, who serves at the pleasure of the Board. The General Manager is responsible for appointment of other staff positions, subject to confirmation by the Board or Executive Committee, and has authority to enter into obligations under \$25,000 unless otherwise provided with specific delegated authority. Cascade currently has four employees, and is in the process of hiring a chief financial officer. The General Manager is responsible for the day-to-day financial operations until a chief financial officer is hired.

Cascade's General Manager is Michael Gagliardo, who has served in this position since the inception of Cascade. Prior to assuming this position, he was Director of the United States Conference of Mayors' Urban Water Council and Managing Director of the Conference's Municipal Waste Management Association. From 1980 until 1995, he was associated with the Northeast Maryland Waste Disposal Authority (Baltimore, MD), being appointed its Executive Director in 1986. Mr. Gagliardo received a Bachelor of Science degree in Natural Resources Management from the University of Maryland (College Park) in 1975.

Treasury Operations and Investments. Cascade has appointed the Treasury Operations Section of the King County Department of Executive Services, Finance and Business Operations Division to provide treasury operations. Cascade's funds are invested as is lawful for funds invested by a county treasurer under State law.

Retirement Plans. Cascade provides a defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute 4 percent of their annual salary to the plan and Cascade contributes 7 percent of each employee's salary. Employee and employer contributions to the plan were \$12,041 and \$21,072, respectively, for the year ended December 31, 2005.

Cascade also provides a retirement plan, available to all employees, through which employees can choose to make salary deferral contributions up to the maximum allowed by law. After twelve months of employee contributions, employee contributions are matched 100 percent by Cascade. Employee salary deferrals were \$22,824 and Cascade's matching contribution was \$20,626, for the year ended December 31, 2005.

Insurance. Cascade is in the process of soliciting proposals to select an insurance broker to assist in acquiring insurance for facilities it intends to acquire. Insurance is expected to include fire and extended coverage, public liability and property damage on Cascade's facilities as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems.

Accounting and Auditing. Cascade prepares 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 that fiscal year, and causes the financial and operating statements to be audited on an annual basis by the State Auditor and/or a certified public accountant selected by Cascade. Cascade's most recent audited financial statements, for the year ended December 31, 2004, are included as Appendix G.

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Management Discussion of Financial Operations

Although Cascade has been in existence since 1999, financial activity was relatively limited until 2003. Cascade first collected RCFCs from Members in February 2003. Cascade began purchasing water from Seattle for delivery to the Members beginning January 2004, and 2004 was the first full year in which Cascade sold water to the Members.

Total Revenue and Gains declined from 2004 to 2005 due to a gain in 2004 represented by the donation of a water transmission pipeline transferred from Issaquah to Cascade. After backing out the Contributions in 2004, Total Revenues and Gains increased 28.5 percent from 2004 to 2005. RCFC revenue increased 39.8 percent from 2003 to 2004, and 81.2 percent from 2004 to 2005. The increase in RCFC revenue reflects a 6.4 percent increase in RCFCs assessed in 2005 compared to 2004, and higher than anticipated growth in CERUs by some Members.

The cost of water sold increased 20.9 percent from 2004 to 2005, reflecting the increased water delivered to Members in 2005. Other program expenses increased 180.3 percent from 2004 to 2005, which primarily reflects interest expense and professional fees associated with the level of activity in completing planning, conducting transmission pipeline studies and public outreach efforts.

The following table shows financial activities of Cascade for 2001 through 2004 based on audited financial statements of Cascade and preliminary financial activities of Cascade for 2005, which is based on unaudited financial statements and are subject to adjustment by Cascade.

Cascade Water Alliance					
Statement of Financial Activities					
(Fiscal Year Ending December 31)					
	2005 ⁽¹⁾	2004	2003	2002	2001
Changes in Unrestricted Net Assets:					
Revenue and gains:					
Water sales	\$17,001,574	\$15,744,302	--	--	--
Regional capital facilities charges	9,233,383	5,096,808	\$3,646,440	--	--
Administrative dues	496,134	447,425	519,047	\$ 350,594	\$ 392,070
Contributions ⁽²⁾	--	9,208,077	--	--	--
Conservation Program	515,495	--	--	--	--
Assessments ⁽³⁾	--	--	--	330,342	661,349
Interest income	<u>181,258</u>	<u>60,943</u>	<u>9,265</u>	<u>3,480</u>	<u>21,989</u>
Total Revenue and Gains:	\$27,427,844	\$30,557,555	\$4,174,752	\$ 684,416	\$1,075,408
Expenses					
Program expenses:					
Cost of water sold	\$14,632,830	\$12,101,259	--	--	--
Other ⁽⁴⁾	1,345,379	480,061	\$ 106,725	\$ 101,649	\$ 95,616
Management and general	<u>450,653</u>	<u>267,161</u>	<u>204,368</u>	<u>158,131</u>	<u>154,424</u>
Total Expenses	\$16,428,862	\$12,848,481	\$ 311,093	\$ 259,780	\$ 250,040
Increase in Net Assets	\$10,998,982	\$17,709,074	\$3,863,659	\$ 424,636	\$ 825,368
Net Assets at the Beginning of the Year	<u>23,356,405</u>	<u>5,647,331</u>	<u>1,783,672</u>	<u>1,359,036</u>	<u>533,668</u>
Net Assets At the End of the Year	\$34,355,387	\$23,356,405	\$5,647,331	\$1,783,672	\$1,359,036

⁽¹⁾ Preliminary; subject to change.

⁽²⁾ Contributions represent the value of the Bellevue/Issaquah Pipeline which was donated by Issaquah.

⁽³⁾ Assessments were charged to Members during 2001 and 2002 (in the form of a special assessment authorized by the Board) for the purpose of making payments to PSE under the memorandum of understanding, and funding capital activities related to the acquisition of Lake Tapps water rights in advance of assessing RCFCs.

⁽⁴⁾ Other Expenses include salaries and employee benefits, payroll taxes, amortization and interest expenses, and professional fees associated with the development of water supply and conservation plans, transmission pipeline studies and negotiation of water supply contracts.

Source: Cascade

Cascade's Total Assets increased 109.6 percent, or \$37,304,183, from 2004 to 2005 due primarily to the completion of the Tacoma Agreement, continued investment in the Lake Tapps water rights project, and increased Member Charges. There was an increase in Current Liabilities of \$15,581,647 from 2004 to 2005 due primarily to completion of the Tacoma Agreement. Cascade's Unrestricted Net Assets grew by \$10,998,982 (47.1 percent) from 2004 to 2005.

The following table shows the financial position of Cascade as of December 31 in the years 2001 through 2004 based on audited financial statements of Cascade and the preliminary financial position of Cascade as of December 31, 2005, which are based on unaudited financial statements and is subject to adjustment by Cascade.

Cascade Water Alliance					
Statement of Financial Position					
(Fiscal Year Ending December 31)					
	2005 ⁽¹⁾	2004	2003	2002	2001
Current Assets:					
Cash and cash equivalents	\$ 6,808,688	\$ 4,227,167	\$ 1,876,087	\$ 182,333	\$ 293,814
Accounts receivable ⁽²⁾	5,579,584	1,082,496	1,640,282	153,173	726,488
Prepaid expenses	<u>31,017</u>	<u>33,963</u>	<u>5,986</u>	<u>5,791</u>	<u>4,420</u>
Total Current Assets	\$12,419,289	\$ 5,343,626	\$3,522,355	\$ 341,297	\$1,024,722
Property and Equipment, at Cost:					
Equipment and furniture	\$ 15,286	\$ 14,747	\$ 10,213	\$ 5,220	\$ 5,220
Computer equipment	19,251	17,985	13,030	5,943	5,943
Less accumulated depreciation	<u>(19,011)</u>	<u>(13,714)</u>	<u>(8,637)</u>	<u>(6,398)</u>	<u>(4,447)</u>
Total Property and Equipment	\$ 15,526	\$ 19,018	\$ 14,606	\$ 4,765	\$ 6,716
Other Assets:					
Seattle Water contract ⁽³⁾	\$ 192,259	\$ 198,237	\$ 134,688	\$ 112,218	\$ 29,666
Bellevue Issaquah pipeline	21,989,808	21,981,503	18,189	263	--
Lake Tapps water rights project	7,793,824	5,859,251	2,001,883	1,416,169	567,288
Tacoma Water contract	28,220,214	350,828	--	--	--
Comprehensive Plan project	<u>697,787</u>	<u>272,061</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Other Assets	\$58,893,892	\$28,661,880	\$2,154,760	\$1,528,650	\$ 596,954
Total Assets	\$71,328,707	\$34,024,524	\$5,691,721	\$1,874,712	\$1,628,392
Current Liabilities:					
Accounts payable	\$ 1,033,736	\$ 647,298	\$ 44,390	\$ 91,040	\$ 269,356
Accrued Interest	35,142	20,821	--	--	--
Current Maturities of long term debt ⁽⁴⁾	15,180,888				
Long-Term Debt, Net of Current Maturities ⁽⁴⁾	20,723,554	10,000,000	--	--	--
Net Assets:					
Unrestricted	<u>34,355,387</u>	<u>23,356,405</u>	<u>5,647,331</u>	<u>1,783,672</u>	<u>1,359,036</u>
Total Liabilities and Net Assets	\$71,328,707	\$34,024,524	\$5,691,721	\$1,874,712	\$1,628,392

⁽¹⁾ Preliminary; subject to change.

⁽²⁾ Accounts receivable increased in 2005 due to increased RCFC billings to Members in the last quarter of the year.

⁽³⁾ Net of amortization of \$5,978 in 2005, \$5,978 in 2004, and \$0 in prior years.

⁽⁴⁾ Represents loans from Sammamish Plateau Water and Sewer District and Tacoma. See "CASCADE DEBT – Outstanding Debt."

Source: Cascade

THE MEMBERS

The eight current Members of Cascade consist of five cities and three water or water-sewer districts, as shown on the map on page vi herein. The information under this heading relates to the general powers of the Members to own, operate and maintain water supply and distribution systems. Certain financial information and operating data regarding the Members are contained in Appendix A. The information regarding each Member herein and in Appendix A was provided by that Member.

Any municipal water utility within the central Puget Sound region may be admitted to Cascade in the future on the terms and conditions set forth in the Interlocal Contract, at the discretion of the Board, subject to restrictions on future Cascade water rights, or to limitations imposed by contract or permit. The Board has authority to determine whether to extend a membership offer to an applicant, taking into consideration findings from a water supply audit required under the Interlocal Contract, Cascade water resources, and any other factors the Board deems advisable.

Demand Shares

Each Member is assigned a Demand Share each year, which is the current share of water expressed in millions of gallons per day provided through Cascade, or the estimated share of water to be provided through Cascade. The Interlocal Contract describes the methodology for computing Demand Shares, which are established by resolution of the Board for each year. Demand Shares are based primarily on historical usage patterns, using a three-year rolling average, and may be adjusted to reflect relative growth in customer bases. Such an adjustment would be applied through growth in net CERUs for each Member (on a percentage basis) from the mid-point of the three-year period to the most recent available data. The purpose of using the three-year period is to minimize the effects of variations caused by external factors such as weather and to improve the predictability of charges for Members.

Demand Shares are the greater of (a) average daily demand from Cascade during the peak season, currently defined as June through September; (b) average daily demand from Cascade for the entire calendar year; or (c) an amount assigned by the Board to reflect circumstances, such as changes in membership, substantial increases in demands, additions or loss of independent supply, minimum shares to offset Cascade capital outlays, or other factors as determined by the Board. Demand Shares are the basis for allocations of fixed water supply charges of Cascade. See Appendix C, Interlocal Contract.

Member Demand Shares for 2006 and Percent of Total 2006 Demand Shares

Member	2006 Demand Share	Percent of Total 2006 Demand Shares
City of Bellevue	22.46	55.05%
Covington Water District	0.00	0.00
City of Issaquah	0.90	2.21
City of Kirkland	5.51	13.50
City of Redmond	7.44	18.24
Sammamish Plateau Water and Sewer District	0.85	2.08
Skyway Water and Sewer District	0.55	1.35
City of Tukwila	3.09	7.57

Source: Cascade

Cascade expects the relative Demand Shares to change over time, with a higher percentage being assigned to faster growing areas such as Issaquah and the Sammamish plateau. As those areas experience more growth and are assigned more demand shares, the percentage of the total represented by slower growing Members can be expected to decline. Accordingly, the Demand Shares allocated to each Member and the percent of total demand shares represented by any Member can be expected to change over time and the relative Member Charges payable from Members to Cascade will also change.

Cascade Equivalent Residential Units

Each Member is assigned a number of CERUs each year, based upon a calculation that takes into account meter sizes served and water flow. CERUs are intended to reflect relative water demand and are the basis for allocation of certain Cascade fees and charges, including administrative dues and conservation charges. CERUs are also used to determine growth in the number of customers served by Members, which is the basis for RCFCs assessed by Cascade.

Member CERUs for 2006 and Percent of Total 2006 CERUs

Member	2006 CERUs	Percent of Total 2006 CERUs
City of Bellevue	64,652	38.39%
Covington Water District	15,068	8.95
City of Issaquah	10,044	5.96
City of Kirkland	17,287	10.26
City of Redmond	28,634	17.00
Sammamish Plateau Water and Sewer District	20,209	12.00
Skyway Water and Sewer District	3,766	2.24
City of Tukwila	8,760	5.20

Source: Cascade

Cascade expects the relative CERUs to change over time, with a higher percentage being assigned to faster growing areas such as Issaquah and the Sammamish plateau. As those areas experience more growth and are assigned more CERUs, the percentage of the total CERUs represented by slower growing Members can be expected to decline. The CERUs allocated to each Member and percent of total CERUs represented by any Member can be expected to change over time. Since growth in the number of CERUs is the basis for assessing RCFCs (which is a significant revenue source to Cascade), Members who may not presently represent a large number of CERUs and experience growth over time will contribute a larger amount of RCFC revenue. Accordingly, the present number and percent of total CERUs is not an indicator of relative RCFC payments to be made to Cascade.

Member Charges

Each Member has agreed in the Interlocal Contract to pay all Member Charges required to be paid to Cascade by that Member. See "MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT – Member Charges," and Appendix C. Member Charges are based on Demand Shares, CERUs or growth in CERUs, as described in the Interlocal Contract. The following shows actual Member Charges for each Member for 2005, expected Member Charges for 2006, and the percentages those charges represent of the total Member Charges in the related year.

Member Charges in 2005 and 2006 by Member

Member	2005 Member Charges	Percent of Total 2005 Member Charges	2006 Member Charges ⁽¹⁾	Percent of Total 2006 Member Charges ⁽¹⁾
City of Bellevue	\$12,503,480	45.89%	\$11,721,192	35.77%
Covington Water District	74,837	0.27	104,647	0.32
City of Issaquah	2,524,706	9.27	4,119,630	12.57
City of Kirkland	3,172,108	11.64	3,617,158	11.04
City of Redmond	5,966,417	21.90	7,892,106	24.09
Sammamish Plateau Water and Sewer District	1,490,213	5.47	3,548,387	10.83
Skyway Water and Sewer District	249,761	0.92	299,703	0.91
City of Tukwila	1,265,065	4.64	1,461,695	4.46

⁽¹⁾ Projected Member Charges for 2006. The RCFC portion of Member Charges increased from \$2,222 to \$4,648 per CERU as of January 1, 2006.

Source: Cascade

General Authority

Each of the Members is responsible for providing water service to its customers. State law provides that municipal corporations and certain special purpose districts, including the Members, may establish water rates by action of their governing body, independent of review or approval by any State board or commission such as the State Utilities and Transportation Commission. Water rates established by the Members must be non-discriminatory, and Members must be in compliance with the Safe Water Drinking Act. Each Member is in compliance with these requirements.

Governing Bodies

The five current Members that are cities are governed by a city council and mayor, under one of the various forms of government specified by the State law. The three current Members that are water or water-sewer districts are governed by a board of commissioners, which may have three or five members. All council members and commissioners are elected by the registered voters within their respective city or district.

Accounting and Auditing

State law requires that each Member's accounting and reporting policies conform to the rules and regulations adopted by the State Auditor's Office. Each Member's financial statements are required to be audited by the Office of the State Auditor.

Member and Regional Water Rates

The following table shows typical monthly single-family residential water bills for Cascade Members and other cities or districts within the region that provide water service. Some utilities charge higher rates in the summer, while others charge the same rate year round. The table below is based on summer rates, using the rates for the smallest water meter size, and assumes 1,000 cubic feet monthly consumption.

Member and Regional Water Rates	
	Monthly Water Charge
<hr/>	
Cascade Members	
City of Bellevue	\$32.61
Covington Water District	40.62
City of Issaquah	42.31
City of Kirkland	35.08
City of Redmond ⁽¹⁾	26.82
Samamish Plateau Water and Sewer District	27.49
Skyway Water and Sewer District	34.45
City of Tukwila	41.80
<hr/>	
Other Regional Cities or Districts	
City of Everett	18.75
City of Mercer Island	25.34
Northshore Utility District	33.75
City of Renton	30.46
City of Seattle	38.05
City of Tacoma	24.59
Woodinville Water District	38.92

⁽¹⁾ The City of Redmond has two separate service areas. The rate shown here is for the City Service Area. The rate for the Novelty Hill Service Area is \$36.20.

Source: Individual entities.

Member Information

City of Bellevue. The City of Bellevue ("Bellevue") is located on the east side of Lake Washington, across the lake from Seattle, and is the State's fifth largest city. Bellevue was incorporated in 1953 and encompasses 31 square miles, with a population of 115,500 as estimated for 2005 by the State Office of Financial Management ("OFM"). See Appendix A: "City of Bellevue."

Covington Water District. The Covington Water District ("Covington") was established in 1959 and provides water service to an urban and rural area in southeastern King County east of the cities of Kent and Auburn. Covington currently provides water service to all of the City of Covington and half of the City of Maple Valley, both new cities incorporated in 1997, and approximately one-third of the City of Black Diamond. Covington also provides service to certain unincorporated areas of King County. See Appendix A: "Covington Water District."

City of Issaquah. The City of Issaquah ("Issaquah") is located in the central portion of King County, approximately 15 miles southeast of Seattle. The City was founded in 1892 and has a population of 17,060 as estimated for 2005 by OFM. See Appendix A: "City of Issaquah."

City of Kirkland. The City of Kirkland ("Kirkland") is located on the east side of Lake Washington, just northwest of Bellevue, and approximately 12 miles northeast of Seattle. Kirkland was founded in 1888 and has a population of 45,740 as estimated for 2005 by OFM. See Appendix A: "City of Kirkland."

City of Redmond. The City of Redmond (“Redmond”) is located on the east side of Lake Washington, just northeast of Bellevue, and approximately 15 miles east/northeast of Seattle. Redmond was founded in 1912 and has a population of 46,900 as estimated for 2005 by OFM. See Appendix A: “City of Redmond.”

Sammamish Plateau Water and Sewer District. The Sammamish Plateau Water and Sewer District (“Sammamish”) was founded in 1948 and provides water and wastewater service to an area consisting primarily of rural and suburban residential property in the central portion of King County. Sammamish provides water and wastewater service to all of the City of Sammamish, portions of Issaquah and Redmond, and portions of unincorporated King County. See Appendix A: - “Sammamish Plateau Water and Sewer District.”

Skyway Water and Sewer District. The Skyway Water and Sewer District (“Skyway”) was formed in 1986 through the merger of five separate water and/or sewer districts, and encompasses an area of approximately two square miles. Skyway provides water and wastewater service to an area consisting primarily of suburban residential property just south of Seattle. See Appendix A: - “Skyway Water and Sewer District.”

City of Tukwila. The City of Tukwila (“Tukwila”) is located in the western portion of King County, just south of Seattle. Tukwila was incorporated in 1908 and has a population of 17,110 as estimated for 2005 by OFM. See Appendix A: “City of Tukwila.”

TAX EXEMPTION

Exclusion from Gross Income

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 Bonds, interest on the Bonds is 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

Cascade is required to comply with certain requirements of the Code 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 requirement to comply with the arbitrage rebate requirement to the extent applicable to the Bonds. Cascade has covenanted in the 2006 Bond Resolution to comply with those requirements, but if Cascade fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds.

Bond Counsel has not undertaken and does not undertake to monitor Cascade's compliance such requirements.

Corporate Alternative Minimum Tax

While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the 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 (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75 percent of the excess of the corporation’s adjusted current earnings (including any tax-exempt interest) over the corporation’s alternative minimum taxable income determined without regard to such increase. A corporation’s alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25 percent of the amount by which the corporation’s alternative minimum taxable income exceeds \$150,000, is then subject to a 20 percent minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

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 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 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax

Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 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 Bonds, are in compliance with requirements of the Code that must be satisfied in order for the 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 will commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

CERTAIN OTHER FEDERAL TAX CONSEQUENCES

Bonds Not “Qualified Tax-Exempt Obligations” for Financial Institutions

Section 265 of the Code provides that 100 percent of any interest expense incurred by banks and other financial institutions for interest 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 private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than 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 percent of any interest expense deduction allocable to those obligations will be disallowed.

Cascade is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has not designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80 percent financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property & Casualty Insurance Companies

Under Section 832 of the Code, interest on the 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 receipt or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences

Receipt of interest on the Bonds may have other federal tax consequences as to which purchasers of the Bonds may wish to consult their own tax advisors.

Original Issue Premium

The Bonds 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. The amount of amortizable premium allocable to an interest accrual period for a Premium Bond will offset a like amount of qualified stated interest on such Premium Bond allocable to that accrual period, and may affect the calculation of alternative minimum tax liability described above. 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.

CONTINUING DISCLOSURE

Cascade has agreed to covenant for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data of Cascade and of the Members required to pay 10 percent or more of the Member Charges paid during the applicable fiscal year (the “Annual Disclosure Report”), by not later than nine months following the end of Cascade’s fiscal year (which currently would be September 30, 2007 for the fiscal year ending December 31, 2006), commencing with the Annual Disclosure Report for the 2006 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. Each of the Members has agreed that in each year in which the Member Charges such Member is required to pay are 10 percent or more of the sum of the Member Charges paid by all of the Members in such

year, such Member will provide to Cascade not later than August 31 of the following year historical financial information and operating data of the type included for such Member in the Official Statement and required to be updated by Cascade.

Cascade's Annual Disclosure Report is to be filed with Disclosure USA, so long as it is a recognized repository, or separately with each of the other Nationally Recognized Municipal Securities Information Repositories (and with the State Repository if any is created). The notices of material events are to be filed by Cascade with the Municipal Securities Rulemaking Board (and with the State Repository, if any). The specific nature of the information to be contained in the Annual Disclosure Report and in notices of material events is set forth in Cascade's Continuing Disclosure Certificate, the proposed form of which is included in this Official Statement as Appendix F. Cascade is executing the Continuing Disclosure Certificate to assist the Underwriter in complying with paragraph b(5) of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). Cascade has not previously been required to enter into an undertaking specified by paragraph b(5) of the Rule. Each of the Members has advised Cascade that during the past five years, such Member has never failed to comply with in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

UNDERWRITING

Lehman Brothers Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase all of the Bonds at a price of \$56,832,495.80, reflecting the principal amount of the bonds plus an original issue premium of \$1,857,106.10 and less an underwriting discount of \$254,610.30. The bond purchase agreement between Cascade and the Underwriter provides that the Underwriter will purchase all of the Bonds if any are purchased and that the obligation of the Underwriter to accept and pay for the Bonds is subject to certain terms and conditions set forth therein, including the approval by counsel of certain legal matters.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than (or at yields higher than) the initial offering prices or yields set forth on the inside cover page, and such initial offering prices may be changed from time to time by the Underwriter.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies, Inc. ("S&P"), have assigned their municipal bond ratings of "Aaa" and "AAA," respectively, to the Bonds on the understanding that upon delivery of the Bonds, the Financial Guaranty Insurance Policy will be issued by the Bond Insurer. Additionally, Moody's and S&P have assigned underlying ratings of "Aa3" and "AA-," respectively, to the Bonds. Ratings were applied for by Cascade and certain information was supplied by Cascade and the Members to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the respective views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings would be likely to have an adverse effect on the market price of the Bonds.

LEGAL INFORMATION

Absence of Litigation Affecting the Bonds or the Interlocal Contract

There is no proceeding pending or threatened to restrain or enjoin the issuance or sale of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of Cascade or any Member taken with respect to the issuance or sale thereof, the pledge or application of the Net Revenue in payment of the Bonds, the validity of the Interlocal Contract or the existence or powers of Cascade insofar as they relate to the authorization, sale and issuance of the Bonds or such pledge or application of the Net Revenue.

Pending Litigation

Two lawsuits involving Cascade are pending in King County Superior Court. The lawsuits challenge Cascade's adoption of the Transmission and Supply Plan, and the issuance of a mitigated determination of non-significance regarding water right applications submitted to the State Department of Ecology for Lake Tapps. One lawsuit has been stayed by the court pending a remand from the State Pollution Control Hearings Board on the State Department of Ecology's approval of the water right applications. The lawsuits do not seek monetary damages, do not affect the existence of Cascade, do not challenge Cascade's authority to issue the Bonds, do not affect Cascade's ownership of or permits for existing water supply assets, and are not expected to have a material adverse effect on Cascade's financial position.

Certain Legal Matters

Legal matters incident to the authorization, issuance and sale of the Bonds by Cascade are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The proposed form of the approving opinion of Bond Counsel with respect to the Bonds is attached as Appendix E.

Certain legal matters will be passed upon for Cascade by its General Counsel, Inslee, Best, Doezie & Ryder, P.S. of Bellevue, Washington.

Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP. Any opinion of such firm will be rendered solely to the Underwriter.

MISCELLANEOUS

Potential Conflicts of Interest

Cascade is aware of the following conflicts of interest various parties may have in connection with the issuance of the Bonds. Some of the fees of Bond Counsel are contingent upon the sale of the Bonds. Furthermore, Bond Counsel is serving or has served as bond counsel and other special counsel to Bellevue, Issaquah, Kirkland, Redmond, Tukwila, Covington and Skyway. Bond Counsel is also serving or has served as counsel to the Underwriter on unrelated transactions.

Inslee, Best, Doezie, & Ryder, P.S. has served or is serving as special counsel to Kirkland and Covington, and serves as general counsel to Skyway.

Enforceability of Remedies

The remedies available to the Registered Owners upon an Event of Default under the 2006 Bond Resolution or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "Bankruptcy Code"), the remedies specified by the federal bankruptcy laws, the 2006 Bond Resolution and the various related documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by principles of equity. The proposed form of the approving opinion of Bond Counsel with respect to the Bonds is attached as Appendix E.

