

**OFFICIAL STATEMENT DATED DECEMBER 17, 2012**

**NEW ISSUE  
BOOK-ENTRY ONLY**

**Moody's Rating: Aa2  
Standard & Poor's Rating: AA+  
(See "RATINGS" herein)**

*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."*

**\$42,695,000  
Cascade Water Alliance  
(King County, Washington)  
Water System Revenue Bonds, 2012**

**Dated: Date of Delivery**

**Due: January 1, as shown on inside cover**

The Water System Revenue Bonds, 2012 (the "Bonds") are being issued by Cascade Water Alliance ("Cascade"), a joint municipal utility services authority organized under the laws of the state of Washington (the "State") for the purpose of providing wholesale water supply to meet future demands of its Members. The Bonds are being issued for the purposes of paying part of the cost of carrying out certain of the capital projects described in its Transmission and Supply Plan, providing for a debt service reserve, and paying the costs of issuing and selling the Bonds. The Bonds are being issued in fully registered form only and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of interests in the Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof within a maturity. Purchasers of such interests will not receive certificates representing their interests in the Bonds. Principal of and interest on the Bonds will be payable directly to DTC by the fiscal agent of the state of Washington (the "State"), currently The Bank of New York Mellon in New York, New York, as paying agent and registrar (the "Bond Registrar").

Interest on the Bonds is payable semiannually on each January 1 and July 1, commencing July 1, 2013, to the maturity or earlier redemption of the Bonds. Upon receipt of payments of principal and interest, DTC in turn is obligated to remit such principal and interest to its participants for subsequent disbursement to the purchasers of beneficial interests in the Bonds, as described under the heading "DESCRIPTION OF THE BONDS" herein and Appendix C – Book-Entry Transfer System.

**Maturity Schedule on Inside Cover**

The Bonds are subject to redemption prior to their stated maturities 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 outstanding Parity 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.

The Bonds are payable solely from Cascade's Net Revenue and money and investments held by Cascade in certain funds, which are pledged to the payment of principal of and interest on the Bonds and the Parity Bonds. The Bonds are not general obligations of Cascade. The Bond Resolution does not pledge, and the Bonds are not payable from, the full faith and credit or taxing power of any Member. No Member is responsible for payment of the Bonds except as set forth in the Joint Agreement. The Bonds will not be secured by a mortgage, deed of trust or other security interest in Cascade's physical assets. The Bonds are not an obligation of the State or any political subdivision thereof other than Cascade. Cascade has no taxing power.

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

*The Bonds are offered when, as and if executed and delivered, and are subject to receipt of the legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel to Cascade, and certain other conditions. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer on or about December 27, 2012.*

**\$42,695,000**  
**Cascade Water Alliance**  
**(King County, Washington)**  
**Water System Revenue Bonds, 2012**

Due January 1	Principal Amount	Interest Rate	Yield	CUSIPs <sup>(1)</sup>
2014	\$1,000,000	3.00%	0.53%	14739HBS9
2015	1,005,000	4.00	0.69	14739HBT7
2016	1,045,000	5.00	0.84	14739HBU4
2017	1,095,000	5.00	1.02	14739HBV2
2018	1,150,000	5.00	1.18	14739HBW0
2019	1,210,000	5.00	1.38	14739HBX8
2020	1,270,000	5.00	1.58	14739HBY6
2021	1,330,000	5.00	1.78	14739HBZ3
2022	1,400,000	5.00	1.99	14739HCA7
2023	1,470,000	5.00	2.20	14739HCB5
2024	1,540,000	3.00	2.45 <sup>(2)</sup>	14739HCC3
2025	1,590,000	4.00	2.49 <sup>(2)</sup>	14739HCD1
2026	1,650,000	4.00	2.61 <sup>(2)</sup>	14739HCE9
2027	1,715,000	4.00	2.65 <sup>(2)</sup>	14739HCF6
2028	1,785,000	4.00	2.71 <sup>(2)</sup>	14739HCG4
2029	1,855,000	4.00	2.77 <sup>(2)</sup>	14739HCH2
2030	1,930,000	4.00	2.83 <sup>(2)</sup>	14739HCJ8
2031	2,010,000	4.00	2.89 <sup>(2)</sup>	14739HCK5
2032	2,090,000	4.00	2.95 <sup>(2)</sup>	14739HCL3
2033	2,170,000	4.00	3.02 <sup>(2)</sup>	14739HCM1
2034	2,260,000	4.00	3.10 <sup>(2)</sup>	14739HCN9
2035	2,350,000	5.00	3.07 <sup>(2)</sup>	14739HCP4
2036	2,465,000	5.00	3.15 <sup>(2)</sup>	14739HCQ2

\$5,310,000 5.00% Term Bonds due January 1, 2038 at a yield of 3.25% <sup>(2)</sup>; CUSIP No. 14739HCS8

<sup>(1)</sup> The CUSIP data herein is provided by the CUSIP Global Services, managed on behalf of the American Bankers Association by Standard & Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with Cascade and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Bonds. Cascade takes no responsibility for the accuracy of the CUSIP numbers.

<sup>(2)</sup> Priced to the first optional call date of January 1, 2023.

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

No dealer, broker, sales representative or other person has been authorized by Cascade to give any information or to make any representations in connection with the offering made hereby other than as contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by Cascade. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the information set forth herein since the date hereof. 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 persons to make such offer, solicitation or sale.

In connection with the offering of the Bonds, the Underwriter may over allot 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. 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND RESOLUTION HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

The information set forth herein has been furnished by Cascade, the Members, DTC, and certain other sources that Cascade believes to be reliable. The information and expressions of opinion contained herein are subject to change without notice. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized.

None of the websites referenced in this Official Statement, including Cascade’s, is included as a part of this Official Statement. Investors should not rely on information presented in such websites in determining whether to purchase the Bonds. References to any website addresses are not hyperlinks and do not incorporate the websites by reference.

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# **CASCADE WATER ALLIANCE**

520 112th Ave. NE Suite 400  
Bellevue, WA 98004  
www.cascadewater.org  
(425) 453-0930

## **Members of Cascade Water Alliance**

City of Bellevue  
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**

John Marchione, City of Redmond	Chair
Jim Haggerton, City of Tukwila	Secretary/Treasurer
Don Davidson, City of Bellevue	Member
Fred Butler, City of Issaquah	Member
Penny Sweet, City of Kirkland	Member
Lloyd Warren, Sammamish Plateau Water and Sewer District	Member
Jon Ault, Skyway Water and Sewer District	Member

## **Administrative Staff**

Chuck Clarke, Chief Executive Officer  
Scott Hardin, Director of Finance and Administration  
Michael Gagliardo, Director of Planning  
Ed Cebon, Economist

## **Treasury Operations**

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

## **General Counsel**

Van Ness Feldman GordonDerr  
Seattle, Washington

## **Bond Counsel**

Foster Pepper PLLC  
Seattle, Washington

## **Co-Financial Advisors**

A. Dashen & Associates  
Bellevue, Washington

SDM Advisors, Inc.  
Mount Vernon, Washington

## **Bond Registrar**

Washington State Fiscal Agent  
The Bank of New York Mellon  
New York, New York

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## TABLE OF CONTENTS

INTRODUCTION.....	1	Water Supply and Transmission.....	13
DESCRIPTION OF THE BONDS .....	1	Transmission and Supply Plan .....	15
General.....	1	Governance and Administration.....	15
Authorization.....	1	Additional Credit Evaluation Considerations.....	18
Registration and Payment.....	1	Management Discussion of Financial Operations.....	18
Transfer and Exchange .....	2	Statement of Revenues, Expenses and Changes in Net	
Redemption Provisions.....	2	Assets .....	19
Notice of Redemption.....	2	Statement of Financial Position.....	21
Effect of Redemption.....	3	THE MEMBERS .....	22
Open Market Purchase.....	3	Demand Shares.....	22
Cancellation of Bonds.....	3	Cascade Equivalent Residential Units.....	23
Failure to Pay Bonds.....	3	Member Charges .....	25
Refunding or Defeasance of the Bonds .....	3	General Authority.....	25
PURPOSE AND APPLICATION OF BOND		Governing Bodies.....	25
PROCEEDS.....	4	Accounting and Auditing .....	25
Estimated Sources and Uses of Funds .....	4	Member and Regional Water Rates.....	26
SECURITY FOR THE BONDS.....	4	Member Information .....	26
Pledge Under the Bond Resolution.....	4	GENERAL AND ECONOMIC INFORMATION .....	27
The Joint Agreement.....	5	LEGAL INFORMATION.....	28
Flow of Funds.....	5	Absence of Litigation Affecting the Bonds or the Joint	
Rate Covenant.....	6	Agreement .....	28
Covenant to Enforce the Joint Agreement.....	6	Pending Litigation .....	28
Certain Additional Covenants.....	6	Certain Legal Matters.....	28
Bond Fund .....	6	Potential Conflicts of Interest.....	29
RCFC Fund.....	7	Enforceability of Remedies.....	29
Rate Stabilization Fund.....	7	TAX MATTERS.....	29
Future Parity Bonds and Payment Agreements .....	7	Tax Exemption.....	29
Events of Default and Remedies; No Acceleration.....	8	Certain Other Federal Tax Consequences .....	30
Amendments to the Bond Resolution and the Joint		CONTINUING DISCLOSURE .....	31
Agreement .....	8	INITIATIVE AND REFERENDUM.....	31
MEMBER COVENANTS UNDER THE JOINT		OTHER BOND INFORMATION .....	31
AGREEMENT .....	9	Ratings .....	31
Covenants Relating to Member Charges .....	9	Financial Advisor .....	31
Binding Nature of Member Obligation.....	9	Underwriting .....	32
Member Step Up Provisions .....	9	Summaries, Opinions and Estimates Qualified .....	32
Member Disputes.....	9		
Member Withdrawal.....	9		
Disincorporation of Cascade.....	10		
Preservation of Tax Exemption for Interest on Tax-			
Exempt Bonds.....	10		
Member Charges.....	10		
Sale of Water to Non-Members .....	10		
Bond Owner Reliance.....	11		
CASCADE DEBT .....	11		
Scheduled Debt Service on Parity Bonds .....	11		
Outstanding Debt.....	12		
Additional Borrowing.....	12		
CASCADE WATER ALLIANCE .....	12		
General.....	12		
Cascade Purposes.....	12		
Cascade Powers .....	13		

### Appendices:

Appendix A:	Financial Information of the Members
Appendix B:	Form of Bond Resolution
Appendix C:	Book-Entry Transfer System
Appendix D:	Proposed Form of Bond Counsel Opinion
Appendix E:	Proposed Form of Continuing Disclosure Certificate
Appendix F:	Audited Financial Statements of Cascade – 2011 Fiscal Year
Appendix G:	Additional Credit Evaluation Considerations

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## OFFICIAL STATEMENT

**\$42,695,000**

### **Cascade Water Alliance (King County, Washington) Water System Revenue Bonds, 2012**

#### INTRODUCTION

Cascade Water Alliance (“Cascade”) is a joint municipal utility services authority organized under the laws of the state of Washington (the “State”) and a Joint Municipal Utilities Services Agreement entered into by the Members dated March 28, 2012 (the “Joint Agreement”). Cascade was formed for the purpose of providing wholesale water supply to meet future demands of its Members. The current Members are the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, Sammamish Plateau Water and Sewer District and Skyway Water and Sewer District.

Cascade was formed in 1999 as a nonprofit corporation under the terms of an interlocal agreement on April 1, 1999, as amended and restated on December 15, 2004 (the “Interlocal Agreement”). The Interlocal Agreement contained provisions to allow Cascade to convert to a joint operating agency or other municipal corporation if permitted under State law. The State Legislature in 2011 enacted legislation, codified as chapter 39.106 of the Revised Code of Washington (“RCW”), which provided for the creation or conversion of existing intergovernmental associations to joint municipal utility services authorities. Based on compliance with the requirements of chapter 39.106 RCW, the Members agreed to such conversion by amendment to the Interlocal Agreement.

Under the Joint Agreement, the Members have agreed to pay to Cascade the Member Charges described in “MEMBER COVENANTS UNDER THE JOINT AGREEMENT – Member Charges.” Member Charges comprise Cascade’s principal source of Gross Revenue, as defined and described in “SECURITY FOR THE BONDS – Pledge Under the Bond Resolution.”

The Bonds are secured by a pledge of and lien on Net Revenue on a parity with the pledge and lien securing Cascade’s Water System Revenue Bonds, 2006 (the “2006 Bonds”), and Water System Revenue Bonds, 2009A and Water System Revenue Bonds, 2009B (Taxable – Build America Bonds – Direct Payment) (together, the “2009 Bonds”), outstanding as of December 1, 2012 in the aggregate principal amount of \$120,835,000. The Bonds, the 2006 Bonds, the 2009 Bonds and any bonds that Cascade may issue in the future secured by a pledge of and lien on Net Revenue on a parity with the pledge and lien securing the Bonds, the 2006 Bonds and the 2009 Bonds (“Future Parity Bonds”), are referred to collectively as “Parity Bonds.”

Cascade furnishes this Official Statement, which includes the cover page, inside cover page and the appendices, in connection with the sale of its Water System Revenue Bonds, 2012 (the “Bonds”). Capitalized terms not defined herein shall have the meanings assigned to them in the Bond Resolution or in the Joint Agreement. The form of the Bond Resolution is included as Appendix B.

#### DESCRIPTION OF THE BONDS

##### **General**

The Bonds will be dated their date of delivery, will be issued in denominations of \$5,000 or any integral multiple thereof within a single maturity, and will bear interest from their dated date (or the most recent date to which interest has been paid or duly provided for, whichever is later) at the rates per annum set forth on the inside cover page. Interest on the Bonds is payable semiannually on each January 1 and July 1, commencing July 1, 2013, until maturity or prior redemption. The Bonds will 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.

##### **Authorization**

The Bonds are being issued pursuant to chapters 39.106 and 39.46 RCW and Resolution No. 2012-22 adopted by the Board of Directors of Cascade (the “Board”) on December 13, 2012 (the “Bond Resolution”).

##### **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 Mellon 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 C 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 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 applicable record date. Principal of each Bond will be payable upon presentation and surrender of that Bond by the Registered Owner thereof to the Bond Registrar.

For so long as any Bonds are held in fully immobilized form, DTC, its nominee or any successor depository will be deemed to be the Registered Owner for all purposes under the Bond Resolution, and all references to Registered Owners will mean DTC or its nominee or any successor depository and will not mean the beneficial owners. Neither Cascade nor the Bond Registrar will have any responsibility or obligation to DTC participants or to the persons for whom DTC participants act as nominees with respect to the Bonds regarding 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 Bond Resolution (except such notice as is required to be given by the Bond Registrar to DTC or its nominee).

### **Transfer and Exchange**

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 C. During any period in which the Bonds are not registered in the name of DTC or its nominee or any 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 a 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 2014 through 2023, inclusive, are not subject to redemption prior to maturity. The Bonds maturing on or after January 1, 2024, are subject to redemption prior to their respective stated maturity dates, at the option of Cascade, from any source of available funds, as a whole or in part, in authorized denominations (within one or more maturities selected by Cascade and randomly within a maturity in such manner as the Bond Registrar determines), on any date on or after January 1, 2023, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption. Cascade may rescind any notice of optional redemption on or prior to the scheduled redemption date. See “Notice of Redemption” below.

*Mandatory Redemption.* The Bonds maturing in 2038 are designated as Term Bonds and, if not previously redeemed under the optional redemption provisions set forth above or purchased for cancellation or defeased under the provisions set forth in the Bond Resolution, shall be redeemed at a price of par plus accrued interest, on January 1 in the years and in the principal amounts set forth below.

2038 Term Bonds	
Year	Amount
2037	\$2,590,000
2038 <sup>(1)</sup>	2,720,000

<sup>(1)</sup> Stated maturity.

If Cascade redeems under the optional redemption provisions, purchases for cancellation or defeases Term Bonds, the principal amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) may be credited against one or more scheduled mandatory redemption amounts for those Term Bonds.

*Partial Redemption.* Portions of the principal amount of any Bond, in integral amounts of \$5,000, may be redeemed. If fewer than all of the Bonds of a single maturity are to be redeemed, the Bond Registrar is to select the Bonds or portions thereof to be redeemed from the Bonds of that maturity by lot, or in such other manner as the Bond Registrar is to determine, except that, for so long as the Bonds are registered in the name of DTC or its nominee, DTC is to select the Bonds or portions thereof to be redeemed in accordance with the Letter of Representations.

### **Notice of Redemption**

While the Bonds are held by DTC in book-entry only form, any notice of redemption will be given at the time, to the entity and in the manner required by DTC in accordance with the Letter of Representations, and the Bond Registrar is not

required to give any other notice of redemption. If the Bonds cease to be in book-entry only form, unless waived by any Registered Owner of the Bonds to be redeemed, Cascade is to cause notice of any intended redemption of Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, 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, and the requirements described in this sentence will 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 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 will be of no effect to the extent that Cascade gives notice to the affected Registered Owners at any time on or prior to the scheduled redemption date that Cascade is rescinding the redemption notice in whole or in part. Any Bonds subject to a rescinded notice of redemption will 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 unless (a) that Bond is subject to a rescinded notice of redemption or (b) that 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.

### **Open Market Purchase**

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

### **Cancellation of Bonds**

All Bonds purchased for cancellation or redeemed are to be canceled.

### **Failure to Pay Bonds**

If any Bond is not paid when properly presented at its maturity or redemption date, Cascade is obligated to pay interest on that Bond at the same rate provided in that Bond from and after its maturity or redemption date until that Bond, principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund. The Bonds are not subject to acceleration under any circumstances.

### **Refunding or Defeasance of the Bonds**

If Cascade deposits irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon, are sufficient, without any reinvestment thereof, to pay the principal of any particular Bond or 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 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 to hold that money, Government Obligations and earnings in trust exclusively for those Registered Owners and that money, Government Obligations and earnings is not to secure any other Parity Bonds under the Bond Resolution.

“Government Obligations” means those obligations described under the definition of government obligations in RCW 39.53.010(4), as it now reads or hereafter may be amended, and which are otherwise lawful investments for Cascade at the time of such investment. As currently defined in RCW 39.53.010(4), “government obligations” means (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and bank certificates of deposit secured by such obligations; (b) bonds, debentures, notes, participation certificates or other obligations issued by the banks for cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, federal land banks or the Federal National Mortgage Association; (c) public housing bonds and project notes fully secured by contracts with the United States; and (d) obligations of financial institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, to the extent insured or guaranteed as permitted under any other provision of State law.

## PURPOSE AND APPLICATION OF BOND PROCEEDS

Cascade is issuing the Bonds for the purposes of paying part of the cost of carrying out certain of the capital projects described in its Transmission and Supply Plan, providing for a debt service reserve, and paying the costs of issuing and selling the Bonds.

### Estimated Sources and Uses of Funds

The following table shows the estimated sources and uses of the Bond proceeds:

Sources of Funds	
Par Amount of the Bonds	\$42,695,000
Original Issue Premium	<u>5,764,038</u>
Total Sources of Funds	\$48,459,038
Uses of Funds	
Deposit to Project Fund	\$45,000,000
Deposit to Common Reserve Account	2,865,200
Costs of Issuance <sup>(1)</sup>	<u>593,838</u>
Total Uses of Funds	\$48,459,038

<sup>(1)</sup> *Costs of issuance include legal fees, financial advisors' fees, underwriting fee, rating agency fees and other costs incurred in connection with the issuance of the Bonds.*

## SECURITY FOR THE BONDS

### Pledge Under the Bond Resolution

The Bonds are payable from and secured by a pledge of Cascade's Net Revenue and all money and investments held by Cascade in its water system revenue bond fund (the "Bond Fund"), its rate stabilization fund, its RCFC Fund into which regional capital facilities charges ("RCFCs") are deposited, and its construction fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Internal Revenue Code of 1986, as amended (the "Code")). This pledge of Net Revenue constitutes a charge upon the Net Revenue superior to any other charges whatsoever and on a parity with the pledge of and lien on Net Revenue securing the Outstanding Parity Bonds, Future Parity Bonds, 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 and all payments required to be made into the Reserve Accounts under any resolution authorizing the issuance of Parity Bonds (each, a "Parity Bond Authorizing Resolution"), in each case subject to specific conditions.

The Bond Resolution provides that the Parity Bonds and Payment Agreements are payable solely from Net Revenue and from the funds expressly set forth in the Bond Resolution. The Parity Bonds and any Payment Agreements are not general obligations of Cascade, and Cascade has no taxing power. The Bond Resolution does not pledge, and neither the Parity Bonds nor any 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 except as set forth in the Joint Agreement.

"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: (i) Member Charges; (ii) revenues from the sale, lease or furnishing of other commodities, services, properties or facilities; (iii) the receipt of earnings from the investment of money in any maintenance fund or similar fund; (iv) federal credit payments received by Cascade in respect of the 2009B Bonds; and (v) withdrawals from the Rate Stabilization Fund. Member Charges include all payments that Members are required by the Joint Agreement to make to Cascade, including but not limited to all rates and charges, RCFCs, dues, assessments and other payments from Members. See "MEMBER COVENANTS UNDER THE JOINT AGREEMENT – Member Charges." Gross Revenue does not include: (i) 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; (ii) income and revenue which may not legally be pledged for revenue bond debt service; (iii) improvement district assessments; (iv) federal or state grants allocated to capital projects; (v) payments under bond insurance or other credit enhancement policy or device; (vi) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (vii) earnings in any construction fund or bond redemption fund; (viii) deposits to the Rate Stabilization Fund; or (ix) 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 Joint Agreement or another interlocal agreement. “Water Supply Assets” are defined in the Joint Agreement 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 the Common Reserve Account in the Bond Fund held by Cascade. See “SECURITY FOR THE BONDS – Bond Fund – *Common Reserve Account*.”

***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 or any political subdivision thereof, nor the contracting of indebtedness or a pledge of the full faith and credit or taxing power of the State or any political subdivision thereof. The Bonds are payable solely from Cascade’s Net Revenue and money and investments held by Cascade in certain funds and are not secured by a pledge of the full faith and credit or taxing power of any Member or the revenue, assets or funds of any Member and are not payable from the revenue, assets or funds of any Member, except as expressly provided in the Joint Agreement and the Bond Resolution. The Bonds are not obligations of King County, the State or of any of the Members. The Bonds are not general obligations of Cascade. Cascade has no taxing power.***

### **The Joint Agreement**

Under the Joint Agreement, the Members have made certain covenants to Cascade, including covenants regarding payment of Member Charges, Step Up Provisions, the binding nature of Member obligations, Member disputes, Member withdrawal, disincorporation of Cascade, preservation of tax exemption for interest on tax-exempt Bonds, Parity Bond owner reliance, and sale of water to non-Members. See “MEMBER COVENANTS UNDER THE JOINT AGREEMENT.”

### **Flow of Funds**

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 Accounts, 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 Accounts;
- (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 Accounts, in any priority not inconsistent with any Parity Bond Authorizing 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 Accounts under any Parity Bond Authorizing Resolution, in any priority not inconsistent with any Parity Bond Authorizing Resolution that Cascade may establish by resolution; and
- (g) For any other lawful System purposes, in any priority not inconsistent with any Parity Bond Authorizing 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 Joint Agreement 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 covenanted that, consistent with its obligations under the Joint Agreement, 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 Joint Agreement**

Cascade has covenanted in the Bond Resolution to enforce the provisions of the Joint Agreement, 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 Parity 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 Joint Agreement 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 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 – Form of Bond Resolution, Section 17.

### **Bond Fund**

Cascade has established the Bond Fund, and within the Bond Fund, the Debt Service Account, the Common Reserve Account and the 2009 Reserve Account. The Common Reserve Account, the 2009 Reserve Account and any reserve account created to secure Future Parity Bonds are collectively referred to as the “Reserve Accounts.”

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 Accounts.* Except as otherwise expressly provided in the Bond Resolution, the amount necessary to make the balance in the Reserve Accounts equal to the Reserve Requirement.

The Bond Resolution provides that the fixed amounts described above are to be a lien and charge against Net Revenue.

