

CASCADE WATER ALLIANCE

Financial Statements

For the Years Ended December 31, 2013 and 2012

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Independent Auditor's Report

***Board of Directors
Cascade Water Alliance
Bellevue, Washington***

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cascade Water Alliance (Cascade), which comprise the statements of net position as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

CLARK NUBER

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Cascade as of December 31, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 12 to the financial statements, Cascade adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended December 31, 2013. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and modified approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets on pages 3 through 10 and on pages 31 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Certified Public Accountants
July 17, 2014

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Management's Discussion and Analysis presents our review of Cascade Water Alliance's (Cascade) net position as of December 31, 2013 and 2012, and Cascade's financial performance for the years then ended. These comments should be read in conjunction with Cascade's financial statements, which follow this section.

Overview of the Financial Statements

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

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

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

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

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

Cascade's overall financial position is strong, with sufficient liquidity to finance operations and sufficient debt capacity to finance future capital asset acquisitions. Cascade is financed by equity and long-term debt.

Depreciable capital assets have increased due to Cascade obtaining sources of water supply and related water systems needed to deliver the supply. Cascade primarily serves a suburban area east of Lake Washington in King County.

Major debt financing to date includes:

- \$10,000,000 borrowed in 2004 from member Sammamish Plateau Water and Sewer District for acquisition of water supply sources and water systems (repaid from bond proceeds in 2006);
- \$25,904,442 owed to the City of Tacoma for acquisition of water supply sources and water systems (repaid from bond proceeds in 2006);
- Twenty-five year \$55,230,000 revenue bond proceeds (2006 revenue bonds) to pay the Sammamish Plateau Water and Sewer District and City of Tacoma and to finance system development;
- Twenty-five year \$80,095,000 revenue bond proceeds (2009 revenue bonds) to acquire the Lake Tapps system from Puget Sound Energy (PSE) and to fund property acquisitions and pipeline construction along a potential water transmission corridor; and

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

- Twenty-five year \$42,695,000 revenue bond proceeds (2012 revenue bonds) to acquire independent supply production capacity, to restructure the Tacoma Water Contract, to extend the Seattle Water Contract, and to fund Lake Tapps capital improvements.

Condensed Financial Statements

Statements of Net Position as of December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Current assets	\$ 25,493,353	\$ 24,117,091
Net capital assets	263,735,209	267,902,371
Other assets	<u>62,258,081</u>	<u>65,868,735</u>
Total Assets	<u>351,486,643</u>	<u>357,888,197</u>
Current liabilities	14,292,682	18,334,250
Long-term liabilities	<u>283,764,874</u>	<u>277,404,923</u>
Total Liabilities	<u>298,057,556</u>	<u>295,739,173</u>
Invested in capital assets, net of related debt	10,370,564	32,537,056
Restricted for-		
Debt service	26,569,680	24,734,061
Unrestricted	<u>16,488,843</u>	<u>4,877,907</u>
Total Net Position	<u>\$ 53,429,087</u>	<u>\$ 62,149,024</u>

Financial Analysis

Current liabilities decreased by 22.0%, due largely to the payments relating to the restructuring of the Tacoma water agreement that eliminated monthly water operating expenditures starting in 2013. The new Tacoma agreement is characterized as a structured water capacity reservation capital asset funded by bond debt. Unrestricted net assets which consist of accumulated assets that do not meet the definition of invested in capital assets, net of related debt or restricted increased by 238.0% even though there was a decrease in overall net position because of positive operating income and capital contributions. Investment in capital assets, net of related debt decreased by 68.1% due primarily to the sale of most of the 2005 Tacoma contract.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Financial Analysis (Continued)

Condensed Financial Statements Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2013 and 2012

	2013	2012
Water sales	\$ 29,642,807	\$ 27,551,398
Administrative dues	2,729,012	2,733,191
Conservation program	851,008	1,386,145
Total Operating Revenue	33,222,827	31,670,734
Cost of water sold	19,101,196	22,493,836
Other operating costs	11,356,270	7,568,612
Total Operating Expenses	30,457,466	30,062,448
Operating Income	2,765,361	1,608,286
Nonoperating expenses	(19,943,342)	(10,224,070)
Capital contributions	8,458,044	12,769,782
Changes in Net Position	(8,719,937)	4,153,998
Net position, beginning of year	62,149,024	59,197,817
Cumulative effect of change in accounting principle (Note 12)		(1,202,791)
Net assets, beginning of year, adjusted	62,149,024	57,995,026
Net Position, End of Year	\$ 53,429,087	\$ 62,149,024

Results of Operations

Operating revenues are received principally from water sales, administrative dues, and conservation charges. Cascade commenced water sales in 2004 upon acquisition of the Seattle Water Contract from Seattle Public Utilities. Cascade collects capital contributions from its members. These contributions consist of Regional Capital Facilities Charges (RCFC's) and donated systems. RCFC's are due from members for new residential equivalent customers connecting to the members' systems. Donated systems consisted of a donation of a portion of the Bellevue Issaquah pipeline in 2004 valued at \$9,208,077.

Total revenues for 2013 were \$33,222,827 compared to \$31,670,734 for 2012, an increase of 4.9%, attributable mostly to increased demand share charges to members. The cost of water sold decreased by 15.1% due to restructuring of the Tacoma water agreement. Other operating expenses increased by 50.0% due in large part to the amortization of the new Tacoma Contract. Nonoperating expenses increased 95.1% due to a loss on the disposal of the majority of the 2005 Tacoma Water Contract, and capital contributions decreased by 33.8% in 2013 even though RCFC revenue increased in 2013 because in 2012 Covington Water District withdrew from Cascade. Overall, Cascade's net position decreased by 14.0%.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Capital Assets and Long-Term Debt

The capital assets of Cascade decreased \$4.1 million in 2013 due to the sale of the 2005 Tacoma Water Contract. Capital asset expenditures have been funded from capital contributions and the 2006, 2009, and 2012 revenue bonds.

In 2012, Cascade issued revenue bonds in the amount of \$42,695,000. The proceeds of this obligation have been and are being used in 2012 and 2013 to acquire independent supply production capacity (by purchasing RCFC credits from Cascade members), to restructure the Tacoma Water Contract, to extend the Seattle Water Contract, and to fund Lake Tapps capital improvements.

Seattle Water Contract - The Seattle water contract entitles Cascade to a specified amount of water each year for a fifty-year period ending December 31, 2053. The amount of the block can be amended based on new members joining Cascade or existing members withdrawing from Cascade prior to December 31, 2011, or a reduction in water yield available to Seattle due to an order of an appropriate federal or state regulatory agency. At the end of the contract term, Cascade may continue to purchase up to 5.3 million gallons per day for members that cannot be economically served by any other means. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

In 2013, the negotiations were finalized that extend the contract with Seattle by 10 years, to 2063. The new contract extends current capacity of 30.3 mgd through 2039 and then ramps down through the remaining years. Under the contract extension, Cascade makes three scheduled capacity reservation payments to Seattle; the first payment was \$5 million in 2013 using bond proceeds, with subsequent payments in 2018 and 2024. Ratification of the contract occurred in July 2013.