Summaries, Opinions and Estimates Qualified

The references, excerpts and summaries contained herein of the 2006 Bond Resolution, the Interlocal Contract and any other documents or agreements referred to herein do not purport to be complete statements of the provisions of such documents or agreements and reference should be made to such documents or agreements for a full and complete statement of all matters relating to the Bonds, the basic agreements securing the Bonds and the rights and obligations of the holders thereof. Resolution No. 2006-07 and the Interlocal Contract are included in their entirety in Appendix B and Appendix C, respectively. Copies of other reports, documents, agreements and studies referred to herein and in the Appendices hereto are available upon written request at the office of Cascade shown on page iii of this Official Statement.

The authorizations, agreements and covenants of Cascade are set forth in the 2006 Bond Resolution and neither this Official Statement nor any advertisement of the Bonds is to be construed as a contract with the holders of the Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

CASCADE WATER ALLIANCE

By: /s/ Michael Gagliardo
Michael Gagliardo, General Manager

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**APPENDIX A:
FINANCIAL INFORMATION REGARDING THE MEMBERS**

City of Bellevue

Payments to Cascade

The City of Bellevue's ("Bellevue's") budgeted payments to Cascade for 2006 total \$11,721,192, as follows:

Administration Dues	\$ 274,769
Demand Share	9,095,199
New Water Surcharge	954,260
RCFC	1,148,056
Conservation	<u>248,908</u>
Total	<u>\$11,721,192</u>

Bellevue

Bellevue is located on the east side of Lake Washington, across the lake from the City of Seattle. Bellevue was incorporated in 1953, and encompasses approximately 31 square miles. Bellevue has a total population of approximately 115,500. Bellevue is organized as a code city, with a council-city manager form of government, governed by a seven member elected City Council. Bellevue's City Council members are elected to overlapping four-year terms. The Mayor is one of the seven City Council members and is selected by council members to serve in that capacity.

Bellevue's Water Utility

Bellevue's water utility (the "Water Utility") purchases all of its water from Cascade, and has no other supply or treatment facilities. The Water Utility service area covers 37.8 square miles. The Water Utility owns and operates 616 miles of water distribution and transmission mains, 27 reservoirs with over 41 million gallons of storage, and 23 pump stations. The Water Utility serves most of Bellevue as well as the adjacent communities of Clyde Hill, Hunts Point, Medina and Yarrow Point, and certain areas of unincorporated King County. In 2005, the Water Utility sold approximately 5,417 million gallons of water to about 36,834 water accounts. The largest customer of the Water Utility represents less than 2 percent of the total water consumption, and the top 10 customers represent less than 8 percent of the total water consumption.

Outstanding Debt

The Water Utility is a component of Bellevue's combined water, sewer, and storm utility and surface water utility (the "Waterworks Utility"). Only the revenues of the Water Utility are pledged under the Interlocal Contract. The revenues of the sewer and storm and surface water utilities are not pledged under the Interlocal Contract. At the end of 2005, the Waterworks Utility had \$5,490,000 of revenue bonds outstanding and \$855,480 of loans from the state of Washington's Public Works Trust Fund. The bond ordinance for the Waterworks Utility currently has a debt service coverage requirement of 125 percent.

Debt Repayment Record

Bellevue has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Bellevue has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Bellevue has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results of the Water Utility

The following table shows historical operating results for Bellevue's Water Utility.

Statement of Revenues, Expenditures and Changes in Fund Net Assets for Water Utility Fund					
Fiscal Year Ending December 31					
(in thousands)					
	Estimated 2005	2004	2003	2002	2001
Operating Revenues					
Service charges and fees	\$26,442	\$27,245	\$25,274	\$21,816	\$18,829
Other	<u>3,042</u>	<u>758</u>	<u>581</u>	<u>303</u>	<u>288</u>
Total operating revenues	\$29,484	\$28,003	\$25,855	\$22,119	\$19,117
Operating expenses					
Administrative and general	\$8,344	\$6,995	\$5,331	\$4,885	\$4,590
Maintenance and operations	14,638	13,350	14,017	12,246	10,990
Depreciation	<u>3,000</u>	<u>2,766</u>	<u>2,322</u>	<u>2,269</u>	<u>2,136</u>
Total operating expenses	\$25,982	\$23,111	\$21,671	\$19,399	\$17,716
OPERATING INCOME	3,502	4,892	4,184	2,720	1,401
Non-operating revenues (expenses)					
Interest income	537	180	281	245	459
Net change in fair value of Investments	35	(70)	(38)	34	5
Interest expense	(122)	(263)	(186)	(200)	(187)
Rental Income	179	180	165	166	183
Gain (loss) on disposal of fixed assets	—	—	13	10	(12)
Amortization of deferred charges	—	—	—	(17)	(32)
Other non-operating revenues	<u>78</u>	<u>1,180</u>	<u>11</u>	<u>16</u>	<u>5</u>
Total non-operating revenues (expenses)	707	1,207	246	255	421
INCOME BEFORE CONTRIBUTIONS & TRANSFERS	4,209	6,099	4,430	2,975	1,822
Contributions and transfers:					
Special Items	N/A		(2,933)		
Transfers in	22	72		—	--
Transfers out	(250)	(249)	(191)	—	--
Capital contributed from external sources ⁽¹⁾	<u>1,474</u>	<u>1,726</u>	<u>8,326</u>	<u>1,013</u>	<u>1,968</u>
NET INCOME/CHANGE IN NET ASSETS	5,455	7,648	9,632	3,988	3,790
RETAINED EARNINGS/TOTAL NET ASSETS – Beginning of year	\$102,201	\$94,553	\$84,921	\$80,934	\$77,144
RETAINED EARNINGS/TOTAL NET ASSETS – End of year	\$107,656	\$102,201	\$94,553	\$84,921	\$80,934

⁽¹⁾ In 2003, Special Items (\$2.933) and Capital contributed from external sources (\$8.326) under the Contributions and transfers category reflect the City's completion of a partial assumption of Coal Creek Utility District.

Note: Totals may not foot due to rounding.

Source: City of Bellevue.

Covington Water District

Payments to Cascade

Covington Water District's ("Covington's") budgeted payments to Cascade for 2006 total \$104,647, as follows:

Administration Dues	\$ 64,039
Demand Share	-
New Water Surcharge	-
RCFC	-
Conservation	<u>40,608</u>
Total	<u>\$ 104,647</u>

Covington

Covington is located in the southeastern portion of King County, approximately 35 miles southeast of the City of Seattle and 30 miles south of the City of Bellevue. Covington's service area encompasses an area of approximately 53 square miles, with boundaries that include the City of Covington, approximately sixty percent of the City of Maple Valley, and approximately one-third of the City of Black Diamond. Neither of the cities of Covington or Maple Valley have water utilities, but the City of Black Diamond does have a water utility. Since January 1, 1998 when the City of Black Diamond annexed 1.23 square miles of Covington, Covington has continued to serve customers in that area.

Covington began in 1960, and has grown through mergers with two water districts within its service area boundaries and numerous small private water systems. Covington operates its facilities with 40 full and part-time employees and is governed by a Board of Commissioners (the "Board") comprised of five elected officials who serve staggered six-year terms of office. The Board serves as the governing body of Covington and has authority to set rates and charges.

The Water System

Covington has wells with water rights totaling 5,971 gallons per minute, and pump capacity of 9,080 gallons per minute. The water system includes over 200 miles of mains and appurtenances including fire hydrants. One-hundred percent of Covington's average daily water demand can be met from its own wells. Typically, water purchased through a contract with the City of Auburn supplies twenty-five percent of the daily demand and Covington's wells make up the remainder. Covington's agreement with the City of Auburn provides that Covington can purchase up to 2.5 million gallons per day in perpetuity, although the service can be interrupted until Auburn receives water rights to two new wells. More importantly, Covington has an agreement with Tacoma to provide 10 million gallons of water per day for up to 120 days a year during the peak demand season. Covington has storage capacity of 23.5 million gallons in above-ground steel tanks.

Covington does not currently purchase water from Cascade. In 2004, the water utility sold approximately 1,252,748,904 gallons of water to about 14,081 accounts. The largest customer of the water utility represents 2.3 percent of the total water consumption and the top 10 customers represent forty-five percent of the total water consumption.

Outstanding Debt

Covington has a total of \$6,100,000 of outstanding Water Revenue Bonds and \$16,235,533 of Public Works Trust Fund Loans, relating to the water system. Covington does not anticipate incurring any new debt in the next 12 months. Covington's bond resolution currently has a debt service coverage requirement of 120 percent for bonds.

Debt Repayment Record

Covington has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Covington has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Covington has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following tables shows historical operating results for Covington.

Historical Operating Statement (Fiscal Years Ending December 31)

	2004	2003	2002	2001
Operating Revenues				
Water Service	\$7,002,546	\$6,099,790	\$ 5,533,354	\$ 4,957,923
Street Light Service	152,384	151,791	155,912	151,549
Other	301,580	254,911	237,544	246,162
Total Operating Revenues	7,456,510	6,506,492	\$ 5,926,811	\$ 5,355,634
Operating Expenses:				
Supply and pumping	95,040	95,944	513,320	687,941
Purchased water	843,684	796,452	0	0
Treatment	30,783	65,898	104,782	121,306
Distribution	595,765	546,756	647,362	575,187
District and developer projects	399,587	438,030	174,333	0
Water Resource and environmental	429,496	280,817	0	0
Customer service, finance and information technology	1,102,117	948,437	607,965	646,758
General & administration	847,042	1,297,610	1,317,512	1,144,250
Street light expense	121,075	120,179	117,814	110,050
Taxes	358,505	364,262	293,480	303,486
Total Operating Expenses	4,823,153	4,954,384	3,776,567	3,588,799
Net Operating Income (before depreciation)	2,633,357	1,552,108	2,150,244	1,766,836
Depreciation Expense	1,809,433	1,690,244	1,464,838	1,333,931
Net Income (loss) from operations	823,924	(138,136)	685,405	432,905
Other Revenue (expenses):				
Interest income	471,807	523,035	509,046	650,472
Interest expense/amortized debt discounts	(426,022)	(673,239)	(646,304)	(498,193)
Miscellaneous income	7,200	2,941	7,067	8,935
Gain (loss) on capital asset disposition	(794)	0	12,842	0
Total other revenues (expenses)	52,190	(147,264)	(117,350)	(161,213)
Net income (loss) before capital contribution	876,114	(285,400)	568,056	594,118
Meter installation charges	10,478	407,565	222,200	231,685
Facility charges	3,370,879	4,397,647	5,273,063	6,910,651
Donated capital assets	2,452,614	3,850,413	871,860	1,958,635
Grant	0	0	4,457	462,500
Total capital contributions	6,233,971	8,655,625	6,371,580	9,563,471
Change in net assets	\$ 7,110,085	\$ 8,370,225	\$ 6,939,635	\$ 10,157,589
Total net assets, January 1	\$66,996,572	\$ 58,626,347	\$ 51,686,712	\$ 41,529,123
Total net assets, December 31	\$74,106,657	\$ 66,996,572	\$ 58,626,347	\$ 51,686,712

Source: Covington Water District.

City of Issaquah

Payments to Cascade

The City of Issaquah's ("Issaquah's") budgeted payments to Cascade for 2006 total \$4,119,630, as follows:

Administration Dues	\$ 42,687
Demand Share	121,858
New Water Surcharge	198,016
RCFC	3,718,400
Conservation	<u>38,669</u>
Total	<u>\$4,119,630</u>

Issaquah

Issaquah is located in the central portion of King County, approximately 15 miles southeast of the City of Seattle. Issaquah was founded in 1892, and has an estimated population of 17,060. Issaquah is organized as a code city, governed by a Mayor-Council form of government. Issaquah has seven council members elected at large to staggered four-year terms. The Mayor is elected to serve in a part-time capacity, for a four year term. A city administrator and other officers and department directors are appointed by the Mayor with approval of the council members.

Issaquah's Water Utility

Issaquah operates its water utility as a separate enterprise fund. Issaquah's water transmission and distribution system has approximately 90 miles of pipe ranging in size from three to sixteen inches in diameter, 12 reservoirs totaling about 12 million gallons, 12 booster pump stations, 25 pressure reducing stations and four wells providing a combined capacity of 3,080 gallons per minute. Issaquah's water storage facilities are covered, ground level reservoirs or standpipes. Water supply comes primarily from groundwater produced by wells, and Issaquah has certificate rights to withdraw 2,800 acre-feet of groundwater annually with a maximum instantaneous withdrawal of 3,880 gallons per minute. In addition to its independent well supply, Issaquah contracts and purchases water supply from Cascade.

In 2005, Issaquah's water utility sold approximately 683 million gallons of water to approximately 5,144 accounts. The largest customer of the water utility represents approximately one percent of the total water revenues.

Outstanding Debt

At the end of 2005, the water utility had a total of \$9,565,000 of outstanding water revenue bonds. The bond ordinance for the water utility currently has a debt service coverage requirement of 125 percent.

Debt Repayment Record

Issaquah has promptly met all principal and interest payments of its bonds when due and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Issaquah has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Issaquah has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Issaquah's water utility.

Issaquah Water Utility
(Fiscal Year Ended December 31)

	2004	2003	2002	2001
Operating Revenues				
Charges for Services	\$ 5,272,151	\$ 4,590,263	\$ 2,478,825	\$ 1,405,592
Total Operating Revenues	5,272,151	4,590,263	2,478,825	1,405,592
Operating Expenses:				
Maintenance & Operations	2,692,825	1,853,802	1,863,899	1,079,102
Administrative & General	117,342	118,163		-
Taxes	-	-	91,413	69,867
Depreciation	872,517	859,275	409,230	349,191
Total Operating Expenses	3,682,684	2,831,240	2,364,542	1,498,160
Operating Income (Loss)	1,589,467	1,759,023	114,283	(92,568)
Other Revenue (Expenses):				
Intergovernmental	-	(48,769)	81,909	48,769
Interest Earnings	17,747	16,425	127,812	137,954
Interest Expense	(503,799)	(572,615)	(633,487)	(169,170)
Debt Issuance Costs	(6,440)	7,173	-	-
Gain (loss) on Disposition of Assets	-	-	-	-
Other Non-Operating Revenues (Expenses)	104,082	90,033	305,574	55,086
Rental Income	-	-	739,974	119,638
Total Non-Operating Revenues (Expenses)	(388,410)	(507,753)	621,782	192,277
Income Before Contributions & Transfers	1,201,057	1,251,270	736,065	99,709
Capital Grants	7,239	-		-
Capital Contributions (1)	2,364,172	969,891		-
Transfers In	1,891,853	1,286,485	1,345,000	1,244,801
Transfers Out	(2,015,423)	(1,429,485)	(1,460,000)	(954,751)
Changes in Net Assets	3,448,898	2,078,161	621,065	389,759
Net Assets - Beginning	42,201,686	40,123,525	21,067,902	20,697,633
Increase in Contributed Capital (1) (2)	-	-	18,434,558	(19,490)
Net Assets - Ending	45,650,584	42,201,686	40,123,525	21,067,902

⁽¹⁾ Capital Contributions included as Increase in Contributed Capital for 2001 and 2002.

⁽²⁾ Large increase in contributed capital in 2002 is due in part to significant contribution of capital assets by a developer in that year.

Source: City of Issaquah

City of Kirkland

Payments to Cascade

The City of Kirkland's ("Kirkland's") budgeted payments to Cascade for 2006 total \$3,617,158, as follows:

Administration Dues	\$ 73,470
Demand Share	2,231,280
New Water Surcharge	399,917
RCFC	845,936
Conservation	<u>66,555</u>
Total	<u>\$ 3,617,158</u>

Kirkland

Kirkland is located on the east side of Lake Washington, just northwest of Bellevue, and approximately 12 miles northeast of the City of Seattle. Kirkland was founded in 1888 and incorporated in 1905, and encompasses approximately 10.41 square miles. Kirkland has an estimated population of 45,740. Kirkland is organized as a code city, governed by a seven member elected council. Kirkland's council members are elected to overlapping four-year terms, and the Mayor is appointed from among the council members by all members.

The Water Division

Kirkland has a combined Water/Sewer Utility. Only the revenues of the water utility are pledged under the Interlocal Contract. The revenues of the sewer utility are not pledged under the Interlocal Contract. Kirkland currently purchases all of its water directly from Cascade Water Alliance. The water division includes two reservoirs for storage: one with a capacity of 14.3 million gallons and one with a capacity of 11.5 million gallons. The water division maintains 163.1 miles of water mains, 1,600 fire hydrants, 2 pump stations and 33 pressure control stations. In 2005, the water utility sold approximately 5.7 million gallons of water per day to about 11,500 retail accounts and small portions of the City of Redmond and City of Bellevue service areas. The largest account of the water utility represents approximately 1 percent of the total water consumption and the top 10 accounts represent approximately 4 percent of the total water consumption.

Outstanding Debt

Kirkland has a combined utility system for purposes of financing, which includes the water and the sewer division, respectively. Kirkland maintains separate fund accounting for the two divisions to facilitate financial management. At the end of 2005, the combined system had \$5,635,000 of outstanding Water and Sewer Revenue Bonds, and \$5,423,610 of Public Works Trust Fund Loans. At this time, Kirkland does not anticipate incurring any new water debt in the next 12 months.

Debt Repayment Record

Kirkland has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Kirkland has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Kirkland has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following tables shows historical operating results for Kirkland Water Division.

Historical Net Income Kirkland Water Division

	<u>Estimated 2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating Revenue					
Charges for Services	\$ 6,392,676	\$ 7,022,929	\$ 8,603,769	\$ 7,420,564	\$6,601,696
Other Operating Revenue	<u>234,695</u>	<u>52,375</u>	<u>50,434</u>	<u>73,664</u>	<u>26,552</u>
Total Operating Revenues	\$ 6,627,371	\$ 7,075,304	\$ 8,654,203	\$ 7,494,228	\$ 6,628,248
Operations and Maintenance	\$ 3,894,049	\$ 3,754,458	\$ 4,903,307	\$ 3,874,698	\$ 3,552,277
Administrative and General	1,116,471	1,015,602	1,271,082	1,091,190	1,087,448
Taxes	190,699	162,497	259,522	197,801	186,422
Depreciation	<u>877,555</u>	<u>852,555</u>	<u>834,126</u>	<u>814,581</u>	<u>755,981</u>
Total Operating Expenses	\$ 6,078,774	\$ 5,785,112	\$ 7,268,037	\$ 5,978,270	\$ 5,582,128
Operating Income (Loss)	\$ 548,597	\$ 1,290,192	\$ 1,386,166	\$ 1,515,958	\$ 1,046,120
Non-Operating Revenue (Expenses)					
Interest Revenue	\$ 206,021	\$ 141,812	\$ 150,007	\$ 253,297	\$ 230,663
Interest Expense	(140,233)	(157,017)	(237,352)	(246,391)	(262,334)
Amortization Expense	(12,500)	(12,524)	(3,012)	(6,736)	(48,002)
Contributed Capital	2,113,489	1,527,573	890,484	3,322,654	N/A
Operating Transfers	(175,940)	(50,000)	(5,687)	1,240	(93,148)
Other Non-Operating Revenue	<u>0</u>	<u>(40,983)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Non-Operating Rev./Exp.	\$ 1,990,837	\$ 1,408,861	\$ 794,440	\$ 3,324,064	\$ (172,821)
Net Income	\$ 2,539,434	\$ 2,699,053	\$ 2,180,606	\$ 4,840,022	\$ 873,299

Source: City of Kirkland

City of Redmond

Payments to Cascade

The City of Redmond's ("Redmond's") budgeted payments to Cascade for 2006 total \$7,892,106, as follows:

Administration Dues	\$ 121,695
Demand Share	3,012,835
New Water Surcharge	928,935
RCFC	3,718,400
Conservation	<u>110,241</u>
Total	<u>\$7,892,106</u>

Redmond

Redmond is located on the east side of Lake Washington, and approximately 15 miles east/northeast of the City of Seattle. Redmond was founded in 1912 and has an estimated population of 47,600. Redmond is organized as a code city, governed by a Mayor-Council form of government. Redmond has seven council members elected at large to staggered four-year terms. The Mayor is elected to serve in a full time capacity for a four-year term. Department directors are appointed by the Mayor with approval of the council members.

Redmond's Water Utility

Redmond operates two water/wastewater utilities – one within the city and one for the urban planned development ("UPD") outside the city limits. Redmond maintains separate fund accounting for the two systems. Both of these utilities' operations are self-supported through user charges. Only the revenues of the water systems are pledged under the Interlocal Contract. Rates are established by ordinance of City Council.

Redmond's water transmission and distribution system has approximately 419 miles of pipe ranging in size from 3/4" to thirty inches in diameter, 22 pressure zones, seven reservoirs totaling 14 million gallons, three additional shared reservoirs totaling 9.2 million gallons, nine booster pump stations, 67 pressure reducing stations, and five wells providing a combined capacity of 3,530 gallons per minute. Redmond's water storage facilities are covered, ground level reservoirs or standpipes. Redmond receives about 65 percent of its water from Cascade and 35 percent from its own wells. Redmond has certificate rights to withdraw 5,229 acre-feet of groundwater annually with a maximum instantaneous withdrawal of 3,680 gallons per minute.

In 2005, Redmond sold approximately 9 million gallons of water to about 13,700 accounts. The largest account represents about 10 percent of the total water consumption and the top 10 accounts represent about 21 percent of the total water consumption.

Total operating revenues include water and sewer sales, Metro sewage treatment fees, water and sewer engineering fees, hydrant fees, and regional capital facility charges. 51 percent of total operating revenues for 2005 are directly attributable to water. Engineering fees cannot be readily separated between water and sewer and thus are not included in the 51 percent.

Outstanding Debt

As of December 31, 2005, Redmond had \$387,962 of Public Works Trust Fund Loans outstanding for water/wastewater. Redmond has no water or water and sewer revenue bonds outstanding.

Debt Repayment Record

Historically, Redmond has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Redmond has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Redmond has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following tables show historical operating results for Redmond's City Water/Wastewater Fund and UPD Water/Wastewater Fund. Only the revenue from the water systems are pledged under the Interlocal Contract.

Statement of Revenues, Expenses, and Changes in Fund Net Assets City Water/Wastewater Fund For the Year Ended December 31

	<u>Estimated 2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001⁽¹⁾</u>
Operating revenues:					
Charges for services	\$12,831,662	\$12,431,502	\$11,447,770	\$10,276,633	\$ 9,204,240
Metro service	<u>7,826,443</u>	<u>7,251,920</u>	<u>6,991,993</u>	<u>6,905,509</u>	<u>6,064,073</u>
Total operating revenues	<u>\$20,658,105</u>	<u>\$19,683,422</u>	<u>\$18,439,763</u>	<u>\$17,182,142</u>	<u>\$15,268,313</u>
Operating expenses:					
Administrative and general	\$ 3,443,364	\$ 3,249,291	\$ 2,883,872	\$ 2,684,162	\$ 2,642,805
Purchased water	4,070,321	2,756,911	3,080,754	2,646,274	2,077,118
Metro service	7,860,449	7,059,363	6,991,993	7,051,661	6,207,258
Maintenance and operations	2,361,481	2,504,628	2,461,158	2,170,638	2,235,297
Taxes	439,957	284,354	449,174	414,214	169,614
Depreciation and amortization	<u>2,389,421</u>	<u>2,282,935</u>	<u>2,175,643</u>	<u>2,051,598</u>	<u>1,894,212</u>
Total operating expenses	<u>\$20,564,993</u>	<u>\$18,137,482</u>	<u>\$18,042,594</u>	<u>\$17,018,547</u>	<u>\$15,226,304</u>
Operating income (loss)	<u>93,112</u>	<u>1,545,940</u>	<u>397,169</u>	<u>163,595</u>	<u>42,009</u>
Nonoperating revenues (expenses):					
Interest and investment revenue	\$ 443,353	\$ 294,026	\$ 460,202	\$ 700,954	\$ 1,034,744
Interest expense	(12,170)	(15,715)	(363,058)	(226,031)	(247,545)
Amortization of Debt Issue Costs	--	--	(50,124)	(7,160)	(7,160)
Miscellaneous	56,241	45,291	47,399	32,469	53,088
Total nonoperating revenues (expenses)	<u>487,424</u>	<u>323,602</u>	<u>94,419</u>	<u>500,232</u>	<u>833,127</u>
Income before contributions and transfers	580,536	1,869,542	491,588	663,827	875,136
Capital contributions	5,470,929	2,189,890	8,195,927	7,272,949	5,234,794
Transfers out	(28,494)	(23,555)	--	--	--
Special Items	--	--	--	<u>106,873</u>	--
Change in net assets	6,022,971	4,035,877	8,687,515	8,043,649	6,109,930
Total net assets - beginning	\$102,660,096	\$ 99,013,677	\$90,326,162	\$82,357,050	\$76,247,120
Prior Period Adjustments	--	(389,458)	--	(74,537)	--
Total net assets - ending	<u>\$108,683,067</u>	<u>\$102,660,096</u>	<u>\$99,013,677</u>	<u>\$90,326,162</u>	<u>\$82,357,050</u>

⁽¹⁾ As restated into GASB 34 format.

Source: The City of Redmond

Statement of Revenues, Expenses, and Changes in Fund Net Assets
UPD Water/Wastewater Fund
For the Year Ended December 31

	<u>Estimated 2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001⁽¹⁾</u>
Operating revenues:					
Charges for services	\$3,172,980	\$2,869,510	\$1,870,429	\$1,477,802	\$883,843
Metro service	<u>630,888</u>	<u>570,896</u>	<u>240,394</u>	<u>121,986</u>	<u>74,558</u>
Total operating revenues	\$3,803,868	\$3,440,406	\$2,110,823	\$1,599,788	\$958,401
Operating expenses:					
Administrative and general	\$416,399	\$339,090	\$452,470	\$412,384	\$399,427
Purchased water	1,813,228	1,525,731	440,162	229,729	88,784
Metro service	593,981	396,138	240,394	121,986	37,643
Maintenance and operations	245,860	223,141	173,798	189,669	190,650
Taxes	64,793	60,901	48,162	34,583	19,054
Depreciation and amortization	<u>868,816</u>	<u>828,101</u>	<u>766,361</u>	<u>633,159</u>	<u>646,576</u>
Total operating expenses	<u>\$4,003,077</u>	<u>\$3,373,102</u>	<u>\$2,121,347</u>	<u>\$1,621,510</u>	<u>\$1,382,134</u>
Operating income (loss)	(199,209)	67,304	(10,524)	(21,722)	(423,733)
Nonoperating revenues (expenses):					
Interest and investment revenue	\$125,735	\$67,533	\$89,562	\$122,361	\$90,643
Miscellaneous	<u>4,630</u>	<u>-</u>	<u>-</u>	<u>4,200</u>	<u>4,700</u>
Total nonoperating revenues (expenses)	<u>\$130,365</u>	<u>\$67,533</u>	<u>\$89,562</u>	<u>\$126,561</u>	<u>\$95,343</u>
Income before contributions and transfer	(68,844)	134,837	79,038	104,839	(328,390)
Capital contributions	\$1,784,127	\$4,048,361	\$3,341,092	\$11,224,795	\$7,455,039
Special Items	<u>-</u>	<u>-</u>	<u>-</u>	<u>(744,229)</u>	<u>-</u>
Change in net assets	1,715,283	4,183,198	3,420,130	10,585,405	7,126,649
Total net assets - beginning	53,676,366	50,466,556	47,046,426	36,461,021	29,334,372
Prior Period Adjustments	<u>-</u>	<u>(973,388)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets - ending	<u>\$55,391,649</u>	<u>\$53,676,366</u>	<u>\$50,466,556</u>	<u>\$47,046,426</u>	<u>\$36,461,021</u>

⁽¹⁾ As restated into GASB 34 format.