*Reserve Requirement.* The Common Reserve Account established for the 2006 Bonds and the Bonds and the 2009 Reserve Account established for the 2009 Bonds are separate Reserve Accounts. **The Bonds are not secured by the 2009 Reserve Account.** See “*Common Reserve Account*” below. “Reserve Requirement” means, as of any date of calculation, with respect to Parity Bonds secured by the Common Reserve Account, the lesser of Maximum Annual Debt

Service on outstanding Parity Bonds secured by the Common Reserve Account or 125 percent of Average Annual Debt Service on outstanding Parity Bonds secured by the Common Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the Common Reserve Account exceed 10 percent of the original proceeds of the Parity Bonds secured by the Common Reserve Account. 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 Common Reserve Account that provides for the Reserve Requirement on the Bonds.

*Common Reserve Account.* The payment of principal of and interest on the Bonds when due will be secured by the Common Reserve Account. On the date of delivery of the Bonds, Cascade expects to deposit Bond proceeds into the Common Reserve Account in the amount necessary to make the amount on deposit therein equal to the Reserve Requirement for the Bonds and the 2006 Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS – Estimated Sources and Uses of Funds.”

The Bond Resolution provides that, in the event there is a deficiency in the Debt Service Account that prevents making any payment secured by the Common Reserve Account, that deficiency is to be made up from the Common 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 Common 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 Common Reserve Account may be applied against the last outstanding Parity Bonds secured by the Common Reserve Account. If the Reserve Requirement for the Parity Bonds secured by the Common Reserve Account is fully provided for, any money in excess of the Reserve Requirement for the Parity Bonds secured by the Common Reserve Account may be withdrawn and deposited consistent with the Bond Resolution. See Appendix B – Form of Bond Resolution, Section 13.

#### **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. The RCFC Fund is pledged to the payment of the Parity Bonds. The balance in the RCFC Fund as of October 31, 2012 was \$3,692,118.

#### **Rate Stabilization Fund**

Cascade has established a Rate Stabilization Fund. The Bond Resolution provides that Cascade may at any time, as determined by Cascade and consistent with the 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 “Flow of Funds” above. 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 are not to 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.

The balance in the Rate Stabilization Fund as of October 31, 2012 was \$1,974,761.

#### **Future Parity Bonds 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 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. Cascade does not have authority to issue bonds with a pledge of or lien on Net Revenue superior to the pledge of and lien on Net Revenue securing the Bonds. Under current State law, Cascade does not have express authority to enter into Payment Agreements. Cascade may or may not gain such legal authority in the future. The following are conditions to the issuance of Future Parity Bonds:

- (a) There is 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 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 Bond Resolution, the Parity Bond Authorizing Resolution must provide for the deposit into the Common Reserve Account or 2009 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 such Reserve Account equal to the Reserve Requirement for Parity Bonds secured by such Reserve Account, upon the issuance of those Future Parity Bonds; and
- (e) There must be on file with Cascade a certificate of the Chief Executive Officer or an Independent Consulting Engineer, as the case may be, demonstrating compliance with the coverage requirements of the Bond Resolution. The certificate may take into account certain adjustments, as set forth in the Bond Resolution. See Appendix B – Form of Bond Resolution, Section 19.

In demonstrating compliance with the coverage requirements of the Bond Resolution relating to the issuance of Future Parity Bonds, “Gross Revenue” excludes federal credit payments received by Cascade in respect of the 2009B Bonds.

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 Bond Resolution if, as a result of the issuance of those Future Parity Bonds, (a) 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 (b) 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 Bond Resolution prevents Cascade from issuing (a) Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or (b) 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 Accounts 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.

#### **Events of Default and Remedies; No Acceleration**

Neither a Registered Owner nor any Bond Owners’ Trustee has the right under the 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. The Bond Resolution defines certain “Events of Default” and provides for certain remedies following the occurrence of an Event of Default. See Appendix B – Form of Bond Resolution, Section 26.

#### **Amendments to the Bond Resolution and the Joint Agreement**

The 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 Bond Resolution. Cascade has reserved the right to make certain amendments to the 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 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 – Form of Bond Resolution, Section 24.

Cascade has covenanted in the Bond Resolution that it will not permit the Joint Agreement 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 Bond Resolution. Cascade may amend the Joint Agreement 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 Bond Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. Cascade has further agreed that it will not amend provisions of the Joint Agreement 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 – Form of Bond Resolution, Section 25.



## **MEMBER COVENANTS UNDER THE JOINT AGREEMENT**

The following describes certain Member covenants and certain other provisions under the Joint Agreement.

### **Covenants Relating to Member Charges**

Each Member has irrevocably covenanted in the Joint Agreement 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: (i) make the payments required to be made under the Joint Agreement; and (ii) 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 Joint Agreement, 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: (i) as part of that Member's internal operation and maintenance costs payable prior to debt service on those obligations; and/or (ii) 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 Joint Agreement 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 Joint Agreement 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 Joint Agreement), and are not to be conditioned upon the performance or nonperformance of any Member, or of any entity under the Joint Agreement or any other agreement or instrument.

### **Member Step Up Provisions**

The Joint Agreement 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. See "THE MEMBERS – Demand Shares." 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.

### **Member Disputes**

Under the Joint Agreement, 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 Joint Agreement, 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 obligations under the Step Up Provisions. Covington Water District, one of the original Members of Cascade, announced its intent to withdraw from Cascade, which withdrawal was approved by Cascade's Board, and subsequently made payment of approximately \$6 million to complete its withdrawal in December 2012. Throughout its membership in Cascade, Covington Water District was assigned no Demand Shares and contributed approximately one percent of Gross Revenues in each Cascade fiscal year. See "THE MEMBERS."

## **Disincorporation of Cascade**

Cascade may be disincorporated by a 65 percent Dual Majority Vote of the Members. Upon Cascade's disincorporation, all Members are responsible for their allocable share of then-existing obligations of Cascade, including the Parity Bonds outstanding at that time, and any of the Member's obligations under the Step Up Provisions. A 65 percent Dual Majority Vote means Board approval of a proposal on the basis of a 65 percent supermajority of all Members (not just those present and voting), allowing one vote per Member, together with a 65 percent 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 Joint Agreement provides that upon disincorporation, 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 System, Cascade's assets initially shall be held by its then current Members as tenants in common. Each Member's ownership interest will be based on that Member's Demand Share as of the time of the disincorporation. 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 disincorporation. 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 disincorporation.

## **Preservation of Tax Exemption for Interest on Tax-Exempt 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 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 Joint Agreement to pay Member Charges, which include but are not limited to all rates and charges, RCFCs, dues, assessments and other payments from Members. Certain components of Member Charges are described below.

*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 Joint Agreement. 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 2013 is \$845,988 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 2012 is set at \$6,005 per new Cascade equivalent residential unit ("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 9 percent of Cascade's annual revenue requirement. Dues for 2013 are assessed at the rate of \$16.89 per CERU.

*Conservation Program Charge.* A conservation program charge is assessed to each Member at a rate of \$5.27 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 a 65 percent Dual Majority Vote of 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 Parity Bonds and for the provision of reserve and coverage

requirements for the Parity 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 Joint Agreement that the covenants described under "MEMBER COVENANTS UNDER THE JOINT AGREEMENT" may be relied upon by Parity Bond owners. Each Member has approved the Joint Agreement by resolution, motion or ordinance of its legislative authority.

## CASCADE DEBT

### Scheduled Debt Service on Parity Bonds

The scheduled annual debt service requirements for the Parity Bonds, shown on the basis of a fiscal year ending December 31, are set forth in the following table.

#### Scheduled Debt Service Requirements

	Outstanding Parity Bonds				The Bonds <sup>(4)</sup>		Total Debt Service
	Principal	Interest <sup>(2)</sup>	Federal Credit Payments <sup>(3)</sup>	Total	Principal	Interest	
2012	\$ 3,770,000 <sup>(1)</sup>	\$ 6,332,942	\$ (1,284,637)	\$ 8,818,305	\$ -	\$ -	\$ 8,818,305
2013	3,875,000	6,210,325	(1,267,621)	8,817,704	1,000,000	1,904,276	11,721,980
2014	3,990,000	6,072,255	(1,246,509)	8,815,746	1,005,000	1,853,350	11,674,096
2015	4,120,000	5,918,162	(1,221,102)	8,817,060	1,045,000	1,813,150	11,675,210
2016	4,330,000	5,712,162	(1,221,102)	8,821,060	1,095,000	1,760,900	11,676,960
2017	4,545,000	5,495,662	(1,221,102)	8,819,560	1,150,000	1,706,150	11,675,710
2018	4,710,000	5,289,147	(1,181,897)	8,817,251	1,210,000	1,648,650	11,675,900
2019	4,885,000	5,068,717	(1,139,396)	8,814,321	1,270,000	1,588,150	11,672,471
2020	5,075,000	4,837,145	(1,094,746)	8,817,400	1,330,000	1,524,650	11,672,049
2021	5,275,000	4,588,655	(1,046,012)	8,817,643	1,400,000	1,458,150	11,675,793
2022	5,490,000	4,323,475	(993,361)	8,820,114	1,470,000	1,388,150	11,678,264
2023	5,710,000	4,043,800	(937,650)	8,816,150	1,540,000	1,314,650	11,670,800
2024	5,945,000	3,749,513	(878,461)	8,816,052	1,590,000	1,268,450	11,674,502
2025	6,185,000	3,445,148	(816,073)	8,814,076	1,650,000	1,204,850	11,668,925
2026	6,445,000	3,125,210	(750,312)	8,819,899	1,715,000	1,138,850	11,673,748
2027	6,710,000	2,788,433	(680,901)	8,817,531	1,785,000	1,070,250	11,672,782
2028	7,000,000	2,428,484	(608,294)	8,820,189	1,855,000	998,850	11,674,040
2029	7,295,000	2,053,133	(533,009)	8,815,124	1,930,000	924,650	11,669,774
2030	7,605,000	1,662,131	(455,046)	8,812,085	2,010,000	847,450	11,669,535
2031	7,945,000	1,244,920	(370,797)	8,819,123	2,090,000	767,050	11,676,173
2032	4,395,000	809,259	(283,241)	4,921,018	2,170,000	683,450	7,774,468
2033	4,565,000	549,646	(192,376)	4,922,270	2,260,000	596,650	7,778,920
2034	4,740,000	279,992	(97,997)	4,921,995	2,350,000	506,250	7,778,245
2035	-	-	-	-	2,465,000	388,750	2,853,750
2036	-	-	-	-	2,590,000	265,500	2,855,500
2037	-	-	-	-	<u>2,720,000</u>	<u>136,000</u>	<u>2,856,000</u>
Total	\$124,605,000	\$86,028,317	\$(19,521,641)	\$191,111,676	\$42,695,000	\$28,757,226	\$262,563,900

<sup>(1)</sup> Includes principal payments made by Cascade on September 1, 2012, and therefore no longer outstanding.

<sup>(2)</sup> Reflects interest prior to the application of the 35 percent federal credit payments relating to Cascade's Water System Revenue Bonds, 2009B (Taxable - Build America Bonds - Direct Payment).

<sup>(3)</sup> Public reports have stated that, pursuant to certain federal budget legislation adopted in August 2011, in the absence of further budget reduction actions, starting as early as January 2, 2013, and continuing until Congress takes action, federal credit payments may be reduced as part of a government-wide sequestration of expenditures. It has been reported that federal credit payments may be reduced by approximately 7.6 percent overall for the federal 2013 fiscal year (ending September 30, 2013). The actual percentage reduction, if any, and how that percentage will apply to individual federal credit payments, will not be known unless and until sequestration is implemented.

<sup>(4)</sup> Payments scheduled for January 1 are shown in previous year.

## Outstanding Debt

Cascade's Outstanding Parity Bonds as of December 1, 2012 are set forth below.

<u>Name of Issue</u>	<u>Outstanding Principal</u>	<u>Final Scheduled Maturity Date</u>
Water System Revenue Bonds, Series 2006	\$47,275,000	9/1/2031
Water System Revenue Bonds, Series 2009A	4,940,000	9/1/2016
Water System Revenue Bonds, Series 2009B (Taxable – Build America Bonds – Direct Payment)	<u>68,620,000</u>	9/1/2034
Total Outstanding Parity Bonds	\$120,835,000	

Cascade has one outstanding Public Works Trust Fund Loan from the State, which represents an obligation that is subordinate to the Bonds and outstanding Parity Bonds and is not subject to acceleration. The loan was in the original amount of \$750,000 with an interest rate of 0.5 percent and a balance as of August 1, 2012 of \$523,859, with a final maturity date of July 1, 2025.

## Additional Borrowing

Cascade does not anticipate issuing additional Parity Bonds during the next three years. Cascade periodically reviews its outstanding bonds for refunding opportunities and may issue bonds for refunding purposes if market conditions warrant.

## CASCADE WATER ALLIANCE

### General

Cascade is a joint municipal utility services authority organized under the laws of the State, as authorized by chapter 39.106 RCW and a Joint Municipal Utilities Services Agreement entered into by the Members dated March 28, 2012 (the "Joint Agreement"). Cascade was formed to provide wholesale water supply to meet the water supply needs of the Members. Cascade's current service area is non-contiguous and is an aggregate of the water service areas of its seven current Members, all of which are located in King County. The current Members are the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, Sammamish Plateau Water and Sewer District and Skyway Water and Sewer District. See "THE MEMBERS," herein. Cascade serves solely as a regional water supplier to the Members, which are owners of independent water systems.

Cascade was initially formed in 1999 as a nonprofit corporation under the terms of an interlocal agreement on April 1, 1999, as amended and restated on December 15, 2004 (the "Interlocal Agreement"). The Interlocal Agreement contained provisions to allow Cascade to convert to a joint operating agency or other municipal corporation if permitted under State law. The State Legislature in 2011 enacted legislation, codified as chapter 39.106 RCW, which provided Cascade authority to convert to a joint municipal utility services authority, if certain conditions could be met, and conditioned upon all rights and obligations of the former nonprofit corporation transferring to the new entity. Based on compliance with the requirements of chapter 39.106 RCW, the Members agreed to such conversion by Resolution No. 2012-06.

Among other things, the Joint Agreement establishes the membership, purpose and powers of Cascade; sets forth the organizational structure, powers, committees and voting rights for its Board; outlines agreements for budgeting dues and financial management of Cascade; provides for asset development, supply commitment and financing; establishes a method of determining and assessing Member Charges; and addresses issues relating to disincorporation, withdrawal by Members and amendments. Each Member has approved the Joint Agreement by resolution, motion or ordinance of its legislative authority.

From time to time, Cascade has discussions with other municipalities about the potential for membership in Cascade. Covington Water District, one of the original Members of Cascade, announced its intent to withdraw from Cascade, which withdrawal was approved by Cascade's Board, and subsequently made payment of approximately \$6 million to complete its withdrawal in December 2012. Throughout its membership in Cascade, Covington Water District was assigned no Demand Shares and contributed approximately one percent of Gross Revenues in each Cascade fiscal year. See "THE MEMBERS." Cascade's Board and management are not aware of any municipalities currently intending to request membership or of any other Members intending to withdraw from Cascade.

### Cascade Purposes

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 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 Joint Agreement limits Cascade's purposes to those related to water resources, specifically to: (i) provide a safe, reliable and high quality drinking water supply to meet the current and projected demands of the Members, and for non-Members as determined by Cascade, and to carry out this task in a coordinated, cost-effective, and environmentally sensitive manner; (ii) 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; (iii) purchase and provide water supply, transmission services, treatment facilities and other related services; (iv) provide conservation programs to promote the wise and efficient use of resources; (v) carry out emergency water supply and shortage management programs for the Members when demands exceed available supply; (vi) coordinate and plan cooperatively with other regional or local water utilities and other entities to maximize supply availability and to minimize system costs; (vii) develop a Water Supply Plan addressing the needs of Cascade and 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; (viii) share costs and risks among Members commensurate with benefits received; and (ix) carry out, or to further other water supply purposes that the Members determine, consistent with the provisions of the Joint Agreement.

### **Cascade Powers**

Cascade has the authority to exercise all powers authorized or permitted under chapter 39.106 RCW, and to engage in activities necessary to meet its purposes. These powers include, but are not limited to: (i) acquire, construct, receive, own, manage, lease and sell real property, personal property, intangible property and other Water Supply Assets; (ii) operate and maintain facilities; (iii) enter into contracts; (iv) administer personnel matters in a manner generally consistent with the laws applicable to a code city (population over 20,000), to the extent applicable and with discretion left to Cascade, to the fullest extent otherwise permitted by law, related to the appointment, removal and/or compensation of officers, the establishment and/or administration of employee health and welfare benefit programs, and/or the establishment and/or administration of civil service/merit systems, retirement benefits/systems, and/or pension benefits/systems; (v) sue and be sued; (vi) exercise all powers of eminent domain granted under chapter 8.12 RCW and other applicable statutes (e.g. chapter 8.25), now or as hereafter amended; (vii) impose, alter, regulate, control and collect rates, charges, and assessments; (viii) purchase and sell water and services within and outside the geographical boundaries of its Members; (ix) borrow money (through its Members or other entities at their individual discretion or as authorized by the Joint Municipal Utilities Services Act and the Joint Agreement now or as hereafter amended), or enter into other financing arrangements; (x) lend money or provide services or facilities to any Member, other governmental water utilities, or governmental service providers; (xi) invest its funds; (xii) establish policies, guidelines, rules or regulations by either Bylaws or resolution to carry out its powers and responsibilities; (xiii) purchase insurance, including participation in pooled insurance and self-insurance programs, and indemnify its Members, its Board of Directors and Alternate Board Members, officers and employees in accordance with law; (xiv) 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 the Joint Agreement; (xv) exercise, without limitation, all other corporate powers that Cascade may exercise under the law relating to its formation and that are not inconsistent with the Joint Agreement or the Act or other applicable law; (xvi) for the purposes of contracting and public works, exercise all powers of a code city (population over 20,000) under RCW 35A.40.200 – 35A.40.210, now or as hereafter amended; (xvii) for disposal of surplus property, exercise all powers granted under RCW 35A.11.010, now or as hereafter amended, to code cities; (xviii) in the event Cascade charges connection charges or Rates and Charges for services supplied or available to its customers' property on a retail basis, exercise all powers granted under RCW 57.08.081, now or as hereafter amended, for the establishment of liens; and (xix) for purposes of a Cascade code of ethics, exercise all powers of a municipal corporation and observe the requirements under chapter 42.23 RCW, now or as hereafter amended.

### **Water Supply and Transmission**

Cascade is responsible for managing, on behalf of the Members, a regional water transmission and supply system including assets usable in connection with the provision of water supply 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 that may be combined with the regional water transmission and supply system (the "System"), pursuant to the Joint Agreement. Cascade is required to plan and to provide water to the Members for use within their existing and future water service area boundaries, and has made water supply commitments to the Members under the Joint Agreement.

Cascade has completed a Transmission and Supply Plan, adopted by the Board on July 25, 2012, which defined a resource strategy designed to meet the projected supply needs of the Members through 2060, including purchase of water from Seattle and Tacoma, acquisition and development of transmission facilities, and development of new water supply sources and treatment facilities. Because updated water demand projections for the Members have indicated decreased

water requirements compared to previous projections, and assuming that in the future Cascade will be able to obtain additional water under new or amended water purchase contracts, particularly with Seattle, larger scale supply projects are anticipated to be delayed until approximately 2030.

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”) and Cascade has entered into a wholesale water purchase agreement with Tacoma to supplement water purchased from Seattle (the “Tacoma Agreement”). Cascade will need to develop transmission assets in order to transport water from Tacoma to the Members through what is known as the Tacoma-Cascade Pipeline. Water purchased under the Seattle Agreement and Tacoma Agreement is expected to serve as Cascade’s primary water supply source through 2030. Cascade anticipates developing Lake Tapps, located in Pierce County (adjacent to King County), for long-term water supply. Based on Cascade’s demand forecast, the Lake Tapps supply will offer capacity sufficient to meet the needs of the current Members beyond the needs expected to be met through the Seattle Agreement and the Tacoma Agreement. Cascade owns a 24-inch diameter transmission pipeline between Bellevue and Issaquah and will use a portion of the proceeds of the Bonds to pay the costs of constructing a minor portion of the Tacoma-Cascade Pipeline. To maximize water resources, Cascade provides a regional conservation program to the Members.

*Lake Tapps.* Cascade purchased certain assets from Puget Sound Energy referred to as the Lake Tapps assets for a cost of \$30,000,000. The project includes a diversion dam and an intake on the White River, a flowline (timber lined, open channel and pipeline), sediment basins, fish screens, Lake Tapps and associated dikes; the lake intake, tunnel, forebay, and penstocks off Lake Tapps; the power house and structures that return water from Lake Tapps to the White River; and water rights, including the existing hydro claim and new municipal water rights applications. Cascade subsequently worked with the State Department of Ecology to secure municipal water rights, which were issued in December 2010. Cascade also entered into agreements with the Muckleshoot Indian Tribe, the Puyallup Tribe of Indians, the Lake Tapps community and the cities of Auburn, Bonney Lake, Buckley and Sumner which address issues related to operations of Lake Tapps and provision of regional water supply.

To utilize Lake Tapps as a water source, Cascade is required to develop and construct infrastructure, including building a water treatment facility and transmission pipeline. The Transmission and Supply Plan includes a timeline for construction of the improvements to the facilities of Lake Tapps, which is expected to occur no earlier than 2030. Lake Tapps is permitted to provide Cascade a permanent supply of 48.5 MGD of water (average daily demand) each year, and an additional guaranteed reserved supply of 87.3 MGD (average daily demand).

*Current Seattle Agreement.* Cascade’s primary water supply is water purchased from Seattle under the Seattle Agreement that became effective January 1, 2004 and extends through December 31, 2053. Based on changes in water demand forecasts, Seattle determined that additional water supply would be available for Cascade. In December 2008 Cascade and Seattle executed an amendment to the Seattle Agreement that provided for additional water through 2023. The Seattle Agreement entitles Cascade to a specified amount (block) of water supply and transmission each year for a 50-year period ending December 31, 2053, on a “take or pay” basis. The amount of the block can be amended based on 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 of water 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 available to Cascade in each year of the Seattle Agreement, shown as average daily demand in MGD, is shown in the following table.

**Amount of Water to be Supplied to Cascade from Seattle**

<u>Year Beginning</u>	<u>Year Ending</u>	Average Daily Demand (MGD)
2009	2017	33.3
2018	2023	35.3
2024	2029	25.3
2030	2034	20.3
2035	2039	15.3
2040	2044	10.3
2045	2053	5.3

*Source: Cascade*

*Seattle Agreement Amendment.* As contemplated in the supply portfolio contained in the Transmission and Supply Plan, an agreement has been reached to amend the current Seattle Agreement. The existing capacity of 33.3 MGD is to be extended through 2039, then ramp down, and the contract term is to be extended to 2063. Cascade is to make three

capacity reservation payments related to the amendment, with the first payment of \$5 million to be made in 2013 using Bond proceeds, and subsequent payments due in 2017 and 2025. Ratification of the amendment is expected in early 2013.

*Current 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 through 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 to Tacoma, in addition to paying for the metered water based on wholesale water rates. Cascade has not taken delivery of water from Tacoma and will need to complete construction of the Tacoma-Cascade Pipeline in order to do so. The acquisition of Lake Tapps and issuance of the municipal water rights fulfilled Cascade’s obligation under the Tacoma Agreement to provide Tacoma with a plan by December 1, 2015 demonstrating Cascade’s ability to provide for the long term water needs of the Members. 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. Cascade has made all payments to Tacoma as required under the Tacoma Agreement.

*Tacoma Agreement Amendment.* As contemplated in the Transmission and Supply Plan, an agreement has been reached that restructures the current Tacoma Agreement. Cascade’s rights and responsibilities for the existing capacity have been clarified to enable and regulate transfer to specific third parties through a joint offering. Minimum volumes are to be replaced by a structured capacity reservation schedule. A new capacity commitment of 8 MGD is to be provided to Cascade through 2042. Cascade will finance initial payments totaling \$20 million under the amended structure with Bond proceeds. Ratification of the amendment is expected in December 2012.