Amortization of the Seattle water contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$260,719 and \$5,978 for the years ended December 31, 2013 and 2012, respectively.

Tacoma Water Contract - In December 2012, a new contract was signed with Tacoma. The new contract restructures the prior Tacoma supply contract, and it clarifies Cascade's rights and responsibilities for the previously purchased capacity to enable and transfer to specific third parties through a joint offering. Under the new contract, minimum water purchase volumes have been replaced by a structured capacity reservation schedule and a new capacity commitment of 8.0 mgd provided to Cascade through 2042. The 2012 bond proceeds are funding initial payments to Tacoma of \$20 million, which started with a payment of \$10 million in January 2013.

Prior costs incurred to obtain the 2005 Tacoma contract consist of system development charges of \$16,484,000 and capacity reservation fees of \$9,420,442. The system development charges relate to the base amount of water, and capacity reservation fees relate to the additional water to be supplied. As part of the new agreement with Tacoma, Cascade and Tacoma jointly offered the 2005 contract water supply to four cities (City of Bonney Lake, City of Auburn, City of Buckley, and City of Sumner) in 2013. In 2013, the City of Auburn agreed to purchase 2.5 mgd of the system development charges for \$7,893,300 and have an option to purchase all the capacity reservation fee portion of the 2005 Tacoma contract for \$1,427,864 with the option extending through June 2017.

In 2011, the City of Bonney Lake agreed to purchase \$2,747,334 as a base amount of 2005 Tacoma Water from Cascade for the system development charge that Cascade had paid to Tacoma. In 2013, the City of Bonney Lake agreed to purchase an additional portion of the 2005 Tacoma Water Contract for \$391,222.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Capital Assets and Long-Term Debt (Continued)

Interest Capitalization - Interest costs incurred for the acquisition and/or construction of assets are subject to capitalization based on the guidelines established by Governmental Accounting Standards Board (GASB) Statements No. 34 and 62. Interest paid was \$7,172,926 and \$6,332,942 for the years ended December 31, 2013 and 2012, respectively. Total interest incurred on bonds for the years ended December 31, 2013 and 2012, was \$8,042,702 and \$6,317,946, respectively. No interest was capitalized in 2013 and 2012.

System Infrastructure - In February 2012, a pipe leak at a delivery point of Seattle Public Utilities (SPU) water to a Cascade member utility (City of Tukwila) has prompted a review by attorneys and engineers of SPU and Cascade to determine which agency is financially responsible for pipe leaks and other unforeseeable incidents at water points of delivery, and to determine exactly at which physical system points each agency bears responsibility. The outcome of this review may lead to an increased annual operational financial obligation for Cascade.

Projects in Process

Pipeline Routing: Tacoma Cascade Pipeline - The Tacoma Cascade Pipeline (TCP) is an eighteen-mile pipeline extending from the Tacoma Second Supply Pipeline to the Bellevue Issaquah pipeline. The TCP will deliver Tacoma water supply to Cascade members. Cascade has acquired property and easements for the entire eighteen-mile route, with the exception of portions along King County (County) roads for which a franchise with the County will be sought.

The TCP project consists of three segments: 1) the 1.1-mile segment at the north end of the route along SR-900; 2) the northern segment between Segment 1 and Lake Youngs; and 3) the central segment between Lake Youngs to the Tacoma Second Supply Pipeline.

Construction of Segment 1 has been completed and the asset began depreciation in 2012. The pipeline's useful life is dependent on soil conditions, environment, and other factors. Cascade will use a 50-year useful life for depreciation, which is consistent with other utilities' practices (like Seattle Public Utilities). Although construction is complete, the project will not be finalized until the Washington State Department of Transportation signs a final acceptance letter.

Prior to 2012, all three segments were considered as a single combined TCP project for the work and expenditures that occurred along the entire project. Starting in 2012, however, Segments 1, 2, and 3 will be accounted for separately, since separate decisions have been made for the future of each segment.

Previously capitalized expenditures related to Segment 2 were expensed in 2012 since it had become less probable that this segment would ultimately be put into service due to its complicated property and routing configuration.

Minor work and expenditures will continue on Segment 3, however, as it is far more likely than Segment 2 to ultimately be put into service. Segment 3 will not be operational until 2024 at the earliest. Starting in 2012, Segment 3 has been placed into "on hold" status until the project is more fully resumed. All or portions of the TCP is being evaluated for eventual integration into a region-wide water delivery resiliency system, and will be held as an asset by Cascade until the evaluation is completed by 2016 or so.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Projects in Process (Continued)

Lake Tapps Milfoil Control - Cascade conducted the fourth year of milfoil control efforts in Lake Tapps in 2013. Hand-pulling of milfoil by divers was performed during the summer and fall and succeeded in eradicating much of the milfoil. Annual inspections and maintenance will continue as necessary to control the invasive weed. The 2013 program consisted of a combination of chemical, diver hand-pulling, and bottom barrier treatments.

White River System Operator - Veolia Water started working on January 1, 2012, under contract by Cascade, to operate and maintain the White River - Lake Tapps Reservoir Project. For 2013, the fixed fee budget was \$1.5 million and a variable budget of \$350,000. A Project Operations and Maintenance Manual was completed in 2012.

White River System Safety Inspections - The Washington State Department of Labor and Industries conducted safety inspections of the White River - Lake Tapps Reservoir Project in October and November 2012. The inspection included the powerhouse, valve house, pipeline intake structure headworks facilities, tunnel intake building, forebay building, and 4-1 4-2 structures. Reports were received from the safety consultant and the industrial hygiene consultant identifying serious and general hazards for each facility. The inspections produced a list of serious and general hazards to correct. The deadline for correcting the hazards was extended in 2013 and the process of designing the electrical engineering corrections has begun with construction of the improvements expected during the summer of 2014.

Lead Paint Abatement - Cascade is preparing to conduct lead paint abatement in 2014 at the Lake Tapps powerhouse. The current estimated total cost to remove the existing paint from walls, ceiling, duct work, and other areas, and to repaint these areas is approximately \$500,000. A new roofing system was installed to fix internal leaks inside the building in 2013. The leaks were fixed before lead paint remediation could occur.

Bellevue Issaquah Pipeline (BIP) - A Memorandum of Understanding was signed in 2013 between Cascade and the City of Bellevue to operate and maintain the BIP. A project is underway to install meters along the BIP.

2012 Transmission and Supply Plan Update - The Cascade Water Alliance Board of Directors adopted the 2012 Transmission and Supply Plan (the 2012 TSP) in July 2012. This 2012 TSP fulfills Cascade's responsibility to submit a water system plan to the Washington State Department of Health. In addition, it supplements information on regional supply provided by each of its members in their respective individual water system plans. Cascade updates its TSP every six years. The TSP update includes analysis of regional growth and water demand. These have demonstrated that Cascade members will need less water than was anticipated in the 2004 TSP. The outcome of the TSP update determines Cascade's capital investment program for the next several years, including the extent of contracting with Seattle and Tacoma for water and the development schedule for Lake Tapps and water transmission systems. In 2010, Cascade determined that expenditure for TSP updates do not meet the criteria for being a capitalizable intangible asset, so expenditures for TSP update expenditures have been expensed accordingly.