Source: The City of Redmond

Sammamish Plateau Water and Sewer District

Payments to Cascade

Sammamish Plateau Water and Sewer District's ("Sammamish's") budgeted payments to Cascade for 2006 total \$3,548,387, as follows:

Administration Dues	\$ 85,888
Demand Share	193,025
New Water Surcharge	77,509
RCFC	3,114,160
Conservation	<u>77,805</u>
Total	\$3,548,387

Sammamish

Sammamish is located in the central portion of King County, approximately 15 miles east of Seattle. Sammamish serves an area consisting primarily of rural and suburban residential property, with boundaries that include the City of Sammamish, portions of the cities of Issaquah and Redmond, and portions of unincorporated King County. Sammamish encompasses an area of approximately 30 square miles.

Sammamish was founded in 1948, and has grown through mergers with two neighboring water districts. Sammamish operates its facilities with 47 full-time employees and is managed by a Board of Commissioners (the "Board") comprised of five elected officials who serve staggered six-year terms of office. The Board serves as the governing body and has authority to set rates and charges.

The Water System

Sammamish has fourteen wells with a total water capacity of 15.2 million gallons per day ("MGD"). Sammamish has eight water storage reservoirs with a combined storage capacity of 23 million gallons. Additionally, Sammamish has an intertie agreement with the Northeast Sammamish Sewer and Water District, the City of Issaquah and Union Hill Water Association. The water system consists of 265 miles of water mains. Sammamish's growth has fully utilized its well supply and additional growth will rely on supply from Cascade.

In 2004, Sammamish sold approximately 1,665 million gallons of water to about 15,400 accounts, 96 percent of which are residential. The largest customer of the water utility represented about 1.3 percent of the total water consumption and the top 10 customers represented about 9.6 percent of the total water consumption.

Outstanding Debt

Sammamish has a total of \$29,630,000 of outstanding water and sewer revenue bonds and \$1,617,875 of Public Works Trust Fund Loans. The bond resolution for the water utility currently has a debt service coverage requirement of 125 percent. In 2004, the water sales provided approximately 54 percent of the total revenues of the combined water and sewer system. Only the revenues of the water utility are pledged under the Interlocal Contract. Sammamish anticipates incurring approximately \$2,843,250 (awaiting approval) debt through a Public Works Trust Fund Loan in the next 12 months.

Debt Repayment Record

Sammamish has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Sammamish has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Sammamish has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Sammamish's water utility. Only the revenues of the water utility are pledged under the Interlocal Contract.

Historical Operating Statement (Fiscal Years Ended December 31)

	2004	2003	2002	2001	2000
Operating Revenue					
Water service	\$6,885,860	\$6,813,568	\$5,567,716	\$4,498,004	\$4,787,525
Miscellaneous revenue	110,377	90,123	91,379	80,400	90,542
Total Operating Revenues	6,996,237	6,903,691	5,659,095	4,578,404	4,878,067
Operating Expense					
Depreciation	2,725,228	2,445,118	2,205,161	2,096,148	1,900,588
Other Operating Expense	3,664,148	3,412,682	3,347,344	2,945,775	2,793,724
Total Operating Expense	6,389,376	5,857,800	5,552,505	5,041,923	4,694,312
Operating Income (Loss)	606,861	1,045,891	(533,348)	(921,629)	(69,379)
Non-Operating Revenue					
Investment income ⁽¹⁾	275,020	296,574	846,275	1,030,734	1,326,337
Assessment income	2,238	2,700	4,495	6,955	7,094
Loan interest income	20,822				
Rental income	32,127	36,939	34,008	18,790	(15,870)
Miscellaneous revenue	15,556	17,832	21,556	27,844	27,753
Total Non-Operating Revenue	345,763	354,045	906,334	1,084,323	1,345,314
Non-Operating Expense					
Interest on long-term debt	(125,436)	177,756	(171,122)	(140,625)	221,007
Amortization of debt discount	72,204	71,473	61,972	50,702	50,768
Net loss on disposition of assets	33,177	63,804	159,450	55,879	29,383
	(20,055)	313,033	50,300	(34,044)	301,158
Income (Loss) Before Capital Contributions	972,679	1,086,903	322,686	196,738	974,777
Capital Contributions ⁽²⁾	1,660,254	2,922,382	5,935,672	5,154,878	0
Change in Net Assets	\$2,632,933	\$4,009,285	\$6,258,358	\$5,351,616	\$974,777

⁽¹⁾ Decrease in investment income due in part to decreases in cash resulting from capital expenditures and to declining investment rates.

⁽²⁾ Capital contributions for 2000 totaling \$5,145,618 were not included in the income statement for Sammamish in 2000.

Source: Sammamish Plateau Water and Sewer District.

Skyway Water and Sewer District

Payments to Cascade

Skyway Water and Sewer District's ("Skyway's") budgeted payments to Cascade for 2006 total \$299,703 as follows:

Administration Dues	\$ 16,003
Demand Share	222,723
New Water Surcharge	-
RCFC	46,480
Conservation	<u>14,497</u>
Total	<u>\$ 299,703</u>

Skyway

Skyway is located in the western portion of King County, just south of the City of Seattle, bordering the cities of Renton, Seattle and Tukwila. Skyway encompasses an area of approximately 1.8 square miles.

Skyway is the result of the merger of several water and sewer utilities over the course of over sixty years and most recently, represents the 1999 merger of Bryn Mawr-Lakeridge Water and Sewer District with Skyway. Skyway is managed by a Board of Commissioners (the "Board") comprised of three elected officials who serve staggered six-year terms of office and the Board serves as the governing body of Skyway and has authority to set rates and charges.

The Water System

Skyway's water system includes six water storage reservoirs that provide standby, fire protection and equalizing storage. Four pumping stations are used to deliver water to customers at higher elevations. Skyway maintains water treatment facilities to treat water used from groundwater wells. Skyway purchases water through Cascade, from the City of Renton, and draws water from its own wells. In 2004, the water utility sold approximately 260 million gallons of water to about 3,250 accounts, most of which are residential. The largest customer of the water utility represents less than one percent of the total operating revenues of the combined water and sewer utility.

Outstanding Debt

Skyway operates as a combined water and sewer utility for financing purposes. Only the revenues of the water system are pledged under the Interlocal Contract. At the end of 2005, Skyway had \$2,147,544 of outstanding water and sewer revenue bonds, and \$2,914,701 of Public Works Trust Fund Loans. The bond resolution for the outstanding water and sewer revenue bonds has a debt service coverage requirement of 125 percent.

Debt Repayment Record

Skyway has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Skyway has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Skyway has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Skyway's combined water and sewer systems. Only the revenues from the water system are pledged under the Interlocal Contract. In 2004, water revenues were 33 percent of total operating revenues.

Historical Operating Statement				
Statements of Revenues, Expenses, And Changes in Net Assets				
(Fiscal Years Ended December 31)				
	2004	2003	2002	2001
Operating Revenues				
Customer Sales	\$ 3,679,911	\$ 3,627,558	\$ 3,384,407	\$ 3,500,371
Turn On/Turn Off Charges	16,820	15,560	16,920	9,575
Late Penalty Charges	51,025	45,855	43,923	44,229
Permits & Inspections	19,370	17,287	5,500	13,564
Equipment Rental	0	1,157	0	0
Interest on Liens	535	572	1,022	529
Total Operating Revenues	<u>3,767,661</u>	<u>3,707,989</u>	<u>3,451,722</u>	<u>3,568,268</u>
Operating Expenses				
Maintenance & Operations	2,137,953	2,205,402	2,127,612	1,908,889
Administrative & General	624,083	613,097	618,957	567,818
Depreciation & Amortization	611,589	586,331	567,051	530,571
Total Operating Expenses	<u>3,373,625</u>	<u>3,404,830</u>	<u>3,313,620</u>	<u>3,007,278</u>
Operating Income	<u>394,036</u>	<u>303,159</u>	<u>138,152</u>	<u>560,990</u>
Non-Operating Revenues (Expenses)				
Interest on Investments	177,121	227,660	323,219	418,924
Interest on Assessments	12,683	18,269	25,381	33,528
G.O. Bond – Tax Assessment	3,824	7,253	8,826	10,292
Investment Service Fees	(11,544)	(11,616)	(12,929)	(11,219)
Interest Expense	(145,262)	(157,305)	(168,449)	(176,915)
Contributions in Aid of Construction ⁽¹⁾	0	0	0	128,367
Tower Rental	54,638	55,989	61,279	79,440
Rental House Income – Net	(313)	2,740	7,200	143
Bond Fund Service Fees	(365)	(654)	(416)	(580)
Total Non-Operating Revenue	<u>90,782</u>	<u>142,336</u>	<u>244,111</u>	<u>481,980</u>
Income Before Capital Contributions	484,818	445,495	382,263	1,042,970
Capital Contributions ⁽¹⁾	254,733	743,082	30,000	0
Change in Net Assets	<u>\$ 739,551</u>	<u>\$ 1,188,577</u>	<u>\$ 412,263</u>	<u>\$ 1,042,970</u>
Total Net Assets – January 1 ⁽²⁾	\$21,420,337	\$20,231,794	\$19,819,528	--
Total Net Assets – December 31	\$22,159,922	\$21,420,371	\$20,231,794	\$19,819,528

⁽¹⁾ Included in Non-Operating Revenues in 2001 and as capital contributions thereafter.

⁽²⁾ Prior to 2002, total assets were reported in lieu of Total Net Assets and therefore are not shown here.

Source Skyway Water & Sewer District

City of Tukwila

Payments to Cascade

The City of Tukwila's ("Tukwila's") budgeted payments to Cascade for 2006 total \$1,461,695, as follows:

Administration Dues	\$ 37,230
Demand Share	1,251,299
New Water Surcharge	-
RCFC	139,440
Conservation	<u>33,726</u>
Total	<u>\$1,461,695</u>

Tukwila

Tukwila is located in the western portion of King County, just south of the City of Seattle. Tukwila was incorporated as a city in 1908, and has a total population of 17,110, as estimated for 2005, by the State Office of Financial Management. Tukwila is organized as a code city, governed by a Mayor-Council form of government. Tukwila has seven council members elected at large to staggered four-year terms. The Mayor is elected to serve in a part-time capacity, for a four year term. A city administrator and other officers and department directors are appointed by the Mayor with approval of the council members.

Tukwila's Water Utility

Tukwila's water transmission and distribution system supplies customers with approximately 807 million gallons of water annually through forty miles of water mains and 2,170 meters. Tukwila has a two million gallon covered pre-stressed concrete reservoir and booster pump station. Tukwila has several emergency interties with adjoining jurisdictions, cities, and water districts. Nearly all the water that Tukwila receives is purchased through Cascade. Tukwila is actively using reclaimed water for non-potable uses such as irrigation from a separate system supplied by King County Department of Natural Resources.

The largest customer of the water utility in 2004 represented 8.5 percent of the total water consumption and the top 10 customers represent approximately 38 percent of the total water consumption.

Outstanding Debt

Tukwila has formed a combined waterworks utility for purposes of financing, which includes water and sewer utilities. At the end of 2005, Tukwila had \$2,905,000 of outstanding water and sewer revenue bonds, and \$231,268 of Public Works Trust Fund Loans, relating to the combined system. The bond ordinance for the combined waterworks utility currently has a debt service coverage requirement of 135 percent.

Debt Repayment Record

Tukwila has promptly met all principal and interest payments of its bonds when due, and has never defaulted on a payment of principal or interest on any of its bonds. Furthermore, Tukwila has never issued refunding bonds for the purpose of avoiding an impending default.

Continuing Disclosure

During the previous five years, Tukwila has not failed to comply, in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Tukwila. Tukwila has combined its water and sewer utilities for purposes of financing. Only the revenues of the water utility are pledged under the Interlocal Contract. For 2005 the water utility provided approximately 50 percent of the total operating revenues of the combined system.

Statement of Revenues, Expenses, and Changes in Fund Net Assets Water/Sewer Utility

For the year ended December 31

	Estimated 2005	2004	2003	2002
Operating Revenue				
Charges for Services	\$ 7,604,133	\$ 7,619,234	\$ 7,166,594	\$ 6,728,838
Other Operating Revenue	578	1,338	10,764	19,617
Total Operating Revenues	7,604,711	7,620,572	7,177,358	6,748,455
Operating Expenses				
Operations and Maintenance	4,822,923	4,606,999	4,243,033	4,296,611
Administrative and General	1,048,963	1,031,643	1,317,766	1,295,641
Taxes	229,550	237,769	223,531	216,309
Depreciation / Amortization	704,709	646,937	627,527	611,208
Total Operating Expenses	6,866,145	6,523,348	6,411,857	6,479,769
Operating Income (Loss)	738,566	1,097,224	765,501	328,686
Non-Operating Revenue (Expenses)				
Taxes	0	0	131,043	337,521
Investment Income	200,104	125,680	(243,447)	(260,828)
Interest Expense	(218,544)	(234,791)	8,206	8,206
Amortization of Debt Premium	8,206	8,205	(16,579)	(16,579)
Amortization of Debt Discount	(16,579)	(16,579)	0	0
Other non-Operating Rev./Exp.	0	0	430	22,492
Total Non-Operating Rev./Exp.	(26,813)	(117,485)	(120,347)	90,812
Income (Loss) Before Contributions and Transfers	711,753	979,739	645,154	419,498
Capital contributions	218,519	183,122	192,752	224,027
Transfers in	0	0	0	0
Transfers (out)	(43,128)	(200,000)	(254,130)	(204,130)
Change in Net Assets	\$ 887,144	\$ 962,861	\$ 583,776	\$ 439,395
Total Net Assets – Beginning	\$20,923,361	\$19,960,500	\$19,376,724	\$18,937,329
Total Net Assets – Ending	\$21,810,505	\$20,923,361	\$19,960,500	\$19,376,724

Source: City of Tukwila.

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**APPENDIX B
RESOLUTION NO. 2006-07**

This Appendix B contains only Resolution No. 2006-07, adopted by the Board of Cascade on April 19, 2006. For a description of certain additional provisions of the Bonds contained in Resolution No. 2006-08, adopted on April 26, 2006, please see the front cover of this Official Statement, the inside front cover, and “DESCRIPTION OF THE BONDS” in this Official Statement.

RESOLUTION NO. 2006-07

A RESOLUTION of the Board of Directors of Cascade Water Alliance, A Washington Nonprofit Corporation, Relating to the Water Transmission and Supply System of Cascade Water Alliance; Authorizing the Borrowing of Money and the Issuance and Sale of Water System Revenue Bonds for the Purposes of Paying Part of the Cost of Carrying out a Portion of the Cascade Water Alliance Capital Program Coordination, Management and Finance Plan, Providing for a Debt Service Reserve and Paying the Costs of Issuing and Selling Those Bonds; Providing for Bond Insurance and Reserve Insurance; Fixing Certain Provisions and Covenants of Those Bonds; Creating Certain Accounts Relating to Those Bonds; and Authorizing and Directing the Sale of Those Bonds.

Adopted April 19, 2006

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CASCADE WATER ALLIANCE

RESOLUTION NO. 2006 – 07

A RESOLUTION of the Board of Directors of Cascade Water Alliance, A Washington Nonprofit Corporation, Relating to the Water Transmission and Supply System of Cascade Water Alliance; Authorizing the Borrowing of Money and the Issuance and Sale of Water System Revenue Bonds for the Purposes of Paying Part of the Cost of Carrying out a Portion of the Cascade Water Alliance Capital Program Coordination, Management and Finance Plan, Providing for a Debt Service Reserve and Paying the Costs of Issuing and Selling Those Bonds; Providing for Bond Insurance and Reserve Insurance; Fixing Certain Provisions and Covenants of Those Bonds; Creating Certain Accounts Relating to Those Bonds; and Authorizing and Directing the Sale of Those Bonds.

WHEREAS, the Cascade Water Alliance (“Cascade”) is a Washington nonprofit corporation composed of municipal corporations and special purpose municipal corporations which is organized under authority of the Interlocal Cooperation Act (Chapter 39.34 RCW) for the purpose of providing water supply to meet the growing demands of its Members; and

WHEREAS, pursuant to an Interlocal Contract effective April 1, 1999, as amended and restated as of December 15, 2004 (the "Interlocal Contract") and the provisions of Chapter 39.34 RCW, Cascade is a "watershed management partnership" described in RCW 39.34.200 authorized under RCW 39.34.210 to issue revenue bonds; and

WHEREAS, pursuant to Resolution No. 2005-06, Cascade adopted its Transmission and Supply Plan on September 28, 2005, which serves, among other things, as a "Water Supply Plan" as defined in the Interlocal Contract; and

WHEREAS, consistent with the Interlocal Contract and the Transmission and Supply Plan, Cascade has adopted its Capital Program Coordination, Management and Finance Plan on March 22, 2006 (the "2006 Watershed Management Plan"), which serves, among other things, as a "watershed management plan" under RCW 39.34.190; and

WHEREAS, the 2006 Watershed Management Plan describes various capital projects and associated rights, properties and facilities necessary to carry out Cascade's mission; and

WHEREAS, Cascade desires to issue water system revenue bonds to provide for part of the cost of carrying out the 2006 Watershed Management Plan, to provide for a debt service reserve and to pay the costs of issuing and selling those bonds;

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF CASCADE WATER ALLIANCE AS FOLLOWS:

Section 1. Definitions. As used in this resolution and for the purposes of this resolution the following words shall have the following meanings:

(a) "Accreted Value" means, with respect to any Capital Appreciation Bond, as of the date of calculation, the sum of the initial principal amount of that Capital Appreciation Bond plus the interest accumulated, compounded and unpaid thereon.

(b) "Annual Debt Service" means, with respect to any Parity Bonds outstanding as of the date of calculation, for any fiscal year (or other designated twelve-month period), all amounts required to be paid in that fiscal year (or other designated twelve-month period) in respect of Principal of and interest on those Parity Bonds, subject to the following:

(1) the interest rate on Variable Interest Rate Bonds shall be assumed to be equal to the average USD-BMA Municipal Swap Index during the fiscal quarter preceding the quarter in which the calculation is made;

(2) notwithstanding clause (1) of this definition, if a Payment Agreement is in effect with respect to any Variable Interest Rate Bonds pursuant to which Cascade receives payments based on a

variable rate in exchange for making payments based on a fixed rate, the interest rate on those Variable Interest Rate Bonds during the period that Payment Agreement is scheduled to be in effect shall be assumed to be the fixed rate specified in that Payment Agreement;

(3) if a Payment Agreement is in effect with respect to any Parity Bonds pursuant to which Cascade receives payments based on a fixed rate in exchange for making payments based on a variable rate, the interest rate on those Parity Bonds during the period that Payment Agreement is scheduled to be in effect shall be assumed to be the sum of (a) the interest rate on those Parity Bonds determined as if those Parity Bonds were Variable Interest Rate Bonds, plus (b) the positive difference, if any, between the fixed rate payable on those Parity Bonds and the fixed rate Cascade receives pursuant to that Payment Agreement;

(4) notwithstanding clause (1) of this definition, the interest rate on Paired Bonds shall be assumed to be the aggregate fixed rate to be paid by Cascade with respect to those Paired Bonds; and

(5) the outstanding Principal of any Balloon Bonds shall be assumed to become due and payable in equal installments in each fiscal year from the date of calculation to the final scheduled maturity of those Balloon Bonds.

(c) "Average Annual Debt Service" means, with respect to any Parity Bonds outstanding as of the date of calculation, the sum of the Annual Debt Service on those Parity Bonds for each fiscal year during which those Parity Bonds are scheduled to remain outstanding, divided by the number of those fiscal years.

(d) "Balloon Bonds" means a series or subseries of Parity Bonds designated as such in the applicable Parity Bond Authorizing Resolution, the aggregate Principal of which becomes due and payable, either at maturity or by mandatory redemption, in any fiscal year in an amount that constitutes 25% or more of the initial aggregate Principal of that series or subseries of Parity Bonds.

(e) "Board" means the Board of Directors of Cascade.

(f) "Bond Fund" means the Water System Revenue Bond Fund created pursuant to Resolution No. 2006-03 of Cascade.

(g) "Bond Counsel" means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by Cascade for any purpose under the 2006 Bond Resolution applicable to the use of that term.

(h) "Bond Insurance" means any bond insurance policy guaranteeing the payment when due

of all or part of the Principal of and interest on any Parity Bonds.

(i) “Bond Insurer” means any provider of Bond Insurance approved by the Board by resolution or resolutions.

(j) “Bond Owners’ Trustee” has the meaning assigned to that term in Section 27(b) of this resolution.

(k) “Bond Register” means the books or records maintained by the Bond Registrar on which are recorded the names and addresses of the Registered Owner of each of the Parity Bonds.

(l) “Bond Registrar” means the fiscal agent of the State of Washington (as the same may be designated by the State from time to time).

(m) “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 those 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.

(n) “Cascade” means the Cascade Water Alliance, a Washington Nonprofit Corporation under Chapter 24.06 RCW composed of municipal corporations and special purpose municipal corporations which is organized under authority of the Interlocal Cooperation Act (Chapter 39.34 RCW) for the purpose of providing water supply to meet the growing demands of its Members and a watershed management partnership created pursuant to Chapter 39.34 RCW. “Cascade” includes a successor entity to all of Cascade’s rights and obligations material to the Parity Bonds, including a successor municipal corporation.

(o) “Code” means the Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

(p) “Construction Fund” means the Construction Fund created pursuant to Resolution No. 2006-03 of Cascade.

(q) “Coverage Requirement” in any fiscal year (or other designated twelve-month period) means that Net Revenue in that fiscal year (or other designated twelve-month period), minus RCFCs received in that fiscal year (or other designated twelve-month period) plus amounts on deposit in the Debt Service Account on the last business day prior to the commencement of that fiscal year (or other

designated twelve-month period), is at least equal to the Annual Debt Service on all outstanding Parity Bonds and the amount, if any, required to be deposited in any reserve account securing Parity Bonds in that fiscal year (or other designated twelve-month period).

(r) “Debt Service Account” means the Debt Service Account in the Bond Fund created pursuant to Resolution No. 2006-03 of Cascade.

(s) “DTC” means The Depository Trust Company, New York, New York.

(t) “Event of Default” has the meaning assigned to that term in Section 27(a) of this resolution.

(u) “Future Parity Bonds” means all revenue bonds and other obligations of Cascade for borrowed money (including, without limitation, financing leases) issued or incurred after the date of the issuance of the Bonds, the payment of which constitutes a lien and charge on the Net Revenue equal in rank with the lien and charge upon the Net Revenue required to be paid into the Bond Fund to pay and secure the payment of the Principal of and interest on the 2006 Bonds.

(v) “General Manager” means the General Manager of Cascade, or any other officer who succeeds to substantially all of the responsibilities of that office specified in the 2006 Bond Resolution.

(w) “Government Obligations” means those government obligations defined by RCW 39.53.010(9) as it now reads or hereafter may be amended or replaced.

(x) “Gross Revenue” means all of the earnings and revenues received by Cascade from any source whatsoever including but not limited to: (a) Member Charges; (b) revenues from the sale, lease or furnishing of other commodities, services, properties or facilities; (c) the receipt of earnings from the investment of money in any maintenance fund or similar fund; and (d) withdrawals from the Rate Stabilization Fund. However, the Gross Revenue shall not include: (a) Principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the System (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (b) income and revenue which may not legally be pledged for revenue bond debt service; (c) improvement district assessments; (d) federal or state grants allocated to capital projects; (e) payments under bond insurance or other credit enhancement policy or device; (f) insurance or condemnation proceeds used for the replacement of

capital projects or equipment; (g) earnings in any construction fund or bond redemption fund; (h) deposits to the Rate Stabilization Fund; or (i) any revenues generated by any Member's Water Supply Assets that are not part of the System, except those amounts that are payable to Cascade pursuant to the Interlocal Contract or another interlocal agreement.

(y) "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.

(z) "Interlocal Contract" means the Interlocal Contract effective April 1, 1999, as amended and restated on December 15, 2004, and as that Interlocal Contract may be further amended from time to time consistent with Section 26 of this resolution.

(aa) "Letter of Representations" means the Blanket Issuer Letter of Representations herein authorized to be executed by Cascade and received and accepted by DTC, as it may be amended from time to time.

(bb) "MSRB" means the Municipal Securities Rulemaking Board.

(cc) "Maximum Annual Debt Service" means, with respect to any Parity Bonds outstanding as of the date of calculation, the maximum amount of Annual Debt Service that will mature or come due in the current year or any future year on those Parity Bonds.

(dd) "Member" means a member agency of Cascade under the Interlocal Contract.

(ee) "Member Charges" means all payments that Members are required by the Interlocal Contract to make to Cascade, including but not limited to all Rates and Charges, RCFCs, dues, assessments and other payments from Members.

(ff) "NRMSIR" means a nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule.

(gg) "Net Revenue" for any fiscal year (or other designated twelve-month period) means the Gross Revenue for that fiscal year (or other designated twelve-month period) less Operations and Maintenance Costs for that fiscal year (or other designated twelve-month period). In calculating Net Revenue, Cascade 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.

(hh) "Operations and Maintenance Costs" means all expenses incurred by Cascade to operate and maintain the System in good repair, working order and condition, including without limitation, payments made to any other public or private entity for water or other utility service. Operations and Maintenance Costs shall not include any depreciation, capital additions or capital replacements to the System.

(ii) "Paired Bonds" means two series of Parity Bonds (1) that are issued simultaneously, (2) that are designated as Paired Bonds in the applicable Parity Bond Authorizing Resolution, (3) equal in Principal amount, (4) that mature and are subject to mandatory redemption on the same date and in the same amount and (5) the interest rates on which, taken together, result in an irrevocable fixed interest rate obligation of Cascade until the maturity or prior redemption thereof.

(jj) "Parity Bond Authorizing Resolution" means one or more resolutions of Cascade (including the 2006 Bond Resolution) that authorize the issuance and sale and establish the terms of a particular series of Parity Bonds and other matters relating to the same plan of finance.

(kk) "Parity Bonds" means the 2006 Bonds and any Future Parity Bonds.

(ll) "Payment Agreement" means a written agreement that (1) is entered into by Cascade for the purpose of managing or reducing Cascade's exposure to fluctuations or levels of interest rates for Parity Bonds or for other interest rate, investment, asset or liability management purposes related 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 Cascade'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.