*Transmission and Storage Facilities.* Cascade owns a 24-inch diameter transmission pipeline between Bellevue and Issaquah and has agreements in place with the city of Bellevue and the Sammamish Plateau Water and Sewer District to provide operation and maintenance of the pipeline.

To transport water from Tacoma and Lake Tapps, Cascade will be required to construct additional pipelines. Cascade conducted a transmission system routing study to determine the sizing and routing of the proposed transmission pipelines for water purchased from Tacoma. Cascade expects to include additional regional storage in its transmission system. With recent contract extensions, the need for these facilities is projected to be deferred until 2030 or later.

### **Transmission and Supply Plan**

The Transmission and Supply Plan fulfills the 20-year planning requirement contained in the Joint Agreement, and the 6-year and 20-year planning horizons required by the State Department of Health. Additional information is included in the Transmission and Supply Plan 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 Transmission and Supply Plan was adopted in 2012 and includes a water demand forecast through 2060, and a plan and timeline for transmission and supply projects due to changed demand projections and additional supply resources, primarily through the Seattle Agreement.

### **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; 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, amended and restated on April 25, 2012, which specify the powers and duties of the Board and its Executive Committee, standing committees, officers and employees. The Board holds 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 Joint Agreement requires either a 65 percent 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 Joint Agreement. Any

Member that has been declared by the Board to be in default of its obligations under the Joint Agreement 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.

Board Member	Member Represented and Elected Position	Date of Initial Appointment
John Marchione, Chair	Mayor, City of Redmond	April 2004
Jim Haggerton, Secretary/Treasurer	Mayor, City of Tukwila	March 2000
Don Davidson	Councilmember, City of Bellevue	February 2012
Fred Butler	Deputy Council President, City of Issaquah	February 2012
Penny Sweet	Councilmember, City of Kirkland	February 2010
Lloyd Warren	Commissioner, Sammamish Plateau Water and Sewer District	January 2005
Jon Ault	President, Skyway Water and Sewer District	February 2004

*Executive Committee.* The Joint Agreement and Cascade’s corporate By-laws provide for an Executive Committee consisting of the officers of the Board. The Board has delegated to the Executive Committee certain decisions that do not require Board approval. 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 other than actions expressly reserved to the Board or to the legislative authorities of the Members.

*Management.* Day-to-day management is provided by a Chief Executive Officer who serves at the pleasure of the Board. The Chief Executive Officer 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. A Director of Finance and Administration is responsible for the day-to-day financial operations. Names and brief resumes are provided below.

*Chuck Clarke, Chief Executive Officer.* Mr. Clarke became Chief Executive Officer of Cascade in January 2009. Mr. Clarke most recently served as the director of Seattle Public Utilities, and he served as a deputy mayor in Seattle. Prior to that, he was the regional administrator with the United States Environmental Protection Agency, the agency secretary of the Vermont Agency of Natural Resources, and a Director of the State’s Department of Ecology. His experience ranges from strategic planning, regional relationships, the ability to negotiate complex agreements and the ability to manage the day to day operations of a water organization. Mr. Clarke graduated from Pacific Lutheran University where he obtained a Bachelor of Arts degree and a Master’s of Business Administration.

*Scott Hardin, Director of Finance and Administration.* Mr. Hardin has served in this position since August 2008. Prior to assuming this position, he was Finance Director for the City of Burien, Washington, preceded by 16 years as an administrator at Highline Community College in Des Moines, Washington. Mr. Hardin earned a Bachelor of Applied Science degree from the University of Pennsylvania and a Master of Professional Accounting degree from the University of Washington.

*Michael Gagliardo, Director of Planning.* Mr. Gagliardo has been with Cascade since its inception in 1999, first as General Manager followed by his current role as Director of Planning. Prior to joining Cascade, Mr. Gagliardo 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).

*Jon Shimada, P.E., Capital Projects Director.* Mr. Shimada has served in this position since February 2009. Prior to assuming this position, Mr. Shimada worked for more than 30 years at the City of Seattle, most recently as the Asset Management Manager with Seattle Public Utilities. Prior to that, he served as a Project Management Director, Resource Development Director, Program Manager in Water, and Transportation Design Director. Mr. Shimada graduated from the University of Washington with a Civil Engineering degree and obtained his professional engineering license in 1991.

*Ed Cebron, Economist.* Mr. Cebron has served in this position since January 2011. Previously, Mr. Cebron provided financial and economic consulting services to Cascade as a principal and co-founder of FCS Group, Inc. This role included acting as Project Manager for Cascade’s original formation and developing the initial financial and charge structure of the organization, as well as providing ongoing support since Cascade’s formation in a variety of financial, economic and management areas. He has worked for over 30 years for municipal utilities throughout the western United States as a consultant, elected official and now management team member in areas of finance, economics, governance and management. Mr. Cebron holds a Master’s degree in Infrastructure Planning and Management from Stanford University and a Bachelor of Science in Engineering Science from Harvard University.

*Employees.* Cascade currently has nine full-time employees, none of whom are represented by unions or bargaining units.



*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. Cascade's funds are commingled with funds of other agencies of King County, through the King County Investment Pool (the "Pool").

*King County Investment Pool.* The Pool invests cash reserves for all King County agencies and more than 100 special purpose districts and other public entities such as fire, school, sewer and water districts and other public authorities. It is one of the largest investment pools in the State, with a typical recent asset balance of \$4.0 billion. On average, King County agencies comprise between 35 percent and 40 percent of the Pool.

King County's Executive Finance Committee (the "Committee") establishes King County investment policy and oversees the portfolio to ensure that specific holdings comply with both the investment policy and State law. The Pool is only allowed to invest in certain types of highly-rated securities, including certificates of deposit, U.S. treasury obligations, federal agency obligations, municipal obligations, repurchase agreements, and commercial paper.

*The following information has been provided by King County and is believed to be reliable, but has not been verified independently by Cascade. No representation whatsoever as to the accuracy, adequacy or completeness of such information is made by Cascade.*

As a result of unprecedented turmoil and uncertainty in global credit markets surfacing in late August 2007, King County halted all purchases of commercial paper. In early September 2007, King County commissioned an outside financial consultant, Public Financial Management ("PFM"), to review the Pool's remaining investments in commercial paper and make recommendations going forward. PFM validated King County's strategy of halting the purchase of any new commercial paper and recommended holding remaining assets to their maturity dates, while monitoring new developments in the commercial paper markets.

In early 2008, the Pool held four impaired commercial paper investments in its portfolio with an outstanding par value of \$207 million. For three of the four impaired investments (Cheyne, Rhinebridge and Mainsail), King County participated in restructuring auctions in 2008 and has recovered a total of \$75.2 million, or about 50 percent of the adjusted par value of these securities. Since December 2008, King County has been receiving monthly *pro rata* cash payments from the receiver of Victoria, King County's last remaining impaired commercial paper investment, totaling approximately \$31.5 million through August 2012. These cash payments have reduced King County's original adjusted par value in Victoria from \$52.9 million to \$21.4 million.

In September 2009, King County completed the restructuring process for Victoria and, based on consultations with legal and financial experts representing King County, elected to participate in an "Exchange Offer" in which King County's *pro rata* share of assets in Victoria are transferred to a new company titled VFNC Trust. The financial analysis indicated that the Exchange Offer may result in a potential recovery in the range of \$26.3 million to \$40.4 million of the original \$52.9 million, which accounts for cash collected to date and the bulk of anticipated monthly cash flow payments expected over the next five to six years (with some cash receipts extended beyond this time). The VFNC Trust investment will replace Victoria in the "impaired pool," and it will continue to be separated from the larger "performing pool." The impaired pool was established in 2008 by King County to help account for the recovery of funds from the various restructuring auctions and post-auction residual cash payments.

King County has asked PFM to conduct quarterly reviews of all assets in the pool. In its most recent assessment, dated June 30, 2012, PFM concluded that "King County's investment pool is of sound credit quality and well diversified and appears to provide ample liquidity." The most recent portfolio review can be obtained at the following website, which is not incorporated into this Official Statement by reference:

<http://www.kingcounty.gov/operations/Finance/Treasury/InvestmentPool.aspx>

After consulting with PFM and investment pool members, the Committee reauthorized the purchase of commercial paper at its January 25, 2012 meeting. However, no commercial paper has yet been purchased since the reauthorization.

Standard & Poor's Ratings Services ("S&P") first rated the Pool in 2005 and assigned the Pool its highest rating of AA Af. In mid-January 2008, S&P took the temporary action of suspending its rating of the Pool with the understanding that King County could request a restored rating by separating any impaired investments into an impaired pool, which King County subsequently completed. S&P has since modified its rating criteria for investment pools, and King County is reconsidering the benefits, costs, and other factors associated with a pool rating. In addition, King County replaced its legacy financial systems with a new Oracle financial system in January 2012 and wants to ensure the stability of this new system prior to seeking a pool rating. Consequently, the Committee is expected to make a decision about whether to pursue a pool rating during the second half of 2012.

*Local Government Investment Pool.* The Pool may invest in the State Local Government Investment Pool ("LGIP"), which was created by the Legislature in 1986 to provide a mechanism for political subdivisions to invest available funds and take advantage of the economies of scale and expertise of the LGIP to earn a competitive rate of return, security and

liquidity of funds. The LGIP is a conservatively managed, highly liquid money market fund that is considered low-risk. The LGIP is restricted to investments with maturities of no more than 397 days and the average life typically is less than 120 days, with the following exceptions:

- (1) The maximum maturity of variable rate and floating rate securities meeting the requirements listed above will not exceed 762 days; and
- (2) Securities utilized in repurchase agreements.

Permissible investments include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposit issued by qualified State depositories.

The State Treasurer's Office administers the LGIP and reports that as of June 2012, the LGIP had over 450 participants and a balance of approximately \$9.3 billion. In its management of the LGIP, the State Treasurer is required to adhere, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (1) the safety of principal; (2) the assurance of sufficient liquidity to meet cash flow demands; and (3) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands.

*Retirement Plans.* Cascade provides a Section 401(a) defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute four percent of their annual salary. Cascade contributes seven percent of an employee's salary. In addition, as a replacement of the contribution to the Social Security beginning in January 2011, employees contribute an additional 6.2 percent of their annual salary. Cascade contributes an additional 6.2 percent up to the IRS limit (\$6,622 in 2011). Employee and employer contributions were \$123,816 and \$155,675, respectively, for the year ended December 31, 2011, and \$46,032 and \$80,974, respectively, for the year ended December 31, 2010.

Cascade also provides a Section 457 retirement plan available to certain employees who make salary deferral contributions up to the maximum allowed by law. Employee contributions were matched 0 percent and 33 percent by Cascade during the years ended December 31, 2011 and 2010, respectively. Employee salary deferrals and Cascade matching contributions were \$120,133 and \$14,667, respectively, for the year ended December 31, 2011 and \$106,528 and \$7,332, respectively, for the year ended December 31, 2010. Cascade will phase out this plan with contributions matched at 0 percent and 67 percent for the years ended December 31, 2011 and 2010.

Cascade is current on all required employer contributions to retirement plans.

*Other Post Employment Benefit Obligations.* Cascade has no other post employment benefit obligations.

*Insurance.* Cascade maintains insurance for its facilities, including fire and extended coverage, public liability and property damage on Cascade's facilities as is 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, 2011, are included as Appendix F.

### **Additional Credit Evaluation Considerations**

Cascade is active in promoting additional credit evaluation considerations to encourage and reward, through a competitive cost of capital, utilities with strong asset management practices, proactive water demand management, resilient supply sources, and low energy-intensity. To support alignment of the capital markets with emerging best practices, Cascade has included a discussion of the following additional credit evaluation considerations as Appendix G: Institutional Stability and Management, Demand Management, Dependability of Water Supplies, Full-Cost Pricing, Asset Management and Energy Intensity of Water Treatment and Delivery.

### **Management Discussion of Financial Operations**

Cascade's operating revenues are received principally from water sales, administrative dues, and conservation charges. Operating revenues in 2011 were within one percent of budget and expenditures were within the budgeted amount. RCFC revenue from Members was budgeted to be \$4.46 million in 2011, but actual RCFCs were \$3.21 million. This variance is attributable to continued lower construction growth in Cascade's service area. RCFC revenue has increased slightly since 2009, reflecting modest economic improvement. For the next several years' financial outlook, growth forecasts have been revised downward, with corresponding increases in contributions from the Operating Fund (water demand rates from Cascade members) to debt service payments.

Cascade's capital assets have continued to increase over the last two years due to expenditures to obtain Lake Tapps and the water rights to Lake Tapps. Capital asset expenditures have been funded from capital contributions and proceeds of the 2006 Bonds and 2009 Bonds.

Cascade expects its 2012 financial operations to be somewhat stronger than 2011, based on year to date results.

The following table shows financial activities of Cascade for 2007 through 2011 based on audited financial statements of Cascade.

**Cascade Water Alliance**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
Fiscal Year Ending December 31

	2011	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008	2007
<b>Operating Revenue</b>					
Water sales	\$25,998,670	\$25,799,469	\$24,083,868	\$22,465,785	\$20,298,751
Administrative dues	1,444,763	1,269,289	1,337,898	1,247,488	1,139,257
Conservation Program	<u>1,282,647</u>	<u>1,049,648</u>	<u>812,351</u>	<u>733,086</u>	<u>706,732</u>
<b>Total Operating Revenue</b>	<u>\$28,726,080</u>	<u>\$28,118,406</u>	<u>\$26,234,117</u>	<u>\$24,446,359</u>	<u>\$22,144,740</u>
<b>Operating Expenses</b>					
Cost of water sold	\$19,830,259	\$20,842,438	\$20,719,555	\$16,508,432	\$15,081,172
Salaries and benefits	1,776,544	1,410,517	1,001,430	970,463	608,581
Professional services	2,261,980	2,098,831	2,075,975	494,924	488,152
Conservation rebate program	607,625	1,116,130	716,319	640,629	517,275
Depreciation and amortization	655,224	635,065	637,872	408,229	419,968
Communication and public information	177,991	191,082	120,446	397,408	402,759
Office expenses	141,276	128,849	76,546	28,891	63,551
Bank charges	513	964	776	992	54,492
Rent	114,981	116,089	125,820	105,467	101,909
Maintenance	645,161	1,746,703	106,429	43,667	88,340
Operations	1,677,304	1,852,014	43,352	-	-
Insurance	101,040	72,775	68,198	-	-
Dues and subscriptions	37,451	37,557	9,459	26,696	32,675
Miscellaneous	<u>492,752</u>	<u>199,473</u>	<u>87,896</u>	<u>31,881</u>	<u>143,405</u>
<b>Total Operating Expenses</b>	<u>\$28,520,101</u>	<u>\$30,448,487</u>	<u>\$25,790,073</u>	<u>\$19,657,679</u>	<u>\$18,002,279</u>
<b>Total Operating (Loss) Income</b>	\$ 205,979	\$ (2,330,081)	\$ 444,044	\$ 4,788,680	\$ 4,142,461
<b>Non-Operating Revenue (Expenses)</b>					
Interest income	\$ 447,327	\$ 720,827	\$ 806,911	\$ 1,103,555	\$ 1,420,976
Interest expense, net of amount capitalized	<u>(4,231,044)</u>	<u>(1,796,820)</u>	<u>(1,629,056)</u>	<u>(1,088,688)</u>	<u>(1,661,633)</u>
<b>Total Non-Operating Revenue (Expenses)</b>	\$ (3,783,717)	\$ (1,075,993)	\$ (822,145)	\$ 14,867	\$ (240,657)
<b>Capital Contributions</b>					
Regional capital facilities charges	\$ 3,212,676	\$ 3,797,144	\$ 2,844,401	\$ 8,544,479	\$ 8,859,354
Repurchase of regional capital facilities charge <sup>(2)</sup>	<u>(10,186,250)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Change in Net Assets</b>	\$(10,551,312)	\$ 391,070	\$ 2,466,300	\$13,348,026	\$12,761,158
<b>Net Assets, Beginning of Year</b>	\$69,749,129	\$69,596,551	\$67,657,850	\$54,309,824	\$41,548,666
Cumulative effect of change in accounting principle <sup>(3)</sup>	<u>-</u>	<u>(238,492)</u>	<u>(766,091)</u>	<u>-</u>	<u>-</u>
<b>Adjusted Net Assets, Beginning of Year</b>	\$69,749,129	\$69,358,059	\$66,891,759	\$54,309,824	\$41,548,666
<b>Net Assets, End of Year</b>	\$59,197,817	\$69,749,129	\$69,358,059	\$67,657,850	\$54,309,824

<sup>(1)</sup> Cascade restated its financial statements for the years ended December 31, 2010 and 2009. During the year ended December 31, 2011, Cascade determined that the capacity reservation fees related to the additional water to be supplied under the Tacoma Agreement should have been 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 since 2009. The effect of the restatement was to decrease both Cascade's Net Assets and Total Change in Net Assets for 2010.

<sup>(2)</sup> By Board Resolution 2011-14, Cascade offered in 2011 to repurchase its Members' unredeemed RCFC credits at a price of \$2,500 per CERU. All Members with outstanding RCFC credits accepted Cascade's offer, agreeing to sell to Cascade 100 percent (4074.5) of their RCFC credits.

<sup>(3)</sup> Effective December 31, 2010, Cascade adopted the requirements of GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, for the comprehensive plan that was recognized as construction in progress in prior years. This change is reported as a cumulative effect of a change in accounting principle in the amount of \$766,091 and is reflected as a restatement of beginning net assets invested in capital assets and a decrease in capital assets on the balance sheets.

Source: Cascade

### Historical Debt Service Coverage Calculation

	2011	2010	2009	2008	2007
Operating Revenue <sup>(1)</sup>	\$ 28,726,080	\$ 28,118,406	\$ 26,234,117	\$ 24,446,359	\$ 22,144,740
Operating Expenses	(28,520,101)	(30,448,487)	(25,790,073)	(19,657,679)	(18,002,279)
Interest Income <sup>(2)</sup>	126,767	238,930	425,694	621,556	708,722
Rate Stabilization Fund Withdrawal (Deposit)	800,000	3,931,530	(117,155)	(4,200,000)	(1,000,000)
Plus: Depreciation/Amortization	655,224	635,065	637,872	408,229	419,968
Plus: Debt Service Account Balance <sup>(3)</sup>	10,398,682	9,223,746	6,683,237	6,226,762	5,815,506
Plus: Federal Credit Payment relating to 2009B Bonds	<u>1,284,637</u>	<u>1,296,711</u>	<u>1,144,489</u>	<u>-</u>	<u>-</u>
Funds Available for Debt Service	\$ 13,471,289	\$ 12,995,901	\$ 9,218,181	\$ 7,845,227	\$ 10,086,657
Annual Debt Service	\$ 10,112,938	\$ 9,363,731	\$ 3,896,750	\$ 3,892,325	\$ 3,895,650
Coverage	1.33x	1.39x	2.37x	2.02x	2.59x

<sup>(1)</sup> Operating Revenue does not include RCFCs. See the summary table above of historical Statement of Revenues, Expenses and Changes in Net Assets.

<sup>(2)</sup> Includes interest income on the Operating Refund Fund and RCFC Funds only.

<sup>(3)</sup> Debt Service Account Balance is based on the balance on the last business day prior to commencement of the fiscal year. See "SECURITY FOR THE BONDS – Rate Covenant."

Source: Cascade

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The following table shows the financial position of Cascade as of December 31 in the years 2007 through 2011 based on audited financial statements of Cascade.

**Cascade Water Alliance**  
**Statement of Financial Position**  
(Fiscal Year Ending December 31)

	2011	2010	2009	2008	2007
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 15,766,164	\$ 18,659,511	\$ 27,102,109	\$ 26,273,072	\$ 15,419,303
Accounts receivable	-	-	-	-	413,299
Regional Capital Facility Charges receivable	1,053,758	1,663,392	879,166	1,205,681	3,999,235
Restricted Cash and cash equivalents, current portion	-	19,200,000	5,000,000	-	-
Interest rebate receivable	428,212	432,237	286,122	-	-
Water rights receivable, current portion	200,000	-	-	-	-
Prepaid expenses	77,830	41,182	35,845	10,854	6,809
<b>Total Current Assets</b>	<b>\$ 17,525,964</b>	<b>\$ 39,996,322</b>	<b>\$ 33,303,242</b>	<b>\$ 27,489,607</b>	<b>\$ 19,838,646</b>
<b>Capital Assets:</b>					
Capital Assets Net of Accumulated Depreciation:					
Lake Tapps - infrastructure	\$ 78,806,742	\$ 78,213,463	\$ -	\$ -	\$ -
Equipment and furniture	1,006,701	825,894	89,385	84,101	62,079
Seattle water contract	204,216	204,216	204,216	204,216	204,216
Comprehensive plan	-	-	-	766,091	731,857
Tacoma Water contract	9,420,442	9,420,442	9,420,442	-	-
Bellevue-Issaquah pipeline	22,038,921	22,033,919	22,026,671	21,998,155	21,996,760
	111,477,022	110,697,934	31,740,714	23,052,563	22,994,912
Less accumulated depreciation and amortization	(3,381,361)	(2,609,348)	(1,868,110)	(1,171,768)	(716,332)
	108,095,661	108,088,586	29,872,604	21,880,795	22,278,580
<b>Other Assets</b>					
Lake Tapps water rights project	-	-	75,673,195	13,627,107	10,775,891
Tacoma Water contract	13,736,666	16,484,000	16,484,000	25,904,442	25,904,442
Tacoma Cascade pipeline	32,495,629	31,595,453	30,193,803	22,751,612	13,240,370
Eastside Reservoir	262,567	253,215	243,974	128,135	-
Other equipment	-	81,000	34,595	-	-
<b>Total Capital Assets</b>	<b>\$ 154,590,523</b>	<b>\$ 156,502,254</b>	<b>\$ 152,502,171</b>	<b>\$ 84,292,091</b>	<b>\$ 72,199,283</b>
Restricted Cash and cash equivalents	\$ 25,406,445	\$ 26,697,529	\$ 45,302,491	\$ 12,310,206	\$ 21,618,078
Other Long-term assets	3,702,560	1,418,598	1,481,998	609,201	636,277
<b>Total Assets</b>	<b>\$ 201,225,492</b>	<b>\$ 224,614,703</b>	<b>\$ 232,589,902</b>	<b>\$ 124,701,105</b>	<b>\$ 114,292,284</b>
<b>Current Liabilities:</b>					
Payables and accrued liabilities from current assets	\$ 1,168,703	\$ 1,462,429	\$ 1,252,097	\$ 659,235	\$ 2,092,655
Payables related to IRS Social Security refund	-	294,017	-	-	-
Retroactive water credit	1,424,215	722,284	1,063,478	503,388	640,415
Payables to related water rights acquisition	10,186,250	19,200,000	5,000,000	-	-
Long-term debt, current portion	40,069	59,869	59,671	59,474	42,500
	12,819,237	21,738,599	7,375,246	1,222,097	2,775,570
Payables from restricted assets					
Accrued interest	2,110,981	2,145,979	1,508,433	679,538	679,538
Long-term debt current portion	3,770,000	3,675,000	3,330,000	1,295,000	1,235,000
	5,880,981	5,820,979	4,838,433	1,974,538	1,914,538
<b>Total Current Liabilities</b>	<b>\$ 18,700,218</b>	<b>\$ 27,559,578</b>	<b>\$ 12,213,679</b>	<b>\$ 3,196,635</b>	<b>\$ 4,690,108</b>
Long-Term Debt, Net of Current portion					
Long-term debt payable from unrestricted assets	\$ 523,859	\$ 552,237	\$ 611,909	\$ 671,579	\$ 748,027
Long-term debt payable from restricted assets	120,835,000	124,605,000	128,280,000	51,515,000	52,810,000
	121,358,859	125,157,237	128,891,909	52,186,579	53,558,027
<b>Other Long-term Liabilities</b>					
Payables related to water rights acquisition	-	-	19,800,000	-	-
Bond Premium, net of amortization	1,968,598	2,148,759	2,326,255	1,660,041	1,734,325
<b>Total Liabilities</b>	<b>\$ 142,027,675</b>	<b>\$ 154,865,574</b>	<b>\$ 163,231,843</b>	<b>\$ 57,043,255</b>	<b>\$ 59,982,460</b>
<b>Net Assets:</b>					
Invested in capital assets net of related debt	\$ 34,277,028	\$ 32,958,918	\$ 38,396,827	\$ 30,751,038	\$ 17,450,837
Restricted for debt service	18,582,414	-	-	12,310,206	21,618,078
Unrestricted	6,338,375	36,790,211	30,961,232	24,596,606	15,240,909
<b>Total Net Assets <sup>(1)</sup></b>	<b>\$ 59,197,817</b>	<b>\$ 69,749,129</b>	<b>\$ 69,358,059</b>	<b>\$ 67,657,850</b>	<b>\$ 54,309,824</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 201,225,492</b>	<b>\$ 224,614,703</b>	<b>\$ 232,589,902</b>	<b>\$ 124,701,105</b>	<b>\$ 114,292,284</b>

<sup>(1)</sup> Cascade restated its financial statements for the years ended December 31, 2010 and 2009. During the year ended December 31, 2011, Cascade determined that the capacity reservation fees related to the additional water to be supplied under the Tacoma Agreement should have been 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 since 2009. The effect of the restatement was to decrease both Cascade's Net Assets and Total Change in Net Assets for 2010.