Eastside Reservoir - Like the TCP, the Eastside Reservoir project is being evaluated for eventual integration into a region-wide water delivery resiliency system, and will be held as an asset by Cascade until the evaluation is completed by 2016 or so.

Electronic Document Management System - Cascade began implementing an electronic document management system (EDMS) at its main office in Bellevue and at the White River Lake Tapps facilities in 2013. Implementation is expected to be completed in 2014. The EDMS will improve document storage, access, security, and retrieval.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Projects in Process (Continued)

Other White River Lake Tapps Projects - Several repair and upgrade projects, as described more fully in Cascade's Capital Improvement Program, were advanced in 2013 and will continue in 2014, including:

- Network and IT architecture upgrades
- SCADA upgrades
- Flume and headgates replacement
- Barrier dam repairs
- Valve house controls upgrade
- Lower conveyance system condition assessment
- Electrical and other code compliance upgrades at the powerhouse, following an inspection by the State Department of Labor & Industries.
- Piezometer upgrades
- Headworks house burndown
- Flowline outage and sediment removal
- Security upgrades

Invested Funds

In accordance with state investment laws, Cascade's governing body has entered into a formal interlocal agreement with Cascade's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2013, Cascade had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 73,970,122	1.23 years

Impaired Investments - As of December 31, 2013, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. Additionally, the Impaired Pool accepted the cash out option for the residual investments in four commercial paper assets that were part of completed enforcement events. Cascade's share of the impaired investment pool principal is \$190,200, and Cascade's fair value of these investments is \$112,526.

Interest Rate Risk - As of December 31, 2013, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life of no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Projects in Process (Continued)

Credit Risk - As of December 31, 2013, Cascade's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office.

Budget Variances

Capital expenditures in 2013 related to the Lake Tapps improvements, an extension to the Seattle Contract, a new electronic document management system, and other major capital expenditures, were held within budget.

RCFC revenue was budgeted to be \$5.4 million in 2013, but actual RCFC revenue was \$8.5 million due to improved construction growth in Cascade's service area. RCFC revenue is expected to remain around the same level in 2014.

Interest revenue in 2013 was \$0.38 million lower than budgeted due to persisting low interest rates nationally.

New Water Surcharge revenue was completely phased out in 2013.

The Administrative and conservation dues were \$2.8 million and \$0.09 million less, respectively, than budgeted due to the withdrawal of Covington Water District at the end of 2012.

Other operating fund revenues were within one percent of budgeted values.

Total fund expenditures were held within budgeted amounts in 2013. In the Operating Fund, residential and commercial conservation program rebate expenditures were \$278,525 less than budgeted due to the discontinuation of the toilet rebate program and lower than anticipated interest in the commercial rebate program. Unexpended funds are carried forward in fund balances and are incorporated into Cascade's Rate Model for future year budgeting and planning.

Requests for Information

This financial report has been prepared to provide readers with a general overview of the Cascade Water Alliance's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Director of Finance and Administration's Office, 520 112th Ave. NE, Suite 400, Bellevue, WA 98004.

CASCADE WATER ALLIANCE

**Statements of Net Position
December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 16,716,887	\$ 10,808,126
Regional capital facility charges receivable	2,787,172	2,389,245
Restricted cash and cash equivalents, current portion	5,100,000	10,000,000
Interest rebate receivable	385,587	422,540
Water rights receivable, current portion	391,222	391,222
Prepaid expenses	112,485	105,958
Total Current Assets	25,493,353	24,117,091
Capital Assets Net of Accumulated Depreciation:		
Equipment and furniture	1,384,317	1,044,834
Seattle water contract	22,267,611	204,216
Tacoma water contract	121,168,551	129,161,129
SR900 pipeline	10,021,201	10,021,201
Bellevue Issaquah pipeline	22,049,184	22,049,184
	176,890,864	162,480,564
Less accumulated depreciation and amortization	(9,458,311)	(4,473,759)
	167,432,553	158,006,805
Capital Assets Not Being Depreciated:		
Lake Tapps - infrastructure	79,012,866	78,869,110
Projects in process and assets not yet in service-		
Tacoma water contract		13,736,666
Tacoma Cascade Pipeline	17,027,223	17,027,223
Eastside reservoir	262,567	262,567
Total Capital Assets	263,735,209	267,902,371
Restricted cash and cash equivalents, net of current portion	52,271,868	63,768,005
Water rights receivable, net of current portion	9,849,412	1,956,112
Bond issuance costs, net of accumulated amortization of \$58,629 (\$50,812 - 2012)	136,801	144,618
Total Assets	\$ 351,486,643	\$ 357,888,197

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Net Position (Continued)
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Liabilities and Net Position		
Payables and accrued liabilities	\$ 1,176,344	\$ 1,448,377
Retroactive water credit		865,981
Payables related to Tacoma water contract	5,100,000	10,000,000
Long-term debt, current portion	<u>40,471</u>	<u>48,907</u>
	6,316,815	12,363,265
Payables from Restricted Assets:		
Accrued interest	2,985,867	2,095,985
Long-term debt, current portion	<u>4,990,000</u>	<u>3,875,000</u>
	<u>7,975,867</u>	<u>5,970,985</u>
Total Current Liabilities	14,292,682	18,334,250
Long-Term Debt, Net of Current Portion:		
Long-term debt payable from unrestricted assets	433,214	464,252
Long-term debt payable from restricted assets	<u>154,665,000</u>	<u>159,655,000</u>
	155,098,214	160,119,252
Other Long-Term Liabilities:		
Payable related to Seattle water contract	17,000,000	
Payable related to Tacoma water contract, net of current portion	104,640,687	109,740,687
Bond premium, net of amortization	<u>7,025,973</u>	<u>7,544,984</u>
Total Liabilities	<u>\$ 298,057,556</u>	<u>\$ 295,739,173</u>
Net Position:		
Invested in capital assets, net of related debt	\$ 10,370,564	\$ 32,537,056
Restricted for-		
Debt service	26,569,680	24,734,061
Unrestricted	<u>16,488,843</u>	<u>4,877,907</u>
Total Net Position	<u>\$ 53,429,087</u>	<u>\$ 62,149,024</u>

See accompanying notes.