(mm) "Payment Agreement Payments" means the regularly scheduled amounts (netted, if applicable) required to be paid by Cascade to the

Qualified Counterparty pursuant to a Payment Agreement.

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

(oo) "Principal" means, as of any date of calculation, (1) with respect to any Capital Appreciation Bond, the Accreted Value thereof as of the date on which interest on that Capital Appreciation Bond is compounded next preceding that date of calculation (unless that date of calculation is a date on which interest is compounded, in which case, as of that date of calculation), and (2) with respect to any Parity Bond other than a Capital Appreciation Bond, the principal amount thereof.

(pp) "Qualified Counterparty" means a party (other than Cascade or a party related to Cascade) 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.

(qq) "Rate Stabilization Fund" means the Rate Stabilization Fund created pursuant to Resolution No. 2006-03 of Cascade.

(rr) "Rates and Charges" means the rates and charges (not including RCFCs) chargeable to each Member under the Interlocal Contract plus any late payment or other charge that may be due.

(ss) "Rating Agencies" means any nationally-recognized securities rating agency or agencies rating any of the Parity Bonds at the request of Cascade.

(tt) "RCFC Fund" means the RCFC Fund created pursuant to Resolution No. 2006-03 of Cascade.

(uu) "RCFCs" means the regional capital facilities charges to each Member for new equivalent residential units connected to that Member's water distribution system, as calculated consistently with the Interlocal Contract.

(vv) "RCW" means the Revised Code of Washington.

(ww) "Registered Owner" means a person shown on the Bond Register as the owner of a Parity Bond.

(xx) "Reserve Account" means the Reserve Account in the Bond Fund created pursuant to Resolution No. 2006-03 of Cascade.

(yy) "Reserve Insurance" means any bond insurance, letter of credit, guaranty, surety bond or similar credit enhancement device obtained by Cascade equal to part or all of the Reserve Requirement that 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 each of at least two Rating Agencies (without regard to any gradations within a rating category) and is not cancelable on less than three years' notice.

(zz) "Reserve Requirement" means, as of any date of calculation, the lesser of Maximum Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account or 125% of Average Annual Debt Service on the outstanding Parity Bonds secured by the Reserve Account, but at no time shall the Reserve Requirement exceed 10% of the original proceeds of the Parity Bonds secured by the Reserve Account.

(aaa) "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.

(bbb) "SEC" means the United States Securities and Exchange Commission.

(ccc) "State" means the State of Washington.

(ddd) "State Auditor" means the office of the State Auditor of the State or such other department or office of the State authorized and directed by State law to make audits.

(eee) "System" means the water transmission and supply system of Cascade as it now exists, including Water Supply Assets owned or controlled by Cascade, and all additions thereto and betterments and extensions thereof at any time made, together with any utility systems of Cascade hereafter combined with the System. The System shall not include any water transmission and supply or other utility system service or other facilities that may be created, acquired or constructed by Cascade as a separate utility system as provided in Section 21 of this resolution.

(fff) "Term Bonds" means Parity Bonds that are subject to mandatory redemption prior to their scheduled maturity date or dates.

(ggg) "Treasurer" means the treasurer of Cascade appointed pursuant to the Bylaws of Cascade and other persons or entities carrying out

treasury operations under the direction of that treasurer.

(hhh) “2006 Bond” means each bond authorized to be issued pursuant to, under the authority of and for the purposes provided in the 2006 Bond Resolution.

(iii) “2006 Bond Insurer” means the provider of Bond Insurance for the 2006 Bonds, if any.

(jjj) “2006 Bond Resolution” means, collectively, this resolution and any 2006 Bond Sale Resolution, as the same may be amended or supplemented in accordance with Section 25 of this resolution.

(kkk) “2006 Bond Sale Resolution” means one or more resolutions of the Board adopted pursuant to this resolution and confirming the sale and final terms of the 2006 Bonds.

(lll) “2006 Construction Account” means the 2006 Bonds Construction Account created pursuant to Section 14 of this resolution.

(mmm) “2006 Watershed Management Plan” means the Capital Program Coordination, Management and Finance Plan adopted by Cascade on March 22, 2006, which serves, among other things, as a “watershed management plan” under RCW 39.34.190, together with such amendments as may be adopted by the Board consistent with applicable law.

(nnn) “Undertaking” means Cascade’s undertaking pursuant to Section 23 of this resolution and the 2006 Bond Sale Resolution to provide annual financial information and notice of material events.

(ooo) “USD-BMA Municipal Swap Index” means the index which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by The Bond Market Association, or the successor to that index.

(ppp) “Variable Interest Rate Bonds” means, for any period of time, any Parity Bonds that bear interest at a rate that is not fixed and is not specified in the applicable Parity Bond Authorizing Resolution.

(qqq) “Water Supply Assets” means tangible and intangible assets usable in connection with the provision of water supply, including without limitation, real property, physical facilities (e.g., dams, wells, treatment plants, pump stations, reservoirs, and transmission lines), water rights, capacity and/or contractual rights in facilities or resources owned by other entities, and investments in conservation programs and facilities.

Section 2. Adoption of Recitals. The recitals set forth above are adopted as though they were set forth in full herein.

Section 3. Authorization and Description of 2006 Bonds. For the purpose of providing all or a part of the money required to (1) pay part of the cost of carrying out the 2006 Watershed Management Plan, (2) provide for a debt service reserve for the 2006 Bonds, and (3) pay the costs of issuing and selling the 2006 Bonds, Cascade shall issue and sell the 2006 Bonds in the aggregate Principal amount of not to exceed \$58,000,000, the total aggregate Principal amount to be specified in the 2006 Bond Sale Resolution. The 2006 Bonds shall be designated “Cascade Water Alliance Water System Revenue Bonds, 2006”; shall be dated their date of delivery to the initial purchaser thereof; shall be in fully registered form; shall be in the denominations of \$5,000 each or any integral multiple thereof within a single maturity; and shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification. The 2006 Bonds shall bear interest (computed on the basis of a 360-day year of twelve 30-day months), payable semiannually on each March 1 and September 1, commencing September 1, 2006, to the maturity or earlier redemption of the 2006 Bonds, at the rate or rates as the Board hereafter shall establish in the 2006 Bond Sale Resolution.

The 2006 Bonds shall mature or be subject to mandatory redemption in accordance with the final maturity schedule set forth in the 2006 Bond Sale Resolution.

Section 4. 2006 Bond Sale Resolution. The Board may adopt the 2006 Bond Sale Resolution and in the 2006 Bond Sale Resolution may provide for the matters described in this resolution and such other terms and conditions and such other matters that the Board deems necessary and appropriate to carry out the purposes of this resolution. Once adopted, the 2006 Bond Sale Resolution shall be deemed a part of this resolution as if set forth herein.

The 2006 Bond Sale Resolution may provide for Bond Insurance and/or Reserve Insurance for the 2006 Bonds, and conditions or covenants relating thereto, including additional terms, conditions and covenants relating to the 2006 Bonds that are required by the 2006 Bond Insurer and/or Reserve Insurance provider, if any, and are consistent with the provisions of this resolution, including but not limited to restrictions on investments and requirements of notice to and requirements for obtaining the consent of the 2006 Bond Insurer and/or Reserve Insurance provider, if any.

The 2006 Bond Sale Resolution may approve and authorize the execution and delivery on behalf of

Cascade of any contracts consistent with the provisions of this resolution for which Cascade's approval is necessary or to which Cascade is a party and that are related or incidental to the initial issuance and sale of the 2006 Bonds, the initial establishment of the interest rate or rates on the 2006 Bonds and any redemption of the 2006 Bonds, including but not limited to a purchase contract for the 2006 Bonds, contracts relating to Bond Insurance and Reserve Insurance for the 2006 Bonds and similar contracts for those purposes.

Section 5. Registration and Transfer or Exchange of 2006 Bonds. The 2006 Bonds shall be issued only in registered form as to both Principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the Registered Owner of each 2006 Bond and the Principal amount and number of each of the 2006 Bonds held by each Registered Owner.

2006 Bonds surrendered to the Bond Registrar may be exchanged for 2006 Bonds in any authorized denomination of an equal aggregate Principal amount and of the same interest rate and maturity. 2006 Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer of 2006 Bonds shall be at the expense of Cascade, except that the Bond Registrar may make a charge to any Registered Owner requesting such exchange or transfer in the amount of any tax or other governmental charge required to be paid with respect thereto. The Bond Registrar is not required to exchange or transfer any 2006 Bond after the giving of notice calling that 2006 Bond for redemption, in whole or in part.

The 2006 Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2006 Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations with DTC substantially in the form on file with the Secretary of the Board and by this reference made a part hereof. To induce DTC to accept the 2006 Bonds as eligible for deposit at DTC, Cascade approves the Letter of Representations. The General Manager is authorized and directed to execute and deliver the Letter of Representations, on behalf of Cascade, to DTC on or before the date of delivery of the 2006 Bonds to the purchaser thereof and the payment therefor, with such changes as the General Manager deems to be in the best interest of Cascade, and the execution and delivery of the Letter of Representations shall evidence irrevocably the approval of the Letter of Representations by Cascade. Neither Cascade nor the Bond Registrar shall have any responsibility or obligation to DTC participants

or to the persons for whom DTC participants act as nominees with respect to the 2006 Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of Principal or interest, if any, or interest on the 2006 Bonds, or any notice that is permitted or required to be given to Registered Owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC or its nominee).

For so long as any 2006 Bonds are held in fully immobilized form, DTC, its nominee or any successor depository shall be deemed to be the Registered Owner for all purposes hereunder and all references to Registered Owners shall mean DTC, its nominee or any successor depository and shall not mean the owners of any beneficial interests in the 2006 Bonds. Registered ownership of those 2006 Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by Cascade or that substitute depository's successor; or (iii) to any person if the 2006 Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by Cascade that it no longer wishes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), Cascade may appoint a substitute depository. Any substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) Cascade determines that the 2006 Bonds are to be in certificated form, the ownership of 2006 Bonds may be transferred to any person as provided herein and the 2006 Bonds no longer shall be held in fully immobilized form.

Section 6. Mutilated, Lost, Stolen and Destroyed 2006 Bonds. In case any 2006 Bond shall become mutilated or be destroyed, stolen or lost, Cascade may, if not then prohibited or otherwise required by law, cause to be executed and delivered a new 2006 Bond of like amount, interest rate, maturity date and tenor in exchange and substitution for and upon cancellation of that mutilated 2006 Bond, or in lieu of and in substitution for that destroyed, stolen or lost 2006 Bond, upon payment by the Registered Owner thereof of the reasonable expenses and charges of Cascade and the Bond Registrar in connection therewith, and in the case of a 2006 Bond

destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that that 2006 Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing Cascade and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost 2006 Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new 2006 Bond prior to payment. If the provisions of State law at any time differ from the provisions of this Section with respect to the requirements or procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed bonds, then the provisions of State law shall prevail.

Section 7. Payment of 2006 Bond Principal, Premium and Interest. Principal of and premium, if any, and interest on the 2006 Bonds shall be payable in lawful money of the United States of America. Interest on the 2006 Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the Registered Owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date (the "2006 Record Date") or, at the request of a Registered Owner of \$1,000,000 or more in aggregate Principal amount of 2006 Bonds, by wire transfer to an account in the United States designated in writing by that Registered Owner prior to the applicable 2006 Record Date. Principal of and premium, if any, on each 2006 Bond shall be payable upon presentation and surrender of that 2006 Bond by the Registered Owner thereof to the Bond Registrar. Notwithstanding the foregoing, payment of any 2006 Bonds registered in the name of DTC or its nominee shall be made in accordance with the operational arrangement of DTC referred to in the Letter of Representations.

Section 8. Redemption Provisions and Purchase of 2006 Bonds.

(a) Optional Redemption. All or some of the 2006 Bonds may be subject to redemption at the option of Cascade on the dates and at the prices specified in the 2006 Bond Sale Resolution.

(b) Mandatory Redemption. All or some of the 2006 Bonds may be designated as Term Bonds in the 2006 Bond Sale Resolution. If Term Bonds are not redeemed under the optional redemption provisions set forth above or purchased for cancellation under the provisions set forth below, they shall be called for redemption in such manner as the Bond Registrar shall determine on the dates and at the prices specified in the 2006 Bond Sale Resolution.

If Cascade redeems under the optional redemption provisions or purchases for cancellation

Term Bonds, the Principal amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) may be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The General Manager shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of that allocation at least 45 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.

(c) Partial Redemption. Portions of the Principal amount of any 2006 Bond, in integral amounts of \$5,000, may be redeemed, unless otherwise provided in the 2006 Bond Sale Resolution. Whenever less than all of the 2006 Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the 2006 Bonds or portions thereof to be redeemed from the 2006 Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except that, for so long as the 2006 Bonds are registered in the name of DTC or its nominee, DTC shall select the 2006 Bonds or portions thereof to be redeemed in accordance with the Letter of Representations. In no event shall any 2006 Bond be outstanding in a Principal amount that is not an authorized denomination.

If less than all of the Principal amount of any 2006 Bond is redeemed, upon surrender of that 2006 Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor, a new 2006 Bond (or 2006 Bonds, at the option of the Registered Owner) of the same maturity and interest rate in any of the denominations authorized by this resolution in the aggregate total Principal amount remaining unredeemed.

(d) Purchase of 2006 Bonds. Cascade reserves the right and option to purchase for cancellation any or all of the 2006 Bonds at any time at any price plus accrued interest to the date of purchase.

(e) 2006 Bonds to be Canceled. All 2006 Bonds purchased for cancellation or redeemed under this Section shall be canceled.

Section 9. Notice and Effect of Redemption. Cascade shall cause notice of any intended redemption of 2006 Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any 2006 Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so

provided, whether or not notice is actually received by that Registered Owner.

In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to the 2006 Bond Insurer, if any, and to such other persons and with such additional information as the General Manager shall determine or as specified in the 2006 Bond Sale Resolution, but these additional mailings shall not be a condition precedent to the redemption of 2006 Bonds.

In the case of an optional redemption, the notice may state that Cascade 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 Cascade gives notice to the affected Registered Owners at any time prior to the scheduled redemption date that Cascade is rescinding the redemption notice in whole or in part. Any 2006 Bonds subject to a rescinded notice of redemption shall remain outstanding, and the rescission shall not constitute an Event of Default.

Interest on each 2006 Bond called for redemption shall cease to accrue on the date fixed for redemption unless (a) that 2006 Bond is subject to a rescinded notice of redemption or (b) that 2006 Bond is not subject to a rescinded notice of redemption and is presented for payment pursuant to the call but is not redeemed by Cascade.

Notwithstanding the foregoing, notice of redemption of any 2006 Bonds registered in the name of DTC or its nominee shall be made in accordance with the Letter of Representations.

Section 10. Failure to Pay 2006 Bonds. If any 2006 Bond is not paid when properly presented at its maturity or redemption date, Cascade shall be obligated to pay interest on that 2006 Bond at the same rate provided in that 2006 Bond from and after its maturity or redemption date until that 2006 Bond, Principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund.

Section 11. Form and Execution of 2006 Bonds. The 2006 Bonds shall be prepared in a form consistent with the provisions of the 2006 Bond Resolution and State law and shall be signed by the Chair and Secretary of the Board, either or both of whose signatures may be manual or in facsimile.

Only 2006 Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of the 2006 Bond Resolution:

CERTIFICATE OF AUTHENTICATION

This bond is one of the fully registered Cascade Water Alliance Water System Revenue Bonds, 2006, described in the 2006 Bond Resolution.

WASHINGTON STATE FISCAL AGENT
Bond Registrar

By: _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2006 Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of the 2006 Bond Resolution.

If any officer whose facsimile signature appears on a 2006 Bond ceases to be an officer of Cascade authorized to sign bonds before that 2006 Bond is authenticated or delivered by the Bond Registrar or issued by Cascade, that 2006 Bond nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on Cascade as though that person had continued to be an officer of Cascade authorized to sign bonds. Any 2006 Bond also may be signed on behalf of Cascade by any person who, on the actual date of signing of that 2006 Bond, is an officer of Cascade authorized to sign bonds, although he or she did not hold the required office on the date of issuance of that 2006 Bond.

Section 12. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the 2006 Bonds which shall at all times be open to inspection by Cascade. The Bond Registrar is authorized, on behalf of Cascade, to authenticate and deliver 2006 Bonds transferred or exchanged in accordance with the provisions of the 2006 Bonds and the 2006 Bond Resolution, to serve as Cascade's paying agent for the 2006 Bonds and to carry out all of the Bond Registrar's powers and duties under the 2006 Bond Resolution and Resolution No. 2006-04 establishing a system of registration for Cascade's bonds and obligations.

Section 13. Bond Fund. So long as any Parity Bonds are outstanding, Cascade shall set aside and to pay into the Bond Fund, out of the Net Revenue, certain fixed amounts without regard to any proportion, namely:

(a) Into the Debt Service Account,

(1) On the first business day of each month, beginning June 2006 and continuing through September 2006, an amount equal to one-fourth of the interest on the 2006 Bonds to become due and payable on September 1, 2006, except that the deposit into the Debt Service Account to be made on

the first business day of September 2006 may be reduced to the extent the amount on deposit therein and available to be used therefor is sufficient to make that payment on that date;

(2) On the first business day of each month, beginning October 2006 and continuing for as long as any of the 2006 Bonds are outstanding and unpaid, an amount equal to one-sixth of the interest on the outstanding 2006 Bonds to become due and payable on the next interest payment date, except that the monthly deposits into the Debt Service Account with respect to any interest payment date may be reduced to the extent the amount on deposit therein and available to be used therefor is sufficient to make that payment on that interest payment date; and

(3) On the first business day of each month, beginning October 2006 and continuing for as long as any of the 2006 Bonds are outstanding and unpaid, an amount equal to one-twelfth of the Principal of the outstanding 2006 Bonds to become due and payable on the next Principal payment date, except that the monthly deposits into the Debt Service Account with respect to any Principal payment date may be reduced to the extent the amount on deposit therein and available to be used therefor is sufficient to make that payment on that Principal payment date.

(b) Into the Reserve Account, except as otherwise expressly provided herein, the amount necessary to make the amount on deposit therein equal to the Reserve Requirement.

Those fixed amounts shall be a lien and charge against the Net Revenue.

Cascade may provide for all or any part of the Reserve Requirement through Reserve Insurance. Except as otherwise expressly provided in this resolution, the Reserve Account shall be maintained at all times at not less than the Reserve Requirement.

On the date of issuance of the 2006 Bonds, Cascade shall deposit into the Reserve Account any combination of 2006 Bond proceeds, Reserve Insurance or other money legally available, in the amount necessary to make the amount on deposit in the Reserve Account equal to the Reserve Requirement. The payment of Principal of and premium, if any, and interest on the 2006 Bonds when due shall be secured by the Reserve Account. In the event that there shall be a deficiency in the Debt Service Account that prevents making any payment secured by the Reserve Account, that deficiency shall be made up from the Reserve Account, first, by the withdrawal of cash therefrom, second, from the proceeds of the sale of investments held therein, and third, from pro rata draws under each Reserve Insurance. Any deficiency created in the Reserve Account by reason of any such

withdrawal shall then be made up from the Net Revenue first available after making necessary provisions for the required payments into the Debt Service Account, first, to reinstate each Reserve Insurance, pro rata, and second, to make up any remaining deficiency. The money in the Reserve Account may be applied against the last outstanding Parity Bonds secured by the Reserve Account. If the Reserve Requirement is fully provided for, any money in excess of the Reserve Requirement may be withdrawn and deposited consistent with this Section and Section 19 of this resolution.

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

Notwithstanding the foregoing, for any Future Parity Bonds Cascade may establish a separate reserve requirement for that issue of Future Parity Bonds and any related Payment Agreement Payments, to be held in a separate reserve account within the Bond Fund, for the purpose of securing that issue of Future Parity Bonds and Payment Agreement Payments, and that issue of Parity Bonds and those Payment Agreement Payments shall not be secured by amounts in the Reserve Account or by Reserve Insurance securing any part of the Reserve Requirement.

All money in the Bond Fund may be kept in cash or invested in legal investments maturing or subject to redemption or repurchase at the option of Cascade, (i) for investments in the Debt Service Account, not later than the dates when the funds are required for the payments therefrom, and (ii) for investments in the Reserve Account, not later than ten years from the date of investment. Earnings from investments in the Debt Service Account shall be retained therein. Earnings from investments in the Reserve Account shall be retained therein until the amount therein is equal to the Reserve Requirement and thereafter may be withdrawn and deposited consistent with this Section and Section 19 of this resolution. In computing the amount on hand in the Reserve Account, Reserve Insurance shall be valued at the lesser of the face amount thereof or the amount available, and all other investments shall be valued at market at least annually and on any business day following any withdrawal therefrom to make a payment from the Debt Service Account secured by the Reserve Account. Any deficiency in the Reserve Account resulting from the valuation of investments held therein shall be made up in approximately equal

installments within four months after the date of that valuation.

Notwithstanding the provisions of the foregoing paragraph, so long as there is no deficiency in the Bond Fund, any earnings that are subject to federal arbitrage rebate requirements may be withdrawn from the Bond Fund for deposit in a separate account created for the purpose of complying with those rebate requirements.

Cascade may create sinking fund accounts or other accounts in the Bond Fund for the payment or securing the payment of Parity Bonds or Payment Agreement Payments so long as the maintenance of those accounts does not conflict with the rights of the Registered Owners.

Section 14. 2006 Construction Account. There is hereby created in the Construction Fund an account of Cascade known as the 2006 Bonds Construction Account (the "2006 Construction Account"). The proceeds of the sale of the 2006 Bonds remaining after the deposit of any proceeds specified by the 2006 Bond Sale Resolution into the Reserve Account shall be deposited into the 2006 Construction Account to be used for the purpose of paying part of the cost of carrying out the 2006 Watershed Management Plan and the costs of issuing and selling the 2006 Bonds. Until needed to pay those costs, Cascade may invest those proceeds and interest thereon temporarily in any legal investment, and the investment earnings may, as determined by the General Manager, be retained in the 2006 Construction Account and be spent for the purposes of that account or deposited in the Debt Service Account.

Section 15. Rate Stabilization Fund. Cascade may at any time, as determined by Cascade and consistent with Sections 13 and 19 of this resolution, deposit Gross Revenue other than RCFCs in the Rate Stabilization Fund. Cascade may at any time withdraw any or all of the money from the Rate Stabilization Fund for inclusion in the Gross Revenue and disbursement consistent with Sections 13 and 19 of this resolution. If a deposit or withdrawal is made within 90 days after the end of a fiscal year, Cascade may specify that the deposit or withdrawal is to be allocated to the prior fiscal year rather than to the fiscal year in which that deposit or withdrawal is made. No deposit of Gross Revenue may be made into the Rate Stabilization Fund to the extent that such deposit would prevent Cascade from satisfying the Coverage Requirement in any fiscal year.

Section 16. Finding as to Sufficiency of Gross Revenue. The Board finds and determines (i) that the Gross Revenue and benefits to be derived from the operation and maintenance of the System, taking into account the Member Charges to be imposed from

time to time for water and other services and commodities from the System consistent with Section 18(b) of this resolution, will be sufficient to meet all Operations and Maintenance Costs and to permit the setting aside into the Bond Fund out of the Gross Revenue of amounts sufficient to pay the Principal of and premium, if any, and interest on the 2006 Bonds and to make all payments required to be made into the Reserve Account under the 2006 Resolution and (ii) that in fixing the amounts to be paid into the Bond Fund Cascade has exercised due regard for Operations and Maintenance Costs, and has not bound and obligated itself to set aside and to pay into the Bond Fund a greater amount or proportion of the Gross Revenue than in the judgment of Cascade will be available over and above the Operations and Maintenance Costs.

Section 17. Pledge of Net Revenue. The Net Revenue and all money and investments held in the Bond Fund, the Rate Stabilization Fund, the RCFC Fund and the Construction Fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) are pledged to the payment of Principal of and premium, if any, and interest on the 2006 Bonds and all Future Parity Bonds, all Payment Agreement Payments and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution. This pledge of Net Revenue shall constitute a charge upon the Net Revenue superior to any other charges whatsoever. The Parity Bonds and Payment Agreements are payable solely from Net Revenue and the funds expressly set forth in this Section. Cascade has no taxing power. The Parity Bonds and Payment Agreements shall not be general obligations of Cascade. This resolution does not pledge, and neither the Parity Bonds nor the Payment Agreements are payable from, the full faith and credit or taxing power of any Member. No Member is responsible for payment of the Parity Bonds or the Payment Agreements except as set forth in the Interlocal Contract.

Section 18. Covenants. Cascade covenants and agrees with each Registered Owner of each Parity Bond at any time outstanding, as follows:

(a) Operation and Maintenance. Cascade 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 so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and will at all times operate or cause to be operated the properties of the

System and the business in connection therewith in an efficient manner and at a reasonable cost.

(b) Establishment and Collection of Member Charges. For so long as any Parity Bonds are outstanding, Cascade irrevocably covenants to establish, maintain and collect Member Charges consistently with the Interlocal Contract so that:

(1) The Gross Revenue in each fiscal year will be sufficient to pay when due (i) all Operations and Maintenance Costs for that fiscal year, (ii) all amounts that Cascade is obligated to pay into the Bond Fund and the accounts therein for that fiscal year, (iii) all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof for that fiscal year and (iv) any and all other amounts that Cascade is obligated to pay from the Gross Revenue by law or contract in that fiscal year; and

(2) The Coverage Requirement will be satisfied in each fiscal year.

Consistent with its obligations under the Interlocal Contract, except as may be required under the provisions of any federal or State statute, regulation or license, Cascade will not furnish or supply or permit the furnishing or supplying of any service or facility in connection with the operation of the System free of charge to any person, firm or corporation, public or private.

(c) Interlocal Contract. Cascade shall enforce the provisions of the Interlocal Contract, including without limitation the provisions of the Interlocal Contract providing for payment of Member Charges, the provisions of Section 7.9.2(b) of the Interlocal Contract obligating other Members to pay a defaulting Member's Member Charges, and provisions requiring any withdrawing Member to continue payment of its allocable share of debt service on the 2006 Bonds as a "then-existing obligation of Cascade." Cascade shall not waive any right or fail to declare any default under or in connection with the Interlocal Contract that would reduce the payments or extend the dates for payments to Cascade provided therein or would materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding.