Source: Cascade

## THE MEMBERS

The seven current Members of Cascade consist of five cities and two water-sewer districts. 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 Joint Agreement, 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 Joint Agreement, Cascade water resources, and any other factors the Board deems advisable.

Covington Water District, one of the original Members of Cascade, announced its intent to withdraw from Cascade, which withdrawal was approved by Cascade’s Board, and subsequently made payment of approximately \$6 million to complete its withdrawal in December 2012. Throughout its membership in Cascade, Covington Water District was assigned no Demand Shares and contributed approximately one percent of Gross Revenues in each Cascade fiscal year.

The seven current Members of Cascade are located within King County and are shown below, along with the key metrics that Cascade uses to describe its wholesale customer base and to impose Member Charges. Cascade equivalent residential units (“CERUs”) are assigned to each Member based on an inventory of the Member’s water service connections, in accordance with water industry standards pertaining to meter flow capacity as an indicator of potential system demand. Cascade’s administrative dues and conservation charges, which are separate from Demand Share Charges (as that term is later defined), are imposed on Members based on the number of CERUs assigned, making it possible for a Member to be billed even if that Member does not receive any water from Cascade. The Demand Share Charge, Cascade’s primary mechanism for recovering costs from Members, is imposed on Members based on their estimated share of total water to be provided through Cascade (their “Demand Share”). Demand Shares are computed annually for each Member that takes water based on a rolling three-year history of actual wholesale water demand, and are generally expressed in millions of gallons per peak season day. See “MEMBER COVENANTS UNDER THE JOINT AGREEMENT – Member Charges,” “THE MEMBERS,” and Appendix A.

### **CERUs, Percentage of Total Demand Shares and Member Charges for Each Member for 2013**

Member	Cascade Equivalent Residential Units <sup>(1)</sup>		Percentage of Total Demand Shares	Member Charges <sup>(2)</sup>	
	Number	% of Total		Amount	% of Total
City of Bellevue	66,719	41.30%	53.80%	\$17,431,756	52.47%
City of Issaquah	11,739	7.27	2.60	1,030,990	3.10
City of Kirkland	17,983	11.13	14.10	4,578,078	13.78
City of Redmond	31,304	19.38	18.20	6,078,354	18.30
Sammamish Plateau Water and Sewer District <sup>(3)</sup>	21,825	13.51	2.90	1,329,590	4.00
Skyway Water and Sewer District	3,807	2.36	1.20	443,441	1.33
City of Tukwila	<u>8,189</u>	<u>5.07</u>	<u>7.30</u>	<u>2,330,620</u>	<u>7.02</u>
Total	161,566	100.00%	100.00%	\$33,222,829	100.00%

<sup>(1)</sup> The information shown regarding CERUs is as of December 31, 2011.

<sup>(2)</sup> Projected Member Charges for 2013.

<sup>(3)</sup> In accordance with Cascade’s Rate Methodology, Demand Shares are computed for Sammamish Plateau Water and Sewer District based on its average annual wholesale water demand, rather than peak season wholesale water demand, because it has not been taking wholesale water during the peak season. Demand Shares for all other members are based on peak season wholesale water demand.

Note: Totals may not add due to rounding.

Source: Cascade

### **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 Joint Agreement 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 (i) average daily demand from Cascade during the peak season, currently defined as June through September; (ii) average daily demand from Cascade for the entire calendar year; or (iii) 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. Cascade expects the relative Demand Shares to change over time, with a higher percentage being assigned to faster growing areas. As certain 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. Demand Shares are the basis for allocations of fixed water supply charges of Cascade.

**Member Demand Shares for 2009 through 2013**

<b>Member</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
City of Bellevue	18.86	19.79	20.31	21.43	20.87
Covington Water District <sup>(1)</sup>	N/A	0.00	0.00	0.00	0.00
City of Issaquah	0.91	0.94	1.04	0.87	0.58
City of Kirkland	4.94	5.20	5.34	5.36	5.33
City of Redmond	6.37	6.52	6.91	7.14	7.11
Sammamish Plateau Water and Sewer District	1.00	1.00	0.42	0.28	0.22
Skyway Water and Sewer District	0.42	0.40	0.43	0.44	0.49
City of Tukwila	<u>2.54</u>	<u>2.59</u>	<u>2.72</u>	<u>2.82</u>	<u>2.84</u>
Total	35.04	36.44	37.17	38.34	37.44

**Each Member Percentage of Total Demand Shares for 2008 through 2012**

<b>Member</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
City of Bellevue	53.80%	54.31%	54.64%	55.89%	55.75%
Covington Water District <sup>(1)</sup>	N/A	0.00	0.00	0.00	0.00
City of Issaquah	2.60	2.58	2.80	2.27	1.56
City of Kirkland	14.10	14.27	14.37	13.98	14.24
City of Redmond	18.20	17.89	18.59	18.62	18.98
Sammamish Plateau Water and Sewer District	2.90	2.74	1.13	0.73	0.57
Skyway Water and Sewer District	1.20	1.10	1.16	1.15	1.30
City of Tukwila	<u>7.30</u>	<u>7.11</u>	<u>7.32</u>	<u>7.36</u>	<u>7.59</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

<sup>(1)</sup> Covington Water District's withdrawal from Cascade has been approved by Cascade's Board, and payment was made to Cascade to complete the withdrawal in December 2012. See "THE MEMBERS."

*Note: Totals may not add due to rounding.*

*Source: Cascade*

**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. Cascade expects the relative CERUs to change over time, with a higher percentage being assigned to faster growing areas. As certain 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.

The following tables reflect CERUs as of December 31 of each year.

**Member CERUs for 2009 through 2013 by Member**

<b>Member</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
City of Bellevue	66,719	66,719	66,553	66,142	65,519
Covington Water District <sup>(1)</sup>	N/A	17,538	17,524	17,276	17,141
City of Issaquah	11,739	11,739	11,271	11,012	10,961
City of Kirkland	17,983	17,982	17,951	17,847	17,721
City of Redmond	31,304	31,267	30,986	30,634	30,303
Sammamish Plateau Water and Sewer District	21,825	21,825	21,455	21,289	21,153
Skyway Water and Sewer District	3,807	3,807	3,801	3,800	3,800
City of Tukwila	<u>8,189</u>	<u>8,189</u>	<u>8,291</u>	<u>8,577</u>	<u>8,567</u>
Total	161,566	179,064	177,829	176,575	175,164

**Each Member's Percentage of Member CERUs for 2008 through 2012**

<b>Member</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
City of Bellevue	41.30%	37.26%	37.43%	37.46%	37.40%
Covington Water District <sup>(1)</sup>	N/A	9.79	9.85	9.78	9.79
City of Issaquah	7.27	6.56	6.34	6.24	6.26
City of Kirkland	11.13	10.04	10.09	10.11	10.12
City of Redmond	19.38	17.46	17.42	17.35	17.30
Sammamish Plateau Water and Sewer District	13.51	12.19	12.06	12.06	12.08
Skyway Water and Sewer District	2.36	2.13	2.14	2.15	2.17
City of Tukwila	<u>5.07</u>	<u>4.57</u>	<u>4.66</u>	<u>4.86</u>	<u>4.89</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

<sup>(1)</sup> Covington Water District's withdrawal from Cascade has been approved by Cascade's Board, and payment was made to Cascade to complete the withdrawal in December 2012. See "THE MEMBERS."

*Note: Totals may not add due to rounding.*

*Source: Cascade*



## Member Charges

Each Member has agreed in the Joint Agreement to pay all Member Charges required to be paid to Cascade by that Member. See “MEMBER COVENANTS UNDER THE JOINT AGREEMENT – Member Charges.” Member Charges are based on Demand Shares, CERUs or growth in CERUs, as described in the Joint Agreement. The following tables show actual Member Charges for each Member for calendars years ended December 31, 2009 through 2012, expected Member Charges for 2013, and the percentages those charges represent of the total Member Charges in the related year.

### Member Charges for 2009 through 2013 by Member

Member	2013	2012	2011	2010	2009
City of Bellevue	\$17,431,756	\$17,101,971	\$15,663,421	\$15,807,148	\$14,600,291
Covington Water District <sup>(1)</sup>	N/A	407,539	257,499	235,847	185,943
City of Issaquah	1,030,990	1,678,591	1,399,898	1,926,144	450,608
City of Kirkland	4,578,078	4,583,025	4,460,470	4,129,032	3,764,070
City of Redmond	6,078,354	6,968,127	6,451,090	6,679,240	6,541,229
Sammamish Plateau Water and Sewer District	1,329,590	2,105,853	1,293,027	954,582	1,468,463
Skyway Water and Sewer District	443,441	717,065	385,290	267,962	255,715
City of Tukwila	<u>2,330,620</u>	<u>2,228,214</u>	<u>2,028,062</u>	<u>1,915,597</u>	<u>1,812,199</u>
Total	\$33,222,829	\$35,790,385	\$31,938,756	\$31,915,550	\$29,078,518

### Each Member’s Percentage of Total Member Charges for 2009 through 2013

Member	2013	2012	2011	2010	2009
City of Bellevue	52.47%	47.78%	49.04%	49.53%	50.21%
Covington Water District <sup>(1)</sup>	N/A	1.14	0.81	0.74	0.64
City of Issaquah	3.10	4.69	4.38	6.04	1.55
City of Kirkland	13.78	12.81	13.97	12.94	12.94
City of Redmond	18.30	19.47	20.20	20.93	22.50
Sammamish Plateau Water and Sewer District	4.00	5.88	4.05	2.99	5.05
Skyway Water and Sewer District	1.33	2.00	1.21	0.84	0.88
City of Tukwila	<u>7.02</u>	<u>6.23</u>	<u>6.35</u>	<u>6.00</u>	<u>6.23</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

<sup>(1)</sup> Covington Water District’s withdrawal from Cascade has been approved by Cascade’s Board, and payment was made to Cascade to complete the withdrawal in December 2012. See “THE MEMBERS.” A portion of Covington’s withdrawal payment of approximately \$6 million will be allocated to meet their 2013 assigned member charges.

Note: Totals may not add due to rounding.

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 each governed by a city council and mayor, under one of the various forms of city government specified by State law. Each of the two current Members that are water-sewer districts is 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.

<b>Member and Other Regional Water Rates - 2012</b>	
	Monthly Water Charge
<b>Cascade Members</b>	
City of Bellevue	\$44.40
City of Issaquah	42.96
City of Kirkland	40.88
City of Redmond <sup>(1)</sup>	37.65
Sammamish Plateau Water and Sewer District	32.27
Skyway Water and Sewer District	49.51
City of Tukwila	38.90
<b>Other Regional Cities or Districts</b>	
City of Everett	\$42.72
City of Mercer Island	34.99
Northshore Utility District	42.50
City of Renton	42.91
City of Seattle	60.70
City of Tacoma	32.15
Woodinville Water District	47.80

<sup>(1)</sup> 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 \$60.69.

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. Bellevue was incorporated in 1953 and encompasses more than 31 square miles, with a population of 124,600, estimated as of April 1, 2012 by the State Office of Financial Management (“OFM”). See Appendix A - “City of Bellevue.”

*City of Issaquah.* The City of Issaquah (“Issaquah”) is located in the central portion of King County, approximately 15 miles southeast of Seattle. Issaquah was incorporated in 1892 and encompasses approximately 11.4 square miles. Issaquah has a population of 31,150, estimated as of April 1, 2012, 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 incorporated in 1905, and encompasses approximately 18 square miles. Kirkland has a population of 81,480, estimated as of April 1, 2012 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 incorporated in 1912 and encompasses approximately 17 square miles. Redmond has a population of 55,360, estimated as of April 1, 2012 by OFM. See Appendix A - “City of Redmond.”

*Sammamish Plateau Water and Sewer District.* Sammamish Plateau Water and Sewer District (“Sammamish”) provides water and wastewater service to an area consisting primarily of rural and suburban residential property in the central portion of King County. Sammamish was formed in 1948 and provides water and wastewater service to all of the City of Sammamish, portions of Issaquah and Redmond, and portions of unincorporated King County. Sammamish serves a population of 62,800, estimated as of April 1, 2012 by Sammamish based on the number of equivalent residential units and average household size. See Appendix A - “Sammamish Plateau Water and Sewer District.”

*Skyway Water and Sewer District.* Skyway Water and Sewer District (“Skyway”) is located in unincorporated King County, southwest of Lake Washington. Skyway was formed in 1986 through the merger of five separate water and/or sewer districts, and encompasses an area of approximately three square miles. Skyway provides water and wastewater service to an area consisting primarily of suburban residential property just south of Seattle. Skyway has a population of 14,000, estimated as of April 1, 2012 by Skyway. 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 encompasses approximately 9.7 square miles. Tukwila has a population of 19,080, estimated as of April 1, 2012 by OFM. See Appendix A - “City of Tukwila.”

### GENERAL AND ECONOMIC INFORMATION

Cascade is located in King County, which encompasses 2,128 square miles, ranking eleventh in geographical size of the State’s thirty-nine counties. King County is the largest by population in the State and is the financial, economic and industrial center of the Pacific Northwest Region. Nearly 30 percent of the State’s population resides in King County, and of King County’s population, 32 percent resides in the City of Seattle. King County, together with all of Snohomish County (located to its north), and Island County (northwest of King County), constitutes the Seattle Primary Metropolitan Statistical Area (the “Seattle PMSA”) as defined by the State Employment Security Department. King County makes up approximately 82 percent of the population of the Seattle PMSA.

King County has 39 incorporated cities and towns. Historical population figures for the State and King County are shown below.

<u>Year</u>	<u>Washington</u>	<u>King County (Total)</u>	<u>Unincorporated King County <sup>(1)</sup></u>
2012	6,817,770	1,957,000	255,720
2011	6,767,900	1,942,600	285,265
2010	6,724,540	1,913,249	325,000
2009	6,672,159	1,909,205	329,060
2008	6,587,600	1,884,200	341,150

<sup>(1)</sup> Over the past two years, several unincorporated areas of King County have been annexed into cities within King County.

Source: State Office of Financial Management and 2010 U.S. Census.

### Economic Indicators

Economic indicators for King County are provided as follows:

#### Taxable Retail Sales and Median Household Income

<u>Year</u>	<u>Taxable Retail Sales King County (Total)</u>	<u>King County Median Family Income</u>
2011	\$40,403,613,957	\$66,294
2010	38,789,860,543	65,383
2009	39,149,685,710	65,877
2008	45,158,574,084	67,877
2007	47,178,009,959	65,489

<sup>(1)</sup> Median Family Income for 2011 is the most recent information available and is projected.

Sources: Taxable Retail Sales - State Department of Revenue website  
Median Family Income – State Office of Financial Management

#### King County (Total) Residential Building Permits

<u>Year</u>	<u>Number of Permits</u>	<u>Value</u>
2011	2,736	\$1,155,094,272
2010	2,692	1,010,942,012
2009	2,110	663,664,817
2008	3,576	1,874,071,413
2007	6,154	2,750,229,152

Source: U.S. Census Bureau.

## Civilian Labor Force and Employment

	Sept. 2012	Sept. 2011	Annual Average				
			2011	2010	2009	2008	2007
<b>Seattle PMSA</b>							
Civilian Labor Force	1,511,530	1,497,680	1,491,330	1,494,000	1,499,360	1,465,600	1,433,160
Employment	1,397,330	1,374,960	1,365,750	1,352,210	1,364,950	1,397,320	1,379,770
Unemployment	114,200	122,720	125,580	141,790	134,410	68,280	53,390
Unemployment Rate	7.6%	8.2%	8.4%	9.5%	9.0%	4.7%	3.7%
<b>Washington State</b>							
Civilian Labor Force	3,495,470	3,483,490	3,485,380	3,515,460	3,523,460	3,472,760	3,387,290
Employment	3,199,100	3,168,380	3,165,610	3,166,960	3,194,230	3,283,310	3,233,480
Unemployment	296,370	315,110	319,770	348,500	329,230	189,450	153,810
Unemployment Rate	8.5%	9.0%	9.2%	9.9%	9.3%	5.5%	4.5%

Source: State Employment Security Department.

## Major Employers in the Puget Sound Area

Employer	Number of Full-Time Employees
The Boeing Company <sup>(1)</sup>	87,023
Joint Base Lewis-McChord	51,000
Navy Region Northwest	41,300
Microsoft	40,300
University of Washington	27,900
Providence Health and Services	19,100
Wal-Mart Stores, Inc.	18,000
Fred Meyer Stores	13,500
King County Government	13,400
U.S. Postal Service	12,400
City of Seattle	10,600
MultiCare Health System	9,000
Franciscan Health System	8,200
Costco	8,200
Group Health Cooperative	8,100

<sup>(1)</sup> Source: The Boeing Company, as of October 2012. Includes all employees in the State.

Source: Puget Sound Business Journal's 2012 Book of Lists unless otherwise specified.

## LEGAL INFORMATION

### Absence of Litigation Affecting the Bonds or the Joint Agreement

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 taken with respect to the issuance or sale thereof, the collection, pledge or application of the Net Revenue in payment of the Bonds, the validity of the Joint Agreement or the existence or powers of Cascade insofar as they relate to the authorization, sale and issuance of the Bonds or such collection, pledge or application of the Net Revenue.

### Pending Litigation

As of the date of this Official Statement, there is no proceeding, pending or threatened litigation against Cascade.

### 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 opinion of Bond Counsel with respect to the Bonds is attached as Appendix D. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an

expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result.

Certain legal matters will be passed upon for Cascade by its General Counsel, Van Ness Feldman GordonDerr LLP of Seattle, Washington.

### **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 the Financial Advisors and Bond Counsel are contingent upon the sale of the Bonds. Bond Counsel is serving or has served as bond counsel and other special counsel to Bellevue, Issaquah, Kirkland, Redmond, Tukwila, Covington Water District, Seattle Public Utilities, Skyway and Tacoma Water. A. Dashen and Associates is serving or has served as financial advisor to Covington Water District and Tacoma Water. SDM Advisors, Inc. is serving or has served as financial advisor to Kirkland, Redmond and Tacoma Water.

### **Enforceability of Remedies**

The remedies available to the Registered Owners upon an Event of Default under the 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 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.

## **TAX MATTERS**

### **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 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 with 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 interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 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 under chapter 39.106 RCW 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 and 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 receipts 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 prospective purchasers of the Bonds may wish to consult their own tax advisors.

*Potential Future Federal Tax Law Changes.* From time to time, there are legislative proposals in Congress which, if enacted, could require changes in the description of federal tax matters relating to the Bonds set forth above or adversely affect the market value of the Bonds. It cannot be predicted whether future legislation may be proposed or enacted that would affect the federal tax treatment of interest received on the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any proposed or pending legislation that would change the federal tax treatment of interest on the Bonds.

*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 (currently, a year ending on December 31), commencing with the Annual Disclosure Report for the 2012 fiscal year, and to provide notices of the occurrence of certain listed events. 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 and notices of listed events are to be filed with the MSRB. The specific nature of the information to be contained in the Annual Disclosure Report and in notices of listed events is set forth in Cascade's Continuing Disclosure Certificate, the proposed form of which is included in this Official Statement as Appendix E.

Cascade filed its annual financial statements and operating data on time for the years 2007 through 2009, and 2011. Cascade filed its operating data on time for the year 2010, but failed to file its audited financial statements for 2010 when they became available, due to an error in posting to EMMA. Cascade filed its annual financial statements and operating data on time for the year 2011. Cascade filed annual financial information for Required Members on time for years 2007 through 2011. Cascade failed to file operating data for Required Members for years 2007 through 2011, and has now filed operating data for Required Members for those years. Cascade has now filed all required information to be in compliance with its undertaking and believes it has established a system to ensure timely filing in the future.

## **INITIATIVE AND REFERENDUM**

Under the State Constitution, the voters of the State have the ability to initiate legislation through the power of initiative and referendum. Initiatives and referenda are submitted to the voters upon receipt of petitions signed by at least eight percent (initiatives) and four percent (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Qualifying initiatives to the voters are submitted at the next state general election and must be approved by a majority of voters to be enacted into law. Initiatives to the Legislature are submitted to the Legislature at its regular session each January. Once submitted, the Legislature must either adopt the initiative as proposed, reject the proposed initiative (in which case the initiative must be placed on the ballot at the next state general election) or approve an amended version of the proposed initiative (in which case both the amended version and the original proposal must be placed on the next state general election ballot). Any initiative approved by a majority of voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature; after two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

Initiative petitions may be filed from time to time. Cascade cannot predict whether any initiatives affecting Cascade will qualify to be submitted to the people for vote or, if submitted, will be approved.

## **OTHER BOND INFORMATION**

### **Ratings**

Moody's Investors Service and Standard & Poor's Rating Services have assigned their municipal bond ratings of Aa2 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.

### **Financial Advisor**

SDM Advisors Inc. and A. Dashen & Associates (the "Financial Advisors") have served as co-Financial Advisors to Cascade relative to the preparation of the Bonds for sale, timing of the sale and other factors relating to the Bonds. The Financial Advisors have not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Bonds. The Financial Advisors makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The Financial Advisors are independent financial advisory firms and are not engaged in the business of underwriting, marketing, trading or distributing municipal securities. A portion of the compensation of the Financial Advisors is contingent upon the sale of the Bonds and delivery thereof to the Underwriter.

**Underwriting**

The Bonds are being purchased by J.P. Morgan Securities, Inc. (the “Underwriter”) at a price of \$48,057,077.12. The Bonds will be re-offered at a price of \$48,459,037.65. The Underwriter has represented that the Bonds will be reoffered at the prices or yields set forth on the inside cover of this Official Statement. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the initial offering prices set forth on the cover hereof, and such initial offering prices may be changed from time to time by the Underwriter. After the initial public offering, the public offering prices may be varied from time to time.

**Summaries, Opinions and Estimates Qualified**

The references, excerpts and summaries contained herein of the Bond Resolution, the Joint Agreement 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. The Bond Resolution is included as Appendix B. 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 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.



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

**City of Bellevue**

**Payments to Cascade**

The City of Bellevue's ("Bellevue") budgeted payments to Cascade for 2012 total \$17,101,971, as follows:

Administration Dues	\$ 1,018,414
Demand Share Charges	14,570,236
RCFC	996,830
Conservation	<u>516,491</u>
Total	\$17,101,971

*Note: Totals may not add due to rounding.*

**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 124,600, as of April 1, 2012, according to the State's Office of Financial Management. Bellevue is organized as a code city, with a council manager form of government, with a seven member elected 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 elected by council members to serve in that capacity. The city council has authority to set rates and charges for water service.

**Bellevue's Water Utility**

Bellevue's water utility service area covers 37.8 square miles. Bellevue's water utility owns and operates 616 miles of water distribution and transmission mains, 27 reservoirs with over 42.5 million gallons of storage, and 22 pump stations. Bellevue's 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.

Bellevue's water utility purchases all of its water from Cascade, and has no other supply or treatment facilities. In 2011, Bellevue's water utility sold approximately 4.75 million gallons of water to approximately 37,175 water accounts. The largest customer of Bellevue's water utility represents less than 1.2 percent of the total water revenue, and the top ten customers represent less than 5.74 percent of the total water revenue.