CASCADE WATER ALLIANCE

**Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Water sales	\$ 29,642,807	\$ 27,551,398
Administrative dues	2,729,012	2,733,191
Conservation program	851,008	1,386,145
Total Operating Revenue	33,222,827	31,670,734
Operating Expenses:		
Cost of water sold	19,101,196	22,493,836
Salaries and benefits	2,043,837	1,927,235
Professional services	1,750,482	1,703,112
Conservation rebate program	128,776	376,444
Depreciation and amortization	4,473,358	912,564
Communication and public information	243,466	163,849
Office expenses	136,234	143,852
Rent	168,325	153,613
Maintenance	547,226	237,947
Operations	1,603,054	1,581,880
Insurance	91,878	87,722
Dues and subscriptions	30,256	46,296
Miscellaneous	139,378	234,098
Total Operating Expenses	30,457,466	30,062,448
Operating Income	2,765,361	1,608,286
Nonoperating Revenue (Expenses):		
Interest income	395,584	891,555
Bonds issuance cost		(634,986)
Interest expense	(6,895,217)	(5,046,279)
Loss on disposition of assets	(13,443,709)	(5,434,360)
Total Nonoperating Expenses	(19,943,342)	(10,224,070)
Capital Contributions (Expenses):		
Regional capital facilities charges	8,458,044	6,782,648
Member withdrawal fees		5,987,134
Total Capital Contributions	8,458,044	12,769,782
Total Change in Net Position	(8,719,937)	4,153,998
Net position, beginning of year	62,149,024	59,197,817
Cumulative effect of change in accounting principle (Note 12)		(1,202,791)
Net position, beginning of year, adjusted	62,149,024	57,995,026
Net Position, End of Year	\$ 53,429,087	\$ 62,149,024

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows
For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Cash received from members	\$ 33,222,827	\$ 31,670,734
Cash paid to suppliers	(24,191,494)	(37,735,922)
Cash paid to and for employees	(2,047,273)	(1,930,533)
Net Cash Provided by (Used in) Operating Activities	6,984,060	(7,995,721)
Cash Flows from Capital and Related Financing Activities:		
Regional capital facilities charges	8,060,117	5,447,161
Member withdrawal fees		5,987,134
Water rights receivable	391,222	200,000
Proceeds from long-term debt		47,824,049
Payments on long-term debt	(3,914,474)	(3,812,131)
Acquisition of capital assets	(29,805,306)	(5,505,938)
Loss on disposition of assets	13,443,709	5,434,360
Interest paid on bonds and other long-term debt	(6,042,288)	(5,066,947)
Net Cash (Used in) Provided by Capital and Related Financing Activities	(17,867,020)	50,507,688
Cash Flows from Investing Activities:		
Interest received	395,584	891,555
Net Cash Provided by Investing Activities	395,584	891,555
Net Change in Cash and Cash Equivalents	(10,487,376)	43,403,522
Cash and cash equivalents, beginning of year	84,576,131	41,172,609
Cash and Cash Equivalents, End of Year	\$ 74,088,755	\$ 84,576,131
Cash and Cash Equivalents Balance is Composed of the Following at December 31:		
Cash and cash equivalents	\$ 16,716,887	\$ 10,808,126
Restricted cash and cash equivalents	57,371,868	73,768,005
	\$ 74,088,755	\$ 84,576,131

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:		
Net operating income	\$ 2,765,361	\$ 1,608,286
Adjustments to reconcile change in operating income to net cash provided by (used in) operating activities-		
Depreciation and amortization	4,473,358	912,564
Changes in operating assets and liabilities-		
Prepaid expenses	(6,527)	(28,128)
Payables and accrued liabilities	617,849	256,041
Payables related to regional capital facilities charges credit repurchase		(10,186,250)
Retroactive water credit	(865,981)	(558,234)
	<u>6,984,060</u>	<u>(7,995,721)</u>
Net Cash Provided by (Used in) Operating Activities	\$ 6,984,060	\$ (7,995,721)

See accompanying notes.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 1 - Organization and Summary of Significant Accounting Policies

Cascade Water Alliance (Cascade), established on April 1, 1999, converted from a Washington State nonprofit corporation to a Washington State joint municipal utility service corporation on July 12, 2012, in accordance with the Interlocal Cooperation Act (Chapter 39.34) and the Non-Profit Miscellaneous and Mutual Corporations Act (Chapter 24.06) as a public governmental body and an instrumentality of its members. Cascade exercises essential governmental functions by providing wholesale water to meet the current and future water supply needs of its members in a cost-effective and environmentally responsible manner.

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

Basis of Accounting - Cascade uses the accrual basis of accounting and the total economic resources measurement focus. Expenses are recorded at the time liabilities are incurred, and revenues are recorded when earned.

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

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

As of December 31, 2013, the King County Investment Pool (the Pool) which holds Cascade investments was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Regional Capital Facility Charges (RCFC) Receivable - Accounts receivable are stated at the amount management expects to collect from outstanding balances. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to change in net position and a credit to accounts receivable.

Capital Assets - Capital assets are recorded at cost of more than \$5,000. Water systems conveyed to Cascade by bill of sale are recorded at the contributing party's cost, contract price or appraised value. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are expensed when incurred. Estimated useful lives for capital assets are as follows:

Computer equipment	5 years
Furniture and equipment	3 - 7 years
Pipelines	50 years

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 1 - Continued

Cascade has elected to use the modified approach of accounting for the Lake Tapps asset. The modified approach allows Cascade to report as expenses in lieu of depreciation, infrastructure expenditures which maintain the asset but do not add to or improve the asset. Additions and improvements to the Lake Tapps asset are capitalized.

For the year ended December 31, 2012, Cascade recorded a disposition of assets of \$5,434,360 relating to the Tacoma Cascade pipeline, as it was determined a segment was less probable to ultimately be put into service due to its complicated property and routing configuration. The disposition is included in nonoperating activities in the statements of revenues, expenses and changes in net position.

Long-Term Debt - Long-term debt is reported net of discounts, premiums and issuance costs. Discounts, premiums and issuance costs incurred on issuance of long-term debt are amortized by the interest method over the period the related debt is outstanding. A portion of the long-term debt is funded by Build America Bonds and is eligible for an annual interest rebate of up to 35%. Effective March 1, 2013, the amount of the subsidy payment issued on or after March 1, 2013 for Build America Bonds will be reduced by 8.7% due to a set of across-the-board cuts to defense and domestic discretionary spending agreed to as a part of Congressional fiscal cliff negotiations in 2012 known as sequestration.

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

Revenues and Expenses - Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues result from providing products in connection with the water system and services to members. Operating expenses include the costs associated with providing the products and services, general and administrative expenses and depreciation and amortization on capital assets. Nonoperating includes interest income and expense, bond issuance costs, and losses on disposition of assets. All revenues and expenses not meeting these definitions are classified as nonoperating revenues and expenses.

Regional Capital Facilities Charges (RCFC) - 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. The RCFC for both 2013 and 2012 is \$6,005 per new Cascade Equivalent Residential Unit (CERU).

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2013 and 2012

Note 1 - Continued

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

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

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

Note 2 - Capitalizable Contracts

Seattle Water Contract - The Seattle Water Contract entitles Cascade to a specified amount (block) of water each year for a fifty year period ending December 31, 2053. The amount of the block can be amended based on new members joining Cascade 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. At the end of the contract term, Cascade may continue to purchase up to 5.3 million gallons per day (mgd) for members that cannot be economically served by any other means. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

In July 2013, a new contract was signed between the City of Seattle and Cascade which extends the contract by 10 years, to 2063. The contract extends the current capacity of 30.3 mgd through 2039 and then ramps down through the remaining years. Under the contract extension, Cascade would make three scheduled capacity reservation payments to Seattle; the first payment of \$5 million was made in July 2013, with subsequent payments of \$12 million and \$5 million due in December 2018 and December 2024, respectively.