(d) Sale, Transfer or Disposition of the System. Except as provided in the Interlocal Contract, Cascade may 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 (each, as used in this paragraph, a "transfer") only upon approval of the Board by resolution that contains one or more of the following determinations, to be made at the discretion of the Board:

(1) The facilities or property being transferred are not material to the operation of the System or to the receipt of Member Charges, or have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System; or

(2) The aggregate depreciated value of the facilities or property being transferred in any fiscal year comprises no more than five percent of the total assets of the System; or

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

In the case of a transfer under subparagraph (3): (A) the proceeds of the transfer shall be used (i) promptly to redeem or irrevocably set aside for the redemption of Parity Bonds and to make any payments under Payment Agreements required pursuant to that redemption and/or (ii) to provide for part of the cost of additions to and betterments and extensions of the System; (B) before any such transfer, Cascade must obtain a certificate of an Independent Consulting Engineer to the effect that in his or her professional opinion, upon that transfer and the use of proceeds of the transfer as proposed by Cascade, the remaining System will retain its operational integrity and the Coverage Requirement will be satisfied in each of the five fiscal years following the fiscal year in which the transfer is to occur, taking into account (i) the reduction in Gross Revenue resulting from the transfer; (ii) the use of any proceeds of the transfer for the redemption of Parity Bonds or the making of payments under Payment Agreements required pursuant to that redemption, (iii) the Independent Consulting Engineer's estimate of Gross Revenue allocable to customers anticipated to be served by any additions to and betterments and extensions of the System financed by the proceeds of the transfer, and (iv) any other adjustment permitted in the preparation of a certificate under Section 20(e)(2) of this resolution; and (C) before any such transfer, Cascade must obtain confirmation from each of the Rating Agencies to the effect that the rating then in effect will not be reduced or withdrawn as a result of that transfer.

Cascade shall not create, grant or transfer to any person a mortgage, deed of trust or other security interest in any Water Supply Assets that constitute real property.

Nothing in this subsection (d) shall prevent Cascade from transferring or crediting Water Supply Assets to a Member pursuant to an agreement between Cascade and a Member by which the Member transfers title to Water Supply Assets to Cascade, with or without monetary consideration, to be operated and maintained as part of the System.

(e) Liens Upon the Net Revenue. Except as otherwise expressly provided in this resolution, Cascade will not at any time create or permit to accrue or to exist any lien, charge or other encumbrance upon the Net Revenue or any part thereof, prior or superior to the lien and charge thereon for the payment of the Principal of and interest on the 2006 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, charge or other encumbrance upon the Net Revenue or any part thereof, prior or superior to, or on a parity with, the lien and charge thereon for the payment of the Principal of and interest on the 2006 Bonds, or which might materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding.

(f) Books and Accounts. Cascade 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 municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor and/or by a certified public accountant selected by Cascade. 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 that fiscal year, and the income and expenses for that fiscal year, including the amounts paid into the Bond Fund and into any and all special funds or accounts created pursuant to the provisions of this resolution, the status of all funds and accounts as of the end of that fiscal year, and the amounts expended for maintenance, renewals, replacements and capital additions to the System. That audit report and those statements shall be sent to any Registered Owner upon written request therefor being made to Cascade. Cascade may charge a reasonable cost for providing that audit report and those financial statements.

(g) Maintenance of Insurance. Cascade 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 Cascade 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 Cascade, to protect the System, the Registered Owners against loss.

(h) Condemnation Awards and Insurance Proceeds. If Cascade receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the System, it shall apply the condemnation award or insurance proceeds, in Cascade's sole discretion, as follows: (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase for cancellation or redemption of Parity Bonds and to make any payments under Payment Agreements required pursuant to that payment, purchase for cancellation or redemption, (iii) to the cost of improvements to the System or (iv) with respect to proceeds of business interruption insurance only, in accordance with Sections 13 and 19 of this resolution.

Section 19. Flow of Funds. The Gross Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

(a) To pay when due the Operations and Maintenance Costs;

(b) To make when due all payments required to be made into the Debt Service Account in respect of interest on Parity Bonds and Payment Agreement Payments;

(c) To make when due all payments required to be made into the Debt Service Account in respect of the Principal of and premium, if any, on Parity Bonds, whether at maturity or pursuant to prior redemption, and to make payments due under any reimbursement agreement with a Bond Insurer that requires those payments to be made on a parity with the Parity Bonds;

(d) To make when due all payments required to be made into the Reserve Account (or any separate reserve account in accordance with Section 13 of this resolution), all payments required to be made under any agreement relating to the provision of Reserve Insurance, and all payments required to be made under any reimbursement agreement with a Reserve Insurance provider that requires those payments to be made on a parity with the payments required to be made into the Reserve Account;

(e) To make when due all payments required to be made under any reimbursement agreement with a Bond Insurer other than payments to be made on a parity with the Parity Bonds, and all payments required to be made under any reimbursement agreement with a Reserve Insurance provider other than payments to be made on a parity with the payments required to be made into the Reserve Account, in any priority not inconsistent with this resolution that Cascade may hereafter establish by resolution;

(f) To make when due 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 any revenue bonds, notes, warrants or other obligations of Cascade having a charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the Principal of and premium, if any, and interest on the Parity Bonds, all payments to be made under Payment Agreements and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution, in any priority not inconsistent with this resolution that Cascade may hereafter establish by resolution; and

(g) For any other lawful System purposes, in any priority not inconsistent with this resolution that Cascade may hereafter establish by resolution.

Notwithstanding the foregoing, Cascade may provide in a Payment Agreement that payments required to be made under that Payment Agreement other than Payment Agreement Payments may be payable from Gross Revenue at priority (e), (f) or (g) in the flow of funds set forth above, and Cascade may further provide in a Payment Agreement that such payments other than Payment Agreement Payments may be payable only after the payment of the Members' water utility operation and maintenance costs, or after payment, retirement or defeasance of then outstanding obligations of the Members secured by the Members' water rates and charges.

Cascade may transfer any money from any funds or accounts of the System legally available therefor, except money irrevocably deposited in redemption, retirement or defeasance trust accounts for Parity Bonds, to meet the required payments to be made into the Bond Fund.

Section 20. Provisions for Future Parity Bonds. Cascade may issue Future Parity Bonds and enter into Payment Agreements only for lawful System purposes and only if the following conditions are met and complied with at the time of the issuance of those Future Parity Bonds or entry into that Payment Agreement:

(a) There shall be no deficiency in the Bond Fund;

(b) Except in the case of Future Parity Bonds being issued for the sole purpose of providing for the costs of refunding Parity Bonds for which no coverage certification pursuant to subsection (e) of this Section is required, no Event of Default, nor any event or condition which with notice and/or the passage of time would constitute an Event of Default, shall have occurred and be continuing, nor shall the issuance of those Future Parity Bonds or the entry into that Payment Agreement, in and of itself, cause an Event of Default or any event or condition which with notice and/or the passage of time would constitute an Event of Default;

(c) The applicable Parity Bond Authorizing Resolution shall provide for the payment of the Principal of and interest on those Future Parity Bonds or Payment Agreement Payments out of the Bond Fund;

(d) Unless a separate reserve is provided for in accordance with Section 13 of this resolution, the applicable Parity Bond Authorizing Resolution shall provide for the deposit into the Reserve Account of any combination of Future Parity Bond proceeds, Reserve Insurance or other money legally available, in the amount, if any, necessary to make the amount on deposit in the Reserve Account equal to the Reserve Requirement upon the issuance of those Future Parity Bonds; and

(e) There shall be on file with Cascade either:

(1) a certificate of the General Manager demonstrating that the Coverage Requirement was satisfied during any twelve consecutive calendar months out of the immediately preceding 24 calendar months (assuming that (A) those Future Parity Bonds were outstanding and that the debt service payable on those Future Parity Bonds in that twelve-month period was equal to the Average Annual Debt Service on those Future Parity Bonds and (B) any Parity Bonds to be refunded by those Future Parity Bonds are not outstanding); or

(2) a certificate of an Independent Consulting Engineer that in his or her opinion (which opinion and underlying assumptions shall be set forth in the certificate), the Coverage Requirement will be satisfied, (A) assuming that those Future Parity Bonds are outstanding and any Parity Bonds to be refunded by those Future Parity Bonds are not outstanding, in each of the fiscal years 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 fully capitalized or, if that interest is not fully capitalized, the fiscal year in which those Future Parity Bonds are issued, or (II) the date on

which substantially all new facilities or improvements financed in substantial part by those Future Parity Bonds are expected to commence operations and (B) in the fiscal year in which those Future Parity Bonds are issued and any subsequent fiscal year prior to but not included in the fiscal years for which certification is provided pursuant to the foregoing clause (A). That certificate may take into account the following adjustments:

a. Any changes in Member Charges in effect and being charged, or Member Charges expected to be charged (including RCFs expected to be collected) in accordance with a program of specific levels or increases or decreases in overall revenue approved by resolution or resolutions or pursuant to the Interlocal Contract;

b. Member Charges from Members who have become Members during the 12 consecutive month period or thereafter, adjusted to reflect one year's Net Revenue allocable to those new Members;

c. The estimate of Net Revenue allocable to Members reasonably expected to be served by new facilities or improvements financed in substantial part by those Future Parity Bonds; and

d. Net Revenue allocable to any person, firm, corporation or municipal corporation under any executed contract for water or other utility service, which revenue was not included in the historical Net Revenue.

If those Future Parity Bonds are for the sole purpose of refunding Parity Bonds (including costs of issuance and providing for the Reserve Requirement), no such coverage certification shall be required if, as a result of the issuance of those Future Parity Bonds, (i) the various annual maturities of the refunding Future Parity Bonds will not extend more than a year longer than the Parity Bonds being refunded, and (ii) the Annual Debt Service on all outstanding Parity Bonds will not increase more than \$5,000 in any fiscal year in which the Parity Bonds to be refunded were scheduled to remain outstanding.

Nothing contained herein shall prevent Cascade from issuing (i) Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or (ii) revenue bonds that are a charge upon the Gross Revenue subordinate to the charge thereon for the payment of the Principal of and premium, if any, and interest on the Parity Bonds, all payments to be made under Payment Agreements and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution, and then only if the remedy of acceleration is expressly denied to the

owners of those subordinate bonds under all circumstances.

Section 21. Separate Utility Systems. Cascade may create, acquire, construct, finance, own and operate one or more additional systems for water supply, transmission or other commodity or service. The revenue of that separate utility system shall not be included in the Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn or otherwise acquire or expand that separate utility system. Neither the Gross Revenue nor the Net Revenue shall be pledged by Cascade to the payment of any obligations of a separate utility system except that the Net Revenue may be pledged on a basis subordinate to that provided for the payment of the Principal of and premium, if any, and interest on the Parity Bonds, all payments to be made under Payment Agreements and all payments required to be made into the Reserve Account under any Parity Bond Authorizing Resolution.

Section 22. Preservation of Tax Exemption for Interest on 2006 Bonds. Cascade covenants that it will take all actions consistent with the terms of the 2006 Bond Resolution and the 2006 Bonds reasonably within its power and necessary to prevent interest on the 2006 Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of the proceeds of the 2006 Bonds or other funds of Cascade treated as proceeds of the 2006 Bonds at any time during the term of the 2006 Bonds that will cause interest on the 2006 Bonds to be included in gross income for federal income tax purposes. Cascade also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the 2006 Bonds, take all action necessary to comply (or to be treated as having complied) with that requirement in connection with the 2006 Bonds, including the calculation and payment of any penalties that Cascade has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the 2006 Bonds from being included in gross income for federal income tax purposes.

Section 23. Undertaking to Provide Continuing Disclosure. If necessary to assist the underwriters of the Bonds in meeting their requirements under the Rule, as applicable to a participating underwriter for the 2006 Bonds, Cascade shall undertake in the 2006 Bond Sale Resolution, or in a separate certificate or agreement, to provide the annual financial information, operating data and notice of material events required under the Rule.

Section 24. Defeasance of Parity Bonds. If Cascade deposits irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon, are sufficient to pay the Principal of and premium, if any, on any particular Parity Bond or Parity Bonds or portions thereof becoming due (the “Defeased Bonds”), together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, all liability of Cascade with respect to the Defeased Bonds shall cease, the Defeased Bonds shall be deemed not to be outstanding hereunder and the Registered Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds, and that escrow agent shall hold that money, Government Obligations and earnings in trust exclusively for those Registered Owners and that money, Government Obligations and earnings shall not secure any other Parity Bonds under this resolution. In determining the sufficiency of the money and Government Obligations deposited pursuant to this Section, that escrow agent shall receive, at the expense of Cascade, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to Cascade and that escrow agent; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in this Section have been satisfied and (2) defeasance of the Defeased Bonds will not cause interest on any Parity Bonds to be includable in gross income for federal income tax purposes. The Defeased Bonds shall no longer be secured by or entitled to the benefits of the applicable Parity Bond Authorizing Resolution, except for the purposes of any payment from the money or Government Obligations deposited with that escrow agent and except for the provisions of this resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of Parity Bonds.

Section 25. Supplemental Resolutions.

(a) The 2006 Bond Resolution shall not be modified or amended in any respect subsequent to the initial issuance of the 2006 Bonds, except as provided in and in accordance with and subject to the provisions of this Section.

(b) Cascade, from time to time, and at any time, without the consent of or notice to the Registered Owners or Qualified Counterparties, may adopt supplemental resolutions as follows:

(1) To provide for the issuance of Future Parity Bonds and the entry into Payment Agreements in accordance with the provisions of the 2006 Bond Resolution;

(2) To cure any formal defect, omission, inconsistency or ambiguity in the 2006 Bond Resolution in a manner not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding under a Payment Agreement then in effect;

(3) To impose upon the Bond Registrar (with its consent) for the benefit of the Registered Owners or Qualified Counterparties any additional rights, remedies, powers, authority, security, liabilities or duties that may lawfully be granted, conferred or imposed and that are not contrary to or inconsistent with the 2006 Bond Resolution as therefore in effect;

(4) To add to the covenants and agreements of, and limitations and restrictions upon, Cascade in the 2006 Bond Resolution, other covenants, agreements, limitations and restrictions to be observed by Cascade that are not contrary or inconsistent with the 2006 Bond Resolution as therefore in effect;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien, charge or pledge created or to be created by the 2006 Bond Resolution of any other money, securities or funds;

(6) To authorize different denominations of the 2006 Bonds and to make correlative amendments and modifications to the 2006 Bond Resolution regarding exchangeability of 2006 Bonds of different authorized denominations, redemptions of portions of 2006 Bonds of particular authorized denominations, provisions relating to DTC or its successor, and to make similar amendments and modifications of a technical nature not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding;

(7) To modify, alter, amend or supplement the 2006 Bond Resolution in any other respect that is not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding that does not involve a change described in subsection (c) of this Section;

(8) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the 2006 Bonds from federal income taxation in a manner not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding; and

(9) To add to the covenants and agreements of, and limitations and restrictions upon,

Cascade in the 2006 Bond Resolution, other covenants, agreements, limitations and restrictions to be observed by Cascade that are requested by a Bond Insurer or Reserve Insurance provider and which are not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding.

Before Cascade shall adopt any supplemental resolution pursuant to this subsection (b), there shall have been delivered to Cascade and the Bond Registrar an opinion of Bond Counsel, stating that that supplemental resolution is authorized or permitted by the 2006 Bond Resolution and, upon the execution and delivery thereof, will be valid and binding upon Cascade in accordance with its terms and will not (i) adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2006 Bonds, or (ii) materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding.

(c) (1) Except for any supplemental resolution entered into pursuant to subsection (b) of this Section, subject to the terms and provisions contained in this subsection (c) and not otherwise, Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds shall have the right from time to time to consent to and approve the adoption by Cascade of any supplemental resolution deemed necessary or desirable by Cascade for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the 2006 Bond Resolution; except that, unless approved in writing by each Registered Owner of each Parity Bond at the time outstanding, nothing contained in this Section shall permit, or be construed as permitting:

a. A change in the times, amounts or currency of payment of any outstanding Parity Bond or Payment Agreement, or a reduction in the Principal amount of any outstanding Parity Bond or a change in the rate or method of determining the rate of interest thereon or the redemption or tender provisions thereof, or

b. A preference or priority of any Parity Bond or Payment Agreement Payment over any other Parity Bond or Payment Agreement Payment, or

c. A reduction in the aggregate Principal amount of Parity Bonds, the consent of the Registered Owners of which is required for any supplemental resolution.

(2) If at any time Cascade shall adopt any supplemental resolution for any of the purposes of this subsection (c), the Bond Registrar shall cause notice of the proposed supplemental

resolution to be given by first-class United States mail to all Registered Owners and Qualified Counterparties, to any Bond Insurer, and to the Rating Agencies. That notice shall briefly set forth the nature of the proposed supplemental resolution and shall state that a copy thereof is on file at the office of the Bond Registrar for inspection by all Registered Owners and Qualified Counterparties.

(3) Within two years after the date of the mailing of that notice, Cascade may adopt that supplemental resolution in substantially the form described in that notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the Registered Owners, and (ii) an opinion of Bond Counsel stating that that supplemental resolution is authorized or permitted by the 2006 Bond Resolution and, upon the execution and delivery thereof, will be valid and binding upon Cascade in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2006 Bonds.

(4) If the required consents, in writing, of the Registered Owners have been obtained as herein provided, no Registered Owner shall have any right to object to the adoption of that supplemental resolution, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain Cascade from adopting the same or from taking any action pursuant to the provisions thereof.

(d) Upon the execution and delivery of any supplemental resolution pursuant to the provisions of this Section, the 2006 Bond Resolution shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the 2006 Bond Resolution of Cascade, the Bond Registrar, all Registered Owners shall thereafter be determined, exercised and enforced under the 2006 Bond Resolution subject in all respects to those modifications and amendments.

Section 26. Amendments to Interlocal Contract.

(a) Cascade, from time to time, and at any time, without the consent of or notice to the Registered Owners or Qualified Counterparties, may amend the Interlocal Contract for any purpose except as provided in subsection (b) of this Section. However, before Cascade shall permit the amendment of the Interlocal Contract pursuant to this subsection (a), there shall have been delivered to Cascade and the Bond Registrar an opinion of Bond Counsel, stating that that amendment is authorized or permitted by the 2006 Bond Resolution and will not adversely affect the exclusion from gross income for

federal income tax purposes of interest on the 2006 Bonds.

(b) (1) Subject to the terms and provisions contained in this subsection (b) Cascade may amend the Interlocal Contract in the following manner only with the prior written consent of each Registered Owner of each Parity Bond at the time outstanding (unless, in the opinion of bond counsel to Cascade, such amendment does not eliminate or materially diminish a Member's obligation under the relevant provision of the Interlocal Contract specified below):

a. an amendment that eliminates or materially diminishes the obligation of the Members under paragraph 2, 3 or 4 of Section 5.3.2 of the Interlocal Contract, i.e., the obligations (x) to take actions related to the establishment, maintenance and collection of rates, fees or other charges for water and other services, facilities and commodities related to the water supply received from Cascade at levels adequate to provide revenues sufficient to make payments required to be made under the Interlocal Contract, and to pay or provide for payment of all other charges and obligations payable from or constituting a charge or lien upon such revenues, or (y) to pay Member Charges to Cascade, or (z) to treat Member Charges as internal operation and maintenance costs or contract resource obligations in either case payable prior to debt service on Member obligations (except that Cascade reserves the right, without the prior written consent of each Registered Owner, to amend the Interlocal Contract to enable the component of Member Charges to provide for payments required to be made under a Payment Agreement other than Payment Agreement Payments, to be payable to Cascade after Members' payments of debt service on their own revenue obligations); or

b. an amendment that eliminates or materially diminishes the obligation of the Members under Section 5.3.3 of the Interlocal Contract to make appropriate written undertakings under the Rule; or

c. an amendment that eliminates or materially diminishes the obligation of the Members under Section 5.3.4 of the Interlocal Contract, i.e., to take actions related to preservation of the tax-exempt status of interest on the Parity Bonds; or

d. an amendment that eliminates or materially diminishes the obligation of the Members under Section 7.9.1(d) of the Interlocal Contract, i.e., to remit payment of disputed invoices in full prior to resolving the dispute; or

e. an amendment that eliminates or materially diminishes the obligation of the Members under Section 7.9.2(b) of the Interlocal

Contract, i.e., to pay proportionate shares of a defaulting Member's Member Charges; or

f. an amendment that eliminates or materially diminishes a withdrawing Member's obligations for the cost of then-existing obligations of Cascade under Section 10.2 of the Interlocal Contract.

(2) If at any time Cascade shall permit the amendment of the Interlocal Contract for any of the purposes of this subsection (b), the Bond Registrar shall cause notice of the proposed amendment to be given by first-class United States mail to all Registered Owners and Qualified Counterparties, to any Bond Insurer, and to the Rating Agencies. That notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the office of the Bond Registrar for inspection by all Registered Owners and Qualified Counterparties.

(3) Within two years after the date of the mailing of that notice, Cascade may permit the amendment of the Interlocal Contract in substantially the form described in that notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the Registered Owners, and (ii) an opinion of Bond Counsel stating that that amendment is authorized or permitted by the 2006 Bond Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2006 Bonds.

(4) If the required consents, in writing, of the Registered Owners have been obtained as herein provided, no Registered Owner shall have any right to object to that amendment of the Interlocal Contract, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain Cascade from entering into the same or from taking any action pursuant to the provisions thereof.

Section 27. Defaults and Remedies.

(a) Events of Default. Each of the following shall constitute an "Event of Default":

(1) If Cascade defaults in any payment of Principal of or premium, if any, or interest on any Parity Bond when the same becomes due and payable.

(2) If Cascade files a petition in bankruptcy or is placed in receivership under any state or federal bankruptcy or insolvency law.

(3) If an "Event of Default" occurs under (and as defined in) any Parity Bond Authorizing Resolution other than the 2006 Bond Resolution.

(4) If Cascade defaults in the observance and performance of any other of the

covenants, conditions and agreements on the part of Cascade set forth in any Parity Bond Authorizing Resolution and that default has continued for a period of 90 days after Cascade has received from the Bond Owners' Trustee or from the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, a written notice specifying and demanding the cure of that default. However, if that default is one that can be remedied but cannot be completely remedied within the 90 days after written notice has been given, it shall not be an Event of Default so long as Cascade has taken active steps within the 90 days after written notice has been given to remedy the default and is diligently pursuing that remedy.

(b) Bond Owners' Trustee. Upon the occurrence and during the continuance of an Event of Default, a trustee (the "Bond Owners' Trustee") (i) may be appointed by the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, notification thereof having been given to Cascade, or (ii) shall be appointed by Cascade at the direction of the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, in each case by an instrument or concurrent instruments in writing signed and acknowledged by those Registered Owners or by their attorneys-in-fact duly authorized and delivered to the Bond Owners' Trustee or Cascade, as the case may be. That appointment shall become effective immediately upon acceptance thereof by the Bond Owners' Trustee. Any Bond Owners' Trustee appointed under the provisions of this subsection (b) shall be a bank or trust company organized under the laws of the State of Washington or the State of New York or a national banking association. The Bond Owners' Trustee may be removed at any time, and a successor Bond Owners' Trustee appointed, by the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, by an instrument or concurrent instruments in writing signed and acknowledged by those Registered Owners or by their attorneys-in-fact duly authorized. The Bond Owners' Trustee may require such security and indemnity as may be reasonable against the costs, expenses and liabilities that may be incurred in the performance of its duties.

The Bond Owners' Trustee appointed in the manner herein provided, and each successor thereto, is declared to be a trustee for all Registered Owners and is empowered to exercise all the rights and powers herein conferred on the Bond Owners' Trustee.

In the event that any Event of Default in the sole judgment of the Bond Owners' Trustee is cured and

the Bond Owners' Trustee furnishes to Cascade a certificate so stating, that Event of Default shall be conclusively deemed to be cured and Cascade, the Bond Owners' Trustee, the Registered Owners shall be restored to the same rights and position which they would have held if that Event of Default had not occurred.

(c) Suits, Actions and Other Proceedings. Upon the occurrence and during the continuance of an Event of Default, the Bond Owners' Trustee may, and upon the written request of the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds shall, take such steps and institute such suits, actions or other proceedings, or file and prove such claims in bankruptcy, reorganization or other similar proceedings, all as it may deem appropriate for the protection and enforcement of the rights of the Registered Owners, to collect any amounts due and owing to or from Cascade, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in any Parity Bond Authorizing Resolution or any of the Parity Bonds.

Nothing contained in this Section shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of Principal of the Parity Bonds, and the remedy of acceleration is expressly denied to the Registered Owners under any circumstances including, without limitation, upon the occurrence and during the continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder shall be brought in its name as trustee for the Registered Owners and all such rights of action upon or under any Parity Bond Authorizing Resolution or any of the Parity Bonds may be enforced by the Bond Owners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all Registered Owners, subject to the provisions of the 2006 Bond Resolution. Upon the appointment of a Bond Owners' Trustee in accordance with the provisions herein, each Registered Owner of a Parity Bond, by taking and holding the same, shall be conclusively deemed irrevocably to have appointed the Bond Owners' Trustee the true and lawful trustee of all Registered Owners, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of

money; and to do all acts with respect thereto that the Registered Owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any Registered Owner, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any Registered Owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other similar proceedings to which Cascade is a party.

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

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

(2) second, to the payment of all interest on the Parity Bonds and the Payment Agreement Payments then due and payable, in the order in which the same became due and payable, and, if the amount available shall not be sufficient to make any payment in full, then to the payment, ratably, according to the amounts due with respect to those payments, without discrimination or preference;

(3) third, to the payment of all unpaid Principal of and premium, if any, on the Parity Bonds then due and payable (other than Parity Bonds called for redemption for the payment of which money is held pursuant to the provisions of any Parity Bond Authorizing Resolution), in the order in which the same became due and payable, and, if the amount available shall not be sufficient to make any payment in full, then to the payment, ratably, according to the amounts due with respect to those payments, without any discrimination or preference;

(4) fourth, to the payment of all unpaid Parity Bonds called for optional redemption, if any; and

(5) fifth, for any payment under a Payment Agreement that does not constitute a Payment Agreement Payment.

(e) Duties and Obligations of Bond Owners' Trustee. The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. Upon the occurrence and during the continuance of an Event of Default, the Bond Owners' Trustee shall exercise

such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of the 2006 Bond Resolution, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into the 2006 Bond Resolution.

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

The Bond Owners' Trustee shall not be bound to recognize any person as a Registered Owner of any Parity Bond until his or her title thereto, if disputed, has been established to its reasonable satisfaction.

The Bond Owners' Trustee may consult with counsel and the opinion of that counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of that counsel. The Bond Owners' Trustee shall not be answerable for any neglect or default of any person, firm or corporation employed and selected-by it with reasonable care.

(f) Proceedings By Individual Parity Bond Owners Restricted. No Registered Owner shall have any right to institute any action, suit or proceeding at law, in equity or in bankruptcy, reorganization or other similar proceedings under any Parity Bond Authorizing Resolution unless:

(1) an Event of Default has occurred and is continuing;

(2) a Bond Owners' Trustee has been appointed;

(3) that Registered Owner shall have given to the Bond Owners' Trustee written notice of the Event of Default on account of which that suit, action or proceeding is to be instituted;

(4) the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, after the occurrence and during the continuance of that Event of Default, have made written request of the Bond Owners' Trustee and have afforded the Bond Owners' Trustee a reasonable opportunity to institute that suit, action or proceeding;

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

(6) the Bond Owners' Trustee has refused or neglected to comply with that request within a reasonable time.