**Outstanding Debt**

Bellevue's water utility is a component of Bellevue's combined water, sewer, and storm and surface water utility (the "waterworks utility"). Only the revenues of Bellevue's water utility are obligated under the Joint Agreement. The revenues of the sewer and storm and surface water utilities are not obligated under the Joint Agreement. As of July 1, 2012, the waterworks utility had \$67,036 of loans from the State Public Works Trust Fund. Bellevue has no water, sewer or storm and surface water revenue bonds outstanding. Bellevue does not anticipate incurring additional debt in the next 12 months.

**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.

## Historical Operating Results of Bellevue's Water Utility

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

<b>Statement of Revenues, Expenses and Changes in Fund Net Assets for Water Utility Fund</b>					
<b>Fiscal Year Ending December 31</b>					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>					
Service charges and fees	\$ 36,007,000	\$ 34,659,000	\$ 33,061,000	\$ 29,398,000	\$ 28,770,000
Other	<u>1,247,000</u>	<u>986,000</u>	<u>899,000</u>	<u>2,140,000</u>	<u>3,073,000</u>
<b>Total operating revenues</b>	<b>\$ 37,254,000</b>	<b>\$ 35,645,000</b>	<b>\$ 33,960,000</b>	<b>\$ 31,538,000</b>	<b>\$ 31,843,000</b>
<b>Operating expenses</b>					
Administrative and general	\$ 10,316,000	\$ 9,462,000	\$ 8,005,000	\$ 8,803,000	\$ 9,612,000
Maintenance and operations	21,011,000	21,403,000	19,139,000	16,182,000	16,517,000
Depreciation	<u>3,510,000</u>	<u>2,896,000</u>	<u>2,878,000</u>	<u>2,840,000</u>	<u>3,007,000</u>
<b>Total operating expenses</b>	<b>\$ 34,837,000</b>	<b>\$ 33,761,000</b>	<b>\$ 30,022,000</b>	<b>\$ 27,825,000</b>	<b>\$ 29,136,000</b>
<b>Operating Income</b>	<b>\$ 2,417,000</b>	<b>\$ 1,884,000</b>	<b>\$ 3,938,000</b>	<b>\$ 3,713,000</b>	<b>\$ 2,707,000</b>
<b>Non-operating revenues (expenses)</b>					
Interest income	\$ 452,000	\$ 402,000	\$ 608,000	\$ 1,037,000	\$ 1,483,000
Net change in fair value of Investments	55,000	(31,000)	(195,000)	112,000	8,000
Interest expense	(1,000)	(36,000)	(52,000)	(62,000)	(71,000)
Rental Income	360,000	340,000	325,000	269,000	346,000
Gain (loss) on disposal of fixed assets	-	-	2,000	98,000	-
Other non-operating revenues	<u>72,000</u>	<u>20,000</u>	<u>47,000</u>	<u>318,000</u>	<u>760,000</u>
<b>Total non-operating revenues (expenses)</b>	<b>\$ 938,000</b>	<b>\$ 695,000</b>	<b>\$ 735,000</b>	<b>\$ 1,772,000</b>	<b>\$ 2,526,000</b>
<b>Income Before Contributions and Transfers</b>	<b>\$ 3,355,000</b>	<b>\$ 2,579,000</b>	<b>\$ 4,673,000</b>	<b>\$ 5,485,000</b>	<b>\$ 5,233,000</b>
<b>Special items, contributions and transfers</b>					
Transfers in	\$ 94,000	\$ 214,000	\$ 718,000	\$ 5,000	\$ -
Transfers out	(43,000)	(4,000)	(608,000)	(175,000)	(7,000)
Capital contributed from external sources	<u>1,973,000</u>	<u>4,751,000</u>	<u>2,349,000</u>	<u>3,416,000</u>	<u>2,600,000</u>
<b>Total special items, contributions and transfers</b>	<b>\$ 2,024,000</b>	<b>\$ 4,961,000</b>	<b>\$ 2,459,000</b>	<b>\$ 3,246,000</b>	<b>\$ 2,593,000</b>
<b>Net Income/Change In Net Assets</b>	<b>\$ 5,379,000</b>	<b>\$ 7,540,000</b>	<b>\$ 7,132,000</b>	<b>\$ 8,731,000</b>	<b>\$ 7,826,000</b>
<b>Total Net Assets – Beginning Of Year</b>	<b>\$148,609,000</b>	<b>\$141,069,000</b>	<b>\$133,937,000</b>	<b>\$123,249,000</b>	<b>\$115,423,000</b>
<b>Prior period adjustment</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,957,000</u>	<u>-</u>
<b>Total Net Assets – End Of Year</b>	<b>\$153,988,000</b>	<b>\$148,609,000</b>	<b>\$141,069,000</b>	<b>\$133,937,000</b>	<b>\$123,249,000</b>

*Note: Totals may not add due to rounding.*

*Source: City of Bellevue*

## City of Issaquah

### Payments to Cascade

The City of Issaquah's ("Issaquah") budgeted payments to Cascade for 2012 total \$1,678,591, as follows:

Administration Dues	\$ 174,395
Demand Share Charges	665,136
RCFC	0
Conservation	<u>88,435</u>
Total	\$1,678,591

*Note: Totals may not add due to rounding.*

### Issaquah

Issaquah is located in the central portion of King County, approximately 15 miles southeast of the City of Seattle. Issaquah was incorporated in 1892 and encompasses approximately 11.4 square miles. Issaquah has an estimated population of 31,150, as of April 1, 2012, according to the State's Office of Financial Management. Issaquah is organized as a code city, governed by a mayor-council form of government, with a seven member elected council. Issaquah's council members are elected to overlapping 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. The city council has authority to set rates and charges for water service.

### Issaquah's Water Utility

Issaquah operates its water utility as a separate enterprise fund. 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. 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 approximately 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.

In addition to its independent well supply, Issaquah contracts and purchases water supply from Cascade. In 2011, Issaquah's water utility sold approximately 935,000 CCF's of water to approximately 7,500 accounts. The largest customer of the water utility represents approximately 3 percent of the total water revenue, and the top ten customers represent approximately \$414,500 of total water revenue.

### Outstanding Debt

As of July 1, 2012, the water utility had a total of \$5,765,000 of outstanding water revenue bonds. The bond ordinance for the water utility currently has a debt service coverage requirement of 125 percent. Issaquah does not anticipate incurring additional debt in the next 12 months.

### 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.

## Historical Operating Results

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

### Statement of Revenues, Expenditures and Changes in Fund Net Assets for Water Utility Fund

#### Fiscal Year Ending December 31

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>					
Charges for Services	\$ 6,872,000	\$ 5,938,000	\$ 6,631,000	\$ 5,501,000	\$ 5,856,000
Total Operating Revenues	\$ 6,872,000	\$ 5,938,000	\$ 6,631,000	\$ 5,501,000	\$ 5,856,000
<b>Operating Expenses:</b>					
Maintenance & Operations	\$ 4,980,000	\$ 3,879,000	\$ 3,575,000	\$ 3,974,000	\$ 3,987,000
Administrative & General	-	210,000	206,000	170,000	186,000
Depreciation	1,712,000	1,645,000	1,588,000	1,509,000	1,464,000
Total Operating Expenses	\$ 6,692,000	\$ 5,734,000	\$ 5,369,000	\$ 5,653,000	\$ 5,637,000
<b>Operating Income (Loss)</b>	\$ 180,000	\$ 204,000	\$ 1,262,000	\$ (152,000)	\$ 219,000
<b>Non-operating Revenues (Expenses):</b>					
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Earnings	31,000	4,000	8,000	123,000	305,000
Interest Expense	2,000	(391,000)	(414,000)	(433,000)	(451,000)
Debt Issuance Costs	-	-	(74,000)	-	(6,000)
Gain (loss) on capital asset disposition	-	-	-	-	-
Other Non-operating Revenues (Expenses)	(454,000)	-	-	(6,000)	3,000
Total Non-operating Revenues (Expenses)	\$ (421,000)	\$ (387,000)	\$ (480,000)	\$ (316,006)	\$ (149,000)
<b>Income before Contributions &amp; Transfers</b>	\$ (241,000)	\$ (183,000)	\$ 782,000	\$ (468,000)	\$ 70,000
Capital Grants	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Contributions	8,000	1,490,000	106,000	1,295,000	1,081,000
Developer donated assets	228,000	259,000	679,000	-	-
Transfers In	-	-	-	-	2,028,000
Transfers Out	(144,000)	(148,000)	(138,000)	(177,000)	(2,195,000)
Total capital contributions	\$ 92,000	\$ 1,601,000	\$ 647,000	\$ 1,118,000	\$ 914,000
<b>Change in net assets</b>	\$ (149,000)	\$ 1,418,000	\$ 1,429,000	\$ 650,000	\$ 984,000
<b>Total net assets, January 1</b>	\$57,177,000	\$55,759,000	\$54,330,000	\$53,680,000	\$52,696,000
Prior Period Adjustment	(7,533,000)	-	-	-	-
<b>Total net assets, December 31</b>	\$49,495,000	\$57,177,000	\$55,759,000	\$54,330,000	\$53,680,000

Source: City of Issaquah

## City of Kirkland

### Payments to Cascade

The City of Kirkland's ("Kirkland") budgeted payments to Cascade for 2012 total \$4,583,025, as follows:

Administration Dues	\$ 277,784
Demand Share Charges	3,864,112
RCFC	300,250
Conservation	<u>140,879</u>
Total	\$4,583,025

### Kirkland

Kirkland is located in the eastern portion of King County, along the eastern shore of Lake Washington, approximately twelve miles northeast of the City of Seattle. Kirkland was incorporated in 1905, and encompasses approximately 18 square miles. Kirkland has an estimated population of 81,480, as of April 1, 2012, according to the State's Office of Financial Management. Kirkland is organized as a code city, with a council manager form of government, with a seven member elected council. Kirkland's council members are elected to overlapping four-year terms. The mayor is one of the seven council members and is elected by council members to serve in that capacity. The city council has authority to set rates and charges for water service.

On June 1, 2011 Kirkland completed annexation of areas in unincorporated King County adjacent to the previous northern city limit, which areas contains a mix of residential, commercial and some light industrial areas, with approximately 11,950 housing units and 460 businesses. As a result of the annexation, the population of the City increased by approximately 31,800 and the land area was expanded by approximately 7 square miles, which is included in the figures above. Water and sewer services in the areas that were annexed will continue to be provided by the Northshore Utility District ("Northshore") and the Woodinville Water District ("Woodinville") within their respective service areas. Kirkland has an existing franchise agreement with each district; the agreement with Northshore expires December 31, 2013 and the agreement with Woodinville expires December 31, 2018. Each of the agreements contain automatic 5 year extensions unless either party gives the other written notice of nonrenewal. In the event of nonrenewal, the franchise terminates five years after the most recent renewal date.

### The Water Division

Kirkland's 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 164 miles of water mains, 1,836 fire hydrants, three pump stations and 34 pressure control stations.

Kirkland's water division purchases all of its water, and has no other supply or treatment facilities. In 2011, the water utility sold approximately 3.3 million gallons of water per day to approximately 12,153 retail accounts within Kirkland and in small portions of the city of Redmond and city of Bellevue service areas. The largest customer of the water utility represents approximately 0.58 percent of the total water revenue and the top ten accounts represent approximately 3.07 percent of the total water revenue.

### Outstanding Debt

Kirkland has a combined utility system for purposes of financing, which includes a water division and a sewer division. Only the revenues of the water division are obligated under the Joint Agreement. The revenues of the sewer division are not obligated under the Joint Agreement. As of July 1, 2012, the combined system had \$935,000 of outstanding water and sewer revenue bonds, and \$2,132,322 of loans from the State's Public Works Trust Fund. The bond ordinance for the combined utility currently has a debt service coverage requirement of 125 percent of annual debt. Kirkland received an award letter for a \$4,037,600 Public Works Trust Fund Loan for replacement of water and sewer infrastructure, with funds expected to be received in 2013.

### 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.

## Historical Operating Results

The following table shows historical operating results for Kirkland's combined water and sewer systems. Only the revenues from the water system are obligated under the Joint Agreement. For the year-ended December 31, 2011, Kirkland's water operating revenue totaled \$9,235,811, or 47 percent of the total operating revenues for the combined water/sewer utility

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

	<b>Fiscal Year Ending December 31</b>				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating Revenue</b>					
Charges for Services	\$ 19,380,946	\$ 18,212,400	\$ 18,116,758	\$17,875,957	\$16,640,746
Miscellaneous Revenues	<u>355,260</u>	<u>174,662</u>	<u>374,305</u>	<u>293,709</u>	<u>99,250</u>
Total Operating Revenues	\$ 19,736,206	\$ 18,387,062	\$ 18,491,063	\$18,169,666	\$16,739,996
Administrative and General	\$ 2,766,722	\$ 2,556,566	\$ 2,593,394	\$ 2,247,727	\$ 2,066,270
Maintenance and Operations	12,703,794	11,490,173	11,213,657	10,433,719	10,158,684
Taxes	817,454	532,590	511,541	539,310	516,333
Depreciation	<u>2,378,109</u>	<u>2,328,940</u>	<u>2,254,737</u>	<u>2,146,712</u>	<u>2,004,010</u>
Total Operating Expenses	\$ 18,666,079	\$ 16,908,269	\$ 16,573,329	\$15,367,468	\$14,745,297
Operating Income (Loss)	\$ 1,070,127	\$ 1,478,793	\$ 1,917,734	\$ 2,802,198	\$ 1,994,699
<b>Non-Operating Revenue (Expenses)</b>					
Interest and Investment Revenue	\$ 179,206	\$ 207,848	\$ 408,529	\$ 872,144	\$ 949,415
Grant Income	112,832	-	3,285	-	-
Interest Expense	(107,227)	(142,694)	(174,973)	(206,533)	(236,663)
Amortization of Debt Issuance Costs	(47,640)	(51,216)	(60,568)	(70,081)	(56,123)
Contributed Capital	-	-	-	3,692,062	2,992,911
Operating Transfers	-	-	-	(609,801)	(161,500)
Other Non-Operating Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,605</u>
Total Non-Operating Rev./Exp.	\$ 137,171	\$ 13,938	\$ 176,273	\$ 3,677,791	\$ 3,511,645
<b>Income Before Contributions and Transfers</b>	\$ 1,207,298	\$ 1,492,731	\$ 2,094,007	\$ 6,479,989	\$ 5,506,344
<b>Capital Contributions</b>					
Contributions	\$ 933,222	\$ 1,629,426	\$ 2,540,947	\$ -	\$ -
Transfers In	-	-	-	-	-
Transfers Out	<u>(143,000)</u>	<u>(115,466)</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	\$ 1,997,520	\$ 3,006,691	\$ 4,534,954	\$ 6,479,989	\$ 5,506,344
<b>Total net assets, January 1</b>	\$ 103,869,665	\$100,862,974	\$ 96,328,020	\$89,848,030	\$82,260,086
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,081,600</u>
Total Net Assets - January 1 (Restated)	<u>-</u>	<u>-</u>	<u>96,328,020</u>	<u>-</u>	<u>84,341,686</u>
<b>Total net assets, December 31</b>	\$ 105,867,185	\$103,869,665	\$100,862,974	\$96,328,019	\$89,848,030

Note: Totals may not add due to rounding.

Source: City of Kirkland

## City of Redmond

### Payments to Cascade

The City of Redmond's ("Redmond") budgeted payments to Cascade for 2012 total \$6,968,127, as follows:

Administration Dues	\$ 474,696
Demand Share Charges	4,751,438
RCFC	1,501,250
Conservation	<u>240,743</u>
Total	\$6,968,127

*Note: Totals may not add due to rounding.*

### Redmond

Redmond is located in the eastern portion of King County, approximately 15 miles east of the City of Seattle. Redmond was incorporated in 1912 and encompasses approximately 17 square miles. Redmond has an estimated population of 55,360, as of April 1, 2012, according to the State's Office of Financial Management. Redmond is organized as a code city, governed by a mayor –council form of government, with a seven member elected council. Redmond's council members are 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. The city council has authority to set rates and charges for water service.

### Redmond's Water Utility

Redmond has water right certificates in connection with its water system facilities that are further described below to withdraw 5,229 acre-feet of groundwater annually with an allowed maximum instantaneous withdrawal of 3,680 gallons per minute. Redmond's water transmission and distribution system includes approximately 324 miles of pipe 4 inch and larger. Redmond has 24 pressure zones, seven reservoirs totaling 22.8 million gallons, three additional shared reservoirs totaling 9.2 million gallons, five booster pump stations, four additional shared 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 approximately 65 percent of its water from Cascade and 35 percent from its own wells. In 2011, Redmond sold approximately 2.13 billion gallons of water to approximately 15,400 accounts. The largest customer represents approximately 9 percent of the total water revenue and the top ten accounts represent approximately 16 percent of the total water revenue. Redmond's service area includes an area outside of the city limits, in unincorporated King County, known as Novelty Hill, which includes a population of approximately 7,411.

Total operating revenues include water and sewer sales, Metro sewage treatment fees, water and sewer engineering fees, hydrant fees, and regional capital facility charges. In 2011, 48 percent of total operating revenues were directly attributable to water.

### Outstanding Debt

Redmond operates two water/wastewater utilities – one within the city (the "city system") and one for the Novelty Hill service area. Redmond maintains separate fund accounting for the two systems (the "Redmond City Water/Wastewater Fund" and the "Novelty Hill Water/Wastewater Fund," respectively). Both of these utilities' operations are self-supported through user charges. Only the revenues of the water systems (and not wastewater systems) are obligated under the Joint Agreement. As of July 1, 2012, Redmond had \$9,985,000 in city system revenue bonds outstanding. The bond ordinance for the city system revenue bonds currently has a debt service coverage requirement of 120 percent. Redmond does not anticipate incurring additional utility debt in the next 12 months.

### 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.

## Historical Operating Results

The following tables show historical operating results for Redmond's City Water/Wastewater Fund and Novelty Hill Water/Wastewater Fund. In calendar year 2011, water sales accounted for approximately 47 percent of the total revenues of the combined water/wastewater systems. Only the revenue from the water systems is obligated under the Joint Agreement.

### Statement of Revenues, Expenses, and Changes in Fund Net Assets

#### City Water/Wastewater Fund Fiscal Year Ending December 31

	2011	2010	2009	2008	2007
<b>Operating Revenues:</b>					
Charges for services	\$ 16,949,645	\$ 15,497,332	\$ 16,624,073	\$ 15,955,407	\$ 17,147,574
Metro service	<u>11,027,587</u>	<u>9,953,837</u>	<u>9,952,505</u>	<u>9,004,176</u>	<u>8,979,837</u>
Total Operating Revenues	\$ 27,977,232	\$ 25,451,169	\$ 26,576,578	\$ 24,959,583	\$ 26,127,411
<b>Operating Expenses:</b>					
Administrative and general	\$ 4,504,502	\$ 4,256,796	\$ 4,512,783	\$ 4,679,909	\$ 3,886,570
Purchased water	4,717,588	4,260,094	4,804,012	6,435,471	4,092,011
Metro service	11,098,387	9,773,416	10,103,898	8,956,916	8,792,731
Maintenance and operations	3,053,316	2,416,167	2,731,006	2,662,972	2,594,531
Taxes	574,188	569,688	541,556	555,037	552,646
Depreciation and amortization	<u>3,571,416</u>	<u>3,474,911</u>	<u>3,496,186</u>	<u>3,208,262</u>	<u>2,938,491</u>
Total Operating Expenses	\$ 27,519,397	\$ 24,751,072	\$ 26,189,441	\$ 26,498,567	\$ 22,856,980
<b>Operating Income (Loss) <sup>(1)</sup></b>	\$ 457,835	\$ 700,097	\$ 387,137	\$ (1,538,984)	\$ 3,270,431
<b>Non-operating Revenues (Expenses):</b>					
Interest and investment revenue	\$ 124,903	\$ 173,070	\$ 193,948	\$ 370,859	\$ 606,643
Grants	16,394	-	-	-	23,505
Interest expense	(463,122)	(432,404)	(303,972)	(44,005)	(5,081)
Amortization of Debt Issue Costs	(7,689)	(7,689)	(7,689)	(64)	-
Miscellaneous	<u>82,052</u>	<u>46,550</u>	<u>119,348</u>	<u>97,782</u>	<u>90,784</u>
Total non-operating Revenues (Expenses)	\$ (247,462)	\$ (220,473)	\$ 1,635	\$ 424,572	\$ 715,851
<b>Income before contributions and transfers</b>	\$ 210,373	\$ 479,624	\$ 388,772	\$ (1,114,412)	\$ 3,986,282
Capital contributions	\$ 3,170,605	\$ 3,507,295	\$ 3,425,318	\$ 4,313,997	\$ 12,045,105
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	\$ 3,380,978	\$ 3,986,919	\$ 3,814,090	\$ 3,199,585	\$ 16,031,387
<b>Total net assets - beginning</b>	\$144,723,506	\$140,736,587	\$136,922,497	\$133,722,912	\$117,691,525
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total net assets ending</b>	\$148,104,484	\$144,723,506	\$140,736,587	\$136,922,497	\$133,722,912

<sup>(1)</sup> The loss in 2008 was primarily the result of the following factors: in 2007, Redmond eliminated several meters and received a large credit from Cascade in connection with such action (which contributed to the unusually large positive margin reflected in 2007 results). When the meters were reinstalled in 2008, the credit was reversed and Redmond realized a corresponding large expense. In addition, commencing in 2008, in accordance with GASB 51 and FASB 71, the City stopped including comprehensive plan costs (as an intangible) in its capital budget and commenced reflecting such costs as operating expenses. Finally, slowed growth impacted anticipated development review fees and utility rate revenues.

Source: The City of Redmond



**Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Novelty Hill Water/Wastewater Fund**

**For the Year Ended December 31**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating Revenues:</b>					
Charges for services	\$ 4,342,207	\$ 4,105,828	\$ 3,643,243	\$ 4,126,378	\$ 4,632,173
Metro service	<u>1,507,711</u>	<u>1,255,898</u>	<u>1,185,294</u>	<u>971,616</u>	<u>893,120</u>
<b>Total Operating Revenues</b>	<b>\$ 5,849,918</b>	<b>\$ 5,361,726</b>	<b>\$ 4,828,537</b>	<b>\$ 5,097,994</b>	<b>\$ 5,525,293</b>
<b>Operating Expenses:</b>					
Administrative and general	\$ 494,859	\$ 655,193	\$ 663,573	\$ 717,079	\$ 534,070
Purchased water	1,793,026	1,968,136	1,467,695	2,507,659	2,545,014
Metro service	1,462,050	1,204,473	1,133,869	929,155	849,386
Maintenance and operations	567,389	454,379	465,028	548,353	423,978
Taxes	134,927	114,120	90,914	100,270	110,983
Depreciation and amortization	<u>1,299,684</u>	<u>1,145,876</u>	<u>1,141,731</u>	<u>1,105,549</u>	<u>1,002,211</u>
<b>Total Operating Expenses</b>	<b>\$ 5,751,935</b>	<b>\$ 5,542,177</b>	<b>\$ 4,962,810</b>	<b>\$ 5,908,065</b>	<b>\$ 5,465,642</b>
<b>Operating Income (Loss)</b>	<b>\$ 97,983</b>	<b>\$ (180,451)</b>	<b>\$ (134,273)</b>	<b>\$ (810,071)</b>	<b>\$ 59,651</b>
<b>Non-operating Revenues (Expenses):</b>					
Interest and investment revenue	\$ 98,309	\$ 104,268	\$ 93,131	\$ 318,863	\$ 356,520
Miscellaneous	<u>60,611</u>	<u>58,282</u>	<u>55,729</u>	<u>60,679</u>	<u>37,074</u>
<b>Total non-operating Revenues (Expenses)</b>	<b>\$ 158,920</b>	<b>\$ 162,550</b>	<b>\$ 148,860</b>	<b>\$ 379,542</b>	<b>\$ 393,594</b>
<b>Income before contributions and transfers</b>	<b>\$ 256,903</b>	<b>\$ (17,901)</b>	<b>\$ 14,587</b>	<b>\$ (430,529)</b>	<b>\$ 453,245</b>
Capital contributions	\$ 1,395,025	\$ 1,082,944	\$ 1,062,211	\$ 8,134,129	\$ 4,182,086
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	<b>\$ 1,651,928</b>	<b>\$ 1,065,043</b>	<b>\$ 1,076,798</b>	<b>\$ 7,703,600</b>	<b>\$ 4,635,331</b>
<b>Total net assets - beginning</b>	<b>\$72,830,926</b>	<b>\$71,765,883</b>	<b>\$70,689,085</b>	<b>\$62,985,485</b>	<b>\$58,350,154</b>
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total net assets - ending</b>	<b>\$74,482,854</b>	<b>\$72,830,926</b>	<b>\$71,765,883</b>	<b>\$70,689,085</b>	<b>\$62,985,485</b>

Source: The City of Redmond

## Sammamish Plateau Water and Sewer District

### Payments to Cascade

Sammamish Plateau Water and Sewer District's ("Sammamish") budgeted payments to Cascade for 2012 total \$2,105,853, as follows:

Administration Dues	\$ 332,855
Demand Share Charges	823,539
RCFC	780,650
Conservation	<u>168,809</u>
Total	\$2,105,853

*Note: Totals may not add due to rounding.*

### Sammamish

Sammamish is located in the central portion of King County, approximately 15 miles east of Seattle. Sammamish encompasses an area of approximately 30 square miles, with boundaries that include the City of Sammamish, portions of the cities of Issaquah and Redmond, and portions of unincorporated King County. Sammamish serves an approximate population of 62,800, as of April 1, 2012, as estimated by Sammamish based on the number of equivalent residential units and average household size in the district.