Amortization of the Seattle Water Contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$260,719 and \$5,978 for the years ended December 31, 2013 and 2012, respectively.

The Tacoma Water Contract - In December 2012, a water contract was signed between City of Tacoma and Cascade which superseded the Tacoma Water Contract signed in 2005. The new contract restructures the prior Tacoma supply contract, and it clarifies Cascade's rights and responsibilities to enable and transfer to specific third parties through a joint offering for the previously purchased capacity. Under the contract, minimum water purchase volumes have been replaced by a structured capacity reservation schedule, and a capacity commitment of 8.0 mgd is provided to Cascade through 2042. Cascade is required to make an annual installment payment in a range of \$1 million to \$6.8 million through 2042. The 2012 Tacoma Water Contract cost is amortized over the life of the contract which is 30 years. Amortization expense for this contract was \$3,991,357 for the year ended December 31, 2013.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 2 - Continued

The system development charges relate to the base amount of water and the capacity reservation fees relate to the additional water to be supplied under the 2005 Tacoma Water Contract. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract. Amortization expense for this additional water supply contract was \$357,738 for the year ended December 31, 2012.

During 2011, the City of Bonney Lake entered into an agreement with Cascade for water rights purchase of the 2005 Tacoma Water Contract for a total of \$2,747,334. In 2013, City of Bonney Lake purchased an additional portion of water rights for \$391,222 that extends the contract to 2019, with an annual payment of \$200,000 in 2011 and 2012, and \$391,222 thereafter. At both December 31, 2013 and 2012, the water rights receivable of \$2,347,334 is included in the statements of net position.

During 2013, the City of Auburn entered into an agreement with Cascade for water rights purchase of the 2005 Tacoma Water Contract for a total of \$7,893,300 plus an annual interest at 3.20% starting in 2017 that expires 2029, with annual interest payments of \$252,586 from 2017 to 2019 and with annual principal and interest payments of \$934,805 thereafter. City of Auburn has an option to purchase all of the capacity reservation fees of the 2005 Tacoma Water Contract for a total price of \$1,427,864 with the option expiring June 2017. At December 31, 2013, the water rights receivable of \$7,893,300 is included in the statements of net position.

Costs incurred to obtain the 2005 Tacoma Water Contract consist of system development charges of \$13,736,666 and capacity reservation fees of \$9,420,442 for the year ended December 31, 2012. For the year ended December 31, 2013, Cascade recorded a disposition of 2005 Tacoma Water Contract of \$5,452,144 as both the City of Bonney Lake and the City of Auburn agreed to purchase all the system development charges of the 2005 Tacoma Water Contract. During 2013, Cascade determined that there was sufficient evidence of impairment to write down the reported value of the capacity reservation fees. The record value was written down from a net book value of \$8,347,228 to \$354,650 resulting in an impairment loss of \$7,992,578. The disposition loss and impairment loss are included in nonoperating activities in the statements of revenues, expenses and changes in net position.

Interest Capitalization - Interest costs incurred for the acquisition and/or construction of assets are subject to capitalization based on the guidelines established by generally accepted accounting principles.

Total interest incurred on bonds for the years ended December 31, 2013 and 2012, was \$8,042,702 and \$6,317,946, respectively. No interest was capitalized in 2013 and 2012. The interest rebate related to the Build America Bonds was \$1,175,526 and \$1,278,965 for the years ended December 31, 2013 and 2012, respectively, and is included as an offset to interest expense in the statements of revenues, expenses and changes in net position.

Project in Process -

Tacoma Cascade Pipeline - A pipeline extending from the Tacoma Water supply pipelines is under development to connect to the Bellevue Issaquah pipeline and deliver the Tacoma water supply to Cascade members. During the year ended December 31, 2009, management opted to defer completion of this project. The Transmission and Supply Plan was adopted by Cascade in July 2012 (and approved by King County in February 2013 and by the State Department of Health in March 2013) and projects 2024 as the estimated in-service date for this pipeline.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 3 - Cash and Cash Equivalents

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

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

	<u>2013</u>	<u>2012</u>
Unrestricted cash and equivalents	\$ 16,802,605	\$ 17,142,705
Restricted cash and equivalents	<u>57,481,119</u>	<u>73,552,816</u>
	74,283,724	90,695,521
Add fair value adjustment	(141,093)	269,856
Less checks in excess of cash	<u>(53,876)</u>	<u>(6,389,246)</u>
Total Cash and Cash Equivalents	<u>\$ 74,088,755</u>	<u>\$ 84,576,131</u>

Note 4 - Restricted Cash and Cash Equivalents

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

Restricted cash and cash equivalents are presented in the statements of net position as of December 31 as follows:

	<u>2013</u>	<u>2012</u>
Restricted cash and cash equivalents, current portion	\$ 5,100,000	\$ 10,000,000
Restricted cash and cash equivalents, long-term	<u>52,271,868</u>	<u>63,768,005</u>
	<u>\$ 57,371,868</u>	<u>\$ 73,768,005</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 4 - Continued

Changes in restricted assets for the year ended December 31, 2013, are as follows:

	<i>Balance</i> <i>12/31/2012</i>	<i>Additions</i>	<i>Disbursements</i>	<i>Interest/ Unrealized Gain</i>	<i>Balance</i> <i>12/31/2013</i>
Revenue bond funds	\$24,813,227	\$12,831,079	\$(11,128,974)	\$ 54,348	\$26,569,680
Construction funds	48,954,778	3,522,688	(21,773,706)	98,428	30,802,188
	<u>\$73,768,005</u>	<u>\$16,353,767</u>	<u>\$(32,902,680)</u>	<u>\$ 152,776</u>	<u>\$57,371,868</u>

For the year ended December 31, 2013, changes in restricted assets included interest earnings of \$104,942 and unrealized losses of \$50,594 for the revenue bonds funds and interest earnings of \$157,085 and unrealized losses of \$58,657 for the construction funds.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 5 - Capital Assets

The following summarizes the changes in capital assets of Cascade:

	<i>Balance</i> <u>12/31/2012</u>	<i>Additions</i>	<i>Transfers</i>	<i>Deletions</i>	<i>Balance</i> <u>12/31/2013</u>
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 1,044,834	\$ 339,483	\$ -	\$ -	\$ 1,384,317
Seattle water contract	204,216	22,063,395			22,267,611
Tacoma water 2005 contract	9,420,442			(7,992,578)	1,427,864
Tacoma water 2012 contract	119,740,687				119,740,687
SR900 pipeline	10,021,201				10,021,201
Bellevue Issaquah pipeline	22,049,184				22,049,184
Less accumulated depreciation and amortization	<u>(4,473,759)</u>	<u>(4,984,552)</u>			<u>(9,458,311)</u>
Total Capital Assets Being Depreciated	<u>158,006,805</u>	<u>17,418,326</u>		<u>(7,992,578)</u>	<u>167,432,553</u>
Capital Assets Not Being Depreciated:					
Lake Tapps - infrastructure	78,869,110	143,756			79,012,866
Tacoma water contract	13,736,666			(13,736,666)	
Tacoma Cascade pipeline	17,027,223				17,027,223
Eastside reservoir	262,567				262,567
Total Capital Assets Not Being Depreciated	<u>109,895,566</u>	<u>143,756</u>		<u>(13,736,666)</u>	<u>96,302,656</u>
Total Capital Assets	<u>\$ 267,902,371</u>	<u>\$ 17,562,082</u>	<u>\$ -</u>	<u>\$ (21,729,244)</u>	<u>\$ 263,735,209</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 5 - Continued