No Registered Owner shall have any right in any manner whatever by his or her action to affect or impair the obligation of Cascade to pay from the Net Revenue the Principal of and premium, if any, and interest on any Parity Bond to the Registered Owner thereof or any Payment Agreement Payment when due.

Notwithstanding any other provision of the 2006 Bond Resolution, each Registered Owner shall have the absolute and unconditional right to receive payment of Principal of and premium, if any, and interest on that Registered Owner's Parity Bonds on and after the due date thereof and to institute suit for the enforcement of any such payment.

(g) Failure to Comply With Undertaking. Notwithstanding anything in this Section to the contrary, the failure of Cascade or any obligated person to comply with the Undertaking shall not constitute an Event of Default, and the sole remedy of any holder of a 2006 Bond shall be to seek an order of specific performance from an appropriate court to compel Cascade or the obligated person to comply with the Undertaking.

Section 28. Sale of 2006 Bonds. The General Manager may provide for the sale of the 2006 Bonds by public sale or by a negotiated sale, limited offering or private placement, with the successful underwriter, placement agent or purchaser, as applicable, chosen through a selection process acceptable to the General Manager. The terms of that sale, which may include a forward or delayed delivery of the 2006 Bonds, shall be consistent with the 2006 Bond Resolution and shall be confirmed by the 2006 Bond Sale Resolution. The 2006 Bonds will be delivered to the purchaser as provided in the 2006 Bond Sale Resolution, immediately upon payment to Cascade of the purchase price in immediately available federal funds in Seattle, Washington, or at another place upon which the General Manager and the purchaser may mutually agree.

CUSIP numbers (if required) will be printed on the 2006 Bonds, but neither failure to print CUSIP numbers on any 2006 Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the 2006 Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the 2006 Bonds shall be paid by

Cascade, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchaser.

The 2006 Bonds will be printed at Cascade's expense and will be delivered to the purchaser with the approving legal opinion of Foster Pepper PLLC, municipal bond counsel of Seattle, Washington, regarding the 2006 Bonds.

Section 29. 2006 Bond Insurer Rights. Except as otherwise provided in the 2006 Bond Sale Resolution, so long as the 2006 Bond Insurer, if any, is not in default in respect of any of its obligations under its Bond Insurance, the following shall apply:

(a) The 2006 Bond Insurer, and not the Registered Owners of the 2006 Bonds, shall be deemed to be the Registered Owner of the 2006 Bonds at all times for the purposes of (i) giving any approval or consent to the effectiveness of any resolution amendatory or supplemental hereto other than a resolution providing for (A) a change in the times, amounts or currency of payment of any outstanding Parity Bond, or a reduction in the Principal amount of any outstanding Parity Bond or a change in the rate or method of determining the rate of interest thereon or the redemption or tender provisions thereof, or (B) a preference or priority of any Parity Bond over any other Parity Bond, or (C) a reduction in the aggregate Principal amount of Parity Bonds, the consent of the Registered Owners of which is required for any supplemental resolution; (ii) appointing a Bond Owners' Trustee; (iii) giving any approval or consent or exercising any remedies in connection with the occurrence of an Event of Default; and (iv) giving any approval or consent to a supplemental resolution or amendment to the Interlocal Contract requiring the consent of the Registered Owners of the 2006 Bonds.

(b) Any supplemental resolution or amendment to the Interlocal Contract requiring the consent of the Registered Owners of Parity Bonds other than the 2006 Bonds shall also require the prior written consent of the 2006 Bond Insurer if its rights will be materially and adversely affected thereby.

(c) Any supplemental resolution or amendment to the Interlocal Contract not requiring the consent of the Registered Owners shall require prior written notice to the 2006 Bond Insurer.

(d) The 2006 Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a Registered Owner in accordance with the 2006 Bond Resolution.

(e) The 2006 Bond Insurer shall, to the extent it makes any payment of Principal of or interest on the 2006 Bonds, become subrogated to the rights of the recipients of that payment in accordance with the terms of the Bond Insurance.

(f) The Principal of or interest on the 2006 Bonds paid by the 2006 Bond Insurer under the Bond Insurance shall not be deemed paid for purposes of the 2006 Bond Resolution, and the 2006 Bonds with respect to which those payments were made shall remain outstanding and continue to be due and owing until paid by Cascade in accordance with the 2006 Bond Resolution.

Section 30. General Authorization. The Chair of the Board and the General Manager of Cascade and each of the other appropriate officers of Cascade are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, the 2006 Bond Resolution. In particular, and without limitation, the General Manager may, in his or her discretion and without further action by the Board, (i) deem final any preliminary official statement or official statement relating to the 2006 Bonds, (ii) authorize the distribution of any preliminary official statement by the underwriter of the 2006 Bonds, (iii) comply with any continuing disclosure requirements applicable to the 2006 Bonds, (iv) change the Bond Registrar or any securities depository appointed for the 2006 Bonds, (v) provide information to Rating Agencies, prospective providers of Bond Insurance and Reserve Insurance and other participants in the issuance of the 2006 Bonds and (vi) request proposals from prospective providers of Bond Insurance and Reserve Insurance for the 2006 Bonds.

Section 31. Severability. The provisions of this resolution are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this resolution to be invalid or unenforceable as to any person or circumstance, the offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. However, if the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this resolution in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

Section 32. Ratification of Prior Acts. Any action taken consistent with the authority but prior to the effective date of this resolution, including, if applicable, but not limited to giving notices of the sale of 2006 Bonds, adopting the 2006 Bond Sale Resolution, executing contracts, making fund transfers and paying warrants, is ratified, approved and confirmed.

Section 33. Section Headings. The section headings in this resolution are used for convenience only and shall not constitute a substantive portion of this resolution.

Section 34. Effective Date. This resolution shall take effect and be in force immediately upon its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular open public meeting held on this 19th day of April, 2006.

CASCADE WATER ALLIANCE

Grant Degginger, Chair

Lloyd Warren, Vice Chair

Jim Haggerton, Secretary/Treasurer

Attest – Michael Gagliardo,
General Manager

Members

Yes _____

No _____

Demand Share

Yes _____ %

No _____ %

**APPENDIX C
AMENDED AND RESTATED INTERLOCAL CONTRACT**

**CASCADE WATER ALLIANCE
INTERLOCAL CONTRACT**

Amended and Restated
December 15, 2004

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**CASCADE WATER ALLIANCE
INTERLOCAL CONTRACT**

Recitals

WHEREAS, the Cascade Water Alliance, an intergovernmental organization created by Interlocal Contract effective April 1, 1999 (as amended July 2000 and November 2002) to further the interests of its Members with respect to water supply and to work cooperatively with other water supply entities in the region; and

WHEREAS, Members of the Cascade Water Alliance have determined to amend the Cascade Water Alliance's Interlocal Contract to better facilitate the purposes of the Cascade Water Alliance;

NOW, THEREFORE, it is agreed as follows:

ARTICLE 1. Agreement

The Cascade Interlocal Contract, effective April 1, 1999, and entered into under authority of the Interlocal Cooperation Act, Chapter 39.34 RCW is amended and re-stated as provided herein.

ARTICLE 2. Definitions

“Asset Transfer Agreement” means an agreement between Cascade and a Member by which the Member transfers title to Water Supply Assets to Cascade, with or without monetary consideration, to be operated and maintained as part of the Cascade Water System.

“Authorized Issuer” means either: (a) Cascade (or a successor entity); or (b) a Member or other entity authorized to issue Bonds for the benefit of Cascade and approved by Resolution of the Board.

“Board” means the Board of Directors of Cascade.

“Bonds” means short-term or long-term bonds, notes, warrants, certificates of indebtedness, or other obligations issued by, or on behalf of Cascade.

“ByLaws” means the ByLaws of Cascade, as adopted and amended by the Board.

“Cascade” means the Cascade Water Alliance.

“Cascade ERUs” (“CERUs”) means equivalent residential units, calculated according to the Regional Capital Facilities Charge Methodology.

“Cascade Source Exchange Program” means a program adopted by Resolution of the Board for the replacement of all or a portion of a public water systems existing water supply to benefit stream flow and fish without serving growth or increasing that system’s water supply. A program utilizing Lake Tapps Water Supply shall include the terms and conditions for source exchange contained in the Lake Tapps’ Water Right Report of Examination.

“Cascade Source Exchange Program Agreement” means an agreement between Cascade and a Member or another public water supplier to implement the Cascade Source Exchange Program.

“Cascade Supply Date” means the date for the Founding Members and each new Member, established by Resolution of the Board, upon which Cascade undertakes a Supply Commitment.

“Contract” means this Cascade Water Alliance Interlocal Contract.

“Demand Share” means either a Member’s current share of water provided through the Supply System, or estimated share of water to be provided through the Supply System, whether Full Supply or Interruptible Supply, expressed in millions of gallons per day. Demand Share is calculated according to the Rate Calculation Methodology.

“Dual Majority Vote” means Board approval of a proposal on the basis of a simple majority of all Members, allowing one vote per Member, together with a simple majority of all Members on the basis of each

Member’s Weighted Vote. A “simple majority” means a majority of all Members of Cascade, not just the Members present and voting.

“65% Dual Majority Vote” means Board approval of a proposal on the basis of a 65% supermajority of all Members, allowing one vote per Member, together with 65% supermajority of all Members on the basis of each Member’s Weighted Vote. A “supermajority” means 65% of all Members of Cascade, not just the Members present and voting.

“Founding Member” means the City of Bellevue, Covington Water District, the City of Issaquah, the City of Kirkland, the City of Redmond, Sammamish Plateau Water and Sewer District, Skyway Water and Sewer District, and the City of Tukwila.

“Gross Cascade Revenue” means all of the earnings and revenues received by Cascade from any source whatsoever including but not limited to: (a) Member Charges; (b) revenues from the sale, lease or furnishing of other commodities, services, properties or facilities; (c) the receipt of earnings from the investment of money in any maintenance fund or similar fund; (d) and withdrawals from any rate reserve or rate stabilization fund or account.

However, Gross Cascade Revenue shall not include: (a) principal proceeds of Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the Water Supply System (until commingled with other earnings and revenues included in Gross Cascade Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (b) taxes and other income and revenue which may not legally be pledged for revenue bond debt service; (c) improvement district assessments; (d) federal or state grants allocated to capital projects; (e) payments under Bond Insurance or other credit enhancement policy or device; (f) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (g) earnings in any construction fund or bond redemption fund; (h) deposits to any rate reserve or rate stabilization fund or account; or (i) any revenues generated by any Independent Supply except those amounts that are payable to Cascade pursuant to this Contract or another interlocal agreement.

“Independent Supply” or **“Independent Supplies”** means a Member’s Water Supply Assets that are not part of the Supply System.

“Member” or **“Members”** means one or more member agencies of Cascade.

“Member Charges” means all payments that Cascade Members are required by this Contract to make to Cascade, including but not limited to all Rates and Charges, RCFCs, dues, assessments and other payments from Members.

“Net Cascade Revenue” means Gross Cascade Revenue less Operations and Maintenance Costs.

“Non-Member” means any person or agency that is not a party to this Contract.

“Operations and Maintenance Costs” or “O&M Costs” means all expenses incurred by Cascade to operate and maintain the Supply System in good repair, working order and condition, including without limitation, payments made to any other public or private entity for water or other utility service. Except as approved by the Board, Operations and Maintenance Costs shall not include any depreciation, capital additions or capital replacements to the Supply System.

“Rates and Charges” means the rates and charges (not including RCFCs) chargeable to each Member using the Rate Calculation Methodology plus any late payment or other charge that may be due.

“Rate Calculation Methodology” means the method of setting Rates and Charges

adopted by the Board in accordance with Section 7.5.

“Regional Capital Facilities Charges” (“RCFCs”) means the charges to each Member for new CERUs connected to that Member’s water distribution system.

“Regional Capital Facilities Charge Methodology” (“RCFC Methodology”) means the method of determining the RCFCs adopted by the Board in accordance with Section 5.5.

“Satellite Systems” means water supply facilities identified as such by the Board, including but not limited to facilities that serve a portion of a Member’s customers but that are not part of the Member’s main water system.

“Seattle Contract Purveyor” or “Seattle Contract Purveyors” means a Member that is or was a party to The City of Seattle Water Purveyor Contracts, Version A or Version B, dated November 1981 (as amended) executed prior to July 1, 1998.

“Supply Commitment” means the obligation undertaken by Cascade, established by Resolution of the Board to supply water to a Member. With respect to Members, that obligation shall be characterized as **“Full Supply Commitment,”** or an **“Interruptible Supply Commitment”** defined as follows:

“Full Supply Commitment” for any or all of a Member’s water needs means that those needs, as projected in the Member’s lawfully adopted water supply plan, shall be met from the Supply System, net of independent supply and subject to the other limitations established in this agreement, on an equal parity with all other Full Supply Commitments, and with a guaranteed priority no lower than for any other Supply Commitment made by Cascade; provided that no Member is guaranteed any given amount of supply or capacity.

“Interruptible Supply Commitment” means a

supply of all or part of a Member’s water needs from the Supply System on an as-available basis on a lower priority than any Full Supply Commitment.

The Supply Commitment for a Member shall be defined by this Interlocal Contact, the terms and conditions of membership, and the Supply Commitment resolution.

“Supply System” means the Water Supply Assets owned or controlled by Cascade.

“Water Supply Assets” means tangible and intangible assets usable in connection with the provision of water supply, including without limitation, real property, physical facilities (e.g., dams, wells, treatment plants, pump stations, reservoirs, and transmission lines), water rights, capacity and/or contractual rights in facilities or resources owned by other entities, and investments in conservation programs and facilities.

“Watershed Management Plan” means a plan adopted by Cascade for purposes of regional water supply, water transmission, water quality or protection, or any other water-related purpose, including but not limited to the plans identified in RCW 39.34.190 (3).

“Water Supply Plan” means the Cascade Regional Water Supply Plan (which may include the Cascade Watershed Management Plan) adopted by the Board as provided in Section 8.1 and 8.2.

“Weighted Vote” means a vote in which each Member’s vote is counted according to the Member’s Demand Share, but no Member shall have a Weighted Vote of less than one.

ARTICLE 3. Formation of Entity; Purpose and Powers

Section 3.1 Formation. The Cascade Water Alliance was created on April 1, 1999 as a public body and an instrumentality of its Members, which exercises essential governmental functions on its Members’ behalf as authorized by the Interlocal Cooperation Act (RCW 39.34). Cascade is incorporated under RCW 39.34.040(3) as a public nonprofit corporation in the manner set forth in RCW 24.03 or 24.06 and it may, with Board approval, be incorporated as a partnership in the manner set forth in RCW 25.04, or the Board may organize the form of Cascade in any other manner permitted by law. In addition to its status under any other applicable law, Cascade shall constitute a “watershed management partnership” as provided in Chapter 39.34 RCW. The Board may approve the filing of Articles of Incorporation or similar documents in connection with incorporating Cascade or organizing it in some other manner.

Section 3.2 Membership. Subject to restrictions on future Cascade water rights, or to limitations upon water’s place of use imposed by contract or permit, any municipal water utility serving within the Central Puget Sound Region may be admitted to Cascade. The decision

to admit new Members rests with the sole discretion of the Board, which shall determine whether to extend a membership offer taking into consideration the audit findings, Cascade water resources, and any other factors the Board deems advisable.

When a municipality applies for membership, Cascade shall conduct a water supply audit according to the methodology and within the period determined by the Board. Audit results shall be provided to the Board and to the applicant.

If a membership offer is extended, it shall address the nature of the Water Supply Assets being transferred or retained and the “value” of those assets in terms of the calculation of an applicant’s Demand Share, RCFs and other matters relating to the rights and obligations of the applicant and Cascade, which must be recorded in the form that the Board determines and which will constitute, along with this Contract, the conditions under which an applicant becomes a Member of Cascade. An applicant for membership shall be admitted by adoption of a Resolution of the Board accepting the application for membership and incorporating the terms and conditions of membership.

Each membership application must be accompanied by a nonrefundable application fee based on the cost of the audit and other costs related to the admission of a new Member or a request for new supply. The Board shall set the application fee for each applicant based on the estimated cost of processing the application, including the cost of the audit.

As a condition of membership, each new Member admitted to Cascade shall, in addition to any other applicable fees, rates, charges or assessments, pay to Cascade the membership fee, as established by the Board.

If an applicant’s planning process or plans are materially out of compliance with the requirements of the Growth Management Act, the Board may condition an offer of membership upon the applicant’s compliance with that act.

Section 3.3 Conversion to Municipal Corporation Status. In accordance with Section 10.4, Cascade may be converted into a separate municipal corporation if, and as permitted by law. Upon the creation of such a separate municipal corporation, all Cascade rights and obligations and all Member rights and obligations under this Contract shall transfer to that new municipal corporation.

Section 3.4 Purposes. Cascade’s purposes include only those related to water resources, and do not include the provision of other general services to the public, and are to:

- a. provide a safe, reliable and high quality drinking water supply to meet the current and projected demands of Cascade Members serving the Central Puget Sound Region, and

for Non-Members as determined by Cascade, and to carry out this task in a coordinated, cost-effective, and environmentally sensitive manner;

- b. develop, contract for, manage, acquire, own, maintain and operate Water Supply Assets, including without limitation, surface water supplies, groundwater supplies, reclaimed water supplies, and other water supply resources as determined by the Board;
- c. contract with Seattle to transfer to Cascade and to modify Seattle’s rights and duties with respect to Seattle Contract Purveyors;
- d. contract for, or assume certain contractual rights and duties related to the Tacoma Second Supply Pipeline project;
- e. purchase and provide water supply, transmission services, treatment facilities and other related services;
- f. provide conservation programs to promote the wise and efficient use of resources;
- g. carry out emergency water supply and shortage management programs for its Members when demands exceed available supply;
- h. coordinate and plan cooperatively with other regional or local water utilities and other entities to maximize supply availability and to minimize system costs;
- i. develop a Water Supply Plan addressing the needs of its Members and develop a Watershed Management Plan serving the needs of its Members and Cascade itself and develop a regional water supply plan with other water providers as Cascade may find convenient or necessary to meet regional, state and federal planning requirements, and to take a leadership role in developing and coordinating those supply plans;
- j. share costs and risks among Members commensurate with benefits received; and
- k. carry out, or to further other water supply purposes that the Members determine, consistent with the provisions of this Contract.

Section 3.5 Powers. To further its purposes, Cascade has the full power and authority to exercise all powers authorized or permitted under RCW 39.34 and any other laws that are now, or in the future may be, applicable or available to Cascade and to engage in all activities incidental or conducive to the attainment of the purposes set forth in Section 3.4 of this Contract, including but not limited to the authority to:

- a. acquire, construct, receive, own, manage, lease and sell real property, personal property, intangible property and other Water Supply Assets;

- b. operate and maintain facilities;
- c. enter into contracts;
- d. hire and fire personnel;
- e. sue and be sued,
- f. exercise the power of eminent domain (through its Members at their individual discretion, unless and until Cascade has that power under applicable law);
- g. impose, alter, regulate, control and collect rates, charges, and assessments,
- h. purchase and sell water and services within and outside the geographical boundaries of its Members;
- i. borrow money (through its Members or other entities at their individual discretion or as authorized by Chapter 39.34 RCW now or in the future), or enter into other financing arrangements;
- j. lend money or provide services or facilities to any Member, other governmental water utilities, or governmental service providers;
- k. invest its funds;
- l. establish policies, guidelines, or regulations to carry out its powers and responsibilities;
- m. purchase insurance, including participation in pooled insurance and self-insurance programs, and indemnify its Members, officers and employees in accordance with law;
- n. exercise all other powers within the authority of, and that may be exercised individually by all of its Members with respect to water supply, conservation, reuse, treatment and transmission, or any of the other purposes set forth in Section 3.4;
- o. exercise all other powers within the authority of, and that may be exercised individually by all its Members with respect to watershed planning and management; and
- p. exercise all other corporate powers that Cascade may exercise under the law relating to its formation and that are not inconsistent with this Interlocal Contract or with Chapter 39.34 RCW or other applicable law.

ARTICLE 4. Organization Structure; Board

Section 4.1 Composition, ByLaws and Meetings. Cascade is governed by a Board of Directors consisting of one individual representative appointed by Resolution of the Member’s legislative authority. Members may similarly appoint Alternate Board Members. Each Board Member and each Alternate Board Member must be an elected official of the Member.

The Board shall adopt ByLaws consistent with this Interlocal Contract that specify, among other matters, the month of Cascade’s Annual Meeting, Board powers and

duties and those of the Executive Committee, Standing Committees, Officers and employees.

The Board shall meet as required by the ByLaws, but no less than quarterly.

Section 4.2 Powers of the Board. The Board has the power to take all actions on Cascade’s behalf in accordance with voting provisions set forth in Section 4.3. The Board may delegate to the Executive Committee or to specific Cascade Officers or employees any action that does not require Board approval under this Contract.

Section 4.3 Voting. All Board actions must be approved by Dual Majority Vote of all Members, except where this Contract requires either a 65% Dual Majority Vote, as provided in Sections 5.2, 5.5, 7.1, 7.3, 8.3, 10.3, 10.4, and Article 11; or ratification by the Members’ legislative authority, as provided in Section 10.4 and Article 11. The Board may act by voice votes, as set forth in the ByLaws. Any Member may require a recorded tabulation of votes either before or immediately after a voice vote is taken. Although voting is, in part, based on Weighted Vote, the Members expressly agree that there is only one class of voting membership, and voting occurs within that single class.

Any Member that has been declared to be in default of its obligations under this Interlocal Contract by the Board shall lose its right to vote until the Board has declared the default to be cured.

Section 4.4 Officers and Committees. Cascade Officers shall include a Chair, a Vice Chair, a Secretary and a Treasurer. The Chair serves as the chair of the Board (and may be known as the “President”, if the ByLaws so designate) and performs those duties set forth in the ByLaws.

The Vice Chair shall perform the duties of the Chair in the Chair’s absence and shall perform other duties as set forth in the ByLaws. The Secretary shall be responsible for Cascade records and performs other duties as set forth in the ByLaws. The Treasurer shall be responsible for Cascade accounts and financial records and performs other duties as set forth in the ByLaws.

Consistent with the provisions of this Contract, the Board may, in the ByLaws, establish additional Officers and set forth their duties.

The Board may create and appoint Members to Standing Committees and special committees as it deems appropriate. Committee Members need not be elected officials or employees of Members, but Standing Committee Chairs must be Board Members or Alternate Board Members.

Section 4.5 Executive Committee. The Chair, Vice Chair, Secretary, Treasurer and chairpersons of Standing Committees together constitute Cascade’s Executive Committee. The Chair (or acting Chair) shall vote on matters before the Executive Committee only if necessary to break a tie. The Executive Committee’s

duties and responsibilities are set forth in the ByLaws. The Executive Committee shall not have the power to:

- a. approve any contract for a term longer than three years;
- b. approve any contract involving expenditure by, or revenue to Cascade in excess of such amounts and under such circumstances as set forth in the ByLaws;
- c. retain or dismiss the chief executive officer or determine the chief executive officer's compensation; or
- d. take any actions expressly reserved to the Board by this Contract or the ByLaws.

The Executive Committee shall have the authority, if necessary, to avoid default on any Bond, to withdraw from any capital reserve fund or rate stabilization fund, an amount equal to the amount necessary to avoid a default and to authorize payment of that amount to avoid default.

Section 4.6 Staff, Consultants and Contractors.

Cascade staff shall consist of a chief executive officer and other positions established by the Board. The Board shall appoint, designate the title of, and establish the compensation range of the chief executive officer. The Board shall hire or retain legal counsel and independent accountants and auditors for Cascade. The authority to hire other consultants may be delegated to the Executive Committee. The chief executive officer appoints persons to fill other staff positions, and those appointments may be subject to ratification by the Board or the Executive Committee if the ByLaws so provide. The Board may also provide that administrative, professional or technical services be performed by contract.

Section 4.7 Budget; Dues; Financial Management. The Board must approve an annual budget determining Cascade's revenues and expenditures no later than sixty (60) days before the beginning of the fiscal year in which that budget will be in effect. The budget will be developed and approved according to a schedule established by the ByLaws. The budget must identify the levels of Member Charges on which revenue projections are based. The Board may amend the budget.

Each Member must pay annual dues to defray part of Cascade's administrative costs based on the number of CERUs served by its water system, regardless of water usage or capacity, and regardless of whether those units are served by the Supply System or by Independent Supply. Total dues collected from all Members may not exceed the greater of \$1,000,000.00 or 5% of Cascade's annual revenue requirement, less debt service. The Board may establish minimum annual dues per Member and may provide that less than all of a Member's CERUs be taken into account in establishing dues.

All Cascade books and records shall be open to inspection by the Washington State Auditor.

ARTICLE 5. Asset Development and Supply Commitment

Section 5.1 Property Acquisition, Ownership and Disposition. Cascade may construct, purchase, rent, lease, manage, contract for, or otherwise acquire and dispose of Water Supply Assets and other assets. Cascade may control and manage both the assets it owns and the assets that are owned by Members that have transferred control and management of those assets to Cascade. This Contract does not vest in Cascade any authority with respect to Members' other facilities or assets, such as Water Supply Assets retained by Members as Independent Supply.

Subject to Cascade's agreement, a Member may transfer to Cascade its title to, or operational control and management of Water Supply Assets. Water Supply Assets may also be fully retained by Members as Independent Supply, subject to the provisions of Article 6. At the discretion of the Board, Cascade may accept title to, or operational control and management of Water Supply Assets offered by Members or accept supply assets that constitute all or part of a Member's Satellite System(s). The Board may accept supply assets subject to the terms and conditions arranged between Cascade and the Member, based on the result of the audit process and mutual needs.

Cascade may enter into Asset Transfer Agreements which shall provide for the terms and conditions of: (a) Cascade's operation of the transferred Water Supply Asset with respect to the Member transferring the asset; (b) Cascade's operation, maintenance and replacement of the Water Supply Asset as part of the Supply System; (c) return or disposition of the Water Supply Asset if Cascade terminates its existence or the Member withdraws; (d) continuation of service (if appropriate) to Members or former Members by the Member receiving the Water Supply Asset at reasonable rates and charges or payment to Cascade of the cost of replacing the Water Supply Asset; and (e) such other conditions as the Board and the Member agree upon.

Members shall not be deemed to hold legal ownership rights in any Water Supply Assets owned by Cascade, whether those Water Supply Assets have been developed by, purchased by, or transferred to Cascade, and regardless of the accounting treatment of RCFC payments and other payments made to Cascade.

Section 5.2 Supply Commitment

Section 5.2.1 Commitment to Members.