Sammamish was formed in 1948, and has grown through mergers with two neighboring water districts. Sammamish operates its facilities with 50 full-time employees and is managed by a board of commissioners (the "board") comprised of five elected officials who serve staggered six-year terms. The board serves as the governing body of Sammamish and has authority to set rates and charges.

### The Water System

Sammamish's water system consists of 316 miles of water mains. Sammamish has 12 wells with a total water capacity of 15.2 MGD and pump capacity of 10,235 gallons per minute. Sammamish has 8 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, Overdale Water Association and Ames Lake Water Association. All of the Intertie Agreements except the Northeast Sammamish Sewer and Water District are for emergency use. The Northeast Sammamish Sewer and Water District intertie allows water to flow through a jointly owned tank to/from the Northeast Sammamish service area.

Sammamish does purchase water from Cascade. In 2011, Sammamish sold approximately 1,497 million gallons of water to approximately 16,516 accounts. The largest customer of the water utility represented approximately 2.3 percent of the total water revenue and the top ten customers represented approximately 10.1 percent of the total water revenue.

### Outstanding Debt

Sammamish has a combined utility system for purposes of financing, which includes a water system and a sewer system. Only the revenues of the water utility are obligated under the Joint Agreement. The revenues of the sewer division are not obligated under the Joint Agreement. As of July 1, 2012, the system had \$18,210,000 of outstanding water and sewer revenue bonds and \$3,178,359 of loans from the State's Public Works Trust Fund. The bond resolution currently has a debt service coverage requirement of 125 percent. Sammamish does anticipate incurring additional debt 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.

## Historical Operating Results

The following table shows historical operating results for Sammamish's combined water and sewer system. In 2011, the water sales provided approximately 48.3 percent of the total revenues of the combined water and sewer system. Only the revenues of the water utility are obligated under the Joint Agreement.

### Statement of Revenues, Expenses and Changes in Net Assets for the Water and Sewer System Fiscal Years Ended December 31

	2011	2010	2009	2008	2007
<b>Operating Revenue</b>					
Water service	\$ 9,035,244	\$ 8,211,091	\$ 8,938,295	\$ 7,311,608	\$ 7,408,850
Sewer service	9,210,012	8,060,615	7,665,133	6,920,361	6,869,718
Street lights	103,100	105,546	105,802	91,675	87,993
Sewer inspections	45,900	34,800	24,000	49,885	27,844
Miscellaneous revenue	<u>313,905</u>	<u>291,043</u>	<u>287,265</u>	<u>233,246</u>	<u>215,173</u>
Total Operating Revenues	\$ 18,708,161	\$ 16,703,095	\$ 17,020,495	\$ 14,606,775	\$ 14,609,578
<b>Operating Expense</b>					
Salaries and wages	\$ 3,506,245	\$ 3,300,970	\$ 3,244,766	\$ 2,913,771	\$ 2,627,170
Payroll taxes and pensions	594,173	554,744	590,488	546,983	442,224
Employee benefits	651,225	536,766	526,899	482,048	422,704
Operating costs	1,542,324	900,082	1,602,665	1,512,575	900,590
Sewage treatment	5,699,179	4,984,439	5,017,367	4,451,513	4,408,917
Repairs and maintenance of system	912,357	441,882	605,656	693,207	419,876
Professional services	221,384	167,680	114,957	184,895	158,906
Business taxes	549,031	521,758	424,655	427,455	509,987
Dues and subscriptions	206,116	200,030	191,327	181,325	167,342
Engineering	34,310	10,606	18,300	23,851	105,466
Office administration	259,378	234,153	189,320	169,589	147,310
Insurance	137,446	143,959	145,061	145,724	147,243
Miscellaneous	67,706	103,124	155,974	72,920	23,228
Public information	20,910	15,566	23,127	40,834	34,444
Utilities	97,791	91,246	91,971	85,367	75,967
Water conservation	165,855	139,772	108,499	105,908	106,447
Depreciation	<u>5,908,898</u>	<u>5,861,242</u>	<u>5,868,560</u>	<u>5,710,412</u>	<u>5,611,854</u>
Total Operating Expense	\$ 20,574,328	\$ 18,208,019	\$ 18,919,592	\$ 17,748,378	\$ 16,309,675
<b>Operating Income (Loss)</b>	\$ (1,866,167)	\$ (1,504,924)	\$ (1,899,097)	\$ (3,141,606)	\$ (1,700,097)
<b>Non-Operating Revenue</b>					
Investment income	\$ 178,158	\$ 257,348	\$ 396,840	\$ 851,373	\$ 1,102,871
Assessment income	100,547	103,429	65,595	138,321	77,055
Net Gain on Disposition and Abandonment of Assets	-	6,277	-	-	17,266
Rental income	307,847	78,481	60,422	62,008	73,788
Miscellaneous revenue	13,252	15,110	28,080	55,890	34,099
Excise tax refund	-	-	-	-	293,188
Interest on excise tax refund	-	-	-	-	<u>73,791</u>
Total Non-Operating Revenue	\$ 599,804	\$ 460,645	\$ 550,937	\$ 1,107,592	\$ 1,672,058
<b>Non-Operating Expense</b>					
Interest on long-term debt	\$ 483,122	\$ 412,610	\$ 571,574	\$ 711,313	\$ 834,003
Amortization of debt discount	89,846	82,741	89,173	104,655	113,758
Net loss on disposition of assets	<u>191,643</u>	<u>-</u>	<u>773,160</u>	<u>958,100</u>	<u>-</u>
Total Non-Operating Expense	\$ 764,611	\$ 495,351	\$ 1,433,907	\$ 1,784,436	\$ 947,761
<b>Income (Loss) Before Capital Contributions</b>	\$ (2,030,974)	\$ (1,539,630)	\$ (2,782,067)	\$ (3,808,078)	\$ (975,800)
<b>Capital Contributions</b>	\$ 8,759,039	\$ 4,756,126	\$ 5,604,612	\$ 8,570,046	\$ 3,285,379
<b>Change in Net Assets</b>	\$ 6,728,065	\$ 3,216,496	\$ 2,822,545	\$ 4,761,968	\$ 2,309,579
Total Net Assets, January 1	\$165,074,591	\$161,858,095	\$159,035,550	\$154,273,582	\$151,964,003
Total Net Assets, December 31	\$171,802,656	\$165,074,591	\$161,858,095	\$159,035,550	\$154,273,582

Source: Sammamish Plateau Water and Sewer District

## Skyway Water and Sewer District

### Payments to Cascade

Skyway Water and Sewer District's ("Skyway") budgeted payments to Cascade for 2012 total \$717,065 as follows:

Administration Dues	\$ 58,086
Demand Share Charges	311,256
RCFC	318,265
Conservation	<u>29,458</u>
Total	\$717,065

*Note: Totals may not add due to rounding.*

### Skyway

Skyway is located unincorporated King County, Southwest of Lake Washington. Skyway encompasses an area of approximately three square miles, bordering the cities of Renton, Seattle and Tukwila. Skyway has an approximate population of 14,000 as of April 1, 2012, as estimated by Skyway.

Skyway began in 1986, and has grown through mergers with several water and sewer utilities within its service area boundaries. Skyway is managed by a board of commissioners (the "board") comprised of three elected officials who serve staggered six-year terms. 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 2011, the water utility sold approximately 193 million gallons of water to approximately 3,300 accounts, most of which are residential. The largest customer of the water utility represents 1 percent of the total operating revenues of the combined water and sewer utility, and the top 10 customers represent approximately 8 percent of the total operating revenue.

### Outstanding Debt

Skyway has a combined water and sewer utility for purposes of financing, which includes a water division and a sewer division. Only the revenues of the water system are obligated under the Joint Agreement. The revenues of the sewer division are not obligated under the Joint Agreement. As of July 1, 2012, the combined system had \$5,595,000 of outstanding water and sewer revenue bonds, and \$4,371,433 of loans from the State's Public Works Trust Fund. The bond resolution for the outstanding utility has a debt service coverage requirement of 125 percent. Skyway received an award letter for a Public Works Trust Fund Loan for water system improvements, with funds expected to be received in 2013.

### 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.

## 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 obligated under the Joint Agreement. In 2011, water revenues were 30 percent of total operating revenues.

### Statements of Revenues, Expenses, and Changes in Net Assets Fiscal Years Ending December 31

	Preliminary 2011	Actual 2010	Actual 2009	Actual 2008	Actual 2007
<b>Operating Revenues</b>					
Water Sales	\$ 1,639,980	\$ 1,520,768	\$ 1,541,350	\$ 4,564,963	\$ 4,498,132
Sewer Revenue	3,806,389	3,517,939	3,506,689	-	-
Turn on/turn off charges	27,903	21,780	23,640	20,090	21,000
Late Penalty Charges	123,995	116,533	81,696	61,631	64,158
Permits & Inspections	9,660	8,880	7,338	14,090	16,836
Interest on Liens	1,295	898	1,484	358	2,926
Total Operating Revenues	<u>\$ 5,609,222</u>	<u>\$ 5,186,798</u>	<u>\$ 5,162,197</u>	<u>\$ 4,661,132</u>	<u>\$ 4,603,052</u>
<b>Operating Expenses</b>					
Maintenance & Operations	\$ 3,126,888	\$ 2,944,943	\$ 2,867,841	\$ 2,648,036	\$ 2,480,912
Administrative & General	956,253	892,283	848,395	775,110	788,258
Depreciation & Amortization	1,023,052	1,009,837	1,027,764	1,026,086	1,007,344
Total Operating Expenses	<u>\$ 5,106,193</u>	<u>\$ 4,847,063</u>	<u>\$ 4,744,000</u>	<u>\$ 4,449,232</u>	<u>\$ 4,276,514</u>
<b>Operating Income</b>	<u>\$ 503,029</u>	<u>\$ 339,735</u>	<u>\$ 418,197</u>	<u>\$ 211,900</u>	<u>\$ 326,538</u>
<b>Non-Operating Revenues (Expenses)</b>					
CWA Water Regional Capital Facilities Charge	\$ 15,013	\$ 140,459	\$ -	\$ -	\$ -
Interest on Investments	39,200	\$ 64,850	74,872	82,340	117,016
Interest on Assessments	-	-	493	348	3,893
G.O. Bond – Tax Assessment	-	-	-	-	-
Investment Service Fees	(1,452)	(1,394)	(3,014)	(5,542)	(5,115)
Interest Expense	(144,059)	(219,866)	(112,249)	(121,697)	(132,498)
Tower Rental	110,189	106,936	98,226	108,620	109,360
Rental House Income – Net	-	-	-	-	-
Bond Fund Service Fees	(82)	(244)	-	-	-
Total Non-Operating Revenue	<u>\$ 18,809</u>	<u>\$ 90,741</u>	<u>\$ 58,328</u>	<u>\$ 64,069</u>	<u>\$ 92,656</u>
<b>Income Before Capital Contributions</b>	<u>\$ 521,838</u>	<u>\$ 430,476</u>	<u>\$ 476,525</u>	<u>\$ 275,969</u>	<u>\$ 419,194</u>
<b>Capital Contributions</b>	226,244	48,154	3,175	308,834	152,381
<b>Change in Net Assets</b>	<u>\$ 748,082</u>	<u>\$ 478,630</u>	<u>\$ 479,700</u>	<u>\$ 584,803</u>	<u>\$ 571,575</u>
<b>Total Net Assets – January 1</b>	<u>\$ 27,316,397</u>	<u>\$26,837,767</u>	<u>\$26,358,067</u>	<u>\$25,773,264</u>	<u>\$25,201,689</u>
<b>Total Net Assets – December 31</b>	<u>\$ 28,064,479</u>	<u>\$27,316,397</u>	<u>\$26,837,767</u>	<u>\$26,358,067</u>	<u>\$25,773,264</u>

Source Skyway Water & Sewer District

## City of Tukwila

### Payments to Cascade

The City of Tukwila's ("Tukwila") budgeted payments to Cascade for 2012 total \$2,228,214, as follows:

Administration Dues	\$ 126,558
Demand Share Charges	2,007,447
RCFC	30,025
Conservation	<u>64,184</u>
Total	\$2,228,214

*Note: Totals may not add due to rounding.*

### 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 encompasses approximately 9.7 square miles. Tukwila has an estimated population of 19,080, as of April 1, 2012, according to the State's Office of Financial Management. Tukwila is organized as a code city, governed by a mayor form of government, with a seven member elected council. Tukwila's city council members are elected to overlapping four-year terms. The mayor is elected to serve in a full-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. The city council has authority to set rates and charges for water service.

### Tukwila's Water Utility

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. Tukwila's water transmission and distribution system supplies customers with approximately 807 million gallons of water annually through 40 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. In 2011, Tukwila sold approximately 615 million gallons of water to approximately 2,123 accounts. The largest account represents 5.1 percent of the total water consumption and the top ten accounts represent approximately 23.4 percent of the total water consumption.

### Outstanding Debt

Tukwila has a combined waterworks utility for purposes of financing, which includes water and sewer utilities. Only the revenues of the water utility are obligated under the Joint Agreement. The revenues of the sewer utility are not obligated under the Joint Agreement. As of July 1, 2012, the combined utility had \$3,356,800 of outstanding water and sewer revenue bonds, and \$3,404,724 of loans from the State's Public Works Trust Fund. The bond ordinance for the water utility currently has a debt service coverage requirement of 135 percent. Tukwila does anticipate incurring additional debt in the next 12 months.

### 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.

## 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 obligated under the Joint Agreement. For 2011 the water utility provided approximately 52 percent of the total operating revenues of the combined system.

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

#### Fiscal year ending December 31

	2011	2010	2009	2008	2007
<b>Operating Revenue</b>					
Charges for Services	\$ 10,447,536	\$ 9,665,095	\$ 9,649,321	\$ 8,603,765	\$ 8,168,646
Intergovernmental	1,261,696	-	85,580	-	-
Other Operating Revenue	58,655	635	389,754	18,143	6,741
Total Operating Revenues	<u>\$ 11,767,887</u>	<u>\$ 9,665,730</u>	<u>\$10,124,655</u>	<u>\$ 8,621,909</u>	<u>\$ 8,175,387</u>
<b>Operating Expenses</b>					
Operations and Maintenance	\$ 7,373,633	\$ 5,613,836	\$ 6,267,340	\$ 5,701,671	\$ 5,488,380
Administrative and General	267,836	1,077,490	141,377	136,436	128,549
Taxes	1,322,328	1,384,993	1,711,432	261,188	245,908
Depreciation / Amortization	902,232	911,429	916,900	953,552	726,347
Total Operating Expenses	<u>\$ 9,866,029</u>	<u>\$ 8,987,748</u>	<u>\$ 9,037,049</u>	<u>\$ 7,052,847</u>	<u>\$ 6,589,184</u>
Operating Income (Loss)	\$ 1,901,858	\$ 677,982	\$ 1,087,606	\$ 1,569,062	\$ 1,586,203
<b>Non-Operating Revenue (Expenses)</b>					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Income	54,932	70,747	71,710	232,657	399,125
Interest Expense	(215,579)	(236,997)	(257,358)	(243,167)	(360,491)
Bad Debt Expense	-	(13,522)	-	-	-
Sale of Capital Assets	(1,659)	(106,263)	(264,262)	-	-
Amortization of Debt Premium	10,797	10,797	10,797	10,797	10,807
Amortization of Debt Discount	(6,093)	(6,093)	(6,093)	(6,093)	(6,919)
Bond Issue Costs	(3,543)	(3,543)	(3,731)	-	-
Other non-Operating Rev./Exp.	-	-	-	(2,052)	(3,556)
Total Non-Operating Rev./Exp.	<u>\$ (161,145)</u>	<u>\$ (284,874)</u>	<u>\$ (448,937)</u>	<u>\$ (7,858)</u>	<u>\$ 38,966</u>
<b>Income (Loss) Before Contributions and Transfers</b>	\$ 1,740,713	\$ 393,108	\$ 638,669	\$ 1,561,204	\$ 1,625,169
Capital contributions	\$ 1,980,011	\$ 1,336,689	\$ 331,393	\$ 633,415	\$ 341,126
Transfers in	98,460	97,380	150,877	-	97,260
Transfers (out)	(816,238)	(1,107,735)	(1,324,027)	(1,024,163)	(911,789)
Change in Net Assets	<u>\$ 3,002,946</u>	<u>\$ 719,442</u>	<u>\$ (203,088)</u>	<u>\$ 1,170,456</u>	<u>\$ 1,151,766</u>
Total Net Assets – Beginning	\$ 25,501,842	\$24,782,400	\$24,985,487	\$23,815,031	\$22,663,265
Total Net Assets – Ending	\$ 28,504,788	\$25,501,842	\$24,782,399	\$ 24,985,487	\$23,815,031

Source: City of Tukwila

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CASCADE WATER ALLIANCE  
**RESOLUTION No. 2012-22**

**A RESOLUTION of the Board of Directors of Cascade Water Alliance, 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 Financing Capital Projects, Providing for a Debt Service Reserve and Paying the Costs of Issuing and Selling Those Bonds; Fixing or Setting Parameters with Respect to Certain Terms and Covenants of Those Bonds; Delegating Authority to a Designated Representative to Set Final Terms of the Sale and Issuance of those Bonds; and Providing for Other Matters Properly Related Thereto.**

Adopted December 13, 2012

**TABLE OF CONTENTS**

	<u>Page</u>
SECTION 1. DEFINITIONS.....	1
SECTION 2. FINDINGS AND DETERMINATIONS.....	9
SECTION 3. AUTHORIZATION OF 2012 BONDS.....	10
SECTION 4. APPOINTMENT OF DESIGNATED REPRESENTATIVE; DESCRIPTION OF 2012 BONDS.....	10
SECTION 5. REGISTRATION AND TRANSFER OR EXCHANGE OF 2012 BONDS.....	11
SECTION 6. MUTILATED, LOST, STOLEN AND DESTROYED 2012 BONDS.....	12
SECTION 7. PAYMENT OF 2012 BOND PRINCIPAL, PREMIUM AND INTEREST.....	12
SECTION 8. REDEMPTION PROVISIONS AND PURCHASE OF 2012 BONDS.....	12
SECTION 9. NOTICE AND EFFECT OF REDEMPTION.....	13
SECTION 10. FAILURE TO PAY 2012 BONDS.....	14
SECTION 11. FORM AND EXECUTION OF 2012 BONDS.....	14
SECTION 12. BOND REGISTRAR.....	14
SECTION 13. BOND FUND.....	15
SECTION 14. 2012 CONSTRUCTION ACCOUNT.....	17
SECTION 15. RATE STABILIZATION FUND.....	17
SECTION 16. PLEDGE OF NET REVENUE.....	17
SECTION 17. COVENANTS.....	17
SECTION 18. FLOW OF FUNDS.....	20
SECTION 19. PROVISIONS FOR FUTURE PARITY BONDS.....	21
SECTION 20. SEPARATE UTILITY SYSTEMS.....	23
SECTION 21. PRESERVATION OF TAX EXEMPTION FOR INTEREST ON TAX- EXEMPT BONDS.....	23
SECTION 22. UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE.....	23
SECTION 23. DEFEASANCE OF PARITY BONDS.....	23
SECTION 24. SUPPLEMENTAL RESOLUTIONS.....	24
SECTION 25. AMENDMENTS TO JOINT AGREEMENT.....	26

SECTION 26. DEFAULTS AND REMEDIES.....	28
SECTION 27. MANNER OF SALE; DELIVERY OF 2012 BONDS .....	31
SECTION 28. GENERAL AUTHORIZATION .....	32
SECTION 29. SEVERABILITY .....	33
SECTION 30. RATIFICATION OF PRIOR ACTS .....	33
SECTION 31. SECTION HEADINGS .....	33
SECTION 32. EFFECTIVE DATE.....	34

Page



**A RESOLUTION of the Board of Directors of Cascade Water Alliance, 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 Financing Capital Projects, Providing for a Debt Service Reserve and Paying the Costs of Issuing and Selling Those Bonds; Fixing or Setting Parameters with Respect to Certain Terms and Covenants of Those Bonds; Delegating Authority to a Designated Representative to Set Final Terms of the Sale and Issuance of those Bonds; and Providing for Other Matters Properly Related Thereto.**

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 SIFMA 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 this 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 26(b).

(k) "**Bond Purchase Contract**" means an offer to purchase the 2012 Bonds presented by the Underwriter and accepted by the Designated Representative. In the case of a competitive sale of 2012 Bonds, the offer shall mean the submitted bid (which incorporates all of the terms and conditions set forth in the official notice of bond sale), and the award by the Designated Representative to the successful bidder shall constitute the acceptance.

(l) "**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.

(m) "**Bond Registrar**" means the fiscal agent of the State of Washington (as the same may be designated by the State from time to time).

(n) "**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.

(o) "**Cascade**" means Cascade Water Alliance, a Washington joint municipal utility services authority under chapter 39.706 RCW, and its permitted predecessors and successors.

(p) "**Chief Executive Officer**" means the Chief Executive Officer of Cascade or any other officer who succeeds to substantially all of the responsibilities of that office specified in this resolution.

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

(r) "**Common Reserve Account**" means the Reserve Account in the Bond Fund created pursuant to Resolution No. 2006-03 of Cascade, renamed the 2006 Reserve Account in Section 13 of Resolution No. 2009-11 and renamed the Common Reserve Account in Section 13 of this resolution.

(s) "**Construction Fund**" means the Construction Fund created pursuant to Resolution No. 2006-03 of Cascade.

(t) "**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 RCFs 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).

(u) "**Debt Service Account**" means the Debt Service Account in the Bond Fund created pursuant to Resolution No. 2006-03 of Cascade.

(v) "**Designated Representative**" means the Chief Executive Officer of Cascade appointed in Section 4 hereof to serve as Cascade's designated representative in accordance with RCW 39.46.040(2) for purposes of negotiating and executing, on behalf of Cascade, the Bond Purchase Contract on terms consistent with this resolution.

(w) "**DTIC**" means The Depository Trust Company, New York, New York.

(x) **“Event of Default”** has the meaning assigned to that term in Section 26(a).

(y) **“Final Terms”** means, with respect to the 2012 Bonds, the amount, date or dates, denominations, interest rate or rates, payment dates, final maturity, redemption rights and price.

(z) **“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 2012 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 Outstanding Parity Bonds and the 2012 Bonds.

(aa) **“Government Obligations”** means those government obligations defined by RCW 39.53.010(4) as it now reads or hereafter may be amended or replaced.