	<i>Restated Balance 12/31/2011</i>	<i>Additions</i>	<i>Transfers</i>	<i>Deletions</i>	<i>Balance 12/31/2012</i>
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 1,006,701	\$ 38,133	\$ -	\$ -	\$ 1,044,834
Seattle water contract	204,216				204,216
Tacoma water 2005 contract	9,420,442				9,420,442
Tacoma water 2012 contract		119,740,687			119,740,687
SR900 pipeline			10,021,201		10,021,201
Bellevue Issaquah pipeline	22,038,921	10,263			22,049,184
Less accumulated depreciation and amortization	(3,381,361)	(1,092,398)			(4,473,759)
Total Capital Assets Being Depreciated	29,288,919	118,696,685	10,021,201		158,006,805
Capital Assets Not Being Depreciated:					
Lake Tapps - infrastructure	78,806,742	62,368			78,869,110
Tacoma water contract	13,736,666				13,736,666
Tacoma Cascade pipeline	32,495,629	3,143	(10,021,201)	(5,450,348)	17,027,223
Eastside reservoir	262,567				262,567
Total Capital Assets Not Being Depreciated	125,301,604	65,511	(10,021,201)	(5,450,348)	109,895,566
Total Capital Assets	\$ 154,590,523	\$ 118,762,196	\$ -	\$ (5,450,348)	\$ 267,902,371

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 6 - Long-Term Debt - Unrestricted

Long-term debt payable from unrestricted assets consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
<u>Public Works Trust Fund Loans (PWTF):</u>		
\$1,000,000 loan authorized, payable in equal annual principal payments based on the amount of the loan drawn to the payment due date with the first payment due July 2006 and the last payment due July 2025, plus interest at .50%, secured by the net revenue.	\$ 473,685	\$ 513,159
Total long-term debt	473,685	513,159
Less current portion	<u>(40,471)</u>	<u>(48,907)</u>
Long-Term Portion	<u>\$ 433,214</u>	<u>\$ 464,252</u>

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

<i>For the Year Ending December 31,</i>	<u>Principal</u>	<u>Interest</u>
2014	\$ 40,471	\$ 2,359
2015	40,673	2,156
2016	40,876	1,953
2017	41,081	1,748
2018	41,286	1,543
2019 - 2023	209,547	4,598
2024 - 2025	<u>59,751</u>	<u>365</u>
	<u>\$ 473,685</u>	<u>\$ 14,722</u>

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012**

Note 6 - Continued

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

	<i>Balance 12/31/2012</i>	<i>Proceeds</i>	<i>Repayments</i>	<i>Balance 12/31/2013</i>
2013-				
Loan #PW-05-691-PRE-142	\$ 513,159	\$ -	\$ (39,474)	\$ 473,685
	\$ 513,159	\$ -	\$ (39,474)	\$ 473,685
	<i>Balance 12/31/2011</i>	<i>Proceeds</i>	<i>Repayments</i>	<i>Balance 12/31/2012</i>
2012-				
Loan #PW-05-691-PRE-142	\$ 552,632	\$ -	\$ (39,473)	\$ 513,159
	\$ 552,632	\$ -	\$ (39,473)	\$ 513,159

Note 7 - Long-Term Debt - Restricted

Long-term debt outstanding payable from restricted assets consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
<u>Revenue Bonds:</u>		
\$42,695,000 issued on December 27, 2012 for restructuring the Tacoma water contract in 2012, extending the Seattle water contract, acquiring independent supply production capacity, funding Lake Tapps capital improvements and cost of issuing the bond. The bond is payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund; principal due serially through the year 2038, interest payable semi-annually at 3.31 annual percentage rate.	\$ 42,695,000	\$ 42,695,000
\$80,095,000 issued October 15, 2009 for supporting capital program, providing for a debt service reserve and cost of issuing the bonds. The bonds are payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund.		
- \$4,940,000 term bonds due September 1, 2016, interest payable semi-annually 3.61 annual percentage rate.	4,940,000	4,940,000
- \$75,155,000 due serially through September 1, 2034, with interest payable semi-annually 3.61 annual percentage rate.	66,300,000	68,620,000

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 7 - Continued

	<u>2013</u>	<u>2012</u>
\$55,230,000 issued May 10, 2006 for supporting capital program, payment for Sammamish Plateau Water and Sewer District Loan and cost of issuing the bonds. The bonds are payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund.		
- \$29,490,000 due serially through the year 2023, interest payable semi-annually 4.50 to 5.00 annual percentage rate.	19,980,000	21,535,000
- \$8,880,000 term bonds due September 1, 2026, with interest payable semi-annually at 4.75 annual percentage rate.	8,880,000	8,880,000
- \$16,860,000 term bonds due September 1, 2031, with interest payable semi-annually at 5.00 annual percentage rate.	<u>16,860,000</u>	<u>16,860,000</u>
Total long-term debt	159,655,000	163,530,000
Less current portion	<u>(4,990,000)</u>	<u>(3,875,000)</u>
Long-Term Portion	<u>\$ 154,665,000</u>	<u>\$ 159,655,000</u>

The 2012 bonds were issued at a premium of \$5,764,037 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2013 and 2012, was \$333,310 and \$4,756, respectively.

The 2009 bonds were issued at a premium of \$761,955 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2013 and 2012, was \$111,417 and \$108,612, respectively.

The 2006 bonds were issued at a premium of \$1,857,106 which is being amortized over the life of the bonds. Amortization expense was \$74,284 for both years ended December 31, 2013 and 2012.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 7 - Continued

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

<i>For the Year Ending December 31,</i>	<u>Principal</u>	<u>Interest</u>
2014	\$ 4,990,000	\$ 7,940,605
2015	5,125,000	7,751,412
2016	5,375,000	7,499,187
2017	5,640,000	7,229,187
2018	5,860,000	6,966,547
2019 - 2023	33,115,000	30,302,542
2024 - 2028	40,565,000	21,375,940
2029 - 2033	41,860,000	10,339,439
2034 - 2038	17,125,000	1,874,817
	<u>\$ 159,655,000</u>	<u>\$ 101,279,676</u>

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

	<u>Balance</u> <u>12/31/2012</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/2013</u>
Revenue Bonds	\$ 163,530,000	\$ -	\$ (3,875,000)	\$ 159,655,000

	<u>Balance</u> <u>12/31/2011</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/2012</u>
Revenue Bonds	\$ 124,605,000	\$ 42,695,000	\$ (3,770,000)	\$ 163,530,000

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 8 - Commitments

Lease Commitments - Cascade leases office space under a noncancelable lease agreement expiring in July 2017. The lease calls for payments of \$6,999 per month through August 2012, increasing to \$13,999, for the first year, with additional annual stepped increases after the first year.