Beginning on the Cascade Supply Date, Cascade shall provide a Full Supply Commitment to each Founding Member. Thereafter, Cascade shall provide a Full Supply Commitment to meet all current and future water supply needs of a Member that joins with Water Supply Assets sufficient to provide for its needs during the following fifteen (15) years (whether or not those Water

Supply Assets are transferred to Cascade or retained as Independent Supply) commencing on the Member's Cascade Supply Date. When a supply contract is negotiated with Seattle, any Member that is a Seattle Contract Purveyor shall relinquish its rights under its Seattle Water Purveyor Contract to Cascade and execute such documents as may be necessary to transfer those rights to Cascade. Cascade shall accept those rights and a corresponding obligation to provide a Full Supply Commitment (net of Independent Supply). The approval of a contract with the City of Seattle providing for the initial acquisition of rights to substantial Water Supply Assets, and any material amendment to that contract, shall be effective upon a 65% Dual Majority Vote.

Any Full Supply Commitment shall be subject to water shortages, to Cascade's ability to implement the Water Supply Plan, and to the portion of the Member's needs that can be served by the audited capacity of its Independent Supply. If the needed supply is not available, the shortage shall be shared by all the Members in accordance with Cascade's shortage management plan, except as otherwise provided in Section 5.5. Cascade is not obligated to provide water supply to service area expansions in or outside the urban growth boundary, unless Cascade agrees to such expanded service area. However, Cascade shall be obligated to provide water supply to the entire service area of each Member (as that service area is defined in terms under which the Member was admitted), whether or not some of that service area is within the Member's current jurisdictional boundaries and/or within the current urban growth boundary. Cascade is not obligated to provide increased water supply to any Member if it is determined that the Member's planning process or plans are materially out of compliance with the requirements of the Growth Management Act.

A Member that joins with Water Supply Assets insufficient to provide for its needs for fifteen (15) years receives the Full Supply it desires only if, when, and to the extent it is available within reliability standards determined by Cascade's system reliability methodology. If sufficient Full Supply is not available within reliability standards determined by Cascade's system reliability methodology, the Member receives partial Full or Interruptible Supply, and Full Supply must be provided within fifteen (15) years. Cascade shall then undertake to include in Cascade's Water Supply Plan, and to acquire the facilities or other assets necessary in the Board's determination to provide for that deficit. If Cascade fails to develop sufficient assets to timely provide the increased Full Supply, the commitment becomes a Full Supply Commitment at the end of that fifteen- (15) year period, and any shortage shall be shared by all Members in accordance with Cascade's shortage management plan.

If multiple Members request new Full Supply, requests must be honored in the order received (i.e., in the order in which application is made accompanied by the application fee). With respect to new Members, requests for Full Supply "vest" no earlier than the date that membership is effective. In cases of conflict or ambiguity, the Board may determine the order of requests.

Section 5.2.2 Additional Rules for Members Retaining Independent Supply. Whenever Cascade has a Supply Commitment to a Member that retains Independent Supply, Cascade shall provide Full Supply for all of that Member's water supply needs minus the amount of water that an audit determines may be provided by that Member's Independent Supply. Members are not required to share shortages resulting from the loss of all or part of Independent Supply, although Cascade may make Interruptible Supply available to a Member that loses Independent Supply at prices that are consistent with the price of Interruptible Supply being made available to others at that time. Cascade may at any time and at its cost and expense carry out audits of a Member's Independent Supply.

A Member requesting an additional Full Supply Commitment due to loss of Independent Supply shall make that request by Resolution of the requesting Member's legislative authority. When and as determined by the Board, the Member shall pay an amount equal to the RCFCs allocable to the number of CERUs that can be served by the replacement supply provided or to be provided by Cascade. Cascade shall then include the supply in its Water Supply Plan, and provide the supply when it becomes available, but in any event within fifteen (15) years. If, within fifteen (15) years the supply is not available, Cascade's commitment becomes a Full Supply Commitment and any shortage with respect to that supply must be shared by all the Members in accordance with the Shortage Management Plan, except as otherwise provided in Section 7.3.

Section 5.2.3 Additional Rules for Source Exchange. The Board may, at its sole discretion, authorize a Cascade Source Exchange Program Agreement with a Member or Non-Member. The terms and conditions of a Cascade Source Exchange Program Agreement shall be developed from a source exchange proposal submitted to the Board. The agreement shall identify: (a) the water right (instantaneous and annual) to be augmented or replaced; (b) the Water Supply Assets to be utilized; (c) mechanisms and arrangements for delivery of regional water; (d) characteristics of supply obligation (for example, peak and average quantities, seasonal or annual delivery, duration, interruptibility and shortage management); (e) reporting requirements; (f) changes in operation needed to benefit stream flow and fish; (g) rates and charges; and (h) such other conditions

as the Board and the Member or public water supplier agree upon. The agreement may or may not provide for adjustments to a Member's RCFC payments or credits and whether or not the source exchange is a loss of a Member's Independent Supply that would be subject to the provisions of Section 5.2.2.

Section 5.3 Financing of Assets. The acquisition of new capital facilities and other Water Supply Assets may be financed using RCFCs, transfers of Water Supply Assets, Rates and Charges, the issuance of revenue Bonds and such other sources as the Board may deem appropriate.

Section 5.3.1 Issuance of Bonds. An Authorized Issuer may issue Bonds payable from and secured solely by all or a portion of Net Cascade Revenue, evidencing indebtedness up to an amount approved by Resolution of the Board in order to provide financing or refinancing to acquire, construct, receive, own, manage, lease or sell real property, personal property, intangible property and other Water Supply Assets, to establish debt service reserves, to provide for capitalized interest and to pay the costs of issuance of, and other costs related to the issuance of the Bonds. Such Bonds shall be payable solely from all or a portion of the Net Cascade Revenue or (if the Authorized Issuer is other than Cascade) from payments to be made by Cascade out of all or a portion of Net Cascade Revenue, and such Bonds shall not pledge the full faith and credit or taxing power or, except as expressly provided by contract, the revenue, assets or funds of any Member.

Members serving as Authorized Issuers may conduct the financing through "separate systems" permitted by their applicable bond resolutions, or in some other appropriate manner, and Cascade may compensate those Members for all costs associated with the financing.

Bond-related documents of Authorized Issuers other than Cascade must expressly permit the Bonds to be refunded or prepaid without penalty prior to their stated maturity, on and after such dates as are approved by the Authorized Issuer and the Board, to allow for a transfer of the obligation to Cascade or to Cascade's successor entity, including without limitation a joint operating agency or similar entity, as may be permitted by law.

Section 5.3.2 Pledge of Revenues. For as long as any Bonds payable from Net Cascade Revenue (or any portion thereof) are outstanding, Cascade irrevocably pledges to establish, maintain and collect all Member Charges in amounts sufficient to pay when due the principal of and interest on the Bonds (and, if the Authorized Issuer is other than Cascade, in addition to the foregoing pledge, to pledge to make timely payments to that Authorized Issuer for the payment of principal of and interest on the Bonds), together with amounts sufficient to satisfy all debt service reserve requirements, debt service coverage requirements, and other covenants with respect

to the Bonds.

Each Member hereby irrevocably covenants that it shall establish, maintain and collect rates, fees or other charges for water and other services, facilities and commodities related to the water supply it receives from Cascade and/or its water utility at levels adequate to provide revenues sufficient to enable the Member to: (a) make the payments required to be made under this Contract; and (b) pay or provide for payment of all other charges and obligations payable from or constituting a charge or lien upon such revenues. Each Member hereby acknowledges that this covenant and its covenant in Section 7.9 of this Contract may be relied upon by Bond owners, consistent with this Contract.

Each Member shall pay the Member Charges imposed on it whether or not the Water Supply Assets to be financed through the issuance of Bonds are completed, operable or operating, and notwithstanding the suspension, interruption, interference, reduction or curtailment in the operation of any Water Supply Assets for any reason whatsoever, in whole or in part. Member Charges shall not be subject to any reduction, whether by offset or otherwise, and shall not be conditioned upon the performance or nonperformance of any Member, or of any entity under this or any other agreement or instrument. However, credits against future RCFCs and Rates and Charges described in Sections 5.5 and 7.5, respectively, for development or addition of excess capacity that is either transferred to Cascade or retained as Independent Supply, shall not be considered "offsets" or "reductions" for the purposes of this Section.

If, in connection with the issuance of obligations, any Member establishes a new lien position on revenues relating to its water utility, that Member shall covenant in the relevant documents that the amounts to be paid to Cascade as Member Charges shall be treated either: (a) as part of that Member's internal operation and maintenance costs payable prior to debt service on those obligations; and/or (b) for any portion of those Member Charges that is allocable to capital costs, as a contract resource obligation payable prior to debt service on those obligations. If any Member has existing outstanding revenue obligations relating to its water utility, it shall include substantially similar "springing covenants" in the documents relating to any new parity obligations.

Section 5.3.3 Continuing Disclosure. To meet the requirements of United States Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) (the "Rule") as applicable to a participating underwriter for any Bonds and any obligation of each Member as an "Obligated Person" under the Rule, Cascade and each Member agree to make an appropriate written undertaking, respectively, for the benefit of holders of the Bonds consistent with the requirements of the Rule.

Section 5.3.4 Preservation of Tax

Exemption for Interest on the Bonds. Each Member covenants that it will take all actions necessary to prevent interest on tax-exempt Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of tax-exempt Bonds or other funds treated as proceeds of those Bonds at any time during the term of those Bonds that will cause interest on those Bonds to be included in gross income for federal income tax purposes.

Section 5.3.5 Additional Certificates. Each Member further agrees to provide such certificates or verifications as are reasonably requested by an Authorized Issuer in connection with the issuance of Bonds under this Section.

Section 5.4 Supply Expansions and System Extensions. Cascade must provide for Supply System expansions and extensions to meet the needs of additional water customers of Members, subject to consistency with applicable growth management plans and comprehensive plans, Cascade's water supply plan, orderly asset development, reasonable cost and financing capacity. The Board shall establish a water supply development process, including criteria governing the evaluation of new projects, and that process must promote equality of costs and services (other than direct local services), regardless of geographic location. The results of the water supply planning process must be reflected in Cascade's Water Supply Plan. The Board shall have the authority to undertake new projects identified in Cascade's Water Supply Plan for the expansion of Water Supply Assets and regional transmission system extensions to meet Members' projected needs. To reduce costs, Cascade may, to the extent that the Board deems advisable, enter into agreements with Members to wheel water through their existing systems. When facilities are constructed that are used partially by Cascade for wheeling water and partially by Members or other entities for their purposes, the Board may determine an appropriate Cascade contribution to the cost of those facilities. Existing arrangements among Members (and between Members and Non-Members), in place when a Member joins Cascade, remain unaffected except as otherwise agreed between Cascade and the other entities concerned.

Section 5.5 Regional Capital Facilities Charges.

To allocate growth costs to those Members that require capacity increases, each Member shall pay to Cascade an RCFC for each new CERU connected to its water distribution system. Growth in water usage by existing CERUs is not subject to RCFCs unless that growth constitutes a CERU increase as provided in the RCFC Methodology. Members with a supply deficit must pay an RCFC commensurate with that deficit. To the extent that a Member transfers to Cascade or retains as Independent

Supply water supply in excess of its needs, it receives a corresponding credit against future RCFCs.

Subject to the provisions of Section 5.2.2, a Founding Member pays no RCFCs with respect to the number of CERUs served as of January 31, 2003, or other such later date as determined by Resolution of the Board.

A new Member with adequate supply shall commence paying RCFCs fifteen (15) years prior to the date that its Water Supply Assets are projected to be insufficient to provide for its needs as determined by the Board (taking into consideration the results of the Water Supply Audit).

A Member that joins with Water Supply Assets that are projected to be insufficient to provide for its needs for fifteen (15) years shall immediately pay RCFCs for the number of CERUs representing the deficit as determined by the Board.

RCFCs shall be calculated according to the RCFC Methodology, which shall define the analytical steps required to calculate the RCFCs according to the greater of: (a) the incremental difference between the average unit cost of expanding the system (i.e., the marginal cost of new capacity) and the average unit cost of the existing system; or (b) the average unit cost of past construction of the existing system plus then-planned Supply System improvements. The methodology shall provide for an annual escalator, recalculation and update not less frequently than every fifth year, and a methodology for determining CERUs. The RCFCs shall be imposed on the Member for each new CERU of that Member in accordance with the terms of this Contract. Amendments to the RCFC Methodology shall require a 65% Dual Majority Vote.

If a Founding Member owns Water Supply Assets or transfers Water Supply Assets to Cascade under Section 5.1, to the extent the audited capacity of those assets (including Seattle Contract Purveyor rights) exceeds the Member's needs, that Member shall receive a credit against future RCFCs. If a Member seeks to transfer assets substantially in excess of its foreseeable needs, Cascade may negotiate appropriate compensation arrangements for the transfer.

Members that develop new Independent Supply that is approved by the Board in accordance with Article 6, similarly receive a credit effective when the Independent Supply is placed in service as determined by the Board.

A Member that accepts ownership of a Satellite System that Cascade agrees to serve shall pay an RCFC for the amount of supply needed to serve that system in excess of its rated capacity.

Members that experience a net reduction in the number of CERUs served shall receive a CERU-for-CERU credit against future RCFCs.

RCFC credits may not be transferred among Members without Board approval.

Members shall not be required to pass RCFCs to their customers as capital facilities charges, but may provide for the payment of RCFCs in whatever manner they deem appropriate.

For Members joining with an unmet net supply need, Cascade may, under circumstances determined by the Board, require the prepayment of RCFCs allocable to the full amount of the requested supply, i.e., when funds are needed to begin the construction of facilities immediately.

Section 5.6 Transfer Upon Mergers, Consolidations and Assumptions. If: (a) two or more Members merge or consolidate; (b) a Member or a Non-Member assumes jurisdiction of part or all of a Member; or (c) a Member assumes jurisdiction of part or all of a Non-Member, the jurisdictions' water supply rights from and obligations to Cascade must be transferred or assumed under applicable law and consistent with the requirements of this Contract and the obligations of Cascade.

ARTICLE 6. New Independent Supply

Members may not bring new Water Supply Assets on-line as Independent Supply without Board approval. That approval may be granted or denied following an evaluation process, based on whether the Board determines that development of the proposed Independent Supply will benefit or be adverse to the interests of the Members as a whole. Recognizing that in certain circumstances the acquisition of additional Independent Supply might benefit (or cause no material harm to) the Members, new supplies under one (1) MGD may be approved by the Board regardless of the provisions of the Water Supply Plan and without a formal evaluation process. New supplies in amounts greater than one (1) MGD must be described in and be consistent with the Water Supply Plan.

Members that have invested in the development of new Independent Supply assets may offer to sell their interest in such assets to Cascade. Cascade may, in its sole discretion and subject to mutually agreeable terms and conditions, purchase the Member's interest in such Independent Supply asset by reimbursing or otherwise compensating the Member for its investment in the project to the extent that investment has been capitalized. Once Cascade has purchased a Member's interest in a project, the project will be considered a Water Supply Asset of Cascade and be incorporated into the Water Supply Plan.

ARTICLE 7. Asset Management

Section 7.1 Supply System Management. Cascade is responsible for managing, on behalf of all Members, the Supply System. Cascade is not responsible for managing Independent Supply unless it has expressly agreed to do so. Supply System management

responsibilities shall be governed by Cascade's system management plan adopted by the Board. Cascade's system management plan concerns, without limitation, matters such as daily system operations and maintenance, interface with other supply providers, contractual obligations, water quality, billing, management and administration. Cascade may delegate and/or contract out its Supply System responsibilities.

Cascade must manage the Supply System in compliance with applicable laws, regulations and Cascade's minimum service standards. Adoption and amendments to the minimum service standards shall require a 65% Dual Majority Vote.

Section 7.2 Conservation. Cascade shall develop and carry out, and Members must participate in, water conservation programs that are uniform among Members. The Board shall develop and implement a Cascade conservation management plan that provides a mandatory base conservation program that functions to reduce both average and peak demands and may establish a charge or assessment to fund development and implementation of the program. Members may implement additional conservation programs. The Board may adopt wholesale charges in addition to normal Demand Share charges to encourage resource conservation. The Board may also provide or contribute to additional local conservation programs that are not offered to all Members, and these local programs may be locally funded or funded by Cascade. Members that fail to comply with base programs as set forth in Cascade's conservation management plan may be required to assume a disproportionate reduction in water supply or to pay penalty charges, or both.

Section 7.3 Shortages and Emergency.

Section 7.3.1 Shortages. Members must respond to water shortages in a collective, shared fashion under a Cascade shortage management plan adopted by the Board. Resources must be shared in a manner that reduces the risk of severe shortages to each Member. Cascade's shortage management plan may include without limitation, a definition and classification of shortages, a shortage contingency plan including mandatory programmatic actions among all Members in the event of shortages, allocation of authority for determining and responding to shortages, and a communications and outreach program for the public. Members shall not be required to implement Cascade's shortage management plan in areas not served by the Supply System.

In the event of shortages, Cascade shall reduce or halt Interruptible Supply before invoking the Shortage Management Plan with respect to all Members with a Full Supply Commitment. However, the Board may, by 65% Dual Majority Vote, continue service in the amounts

it deems appropriate to one or more Members receiving Interruptible Supply.

The Board may require that Members failing to comply with mandatory shortage management programs implemented under Cascade's shortage management plan assume a disproportionate reduction in supply or pay penalty charges, or both.

In the event of a Cascade-wide water shortage, Members with Independent Supply may, without penalty, decline to participate in the shortage management program for that shortage by foregoing all supply from Cascade for the duration of the emergency or shortage.

To avoid shortages resulting from emergencies or the inability to develop sufficient supplies, the Board may, by 65% Dual Majority Vote, establish moratoria on connections or additional commitments for future water services by the Members. A moratorium may be discontinued by a Dual Majority Vote of the Board.

Section 7.3.2. Emergency. The Board shall include in Cascade's shortage management plan policies and procedures for addressing short-term disruptions of water supply, transmission or water quality, and it may delegate to the General Manager authority to address such disruptions according to such policies and procedures.

Section 7.4 Water Quality. Cascade shall be responsible for water quality that meets or exceeds all federal or state requirements at the point of delivery from Cascade to the Member, consistent with applicable laws and regulations. Cascade assumes source water quality responsibility and liability with respect to Water Supply Assets under its ownership or control (including water wheeled to a Member through another Member's facilities). Cascade is also responsible for preparing and carrying out water quality activities compatible with the water quality requirements of regional water suppliers integrated with Cascade's system (e.g., Tacoma, Everett and Seattle).

Cascade may, in its sole discretion, determine and adjust the appropriate method and level of treatment of water that it supplies, so long as that water meets applicable state and federal requirements. If water that it supplies meets those requirements, Cascade shall not be obligated to adjust the method or level of treatment so that the water can be more readily blended with a Member's Independent Supply or more readily transmitted through a Member's internal system. Each Member shall remain responsible for water quality within its respective distribution system, assuming that adequate water supply quality is provided by Cascade at the point of delivery from Cascade.

Each Member shall be responsible for all costs related to making water supplied by Cascade compatible with that Member's internal system, including but not limited to, costs of additional treatment.

Section 7.5 Water Supply Rates and Charges.

The Board shall set Rates and Charges according to a Rate Calculation Methodology adopted from time to time by the Board. The Rate Calculation Methodology for Members' Supply Commitment shall provide for the definition and calculation of Demand Shares and for a uniform pricing structure with a commodity charge and fixed charges allocated by Demand Share.

Cascade may sell water to a Non-Member under terms and conditions established by the Board. The terms and conditions shall not be more favorable than the terms and conditions under which water is sold to Members. Revenue received from the sale of water to Non-Members shall be used to offset or reduce Rates and Charges to Members to the extent practicable, except that such revenue need not be treated as reducing or offsetting those amounts that are necessary for the payment of debt service on Bonds and for the provision of reserve and coverage requirements for the Bonds.

A Member shall be assigned a Demand Share based on the Board's best estimate of capacity to be used by that Member. Initially, the Board may base its estimate on a Seattle Contract Purveyor's use of water from Seattle. For a Member that joins without a supply history as a Seattle Contract Purveyor, or for a Member that has received only part of its water from Seattle, the Demand Share shall be established based on an audit of that Member's past three (3) years of water use. After three (3) years as a Member, the baseline demand and capacity obligation for that Member shall be fixed based on actual experience as a Member. Specific Demand Shares may be set by the Board to account for circumstances, such as (by way of example and not by limitation) costs of extending the Supply System to a Member, or when Independent Supplies affect regional demand patterns. When water supply from Cascade is wheeled through a Member to another Member, Cascade may presume that the first Member receiving the water is the "User" for calculation of Demand Shares unless the Members concerned instruct Cascade to use a different allocation. Rate credits for Water Supply Asset transfers are not deducted in the calculation of Demand Shares but are applied to reduce what a Member would otherwise pay.

The Board must set Member Charges at levels it determines to be sufficient, together with other available revenue sources, to provide adequately for Operation and Maintenance Costs, Bond debt service, coverage and other covenants, replacement and renewal of facilities, reserves and other costs that the Board deems appropriate. The Board may provide that a Member's failure to participate in the planning process may result in penalty charges.

A Member that has transferred Water Supply Assets shall receive a credit, determined when those assets are audited and transferred, based on the useful life of those

facilities and on the Member's use of the water produced by those assets or an amount of water equivalent to the amount of supply from them.

The Board may implement wholesale charges (additional to Demand Share-based charges and variable commodity charges) to reduce extreme peak use (e.g., "peaking-off of the pipe").

Water Rates and Charges must be the same for all Members receiving the same class of service (subject to credits, surcharges and penalty charges).

Section 7.6 New Water Surcharge.

A new water surcharge of \$0.75 per 100 cubic feet (ccf) shall be imposed, effective on the Cascade Supply Date, and continue through December 31, 2011. It shall be applicable to all water purchased by Members over and above each Member's Old Water Allowance in the Seattle Purveyor Contract, if applicable, or to all water purchased by non-Seattle Purveyor Members. New water surcharge revenues shall be used to offset or reduce Rates and Charges to Members to the extent practicable, except that such revenue need not be treated as reducing or offsetting those amounts that are necessary for payment of debt service on Bonds and for the provision of reserve and coverage requirements for the Bonds.

Section 7.7 Franchises and Easements. Except to the extent otherwise required by state law, each Member shall provide franchises and rights of way on, under or across that Member's streets or other property, to Cascade and to other Members for Water Supply Assets, without charging any fees, rent or charges other than the customary and usual right-of-way permit and inspection fees.

Section 7.8 Sales of Water to Non-Members. Unless approved by the Board, a Member shall not sell water, including source exchange water, supplied by Cascade, nor shall a Member sell Independent Supply offset by water supplied by Cascade, to a Non-Member. Notwithstanding the foregoing, any Member may sell water supplied by Cascade to a Non-Member to the extent required by a contract in effect as of the date the Member joins Cascade.

Section 7.9 Payment Procedures; Default; Step-Up Provisions.

Section 7.9.1 Invoice and Payment.

(a) Cascade shall provide each Member with periodic invoices showing the Member Charges payable by that Member for the billing period and the due date. Invoices shall be provided monthly or on other such periodic schedule as determined by the Board, but no more frequently than monthly nor less frequently than once every six months. The Board will determine a due date for all invoices.

(b) Payment of any and all invoices shall be due and payable on or before the due date, and shall be made by wire transfer or such other means as are agreed

to by Cascade and the Member. If a treasurer, trustee, fiscal agent or escrow agent is appointed in connection with the issuance of Bonds, Cascade may require, and specify on the invoice, that certain amounts be provided directly to that person or entity, and the Member shall pay those amounts in the manner and to the person so specified.

(c) If full payment of any invoice is not received on or before the due date, such payment shall be considered past due and a late payment charge shall accrue for each day that the invoice remains unpaid. The late payment charge shall equal the product of the unpaid amount and an interest rate established by the Board. Late payment charges shall continue to accumulate until the unpaid amount of the invoice and all late payment charges are paid in full. Further, if an invoice or any portion thereof remains unpaid for more than sixty (60) days after the due date, Cascade may pursue any legally available remedy at law or equity for the unpaid amount, including without limitation, specific performance and collection of the late payment charge. Cascade's right to enforce payments in this regard may be assigned to a treasurer, trustee, credit enhancement provider or other entity. Furthermore, upon written notice, Cascade may reduce or suspend delivery of water until the invoice and late payment charges are paid.

(d) If any Member disputes all or any portion of an invoice, it shall notify Cascade immediately upon receipt. If Cascade does not concur, the Member shall remit payment of the invoice in full, accompanied by written notice to Cascade indicating the portions of the invoice that the Member disputes and the reasons for the dispute. The Member and Cascade shall make a good faith effort to resolve such dispute. If the Member fails to remit payment of the invoice in full pending resolution of the dispute, the prevailing party in an action relating to the collection of that invoice shall be entitled to reasonable attorney fees and costs.

Section 7.9.2 Default and Step-Up.

(a) If any Member fails to make any payment in full for more than fifty (50) days past the due date, Cascade shall make written demand upon that Member to make payment in full within ten (10) days of the date that the written demand is sent by Cascade. If the failure to pay is not cured within the ten (10) day period, the Member shall be deemed to be in default.

(b) Upon an event of default as described in subsection 7.9.2(a), the other Members shall pay Cascade (in addition to Member Charges otherwise due) the defaulting Member's Member Charges in proportion to each remaining Members' Demand Share in accordance with a schedule established by Resolution of the Board.

(c) The payment of a proportionate share of the existing defaulted Member's Member Charges by Members shall not relieve the defaulting Member of its

liability for those payments. Cascade shall have a right of recovery from the defaulting Member on behalf of each Member. Cascade may commence such suits, actions or proceedings at law or in equity, including but not limited to suits for specific performance, as may be necessary or appropriate to enforce the obligations of this Contract against any defaulting Member. Cascade's right to enforce payments in this regard may be assigned to a treasurer, trustee, credit enhancement provider or other entity. Amounts recovered by Cascade as payment of amounts due shall be passed through to each Member in proportion to the share that each assumed, in cash or in credit against future Member Charges as the Board shall determine.

(d) The prevailing party in any such suit, action or proceeding, shall be entitled to recover its reasonable attorney fees and costs against the defaulting Member.

ARTICLE 8. Planning

Section 8.1 Water Supply Plan. Cascade must plan for its Members' water supply needs. That planning shall be to be compatible with the equivalent planning responsibilities of other wholesale water providers and with state, county and city planning responsibilities under the Growth Management Act. The Board must adopt, and may from time to time amend, a Water Supply Plan that must be based on no less than a twenty- (20) year planning horizon. Cascade shall coordinate its planning effort with local and regional utilities and other appropriate agencies and work to encourage cooperative region-wide planning and coordination.