(bb) **“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; (d) federal credit payments received by Cascade in respect of the 2009B Bonds; and (e) 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 Joint Agreement or another interlocal agreement.

(cc) **“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.

(dd) **“Issue Date”** means the date of initial delivery of the 2012 Bonds to the Underwriter.

(ee) **“Joint Agreement”** means the Joint Municipal Utility Services Agreement effective March 28, 2012, by which Cascade converted to a municipal corporation under the Joint Municipal Utilities Services Act, chapter 39.106 RCW, and which replaced the Interlocal Contract effective April 1, 1999, as amended and restated on December 15, 2004 and on March 28, 2012, as that Joint Municipal Utility Services Agreement may be amended from time to time consistent with Section 25.

(ff) **“Letter of Representations”** means the Blanket Issuer Letter of Representations between Cascade and DTC dated April 26, 2006, as it may be amended from time to time.

(gg) **“MSRB”** means the Municipal Securities Rulemaking Board.

(hh) **“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.

(ii) **“Member”** means a member agency of Cascade under the Joint Agreement.

(jj) **“Member Charges”** means all payments that Members are required by the Joint Agreement to make to Cascade, including but not limited to all Rates and Charges, RFCs, dues, assessments and other payments from Members.

(kk) **“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.

(ll) **“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.

(mm) **“Outstanding Parity Bonds”** means the 2006 Bonds, the 2009A Bonds and the 2009B Bonds.

(nn) **“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.

(oo) **“Parity Bond Authorizing Resolution”** means one or more resolutions of Cascade (including the 2006 Bond Resolution, the 2009 Bond Resolution and this 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.

(pp) **“Parity Bonds”** means the Outstanding Parity Bonds, the 2012 Bonds and any Future Parity Bonds.

(qq) **“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.

(rr) "**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.

(ss) "**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.

(tt) "**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.

(uu) "**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.

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

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

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

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

(zz) "**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 Joint Agreement.

(aaa) "**RCW**" means the Revised Code of Washington.

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

(ccc) "**Reserve Account**" means any reserve account securing Parity Bonds into which deposits are required to be made pursuant to a Parity Bond Authorizing Resolution, including the Common Reserve Account and the 2009 Reserve Account.

(ddd) "**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.

(eee) "**Reserve Requirement**" means, as of any date of calculation, (1) with respect to Parity Bonds secured by the Common Reserve Account, the lesser of Maximum Annual Debt Service on outstanding Parity Bonds secured by the Common Reserve Account or 125% of Average Annual Debt Service on outstanding Parity Bonds secured by the Common Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the Common Reserve Account exceed 10% of the original proceeds of the Parity Bonds secured by the Common Reserve Account, and (2) with respect to Parity Bonds secured by the 2009 Reserve Account, the lesser of Maximum Annual Debt Service on outstanding Parity Bonds secured by the 2009 Reserve Account or 125% of Average Annual Debt Service on outstanding Parity Bonds secured by the 2009 Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account exceed 10% of the original proceeds of the Parity Bonds secured by the 2009 Reserve Account. In calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account, the amount of interest payable on the 2009B Bonds for any fiscal year (or other designated twelve-month period) shall be reduced by the federal credit payments scheduled to be received by Cascade in respect of the 2009B Bonds in such fiscal year (or other designated twelve-month period).

(fff) "**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.

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

(hhh) "**SIFMA 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 Securities Industry and Financial Markets Association, or the successor to that index.

(iii) "**State**" means the State of Washington.

(jjj) **“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.

(kkk) **“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 20.

(lll) **“Tax-Exempt Bonds”** means Parity Bonds of any series on which the interest is intended on the date of issuance to be excluded from gross income for federal income tax purposes.

(mmm) **“Term Bonds”** means Parity Bonds that are subject to scheduled mandatory redemption prior to their scheduled maturity date or dates.

(nnn) **“Transmission and Supply Plan”** means the Transmission and Supply Plan adopted by Cascade on July 25, 2012, pursuant to Resolution No. 2012-15.

(ooo) **“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.

(ppp) **“2006 Bonds”** means the Cascade Water Alliance Water System Revenue Bonds, 2006.

(qqq) **“2009A Bonds”** means the Cascade Water Alliance Water System Revenue Bonds, 2009A.

(rrr) **“2009B Bonds”** means the Cascade Water Alliance Water System Revenue Bonds, 2009B (Taxable Build America Bonds – Direct Payment).

(sss) **“2009 Bond Resolution”** means, collectively, Resolution No. 2009-11 and Resolution No. 2009-12 of Cascade, as the same may be amended or supplemented in accordance therewith.

(ttt) **“2009 Reserve Account”** means the 2009 Reserve Account in the Bond Fund created pursuant to Resolution No. 2009-11 of Cascade.

(uuu) **“2012 Bond”** means each bond authorized to be issued pursuant to, under the authority of and for the purposes provided in this resolution.

(vvv) **“2012 Construction Account”** means the 2012 Bonds Construction Account created pursuant to Section 14.

(www) **“Undertaking”** means Cascade’s undertaking pursuant to Section 22 to provide annual financial information and notice of listed events.

(xxx) **“Underwriter”** means the firm or firms selected by the Designated Representative as the underwriter(s) for a negotiated sale or awarded as the successful bidder in a competitive sale.

(yyy) **“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.

(zzz) **“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. Findings and Determinations.** The Board hereby makes the following findings and determinations.

(a) Cascade is a Washington joint municipal utility services authority under chapter 39.106 RCW organized for the purpose of meeting the water supply demands of its Members.

(b) Pursuant to the Joint Agreement and the provisions of chapter 39.106 RCW, Cascade is authorized to issue revenue bonds.

(c) Pursuant to Resolution No. 2012-15, Cascade adopted its Transmission and Supply Plan on July 25, 2012, which serves, among other things, as a “Water Supply Plan” as defined in the Joint Agreement.

(d) The Transmission and Supply Plan describes various capital projects and associated rights, properties and facilities necessary to carry out Cascade’s mission.

(e) Cascade desires to issue water system revenue bonds to provide for part of the cost of carrying out certain of the capital projects described in the Transmission and Supply Plan, to provide for a debt service reserve and to pay the costs of issuing and selling those bonds.

(f) RCW 39.46.040(2) provides that a resolution authorizing the issuance of bonds may authorize an officer of Cascade to serve as the Cascade’s designated representative and to accept, on behalf of Cascade, an offer to purchase those bonds so long as the acceptance of such offer is consistent with terms established by a resolution that establishes the following terms for the bonds (or parameters with respect thereto): the amount, date, denominations, interest rates (or mechanism for determining interest rates), payment dates, final maturity, redemption rights, price, minimum savings for refunding bonds (if the refunding bonds are issued for savings purposes), and any other terms or conditions deemed appropriate by the Board.

(g) In fixing the amounts to be paid into the Bond Fund, the Board has exercised due regard for Operations and Maintenance Costs, and has not obligated Cascade to set aside and to pay into the Bond Fund a greater amount or proportion of the Gross Revenue that in the judgment of the Board will be available over and above the Operations and Maintenance Costs.

**Section 3. Authorization of 2012 Bonds.** For the purpose of providing all or a part of the money required to (1) pay part of the cost of carrying out certain of the capital projects described in the Transmission and Supply Plan, (2) provide for a debt service reserve for the 2012 Bonds, and (3) pay the costs of issuing and selling the 2012 Bonds, Cascade is authorized to issue and sell the 2012 Bonds in one or more series, subject to the terms and conditions described in this resolution.

**Section 4. Appointment of Designated Representative; Description of 2012 Bonds.** The Chief Executive Officer is appointed as the Designated Representative and is authorized to conduct the sale of the 2012 Bonds in the manner and upon the terms deemed most advantageous to Cascade, as further specified in Section 27, and to approve the Final Terms within the parameters established in this Section. The Final Terms shall be evidenced in the Bond Purchase Contract or by a Certificate of Designated Representative executed on the date of sale of the 2012 Bonds to the Underwriter.

(a) Amount. The aggregate Principal amount of the 2012 Bonds shall not exceed \$48,000,000.

(b) Date. The 2012 Bonds shall be dated the Issue Date, which date may not be later than January 31, 2013.

(c) Denominations and Designation. The 2012 Bonds shall be designated "Cascade Water Alliance Water System Revenue Bonds, 2012," with such other designation as may be established by the Designated Representative; shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; and shall be issued in denominations of \$5,000 or any integral multiple thereof within a maturity.

(d) Interest Rates. The 2012 Bonds shall bear interest at fixed rates per annum (computed on the basis of a 360-day year of twelve 30-day months) from the Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, whichever is later. One or more rates of interest may be fixed for the 2012 Bonds. No rate of interest for any maturity may exceed 5.00%, and the true interest cost to Cascade for the 2012 Bonds may not exceed 4.00%.

(e) Payment Dates. Interest must be payable at fixed rates semiannually (on each January 1 and July 1, commencing no earlier than July 1, 2013. Principal must be payable annually on each January 1, commencing no earlier than January 1, 2014.

(f) Final Maturity. The 2012 Bonds shall mature no later than January 1, 2039.

(g) Redemption Rights. The 2012 Bonds may be issued subject to optional redemption and, in the case of any 2012 Bonds designated as Term Bonds, mandatory redemption, as set forth in Section 8.

(h) Price. The purchase price for the 2012 Bonds may not be less than 100% or more than 125% of the par value of the 2012 Bonds.

(i) Tax Status. The 2012 Bonds may be issued as Tax-Exempt Bonds.

(j) Parity Conditions. The 2012 Bonds may not be issued unless, as of the Issue Date, the Designated Representative certifies that the amounts required to have been paid into the Bond Fund for the Outstanding Parity Bonds have been paid and maintained as required and that all other conditions for the issuance of the 2012 Bonds as Future Parity Bonds (within the meaning of the Parity Bond Authorizing Resolutions that authorized the issuance of the Outstanding Parity Bonds) will have been satisfied before the 2012 Bonds are delivered to the Underwriter.

(k) Sufficiency of Gross Revenue. The 2012 Bonds may not be issued unless, as of the Issue Date, the Designated Representative certifies 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 17(b), 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 Outstanding Parity Bonds and to make all payments required to be made into the Common Reserve Account under this resolution.

**Section 5. Registration and Transfer or Exchange of 2012 Bonds.** The 2012 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 2012 Bond and the Principal amount and number of each of the 2012 Bonds held by each Registered Owner.

2012 Bonds surrendered to the Bond Registrar may be exchanged for 2012 Bonds in any authorized denomination of an equal aggregate Principal amount and of the same interest rate and maturity. 2012 Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer of 2012 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 2012 Bond after the giving of notice calling that 2012 Bond for redemption, in whole or in part.

The 2012 Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2012 Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. 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 2012 Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of Principal of or premium, if any, or interest on the 2012 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 2012 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 2012 Bonds. Registered ownership of those 2012 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 2012 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 2012 Bonds are to be in certificated form, the ownership of 2012 Bonds may be transferred to any person as provided herein and the 2012 Bonds no longer shall be held in fully immobilized form.

**Section 6. Mutilated, Lost, Stolen and Destroyed 2012 Bonds.** In case any 2012 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 2012 Bond of like amount, interest rate, maturity date and tenor in exchange and substitution for and upon cancellation of that mutilated 2012 Bond, or in lieu of and in substitution for that destroyed, stolen or lost 2012 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 2012 Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that that 2012 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 2012 Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new 2012 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 2012 Bond Principal, Premium and Interest.** Principal of and premium, if any, and interest on the 2012 Bonds shall be payable in lawful money of the United States of America. For so long as the 2012 Bonds are registered in the name of DTC or its nominee, payment of any 2012 Bonds shall be made in accordance with the operational arrangements of DTC referred to in the Letter of Representations. If the 2012 Bonds cease to be in book-entry-only form, interest on the 2012 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 "2012 Record Date") or, at the request of a Registered Owner of \$1,000,000 or more in aggregate Principal amount of 2012 Bonds, by wire transfer to an account in the United States designated in writing by that Registered Owner prior to the applicable 2012 Record Date. Principal of and premium, if any, on each 2012 Bond shall be payable upon presentation and surrender of that 2012 Bond by the Registered Owner thereof to the Bond Registrar.

**Section 8. Redemption Provisions and Purchase of 2012 Bonds.**

(a) **Optional Redemption.** The Designated Representative may designate certain maturities of the 2012 Bonds as being subject to redemption at the option of Cascade

prior to their respective maturities on the dates and at the prices set forth in the Bond Purchase Contract. The Designated Representative may also, in his or her discretion, designate certain maturities of the 2012 Bonds as not being subject to optional redemption prior to maturity.

(b) **Mandatory Redemption.** The Designated Representative may approve the designation of certain maturities within a series of 2012 Bonds as Term Bonds, as set forth in the Bond Purchase Contract. Cascade shall redeem Term Bonds, if not previously redeemed under the optional redemption provisions set forth above or purchased and surrendered for cancellation or defeased under the provisions set forth below, at a price of par plus accrued interest on the annual redemption dates and in the annual redemption amounts approved by the Designated Representative. If Cascade redeems under the optional redemption provisions, purchases for cancellation or defeases Term Bonds, the Principal amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) may be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The Chief Executive Officer 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 60 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 2012 Bond, in integral amounts of \$5,000, may be redeemed, if fewer than all of the 2012 Bonds of a single maturity are to be redeemed, the Bond Registrar shall select the 2012 Bonds or portions thereof to be redeemed from the 2012 Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except that, for so long as the 2012 Bonds are registered in the name of DTC or its nominee, DTC shall select the 2012 Bonds or portions thereof to be redeemed in accordance with the Letter of Representations.

If less than all of the Principal amount of any 2012 Bond is redeemed, upon surrender of that 2012 Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor, a new 2012 Bond (or 2012 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 2012 Bonds.** Cascade reserves the right and option to purchase for cancellation any or all of the 2012 Bonds at any time at any price plus accrued interest to the date of purchase.

(e) **2012 Bonds to be Canceled.** All 2012 Bonds purchased for cancellation or redeemed under this Section shall be canceled.

**Section 9. Notice and Effect of Redemption.** While the 2012 Bonds are held by DTC in book-entry only form, any notice of redemption shall be given at the time, to the entity and in the manner required by DTC in accordance with the Letter of Representations, and the Bond Registrar shall not be required to give any other notice of redemption. If the 2012 Bonds cease to be in book-entry only form, Cascade shall cause notice of any intended redemption of 2012 Bonds to be given not less than 20 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any 2012 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, and to such other persons and with such additional information as the Chief Executive Officer shall determine, but these additional mailings shall not be a condition precedent to the redemption of 2012 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 on or prior to the scheduled redemption date that Cascade is rescinding the redemption notice in whole or in part. Any 2012 Bonds subject to a rescinded notice of redemption shall remain outstanding, and the rescission shall not constitute an Event of Default.

Interest on each 2012 Bond called for redemption shall cease to accrue on the date fixed for redemption unless (a) that 2012 Bond is subject to a rescinded notice of redemption or (b) that 2012 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.

**Section 10. Failure to Pay 2012 Bonds.** If any 2012 Bond is not paid when properly presented at its maturity or redemption date, Cascade shall be obligated to pay interest on that 2012 Bond at the same rate provided in that 2012 Bond from and after its maturity or redemption date until that 2012 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 2012 Bonds.** The 2012 Bonds shall be prepared in a form consistent with the provisions of this 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 2012 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 this resolution: "Certificate of Authentication. This bond is one of the fully registered Cascade Water Alliance Water System Revenue Bonds, 2012, described in the 2012 Bond Resolution." The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2012 Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this resolution.

If any officer whose facsimile signature appears on a 2012 Bond ceases to be an officer of Cascade authorized to sign bonds before that 2012 Bond is authenticated or delivered by the Bond Registrar or issued by Cascade, that 2012 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 2012 Bond also may be signed on behalf of Cascade by any person who, on the actual date of signing of that 2012 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 2012 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 2012 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 2012 Bonds transferred or exchanged in accordance with the provisions of the 2012 Bonds and this resolution, to serve as

Cascade's paying agent for the 2012 Bonds and to carry out all of the Bond Registrar's powers and duties under this 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, in the month after the date of issuance and continuing through the first month in which interest is payable on the 2012 Bonds, equal installments in an aggregate amount equal to the interest on the 2012 Bonds to become due and payable on the first month in which interest is payable on the 2012 Bonds, except that the deposit into the Debt Service Account to be made on the first business day of the month in which interest is first payable on the 2012 Bonds 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 in the month succeeding the month in which interest is first payable on the 2012 Bonds and continuing for as long as any of the 2012 Bonds are outstanding and unpaid, an amount equal to one-sixth of the interest on the outstanding 2012 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 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;

(3) On the first business day of each month, beginning in the month succeeding the month in which interest is first payable on the 2012 Bonds and continuing for as long as any of the 2012 Bonds are outstanding and unpaid, an amount equal to one-twelfth of the Principal of the outstanding 2012 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 Accounts, 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 Accounts shall be maintained at all times at not less than the Reserve Requirement.

The Reserve Account in the Bond Fund created pursuant to Resolution No. 2006-03 of Cascade and renamed the "2006 Reserve Account" in Section 13 of Resolution No. 2009-11 is hereby renamed the "Common Reserve Account."

On the date of issuance of the 2012 Bonds, Cascade shall deposit into the Common Reserve Account any combination of 2012 Bond proceeds, Reserve Insurance or other money

legally available, in the amount necessary to make the amount on deposit in the Common Reserve Account equal to the Reserve Requirement for the 2006 Bonds and the 2012 Bonds. The payment of Principal of and premium, if any, and interest on the 2012 Bonds when due shall be secured by the Common Reserve Account. In the event that there shall be a deficiency in the Debt Service Account that prevents making any payment secured by the Common Reserve Account, that deficiency shall be made up from the Common 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 credited thereto. Any deficiency created in the Common 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 Common Reserve Account may be applied against the last outstanding Parity Bonds secured by the Common Reserve Account. If the Reserve Requirement for the Parity Bonds secured by the Common Reserve Account is fully provided for, any money in excess of the Reserve Requirement for the Parity Bonds secured by the Common Reserve Account may be withdrawn and deposited consistent with this Section and Section 18.

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 Common Reserve Account or the 2009 Reserve Account or by Reserve Insurance credited to the Common Reserve Account or the 2009 Reserve Account.

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 Accounts, 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 each Reserve Account shall be retained therein until the amount therein is equal to the Reserve Requirement for the Parity Bonds secured by such Reserve Account and thereafter may be withdrawn and deposited consistent with this Section and Section 18. In computing the amount on hand in each 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 such Reserve Account. Any deficiency in a 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. 2012 Construction Account.** There is hereby created in the Construction Fund an account of Cascade known as the 2012 Bonds Construction Account (the "2012 Construction Account"). The proceeds of the sale of the 2012 Bonds remaining after the deposit of any proceeds into the Common Reserve Account (as determined by the Designated Representative) shall be deposited into the 2012 Construction Account to be used for the purpose of paying part of the cost of carrying out certain of the capital projects described in the Transmission and Supply Plan and the costs of issuing and selling the 2012 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 Chief Executive Officer, be retained in the 2012 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 Section 13 and Section 18, deposit Gross Revenue other than RCFs 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 Section 13 and Section 18. 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. Pledge of Net Revenue.** The Net Revenue and all money and investments held in the Bond Fund, the Rate Stabilization Fund, the RCF 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 Parity Bonds, all Payment Agreement Payments and all payments required to be made into the Reserve Accounts 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 Joint Agreement.

**Section 17. 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 Joint Agreement 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 Joint Agreement, 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) Joint Agreement: Cascade shall enforce the provisions of the Joint Agreement, including without limitation the provisions of the Joint Agreement providing for payment of Member Charges, the provisions of Section 7.8.2(b) of the Joint Agreement 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 2012 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 Joint Agreement 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 Joint Agreement, 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 knowledgeable 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 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 19(e)(2); 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 Outstanding Parity Bonds and the 2012 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 Outstanding Parity Bonds and the 2012 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 Section 13 and Section 18.

**Section 18. 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 Accounts, 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 Accounts;
- (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 Accounts, 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 Accounts 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 19. 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, the applicable Parity Bond Authorizing Resolution shall provide for the deposit into the Common Reserve Account or the 2009 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 such Reserve Account equal to the Reserve Requirement for

Parity Bonds secured by such Reserve Account upon the issuance of those Future Parity Bonds; and

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

(1) a certificate of the Chief Executive Officer 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 RGFs 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 Joint Agreement;

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.

Notwithstanding the definition of "Gross Revenue" in Section 1(bb), for purposes of this subsection (e), federal credit payments received by Cascade in respect of the 2009B Bonds shall be excluded from Gross Revenue in determining whether the Coverage Requirement has been or will be satisfied.

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 Accounts 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 20. 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 Accounts under any Parity Bond Authorizing Resolution.

**Section 21. Preservation of Tax Exemption for Interest on Tax-Exempt Bonds.** Cascade covenants that it will take all actions consistent with the terms of this resolution and the 2012 Bonds reasonably within its power and necessary to prevent interest on the 2012 Bonds that are 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 the proceeds of the 2012 Bonds or other funds of Cascade treated as proceeds of the 2012 Bonds at any time during the term of the 2012 Bonds that will cause interest on the 2012 Bonds that are Tax-Exempt 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 2012 Bonds, take all action necessary to comply (or to be treated as having complied) with that requirement in connection with the 2012 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 2012 Bonds that are Tax-Exempt Bonds from being included in gross income for federal income tax purposes.

**Section 22. Undertaking to Provide Continuing Disclosure.** If necessary to assist the Underwriter in meeting its requirements under the Rule, as applicable to a participating underwriter for the 2012 Bonds, Cascade shall undertake, in a separate certificate or agreement, to provide the annual financial information, operating data and notice of material events required under the Rule. A default under such any such undertaking shall not be deemed an Event of Default under this resolution, and the sole remedy under any such undertaking in the event of any failure of Cascade to comply with such undertaking shall be an action to compel performance.

**Section 23. 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, without any reinvestment thereof, 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 Defeased Bonds that are Tax-Exempt 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 24. Supplemental Resolutions**

(a) This resolution shall not be modified or amended in any respect subsequent to the initial issuance of the 2012 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 this resolution;

(2) To cure any formal defect, omission, inconsistency or ambiguity in this 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 this resolution as therefore in effect;

(4) To add to the covenants and agreements of, and limitations and restrictions upon, Cascade in this resolution, other covenants, agreements, limitations and restrictions to be observed by Cascade that are not contrary or inconsistent with this 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 this resolution of any other money, securities or funds;

(6) To authorize different denominations of the 2012 Bonds and to make correlative amendments and modifications to this resolution regarding exchangeability of 2012 Bonds of different authorized denominations, redemptions of portions of 2012 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 this 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 2012 Bonds that are Tax-Exempt 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 this 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 this 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 2012 Bonds that are Tax-Exempt 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 this 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 this 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 2012 Bonds that are Tax-Exempt 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, this resolution shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this resolution of Cascade, the Bond Registrar, all Registered Owners shall thereafter be determined, exercised and enforced under this resolution subject in all respects to those modifications and amendments.

#### **Section 25. Amendments to Joint Agreement.**

(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 Joint Agreement for any purpose except as provided in subsection (b) of this Section. However, before Cascade shall permit the amendment of the Joint Agreement 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 this resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2012 Bonds that are Tax-Exempt Bonds.

(b) (1) Subject to the terms and provisions contained in this subsection (b), Cascade may amend the Joint Agreement 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 Joint Agreement 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 Joint Agreement, 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 Joint Agreement, 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 Joint Agreement 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 Joint Agreement 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 Joint Agreement, i.e., to take actions related to preservation of the tax-exempt status of interest on the Tax-Exempt Bonds; or

d. an amendment that eliminates or materially diminishes the obligation of the Members under Section 7.8.1(d) of the Joint Agreement, 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 7.8.2(b) of the Joint Agreement, 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 9.2 of the Joint Agreement.

(2) If at any time Cascade shall permit the amendment of the Joint Agreement 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 Joint Agreement 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 this resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2012 Bonds that are Tax-Exempt 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 Joint Agreement, 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 26. 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 or of 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 this 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 Parity Bond Authorizing Resolutions. 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 Parity Bond Authorizing Resolutions, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into this 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 this 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 2012 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 27. Manner of Sale; Delivery of 2012 Bonds.** The Designated Representative may provide for the sale of the 2012 Bonds by competitive sale, if authorized by motion or resolution of the Board, the Designated Representative may provide for the sale of the 2012 Bonds by negotiated sale with the Underwriter chosen through a selection process acceptable to the Designated Representative.