Cascade has entered into a five year operating lease agreement for its copier that expires August 2013 with a monthly payment of \$400.

Future minimum rentals as of December 31 under noncancelable operating leases are as follows:

For the Year Ending December 31,

2014	\$ 176,870
2015	181,716
2016	186,561
2017	<u>111,318</u>
Total Minimum Rental Payments	<u>\$ 656,465</u>

Rent expense for operating leases totaled \$168,325 and \$153,613 for the years ended December 31, 2013 and 2012, respectively.

Contracts - Cascade has entered into contracts with various vendors in relation to ongoing consulting services, construction services and financial services that extend beyond December 31, 2013.

Contracted services agreed to and expected to be expended in 2014 include the following:

Construction and design services	\$ 2,450,217
Consulting contracted services	<u>157,267</u>
	<u>\$ 2,607,484</u>

Note 9 - Retirement Benefits

Cascade provides a Section 401(a) defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute 4% of their annual salary. Cascade contributes 7% of an employee's salary. In addition, as a replacement of the contribution to Social Security beginning in January 2011, employees contribute an additional 6.2% of their annual salary. Cascade contributes an additional 6.2% up to the IRS limit (\$7,047 in 2013). Employee and employer contributions were \$151,198 and \$178,934, respectively, for the year ended December 31, 2013 and \$151,267 and \$223,997, respectively, for the year ended December 31, 2012.

Cascade also provides a Section 457 retirement plan available to certain employees who make salary deferral contributions up to the maximum allowed by law. The contributions matching by Cascade was phased out at December 31, 2012. Employee salary deferrals were \$145,482 and \$142,354 for the years ended December 31, 2013 and 2012, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 10 - Concentrations

All water purchases by Cascade were from the City of Seattle. Water sales, conservation revenues, administration dues, regional capital facilities charges and contributions for member cities for the years ended December 31, 2013 and 2012 are as follows:

2013 Member Charges-

<i>Members</i>	<i>Water Sales</i>	<i>Water Usage Adjustment</i>	<i>Conservation Revenues</i>	<i>Administration Dues</i>	<i>Regional Capital Facilities Charges</i>	<i>Total</i>
Bellevue	\$ 15,953,363	\$ -	\$ 351,429	\$ 1,126,964	\$ 2,597,163	\$ 20,028,919
Issaquah	770,880		61,831	198,279	1,240,033	2,271,023
Kirkland	4,179,609		94,720	303,748	726,605	5,304,682
Redmond	5,384,710		164,886	528,758	2,035,695	8,114,049
Sammamish	845,988		114,957	368,644	1,522,268	2,851,857
Skyway	359,083		20,053	64,305	60,050	503,491
Tukwila	2,149,174		43,132	138,314	276,230	2,606,850
Total	\$ 29,642,807	\$ -	\$ 851,008	\$ 2,729,012	\$ 8,458,044	\$ 41,680,871

2012 Member Charges-

<i>Members</i>	<i>Water Sales</i>	<i>Water Usage Adjustment</i>	<i>Conservation Revenues</i>	<i>Administration Dues</i>	<i>Regional Capital Facilities Charges</i>	<i>Total</i>
Bellevue	\$ 15,359,764	\$ (444,836)	\$ 516,491	\$ 1,018,414	\$ 1,038,865	\$ 17,488,698
Covington			137,136	270,403		407,539
Issaquah	730,481	(64,334)	88,445	174,395	1,432,193	2,361,180
Kirkland	4,034,694	(184,994)	140,879	277,784	549,458	4,817,821
Redmond	5,057,142	11,311	240,743	474,696	2,071,724	7,855,616
Sammamish	776,136	(42,669)	168,809	332,855	1,474,228	2,709,359
Skyway	311,256		29,458	58,086	156,130	554,930
Tukwila	2,007,447		64,184	126,558	60,050	2,258,239
Total	\$ 28,276,920	\$ (725,522)	\$ 1,386,145	\$ 2,733,191	\$ 6,782,648	\$ 38,453,382

Note 11 - Stewardship, Compliance, and Accountability

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 12 - Change in Accounting Principle

During the year ended December 31, 2013, Governmental Accounting Standards Board (GASB) Statement No.65, *Items Previously Reported as Assets and Liabilities*, became effective requiring that debt issuance costs be expensed, whereas, previously those debt issuance costs were capitalized as an asset. This change is reported as a cumulative effect of a change in accounting principle in the amount of \$1,202,791 on beginning net position for fiscal year 2013 and is reflected as a restatement of beginning unrestricted net position and a decrease in bond issuance costs on the balance sheets.

REQUIRED SUPPLEMENTARY INFORMATION

CASCADE WATER ALLIANCE

Required Supplementary Information For the Years Ended December 31, 2013 and 2012

Modified Approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets

In accordance with GASB Statement No. 34, Cascade is required to account for and report infrastructure capital assets. Cascade defines infrastructure as the basic physical assets used by Cascade in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the White River/Lake Tapps Reservoir Project (the Lake Tapps Project) can be divided into several distinct facilities: White River divergence; conveyance and sediment control systems; Lake Tapps Reservoir and embankments; outlet structure to forebay; penstocks; hydroelectric station; and tailrace and return to White River. For ease of defining the Lake Tapps Project, these facilities have been consolidated into three main subsystems: Upper Conveyance System (the White River divergence and conveyance and sediment control facilities); Reservoir and Embankments (or the Storage System consisting of the Lake Tapps Reservoir and dike facilities); and Lower Conveyance System (all facilities from the Lake Tapps outlet structure to the tailrace return to the White River). Subsystem detail is not presented in the basic financial statements; however, Cascade maintains detailed information on these subsystems.

Cascade has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its Lake Tapps Project. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- Cascade manages the eligible infrastructure capital assets using an asset management system with characteristics including: (1) an up-to-date inventory; (2) performance of condition assessments and summarization of the results using a measurement scale; and (3) an estimate of the annual amount required to maintain and preserve at the established condition assessment level.
- Cascade documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

Capital Assets Assessment Prior to Cascade Ownership - In September 2006, prior to entering into the Asset Purchase Agreement with Puget Sound Energy, Inc. (PSE), Cascade received an Engineering Report (prepared by CH2MHill for Buck and Gordon, LLP and Cascade) which, among other things, included a Facility Condition Assessment and Capital Improvement Plan for the Lake Tapps Project. The condition assessment was based on a review of available documents (such as design documents, condition inspections conducted by or for PSE and operation and maintenance evaluations), cursory field inspections and observation and interviewing site (PSE) personnel. The report described the condition of major facilities constituting the Upper and Lower Conveyance Systems and recommended improvements. The following categories of improvements were used:

- Initial Capital Upgrade (ICU): Projects need to be completed immediately to allow proper operation, to reduce the rate of deterioration or to protect health and safety (by 2010).
- Short Term Improvement (STI): Projects recommended, but not necessary to maintain the current conditions of facilities (between 2011 and 2018).
- Long Term Improvement (LTI): Projects that should be replaced at the end of their projected useful life (between 2019 and 2050).
- Maintenance (M): Projects typically included in annual maintenance programs.