Each Member shall actively participate in Cascade's water supply planning and shall provide to Cascade accurate data regarding its facilities and operations together with good-faith estimates of future needs and a description of any involvement in the development of new Independent Supplies. Each Member's water comprehensive or system plan shall be consistent with any plans adopted by Cascade, and shall be consistent with applicable requirements of the Growth Management Act and comprehensive plans.

Section 8.2 Watershed Management Plan. Cascade may adopt Watershed Management Plans, as appropriate, for the watersheds within its service area provided that a Watershed Management Plan may take the place of, or may be incorporated into a Cascade Water Supply Plan. In fulfilling its responsibilities for watershed management, Cascade may enter into interlocal agreements with Non-Member municipalities to engage in watershed management, including development of Watershed Management Plans and the implementation and financing of such plans.

Section 8.3 System Reliability Methodology. Cascade shall develop and adopt a system reliability methodology for planning, operation and management purposes. Adoption and amendments to the system

reliability methodology shall require a 65% Dual Majority Vote.

ARTICLE 9. Filings

This Contract must be filed with the King County Office of Records and Elections or with any other applicable county auditor, in accordance with RCW 39.34.040, and must be submitted for review by the Washington State Department of Health and the Washington State Department of Ecology, in accordance with RCW 39.34.050.

ARTICLE 10. Duration and Dissolution; Withdrawal

Section 10.1 Duration. Except as provided in Section 10.3, Cascade shall remain in existence for the longer of the following: (a) the period it holds any assets; (b) the period during which Bonds are outstanding; or (c) the period it continues to include Members.

Section 10.2 Withdrawals. A Member may notify Cascade of its intent to withdraw by delivery to Cascade of a Resolution of its legislative authority expressing such intent. Upon receipt of such Resolution, the Member shall lose its right to vote and the Board shall determine: (a) the withdrawing Member's allocable share of the cost of the then-existing obligations of Cascade; and (b) the withdrawing Member's obligations to Cascade. "Then-existing obligations of Cascade" means obligations or costs incurred by Cascade as of the date the Member's withdrawal notice is received, including but not limited to Bond obligations, contract obligations and cash financed capital projects; provided that a withdrawing Member's allocable share shall in no event include an obligation for future expenses for which Cascade has not incurred a legal obligation; and provided further, that to the extent the Member's obligation (with respect to such costs) is re-paid over time, the Member shall be entitled to a credit for supply abandoned by the Member and is otherwise used by Cascade. A "withdrawing Member's obligation to Cascade" includes but is not limited to, the Member's share of fixed operating costs, any other expenses contained in Cascade's adopted budget for that year, and any assessments or other similar charges lawfully imposed by Cascade. For purposes of the preceding sentence, "fixed operating costs" shall be determined in the year of withdrawal, and the Member's obligation with respect to such costs shall be limited only to that amount required to pay for supply abandoned by the Member and not otherwise used by Cascade.

The allocable share of cost or obligations shall be determined by the Board, taking into consideration as deemed applicable by the Board: (a) the ratio of the Member's Demand Share to total Member demand; (b) the ratio of the Member's contribution to Cascade revenue to total Cascade revenue including RCFCs; (c) the cost or a portion of the cost of capital projects or facilities specially benefiting the Member; and (d) and

any other factor the Board deems appropriate to consider.

The Member's withdrawal shall be effective on payment of such allocable share or provision for arrangements to pay such allocable share that are satisfactory to the Board. Until the effective date of withdrawal, the Member shall continue to comply with all applicable provisions of this Interlocal Contract.

Upon withdrawal, except as provided in an Asset Transfer Agreement, the withdrawing Member shall have no right to, or interest in any Water Supply Assets owned by Cascade. The withdrawing Member shall be deemed to have abandoned any and all rights to service, to the use of Cascade Water Supply Assets or other rights with respect to Cascade (except as otherwise expressly provided in this Contract).

Notwithstanding the provisions of this Section 10.2, Cascade will, upon the withdrawal of a Member that has transferred operational control and management of (but not title to) an Independent Supply Asset to Cascade under Section 5.1, return operational control of such asset to the withdrawing Member. Return of operational control and management will be subject to: (a) continued use by Cascade, to the extent and for such time as the Board deems such use necessary for Cascade to continue providing service to its Members; and (b) payment or provision for payment of any Cascade costs, including but not limited, to those associated with the withdrawing Member's Independent Supply Asset.

The Board may establish additional generally applicable conditions and requirements for withdrawal.

Section 10.3 Dissolution. Cascade may be dissolved by a 65% Dual Majority Vote. Upon dissolution, except as provided in an Asset Transfer Agreement, Cascade's assets initially shall be held by its then current Members as tenants in common. Each Member's ownership interest must be based on that Member's Demand Share as of the time of the dissolution. Cascade's liabilities (including Bonds and other contractual obligations) initially shall be distributed based on Members Demand Shares as of the time of the dissolution. Assets and liabilities must be distributed in accordance with agreement or contract, under a voluntary mediation process, or by a court of law. A court may appoint an arbitrator or special master. Distribution shall be based on the best interests of efficient and economic water supply in the entire area served by the Members, subject to a rebuttable presumption that Water Supply Assets will be returned to the Member that originally transferred them to Cascade. That presumption may be overcome by a showing that another asset distribution is in the best interests of efficient and economic water supply. The proceeds of any sale of assets must be distributed among the then current Members based on the Demand Shares at the time of dissolution.

Section 10.4 Successor Entity. Notwithstanding the provisions of Section 10.3, upon a 65% Dual Majority Vote (ratified within one hundred and twenty (120) days by 65%), as measured by Dual Majority Vote of the Members' legislative authorities, all assets, liabilities, and obligations of Cascade may be transferred to any successor entity (including without limitation, a joint operating agency or other municipal corporation, as permitted under state law), and all obligations of Members and parties contracting with Cascade become obligations to the successor entity.

ARTICLE 11. Amendments.

Amendments to this Contract shall be effective upon approval by 65% Dual Majority Vote (ratified within one hundred and twenty (120) days by 65%), as measured by Dual Majority Vote of the Members' legislative authorities.

ARTICLE 12. Applicable Law and Venue.

This Contract is governed by the laws of the state of Washington. The venue for any legal action arising from a dispute under this Contract is the Superior Court for King County.

ARTICLE 13. No Third Party Beneficiaries.

There are no third-party beneficiaries to this Contract except for the rights of Bond owners as provided in Section 5.3.2, no person or entity other than an agency signatory to this Contract shall have any rights hereunder or any authority to enforce its provisions, and any such rights or enforcement must be consistent with and subject to the terms of this Contract.

ARTICLE 14. Severability.

If any provision of this Contract or its application is held by a court of competent jurisdiction to be illegal, invalid, or void, the validity of the remaining provisions of this Contract or its application to other entities or circumstances shall not be affected. The remaining provisions continue in full force and effect, and the parties' rights and obligations must be construed and enforced as if the Contract did not contain the particular invalid provision. But if the invalid provision or its application is found by a court of competent jurisdiction to be substantive and to render performance of the remaining provisions unworkable and infeasible, is found to seriously affect the consideration, and is inseparably connected to the remainder of the contract, the entire Contract is deemed void.

ARTICLE 15. Entire Agreement.

This Contract constitutes the entire and exclusive agreement between the parties relating to the specific matters covered in this Contract. All prior or contemporaneous verbal or written agreements, understandings, representations or practices relative to the foregoing are superseded, revoked and rendered ineffective for any purpose. This Contract may be altered, amended or revoked only as set forth in Article 11. No

verbal agreement or implied covenant may be held to vary the terms of this Contract, any statute, law, or custom to the contrary notwithstanding.

ARTICLE 16. Execution.

This Contract may be executed in one or more counterparts.

Signatory Agency

By: _____

Title: _____ Date: _____

Attest: _____

Title: _____ Date: _____

Authorized by: _____
(Resolution or Ordinance)

Date: _____

Cascade Water Alliance:

By: _____

Title: _____ Chair _____ Date: _____

Attest: _____

Title: _____ General Manager _____ Date: _____

Authorized by: _____ Resolution No. _____

Date: _____

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APPENDIX D
DTC AND THE BOOK-ENTRY TRANSFER SYSTEM

The following information has been provided by DTC. The District makes no representation as to the accuracy or completeness thereof. Beneficial Owners should confirm the following with DTC or the Participants (as hereinafter defined).

The Depository Trust Company (“DTC”), New York, New York will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds, registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be registered by an authorized representative of DTC. One fully-registered Bond will be issued for each principal payment date of the Bonds, each in the aggregate principal amount represented by such Bonds, and will be deposited with DTC.

DTC, the world’s largest 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 two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments for over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s 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.

Purchases of Bonds under the DTC system 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.

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.

When notices are given, they shall be sent by the Fiscal Agent 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.

Redemption notices shall be sent to Cede & Co. 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent 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 District or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District and the Fiscal Agent. Under such circumstances, in the event that a successor securities depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof.

APPENDIX E



[FORM OF APPROVING LEGAL OPINION]

Cascade Water Alliance
King County, Washington

Re: Cascade Water Alliance \$55,230,000
Water System Revenue Bonds, 2006

We have served as bond counsel to Cascade Water Alliance (“Cascade”) 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 Cascade pursuant to Resolution No. 2006-07 and Resolution No. 2006-8 (collectively, the “Bond Resolution”) to provide funds with which to pay the cost of carrying out a portion of the 2006 Watershed Management Plan, to repay a loan from the Sammamish Plateau Water and Sewer District, to provide for a debt service reserve for the Bonds and to pay the costs of issuing the Bonds, all as set forth in the Bond Resolution.

The Bonds are payable solely out of Cascade’s Water System Revenue Bond Fund (the “Bond Fund”), into which fund Cascade irrevocably has pledged and bound itself to set aside and pay out of the Net Revenue certain fixed amounts without regard to any 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. Cascade has no taxing power. The Bonds are not general obligations of Cascade or any Member of Cascade.

The Net Revenue and all money and investments held in the Bond Fund, the Rate Stabilization Fund, the RCFC Fund and the Construction Fund (except money and investments held in a separate fund or account created for the purpose compliance with rebate requirements under the Code) have been pledged to the payment of the Bonds and any Future Parity Bonds. The pledge of Net Revenue constitutes a lien and charge upon such Net Revenue 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”), Cascade 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. Cascade has covenanted in the Bond Resolution to comply with those requirements, but if Cascade 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 Cascade’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. Cascade is a duly organized and legally existing Washington nonprofit corporation under Chapter 24.06 RCW composed of municipal corporations and special purpose municipal corporations which is organized under authority of the Interlocal Cooperation Act (Chapter 39.34 RCW);

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

3. The Bonds constitute valid and binding obligations of Cascade payable solely out of Net Revenue and certain other amounts 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; and

4. Assuming compliance by Cascade 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 an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, 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,

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APPENDIX F
PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Cascade Water Alliance ("Cascade") in connection with the issuance by Cascade of \$55,230,000 aggregate principal amount of Cascade Water Alliance Water System Revenue Bonds, 2006 (the "Bonds"). The Bonds have been issued pursuant to Resolution No. 2006-07, adopted by the Board of Directors of Cascade (the "Board") on April 19, 2006, as supplemented by Resolution No. 2006-08, adopted by the Board on April 26, 2006 (together, the "Resolution"). Cascade covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by Cascade for the benefit of the holders and Beneficial Owners of the Bonds and to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution or in the Official Statement dated April 26, 2006 (the "Official Statement"), which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by Cascade pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean Cascade, or any successor Dissemination Agent designated in writing by Cascade and which has filed with Cascade a written acceptance of such designation.

"DisclosureUSA" shall mean the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may make filings in compliance with the Rule.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"Members" shall mean, collectively, the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, the Covington Water District, Sammamish Plateau Water and Sewer District and Skyway Water and Sewer District and any municipal corporation that under the Interlocal Contract becomes a member of Cascade while any of the Bonds are outstanding.

"National Repository" shall mean Disclosure USA and any other Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories

currently approved by the Securities and Exchange Commission are listed at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

"Required Member" shall mean for any fiscal year of Cascade any Member obligated in that fiscal year to pay Member Charges (as defined in the Resolution) in an amount equal to 10 percent or more of the sum of the Member Charges required to be paid by all of the Members in such fiscal year.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of Washington.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) Cascade shall, or shall cause the Dissemination Agent to, not later than nine months after the end of Cascade’s fiscal year (presently September 30, 2007 for the fiscal year ending December 31, 2006), commencing with the report for the 2006 Fiscal Year, provide to Disclosure USA, so long as it is a recognized repository, or separately with each Repository, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of Cascade (and the audited financial statements of the Required Members) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If Cascade’s or any Required Member’s fiscal year changes, Cascade shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to said date, Cascade shall provide the Annual Report to the Dissemination Agent (if other than Cascade). If Cascade is unable to provide to Disclosure USA (or if Disclosure USA is no longer a recognized repository, separately to each of the Repositories) an Annual Report by the date required in subsection (a), Cascade shall send a notice to Disclosure USA (or to each Repository) or to the Municipal Securities Rulemaking Board and the State Repository, if any is created in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) if DisclosureUSA is no longer a recognized repository, determine each year prior to the date for providing the Annual Report the name and address of each of the other National Repositories and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than Cascade), file a report with Cascade certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. Cascade's Annual Report shall contain or include by reference (without duplication) the following:

1. (a) The audited financial statements of Cascade for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law. If Cascade's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The audited financial statements of each Required Member for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable to such Required Member (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law. If a Required Member's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the format of the Required Member's audited financial statements, and such Required Member's audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Other historical financial and operating information (which may be included in the audited financial statements) of the type shown in the Official Statement, including:

(a) Historical financial information of the type shown in the tables entitled "CERUs, Demand Share and Member Charges for Each Member for 2006" and "Member Demand Shares for 2006 and Percent of Total 2006 Demand Shares."

(b) Historical financial information of the type shown in the Official Statement under the heading "SECURITY FOR THE BONDS — Member Charges."

(c) Historical financial information of the type shown in the Official Statement under the headings "CASCADE Debt – Scheduled Debt Service Requirements" and "—Outstanding Debt."

(d) Historical operating data of the type shown in the Official Statement in the table entitled "Amount of Water to be Supplied to Cascade from Seattle."

(e) Historical financial information of the type shown in the Official Statement under the headings "CASCADE WATER ALLIANCE – Governance and Administration—Retirement Plans" and "—Management's Discussion and Analysis."

(f) Historical financial information of the type shown in the tables entitled "Cascade Water Alliance Statement of Activities (Fiscal Year Ended December 31)" and "Cascade Water Alliance Statement of Financial Position (Fiscal Year Ended December 31)."

(g) Historical financial information of the type shown in the tables entitled "Member Demand Shares for 2006 and Percent of Total 2006 Demand Shares," "Member CERUs for 2006 and Percent of Total 2006 CERUs" and "Member Charges in 2005 and 2006 by Member."

(h) For each Required Member, historical financial information of the type shown in the table entitled "Member and Regional Water Rates" under the heading "Member and Regional Water Rates."

(i). For each Required Member, historical financial information and operating data of the type shown for such Member in Appendix A.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of Cascade or of Members, which have been submitted to Disclosure USA, so long as it is a recognized repository, or separately with each of the Repositories or with the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. Cascade shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Material Events.

(a) Pursuant to the provisions of this Section 5, Cascade shall give, or cause to be given, in a timely manner 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 the debt service reserves reflecting financial difficulties;

4. unscheduled draws on the credit enhancements reflecting financial difficulties;
5. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
6. substitution of the credit or liquidity providers or their failure to perform;
7. modifications to rights of Bondholders;
8. optional, contingent or unscheduled bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds; and
11. rating changes.

(b) Whenever Cascade obtains knowledge of the occurrence of a Listed Event, Cascade shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If Cascade determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, Cascade shall file in a timely manner a notice of such occurrence with (i) Disclosure USA, so long as it is a recognized repository, or separately with each Repository or (ii) with the Municipal Securities Rulemaking Board and the State Repository, if any is created. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. Cascade's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, Cascade shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. Cascade may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than Cascade) shall not be responsible in any manner for the content of any notice or report prepared by Cascade pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, Cascade may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, Cascade shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by Cascade or by a Member. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent Cascade or any Member from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If Cascade or any Member chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, neither Cascade nor any Member shall have any obligation under this Certificate to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of Cascade to comply with any provision of this Disclosure Certificate any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause Cascade to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of Cascade to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of Cascade, the Dissemination Agent, the Participating Underwriter and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: May 10, 2006

CASCADE WATER ALLIANCE

By _____
General Manager

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Cascade Water Alliance

Name of Bond Issue: Cascade Water Alliance Water System Revenue Bonds, 2006

Date of Execution and Delivery: May 10, 2006

NOTICE IS HEREBY GIVEN that Cascade has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated _____, 2006. [Cascade anticipates that the Annual Report will be filed by _____.]

Dated: _____

CASCADE WATER ALLIANCE

By _____

APPENDIX G
AUDITED FINANCIAL STATEMENTS OF CASCADE - 2004 FISCAL YEAR

CASCADE WATER ALLIANCE

FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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Certified Public Accountants, P.S.

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cascade Water Alliance
Bellevue, Washington

We have audited the accompanying statement of financial position of Cascade Water Alliance (a non-profit corporation) as of December 31, 2004 and 2003 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the company'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. Those standards require that we plan and perform the audits 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 Water Alliance as of December 31, 2004 and 2003 and the 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.

Benson & McLaughlin, P.S.

August 8, 2005

CASCADE WATER ALLIANCESTATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,227,167	\$1,876,087
Accounts receivable	1,082,496	1,640,282
Prepaid expenses	33,963	5,986
	<u>5,343,626</u>	<u>3,522,355</u>
PROPERTY AND EQUIPMENT, AT COST:		
Equipment and furniture	14,747	10,213
Computer equipment	17,985	13,030
	<u>32,732</u>	<u>23,243</u>
Less accumulated depreciation	13,714	8,637
	<u>19,018</u>	<u>14,606</u>
OTHER ASSETS:		
Seattle Water contract, net of amortization of \$5,978 and \$0, respectively	198,237	134,688
Bellevue Issaquah pipeline	21,981,503	18,189
Lake Tapps water rights project	5,859,251	2,001,883
Tacoma Water contract	350,828	
Comprehensive Plan project	272,061	
	<u>28,661,880</u>	<u>2,154,760</u>
TOTAL	<u>\$34,024,524</u>	<u>\$5,691,721</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 647,298	\$ 44,390
Accrued interest	20,821	
	<u>668,119</u>	<u>44,390</u>
LONG-TERM DEBT	<u>10,000,000</u>	
NET ASSETS:		
Unrestricted	<u>23,356,405</u>	<u>5,647,331</u>
TOTAL	<u>\$34,024,524</u>	<u>\$5,691,721</u>

See accompanying notes.

CASCADE WATER ALLIANCESTATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenue and gains:		
Water sales	\$15,744,302	
Regional capital facilities charges	5,096,808	\$3,646,440
Administrative dues	447,425	519,047
Contributions	9,208,077	
Interest income	60,943	9,265
	<u>30,557,555</u>	<u>4,174,752</u>
Expenses:		
Program expenses:		
Cost of water sold	12,101,259	
Other	480,061	106,725
Management and general	267,161	204,368
	<u>12,848,481</u>	<u>311,093</u>
INCREASE IN NET ASSETS	17,709,074	3,863,659
NET ASSETS AT THE BEGINNING OF THE YEAR	<u>5,647,331</u>	<u>1,783,672</u>
NET ASSETS AT THE END OF THE YEAR	<u>\$23,356,405</u>	<u>\$5,647,331</u>

See accompanying notes.

CASCADE WATER ALLIANCE
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members	\$ 21,888,408	\$ 2,652,881
Cash paid to suppliers and employees	(12,817,040)	(303,126)
Interest received	60,943	9,265
Net cash provided by operating activities	<u>9,132,311</u>	<u>2,359,020</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment purchased	(9,489)	(12,081)
Costs paid for projects, assets not yet in service, and supply contracts	<u>(16,771,742)</u>	<u>(653,185)</u>
Net cash used in investing activities	<u>(16,781,231)</u>	<u>(665,266)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceed from note payable	<u>10,000,000</u>	<u>0</u>
Net cash provided by financing activities	<u>10,000,000</u>	<u>0</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,351,080	1,693,754
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,876,087</u>	<u>182,333</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,227,167</u>	<u>\$ 1,876,087</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	\$ 17,709,074	\$ 3,863,659
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Non-cash contributions	(9,208,077)	
Depreciation	5,077	2,240
(Increase) decrease in assets:		
Accounts receivable	599,873	(1,512,606)
Prepaid expenses	(27,977)	(195)
Increase in liabilities:		
Accounts payable	33,520	5,922
Accrued interest	<u>20,821</u>	<u>0</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,132,311</u>	<u>\$ 2,359,020</u>
SUPPLEMENTAL SCHEDULE OF SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Donated portion of Bellevue Issaquah pipeline	\$ 9,808,077	

See accompanying notes.

CASCADE WATER ALLIANCENOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 1: Description of the Organization, Nature of Operations and Significant Accounting Policies

Description of the organization and nature of operations:

Cascade Water Alliance (CWA) is a non-profit corporation located in Bellevue, Washington, whose membership consists of municipalities and water districts, organized to coordinate and plan cooperatively with other regional water providers and local non-member water utilities to maximize supply availability and to minimize system costs.

Method of accounting:

The financial statements of CWA have been prepared utilizing the accrual basis of accounting.

Financial statement presentation:

Under SFAS No. 117, "Financial Statements of Not-for-Profit Organizations", CWA is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted, temporarily restricted, and permanently restricted. As of December 31, 2004 and 2003, there were no temporarily or permanently restricted net assets.

Cash and cash equivalents:

CWA considers all debt instruments purchased with an original maturity of three months or less to be cash equivalents.

As of December 31, 2004 and 2003, credit risk is represented by \$505,654 and \$631,690, respectively, of money market funds held by a single bank and \$3,721,513 and \$1,244,397, respectively, in an uninsured local government investment pool.

Accounts receivable:

CWA uses the allowance method of accounting for bad debts. As of December 31, 2004 and 2003, all accounts receivable were considered fully collectible. Accounts receivable are unsecured and are subject to credit risk.

Property and equipment:

Property and equipment are capitalized at cost. Depreciation is provided over estimated useful asset lives (3 to 7 years) using the straight-line method.

Expenditures for repairs and maintenance are charged to operations, while additions, renewals and betterments are capitalized.

Seattle Water Contract:

The Seattle Water Contract entitles CWA 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 CWA or existing members withdrawing from CWA 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 CWA in each year of the contract is as follows:

CASCADE WATER ALLIANCENOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003NOTE 1: Description of the Organization, Nature of Operations and Significant Accounting Policies (continued)

Seattle Water Contract: (continued)

<u>Year Beginning January 1</u>	<u>Year Ending December 31</u>	<u>Average Daily Demand (Million 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 Seattle Water Contract costs 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 \$0 for the years ended December 31, 2004 and 2003, respectively.

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

Bellevue Issaquah pipeline:

The amount recorded on the statement of financial position for the Bellevue Issaquah pipeline consists of costs incurred by CWA to acquire the pipeline and the value of additional pipeline costs donated to CWA by another entity. The pipeline is to be placed in service in 2005.

Lake Tapps water rights projected and Tacoma Water contract costs:

These costs represent costs incurred to date by CWA in its efforts to secure water supply contracts or rights. These costs will be amortized over the life of the contract received or evaluated annually for impairment for acquired water rights with no expiration.

The costs will be expensed immediately should CWA abandon efforts to obtain the contract or right.

Business and income taxes:

No provision has been made for federal income tax since CWA qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. CWA has not been classified as a private foundation.

CWA is subject to taxes on certain unrelated trade or business income, as well as to excise, sales, payroll and personal property taxes. There was no income from nonexempt activities for the years ended December 31, 2004 and 2003.

CASCADE WATER ALLIANCENOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003NOTE 1: Description of the Organization, Nature of Operations and Significant Accounting Policies (continued)

Use of estimates in financial statement preparation:

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: Long-Term Debt

CWA has entered into a \$10,000,000 loan agreement with Sammamish Plateau Water and Sewer District. The loan is due in full on December 31, 2006 and bears interest at the King County Investment Pool rate plus .50% (3.04% as of December 31, 2004).

NOTE 3: Lease Commitment

CWA leases office space under a non-cancelable operating lease expiring November 30, 2008. The lease calls for monthly payments as follows:

December 1, 2004 through November 30, 2005	\$1,370
December 1, 2005 through November 30, 2006	1,433
December 1, 2006 through November 30, 2007	1,495
December 1, 2007 through November 30, 2008	1,557

Future minimum lease payments are as follows:

Year ending December 31:	
2005	\$16,503
2006	17,258
2007	18,002
2008	17,127

Aggregate rent expense for the years ended December 31, 2004 and 2003 was \$28,955 and \$19,161, respectively.

NOTE 4: Retirement Benefits

CWA 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. CWA contributes 7% of employee's salary. Employee and employer contributions were \$10,216 and \$17,879, respectively, for the year ended December 31, 2004 and \$5,508 and \$9,640, respectively, for the year ended December 31, 2003.

CASCADE WATER ALLIANCENOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003

NOTE 4: Retirement Benefits (continued)

CWA 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 CWA. Employee salary deferrals and CWA matching contributions were \$16,645 and \$6,640, respectively, for the year ended December 31, 2004 and \$4,617 and \$4,617, respectively, for the year ended December 31, 2003.

NOTE 5: Concentrations

Water sales, administration dues, regional capital facilities charges and contributions for three member cities amounted to \$25,369,857 for the year ended December 31, 2004.

Administrative dues and regional capital facilities charges for three member cities and one member utility district located in east King County amounted to \$3,733,064 for the year ended December 31, 2003.

NOTE 6: Puget Sound Energy Memorandum of Understanding

CWA has 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, CWA has agreed to pay PSE \$50,000, \$75,000 and \$100,000 in 2001, 2002 and 2003, respectively (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 or by CWA's failure to pay any of the lump sum payments when due.

In the event the agreement is terminated by PSE, PSE shall refund CWA the process costs paid by CWA 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 CWA.

In the event the agreement is terminated by CWA, CWA will be obligated to reimburse PSE for all process costs paid by PSE up to the date of termination.

CASCADE WATER ALLIANCENOTES TO FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2004 AND 2003NOTE 6: Puget Sound Energy Memorandum of Understanding (continued)

Total costs recognized as of December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Lump sum payments	\$ 225,000	\$ 225,000
Process costs (at 50% - CWA share)	2,220,452	1,662,169
Other	<u>3,413,799</u>	<u>114,714</u>
	<u>\$5,859,251</u>	<u>\$2,001,883</u>

NOTE 7: Contingency

Lawsuits have been initiated challenging CWA's actions with respect to acquisition of the Lake Tapps water right. The accompanying financial statements do not include any impairment allowance for capitalized costs of \$5,859,251, related to Lake Tapps water right development which may be necessary if the suits are successful.

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Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

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