CASCADE WATER ALLIANCE

**Required Supplementary Information
For the Years Ended December 31, 2013 and 2012**

**Modified Approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets
(Continued)**

The following is a listing of the major Lake Tapps Project facilities in the Upper Conveyance and Lower Conveyance Systems, with the category of facility improvement recommended by CH2MHill in 2006:

Upper Conveyance System:

Headworks Area Buildings	M; ICU; STI
Headgates	ICU; LTI
Rock Chutes	STI
Concrete Lined Canal	M
Timber Flume	LTI
6-Foot Outlet (Wolslegal Basin)	None
Fish Screen	STI
Twin Pipelines	M; STI; LTI

Lower Conveyance System:

Tunnel Inlet/Lake Outlet	ICU
12-Foot Concrete Tunnel	LTI
"Bear Pit" Overflow Shaft	LTI
Forebay Caisson and Building	M; LTI
Penstocks/Standpipes/Surge Chambers	ICU; STI; LTI
Powerhouse	ICU

In 2008, the Washington Department of Ecology's Dam Safety Office (DSO) published the First Periodic Dam Safety Inspection Report for the Lake Tapps Project (Dikes 1 through 15). DSO inspected the Lake Tapps dikes in August 2007 and the report included an evaluation and analysis of the condition of the dikes and Printz Basin Backflow Prevention Structure.

The DSO report concluded that the dikes and the Backflow Prevention Structure "...appeared to be in good condition and the project meets current engineering standards for dam design and construction with regard to floods and earthquakes". A few deficiencies were found and are summarized below:

- Refinements are necessary to the monitoring routines for Dikes 9,10 and 12;
- Dike 3 requires improvement to address potential for internal soil erosion, in conjunction with a proposed roadway improvement by Pierce County;
- Discharge capacity of the project may need to be increased to accommodate both the Local and General Storm Probable Maximum Flood;
- Relocating or adding weirs and adding seepage monitoring to Dike 8; and
- Completion of maintenance items, such as vegetation removal.

In 2012, DSO conducted the Second Periodic Dam Safety Inspection. No formal report has yet been completed. Cascade has informal results from DSO and has been addressing the issues raised by DSO.

See independent auditor's report.

CASCADE WATER ALLIANCE

Required Supplementary Information For the Years Ended December 31, 2013 and 2012

Modified Approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets (Continued)

Capital Assets Assessment Since Cascade Ownership - The Lake Tapps Project had been operated by PSE, under contract to Cascade, since Cascade acquired the Project from PSE in 2009. Cascade selected Veolia Water North America (Veolia) as its long-term contract operator for the project in January 2011. Veolia entered into the Transition Phase of the contract in January 2012 (observing PSE operation and training staff) and assumed all operation and maintenance responsibilities on April 16, 2012. During the Transition Phase (April through December 2012), Veolia, in addition to performing all necessary operation and maintenance activities:

- Developed Operation and Maintenance Manuals for all Project facilities;
- Selected and implemented a Maintenance Management System (MMS) for the Project; and
- Developed the 2013 Operations and Maintenance Budget for Cascade's approval.

The Manuals and 2013 budget were approved by Cascade and were the basis for Veolia's performance during 2013. The initial contract term is through 2016. Annual revisions to the Manuals and Budget will be negotiated and agreed upon. Cascade may extend the contract term for up to two additional periods of up to five years each.

Veolia prepared the 2014 annual revisions to the Manuals and Budget which were approved by Cascade and are the basis for Veolia's performance during 2014.

Since 2009, Cascade has conducted additional facility condition assessment and repair/maintenance/updgrade activities, including:

- Contracted with AECOM to perform a condition assessment of certain Project facilities;
- Contracted with NAES to repair and upgrade the Fish Screen Facility;
- Contracted with GeoEngineers to assess the condition of the dikes;
- Performed inspections and effected repairs to the Timber Flume and Twin Pipelines and removal of sediment from the settling basins during the 2010-2011 outage;
- Implemented DSO recommended monitoring routines on Dikes 9,10 and 12;
- Implemented DSO recommendations on Dike 8;
- Demonstrated available discharge capacity;
- Completed PMP/PMF study;
- Performed repairs and inspection of the Barrier Dam in 2010, 2011, 2012 and 2013;
- Repaired the ecology block wall on Dike 13 in 2013;
- Repaired Tailrace "wingwall" adjacent to rail road crossing in 2011;
- Performed repairs on Dikes 2B, 3 and 11 in 2012;
- Performed repairs on Dikes 1, 3, 4 and 12 in 2013;
- Improved and upgraded Project security (fences, gates, locks, etc.)
- Improved and upgraded gaging stations;
- Repaired pipeline and valve leaks;
- Implemented plan for Powerhouse roof replacement;

See independent auditor's report.

CASCADE WATER ALLIANCE

**Required Supplementary Information
For the Years Ended December 31, 2013 and 2012**

**Modified Approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets
(Continued)**

- Upgraded SCADA system;
- Developed plan to comply with L&I / DOSH recommendations and implementation in progress;
- Removed of hazardous wastes from Powerhouse;
- Installed electric meters and disconnected power to non-essential equipment;
- Removed and salvaged unnecessary or retired/obsolete equipment;
- Upgraded and replaced culverts at headworks and valve house;
- Stockpiled sand for emergencies at strategic locations;
- Replaced telephone system;
- Performed HPA required plantings along Tailrace and on Dike 11;
- Conducted inspections of all cranes and performed necessary maintenance and repairs;
- Contracted with Carollo Engineers to perform condition assessment on Lower Conveyance System;
- Contracted with HDR Engineering to design Timber Flume replacement and Headgate improvements;
- Performed routine maintenance and repairs on roads; and
- Performed routine vegetation removal.

These activities expanded upon the CH2MHill assessment and implemented some of the recommendations from CH2MHill, AECOM, GeoEngineers and DSO.

Capital Assets Funding - Based on the condition assessment work completed to date, Cascade has included funding for ongoing maintenance and repair of Lake Tapps Project Capital Assets in its annual operating budget as well as funding for upgrading and replacement of Lake Tapps Project Capital Assets in its Capital Improvement Plan (CIP). The Operation and Maintenance Budget and CIP for Cascade's 2013-2014 Biennium are summarized below:

Lake Tapps Project Operation and Maintenance Budget:	
2014	\$ 2,553,450
2015	2,421,450
Lake Tapps Project CIP Budget:	
2014	3,610,000
2015	7,625,000
2016-2017	6,300,000
2018-2019	1,775,000

The Operation and Maintenance Budget and CIP for Cascade's 2013-2014 Biennium were adopted by the Board in September 2012.