(a) Procedure for Negotiated Sale. If the Designated Representative determines, pursuant to a motion or resolution of the Board, that the 2012 Bonds should be sold by negotiated sale, (i) the Designated Representative shall solicit one or more Underwriters with which to negotiate the sale of those 2012 Bonds; (ii) the Bond Purchase Contract shall set forth the Final Terms; and (iii) the Designated Representative is authorized to execute the Bond Purchase Contract on behalf of Cascade, so long as the terms provided therein are consistent with the terms of this resolution.

(b) Procedure for Competitive Sale. A competitive sale shall include preparation of an official notice of bond sale for the 2012 Bonds, setting forth parameters for the Final Terms of such sale and any other bid parameters that the Designated Representative deems appropriate and that are consistent with this resolution. Bids for the purchase of the 2012 Bonds shall be received at such time or place and by such means as the Designated Representative directs. The Designated Representative may direct that the official notice of bond sale or an abridged form thereof be published in such additional places as he or she deems desirable or appropriate. On the date and time established for the receipt of bids for the 2012 Bonds, the Designated Representative (or his or her designee) shall open bids and shall cause the bids to be mathematically verified. The Designated Representative is authorized to award, on behalf of Cascade, the winning bid and accept the winning bidder's offer to purchase the 2012 Bonds, with such adjustments to the aggregate Principal amount and Principal amount per maturity as the Designated Representative deems appropriate, consistent with the terms of this resolution. The Designated Representative may, in his or her discretion, reject any or all bids submitted and may waive any formality or irregularity in the bid or bidding process if he or she deems it to be in Cascade's best interest to do so.

The 2012 Bonds will be delivered to the Underwriter immediately upon payment to Cascade of the purchase price in immediately available federal funds in Seattle, Washington, or at another place upon which the Chief Executive Officer and the purchaser may mutually agree.

CUSIP numbers (if required) will be printed on the 2012 Bonds, but neither failure to print CUSIP numbers on any 2012 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 2012 Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the 2012 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 2012 Bonds will be printed at Cascade's expense and will be delivered to the purchaser thereof with the approving legal opinion of Foster Pepper PLLC, municipal bond counsel of Seattle, Washington, regarding the 2012 Bonds.

**Section 28. General Authorization.** The Chair of the Board and the Chief Executive Officer 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, this resolution. In particular, and without limitation, the Chief Executive Officer 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 2012 Bonds, (ii) authorize the distribution of any preliminary official statement by the Underwriter, (iii) comply with any continuing disclosure requirements applicable to the 2012 Bonds, (iv) change the Bond Registrar or any securities depository appointed for the 2012 Bonds, (v) provide information to Rating Agencies, prospective providers of Bond Insurance and Reserve Insurance and other participants in the

issuance of the 2012 Bonds and (vi) request proposals from prospective providers of Bond Insurance and Reserve Insurance for the 2012 Bonds.

**Section 29. 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 30. Ratification of Prior Acts.** Any action taken consistent with the authority but prior to the effective date of this resolution, including, if applicable, giving an official notice of bond sale, executing contracts, making fund transfers and paying warrants, is ratified, approved and confirmed.

**Section 31. Section Headings.** The section headings in this resolution are used for convenience only and shall not constitute a substantive portion of this resolution.

**Section 32. 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 special open public meeting held on this 13th day of December, 2012.

CASCADE WATER ALLIANCE

\_\_\_\_\_  
John Marchione, Chair

\_\_\_\_\_  
David Knight, Vice Chair

\_\_\_\_\_  
Jim Haggerton, Secretary/Treasurer

\_\_\_\_\_  
Attest – Chuck Clarke, CEO

Members  
Yes \_\_\_\_\_  
No \_\_\_\_\_  
Demand Share  
Yes \_\_\_\_\_ %  
No \_\_\_\_\_ %

CERTIFICATION

I, the undersigned, Secretary of the Board of Directors (the "Board") of Cascade Water Alliance ("Cascade") hereby certify as follows:

1. The attached copy of Resolution No. 2012-22 (the "Resolution") is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board held on December 13, 2012, at the time and meeting place for which notice was given in accordance with law, as that resolution appears on the minute book of Cascade; and the Resolution is now in full force and effect.
2. At least 24 hours before the time of the special meeting, written notice specifying the time and place of the special meeting and the business to be transacted, a true and complete copy of which is attached as Appendix 1, was provided as follows:
  - a. Given to all members of the Board by mail, fax, electronic mail or personal delivery.
  - b. Prominently displayed at the main entrance of Cascade's office located at 520 112<sup>th</sup> Avenue NE, Suite 400, Bellevue, Washington.
  - c. Posted on Cascade's web site.
3. A quorum of the members of the Board was present throughout the meeting and a majority of those members present voted in the proper manner for the adoption of the Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand this 13th day of December, 2012.

CASCADE WATER ALLIANCE

\_\_\_\_\_  
Jim Haggerton, Secretary of the Board

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## APPENDIX C BOOK-ENTRY TRANSFER SYSTEM

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

1. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.
2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing services. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).
3. Purchases of the Bonds under the DTC system, in denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.
4. To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.
5. When notices are given, they will be sent by the Bond Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.
6. Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the University, 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 University or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the University and the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.
10. Issuer may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

[FORM OF APPROVING LEGAL OPINION]

[Closing Date]

Cascade Water Alliance  
Bellevue, Washington

Re: Cascade Water Alliance  
\$42,695,000 Water System Revenue Bonds, 2012

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. 2012-22 (the “Bond Resolution”) to provide funds with which to pay part of the cost of carrying out certain of the capital projects described in the Transmission and Supply Plan, 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.

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

We have not been engaged to review and thus express no opinion 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 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 joint municipal utilities services authority under chapter 39.106 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,



**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 \$\_\_\_\_\_ aggregate principal amount of its Water System Revenue Bonds, 2012 (the “Bonds”). The Bonds have been issued pursuant to Resolution No. 2012-22, adopted by the Board of Directors of Cascade (the “Board”) on December 13, 2012 (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 the Rule (defined herein).

**SECTION 2. Definitions.** In addition to the definitions set forth in the Resolution or in the Official Statement dated December 17, 2012 (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” means the Annual Report required to be provided by Cascade pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” means 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” means Cascade, or any successor Dissemination Agent designated in writing by Cascade and which has filed with Cascade a written acceptance of such designation.

“Listed Event” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“Members” means, collectively, the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, Sammamish Plateau Water and Sewer District and Skyway Water and Sewer District and any municipal corporation that under the Joint Agreement becomes a member of Cascade while any of the Bonds are outstanding.

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriter” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Required Member” means 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” means paragraph (b)(5) of Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, as amended, as such rule is amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“State” means the State of Washington.

“Submission Deadline” means the date that is nine months after the end of Cascade’s fiscal year, which fiscal year is currently a year ending on December 31.

### SECTION 3. Provision of Annual Reports.

(a) Cascade shall, or shall cause the Dissemination Agent to, not later than each Submission Deadline, commencing with the Submission Deadline for the fiscal year ending December 31, 2012, provide to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, 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 be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC. 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 15 Business Days prior to each Submission Deadline, Cascade shall provide the Annual Report to the Dissemination Agent (if other than Cascade). If Cascade is unable to provide to the MSRB an Annual Report by the Submission Deadline, Cascade shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Dissemination Agent is other than Cascade, the Dissemination Agent shall file a report with Cascade certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date 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 applicable 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) or (b), the Annual Report shall contain unaudited financial statements in a format similar to Cascade’s audited financial statements, and Cascade’s 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 applicable fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply 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) or (b), 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 and operating data of the type shown in the Official Statement in the tables entitled "CERUs, Percentage of Total Demand Shares and Member Charges for Each Member for 2013," "Scheduled Debt Service Requirements," "Amount of Water to be Supplied to Cascade from Seattle," "Cascade Water Alliance Statement of Revenues, Expenses and Changes in Net Assets (Fiscal Year Ending December 31)," "Cascade Water Alliance Statement of Financial Position (Fiscal Year Ending December 31)," "Member Demand Shares for 2009 through 2013," "Each Member Percentage of Total Demand Shares for 2008 through 2012," "Member CERUs for 2009 through 2013 by Member," "Each Member's Percentage of Member CERUs for 2008 through 2012" and "Member Charges for 2009 through 2013 by Member."

(b) Historical financial information of the type shown in the Official Statement under the headings "Cascade Water Alliance—Governance and Administration—Retirement Plans" and "—Management Discussion of Financial Operations."

(c) For each Required Member, historical financial information of the type shown in the Official Statement in the table entitled "Member and Other Regional Water Rates - 2012."

(d) For each Required Member, historical financial information and operating data of the type shown for such Required Member in Appendix A.

#### SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, Cascade shall give, or cause to be given, to the MSRB timely notice of the occurrence of any of the following events with respect to the Bonds, not in excess of ten business days after the occurrence of the event:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;

4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership, or similar event of Cascade;
13. the consummation of a merger, consolidation or acquisition involving Cascade or the sale of all or substantially all of the assets of Cascade, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever Cascade obtains knowledge of the occurrence of a Listed Event that is required to be reported only if material, Cascade shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) Cascade shall file in a timely manner a notice of each occurrence of a Listed Event with the MSRB.

**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 Dissemination 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 (other than for amendments to the Resolution requiring the consent of all 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 Required 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.

Dated: December 27, 2012.

CASCADE WATER ALLIANCE

By \_\_\_\_\_  
Chuck Clarke, Chief Executive Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Cascade Water Alliance

Name of Bond Issue: Water System Revenue Bonds, 2012

Date of Issuance: December 27, 2012

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 December 27, 2012. [Cascade anticipates that the Annual Report will be filed by \_\_\_\_\_.]

CASCADE WATER ALLIANCE

By \_\_\_\_\_

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**APPENDIX F  
AUDITED FINANCIAL STATEMENTS  
OF CASCADE - 2011 FISCAL YEAR**

*Table of Contents*

<p><b>CASCADE WATER ALLIANCE</b> Financial Statements and Government Auditing Standards Report For the Years Ended December 31, 2011 and 2010</p>	<p style="text-align: right;"><i>Page</i></p> <p><b>Independent Auditors' Report</b> Management's Discussion and Analysis 1 - 2 3 - 9</p> <p><b>Financial Statements:</b> Balance Sheets 10 - 11 Statements of Revenues, Expenses and Changes in Net Assets 12 Statements of Cash Flows 13 - 14 Notes to Financial Statements 15 - 29</p> <p><b>Required Supplementary Information:</b> Modified Approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets 30 - 33</p> <p><b>Government Auditing Standards Report:</b> Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> Schedule of Findings and Responses 34 - 35 36</p>
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CLARK NUBER

### *Independent Auditors' Report*

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

Certified Public  
Accountants  
and Consultants

We have audited the accompanying balance sheets of the Cascade Water Alliance (Cascade) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of Cascade. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cascade as of December 31, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012, on our consideration of Cascade's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CLARK NUBER

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 9 and on pages 30 through 33 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 operations, 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  
September 26, 2012

**CASCADE WATER ALLIANCE**

*Management's Discussion and Analysis*

**CASCADE WATER ALLIANCE**

*Management's Discussion and Analysis*

Managements Discussion and Analysis presents our review of Cascade's financial position as of December 31, 2011 and 2010, 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 Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows and Notes to Financial Statements.

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

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

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

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

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

Capital assets 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; and
- 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.

**Condensed Financial Statements  
Balance Sheets as of December 31, 2011 and 2010**

	2011	2010 <i>Restated</i>
Current assets	\$ 17,525,964	\$ 39,996,322
Net capital assets	154,590,523	156,502,254
Other assets	29,109,005	28,116,127
<b>Total Assets</b>	<b>\$ 201,225,492</b>	<b>\$ 224,614,703</b>
Current liabilities	\$ 18,700,218	\$ 27,559,578
Long-term liabilities	123,327,457	127,305,996
<b>Total Liabilities</b>	<b>142,027,675</b>	<b>154,865,574</b>
Invested in capital assets, net of related debt	52,859,442	52,159,918
Unrestricted	6,338,375	17,590,211
<b>Total Net Assets</b>	<b>59,197,817</b>	<b>69,749,129</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 201,225,492</b>	<b>\$ 224,614,703</b>

**Condensed Financial Statements  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Years Ended December 31, 2011 and 2010**

	2011	2010 <i>Restated</i>
Water sales	\$ 25,998,670	\$ 25,799,469
Administrative dues	1,444,763	1,269,289
Conservation program	1,282,647	1,049,648
<b>Total Operating Revenue</b>	<b>28,726,080</b>	<b>28,118,406</b>
Cost of water sold	19,830,259	20,842,438
Other operating costs	8,689,842	9,606,049
<b>Total Operating Expenses</b>	<b>28,520,101</b>	<b>30,448,487</b>
<b>Operating Income (Loss)</b>	<b>205,979</b>	<b>(2,330,081)</b>
Nonoperating expenses	(3,783,717)	(1,075,993)
Capital (expenses) contributions	(6,873,574)	3,797,144
<b>Change in Net Assets</b>	<b>(10,551,312)</b>	<b>391,070</b>
Net assets, beginning of year	69,749,129	69,596,551
Prior period adjustment (Note 13)	-	(238,492)
Net assets, beginning of year, as restated	69,749,129	69,358,059
<b>Net Assets, End of Year</b>	<b>\$ 59,197,817</b>	<b>\$ 69,749,129</b>

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

#### Results of Operations

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

#### Capital Assets and Long-Term Debt

The capital assets of Cascade decreased by \$2.5 million in 2011 due to the sale of a portion of the Tacoma Water Contract to the City of Bonney Lake. Capital asset expenditures have been funded from capital contributions and the 2006 and 2009 revenue bonds.

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

In 2009, Cascade issued revenue bonds in the amount of \$80,095,000. The proceeds of this obligation have been used in 2009, 2010, and 2011 to acquire the Lake Tapps system from PSE and to fund property acquisitions and pipeline construction along a potential water transmission corridor.

**Seattle Water Contract** - The Seattle water contract entitles Cascade to a specified amount of water each year for a fifty-year period ending December 31, 2053. The amount of the block can be amended based on new members joining Cascade or existing members withdrawing from Cascade prior to December 31, 2011, or a reduction in water yield available to Seattle due to an order of an appropriate federal or state regulatory agency. Amortization of the Seattle water contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$5,979 and \$5,978 for the years ended December 31, 2011 and 2010, respectively. At the end of the contract term, Cascade may continue to purchase up to 5.3 million gallons per day for members that cannot be economically served by any other means. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

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

- 5 -

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

Costs incurred to obtain the Tacoma contract consist of system development charges (\$16,484,000) and capacity reservation fees (\$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. The base water supply agreement is considered to have an indefinite term and therefore will be evaluated annually for impairment and not amortized. Through December 31, 2011, Cascade does not believe impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

In 2011 the City of Bonney Lake agreed to purchase (\$2,747,334) a base amount of Tacoma Water from Cascade for the system development charge that Cascade had paid Tacoma.

**Lake Tapps Purchase Agreement** - Cascade has completed its purchase agreement with PSE for the purchase of Lake Tapps. The purchase closed on December 18, 2009, with payment to PSE of \$34,971,976. An additional payment to PSE of \$5,000,000 was made in 2010 following issuance of the municipal water rights. The Lake Tapps system has an indefinite useful life and will be treated as infrastructure capital assets using the modified approach (except for depreciable assets, such as fleet vehicles, that will be depreciated). Cascade will conduct ongoing maintenance of the system based on current condition assessments and operating requirements.

**Lake Tapps Water Rights** - Costs on this project represent costs incurred by Cascade to secure water rights. These costs will be evaluated annually for impairment for acquired water rights with no expiration. The Washington State Department of Ecology issued water rights to Cascade on September 15, 2010. In August 2008, Cascade executed agreements with the Muckleshoot Indian Tribe (Muckleshoot) and Puyallup Tribe of Indians (Puyallup) regarding Lake Tapps Reservoir water rights. The White River Management Agreement establishes an Agreed Flow Regime that limits diversions to maintain in-stream flows in the White River, and contains other provisions with respect to the operation and maintenance of the Lake Tapps Reservoir that address the concerns of Muckleshoot and Puyallup. In accordance with the Agreement, payments of \$6.2 million and \$13 million were paid to Muckleshoot and Puyallup, respectively, in 2011.

**Interest Capitalization** - Interest costs incurred for the acquisition and/or construction of assets are subject to capitalization based on the guidelines established by Financial Accounting Standards Board Statements 34 and 62. Total interest incurred on bonds for the years ended December 31, 2011 and 2010, was \$6,402,939 and \$6,330,300, respectively. Interest capitalized in 2011 and 2010 was \$886,197 and \$3,587,011, respectively.

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.

- 6 -

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

#### 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 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 and the Tacoma Second Supply Pipeline.

Construction of Segment 1 has been completed and the asset will be depreciated starting in 2012. The pipeline's useful life will be dependent on soil conditions, environment, and other factors. Cascade will use a 50-year useful life for depreciation, which is consistent with other utilities' (like Seattle Public Utilities) practices.

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.

It is likely that capitalized expenditures related to Segment 2 will be expensed in 2012 since it has become less probable that this segment will 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 as the earliest. Starting in 2012, Segment 3 may be placed into "on hold" status until the project is more fully resumed.

**2012 Transmission and Supply Plan Update** - Cascade initiated a process to update its 2004 Transmission and Supply Plan (TSP) in 2009, to be completed in 2012. As required by the Washington State Department of Health, Cascade updates its TSP every six years. The TSP documents Cascade's long-range water supply planning. The TSP update includes analyses of regional growth and water demand. These analyses have demonstrated that Cascade Members will need less water than was anticipated in the 2004 TSP. The outcome of the TSP update will determine 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, based on interpretation of GASB 51, which took effect in 2010, Cascade determined that TSP update expenditures in 2010 do not meet the criteria for being a capitalizable intangible asset. TSP update expenditures in 2010 have therefore been expensed in 2010 and retained earnings for prior year TSP expenditures were adjusted accordingly.

**Eastside Reservoir** - The acquisition of the Eastside Reservoir from Seattle Public Utilities has been deferred until 2013 or later, depending on the outcome of current negotiations with the utility for long-term water contracts. There were no expenditures associated with acquiring the Eastside Reservoir in 2011.

#### 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, 2011, Cascade had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 41,003,035	0.72 years

#### Impaired Investments

As of December 31, 2011, 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; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. Cascade's share of the impaired investment pool principal is \$286,785 and Cascade's fair value of these investments is \$125,406.

#### Interest Rate Risk

As of December 31, 2011, the Pool's average duration was 0.72 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.

#### Credit Risk

As of December 31, 2011, 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 deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office.

**CASCADE WATER ALLIANCE**

**Management's Discussion and Analysis**

**Budget Variances**

Capital expenditures in 2011 related to Lake Tapps and water rights acquisition, Bellevue, Issaquah Pipeline upgrades, and the Tacoma Cascade Pipeline/State Route 900 projects, as well as other minor capital expenditures, were held within budget.

Regional Capital Facilities Charges (RCFC) were budgeted to be \$4.5 million in 2011, but actual RCFC revenue was \$3.2 million due to continued lower construction growth in Cascade's service area and the heavy use of credits by members. Starting in 2012, RCFC revenue is expected to increase, due to the repurchase of member credits in 2011.

Interest and miscellaneous revenue in 2011 was \$2.3 million lower than budgeted due to persisting low interest rates nationally and from a lack of anticipated operating revenue from the sale of water to non-member agencies.

New Water Surcharge revenue was \$1.3 million less than expected due to reconciliation of prior year actual use of Seattle water by members. These adjustments were accommodated by reserve balances in the Operating Fund and had no impact on 2011 member rates or the Operating budget.

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

Total Fund expenditures were held within budgeted amounts in 2011. In the Operating Fund, residential and commercial conservation program rebate expenditures were 40.5% lower than budgeted due to a policy change limiting households to only one toilet reimbursement in 2011. 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, 520 112<sup>nd</sup> Ave. NE, Suite 400, Bellevue, WA 98004.

**CASCADE WATER ALLIANCE**

**Balance Sheets - Assets  
December 31, 2011 and 2010**

	2011	2010 <i>(Restated, Note 13)</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 15,766,164	\$ 18,659,511
Regional capital facility charges receivable	1,053,758	1,663,392
Restricted cash and cash equivalents, current portion		19,200,000
Interest rebate receivable	428,212	432,237
Water rights receivable, current portion	200,000	
Prepaid expenses	77,830	41,182
<b>Total Current Assets</b>	<b>17,525,964</b>	<b>39,996,322</b>
Capital Assets Net of Accumulated Depreciation:		
Lake Tapps - infrastructure	78,806,742	78,213,463
Equipment and furniture	1,006,701	825,894
Seattle water contract	204,216	204,216
Tacoma water contract	9,420,442	9,420,442
Bellevue Issaquah pipeline	22,038,921	22,033,919
	111,477,022	110,697,934
Less accumulated depreciation and amortization	(3,381,361)	(2,609,348)
	108,095,661	108,088,586
Capital Assets Not Being Depreciated:		
Projects in process and assets not yet in service-		
Tacoma water contract	13,736,666	16,484,000
Tacoma Cascade pipeline	32,495,629	31,595,453
Eastside reservoir	262,567	253,215
Other equipment		81,000
<b>Total Capital Assets</b>	<b>154,590,523</b>	<b>156,502,254</b>
Restricted cash and cash equivalents, net of current portion	25,406,445	26,697,529
Water rights receivable, net of current portion	2,347,334	
Bond issuance costs, net of accumulated amortization of \$229,070 (\$165,698 - 2010)	1,355,226	1,418,598
<b>Total Assets</b>	<b>\$ 201,225,492</b>	<b>\$ 224,614,703</b>

See accompanying notes.

CASCADE WATER ALLIANCE

Balance Sheets - Liabilities and Net Assets  
December 31, 2011 and 2010

	2011	2010 (Restated, Note 13)
<b>Liabilities and Net Assets</b>		
Payables and accrued liabilities from current assets	\$ 1,168,703	\$ 1,462,429
Payables related to IRS Social Security refund	1,424,215	294,017
Retroactive water credit	10,186,250	722,284
Payables related to water rights acquisition	40,069	19,200,000
Payables related to regional capital facilities charges credit repurchase	12,819,237	59,869
Long-term debt, current portion	2,110,981	21,738,599
Payables from restricted assets:		
Accrued interest	3,770,000	2,145,979
Long-term debt, current portion	5,880,981	3,675,000
	18,700,218	5,820,979
<b>Total Current Liabilities</b>	<b>18,700,218</b>	<b>27,559,578</b>
Long-term debt, net of current portion:		
Long-term debt payable from unrestricted assets	523,859	552,237
Long-term debt payable from restricted assets	120,835,000	124,605,000
	121,358,859	125,157,237
Other long-term liabilities:		
Bond premium, net of amortization of \$650,463 (\$470,302 - 2010)	1,968,598	2,148,759
<b>Total Liabilities</b>	<b>142,027,675</b>	<b>154,865,574</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	52,859,442	52,158,918
Unrestricted	6,338,375	17,590,211
<b>Total Net Assets</b>	<b>59,197,817</b>	<b>69,749,129</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 201,225,492</b>	<b>\$ 224,614,703</b>

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Revenues, Expenses and Changes in Net Assets  
For the Years Ended December 31, 2011 and 2010

	2011	2010 (Restated, Note 13)
<b>Operating Revenue:</b>		
Water sales	\$ 25,998,670	\$ 25,799,469
Administrative dues	1,444,763	1,269,289
Conservation program	1,282,647	1,049,648
<b>Total Operating Revenue</b>	<b>28,726,080</b>	<b>28,118,406</b>
<b>Operating Expenses:</b>		
Cost of water sold	19,830,259	20,842,438
Salaries and benefits	1,776,544	1,410,517
Professional services	2,261,980	2,098,831
Conservation rebate program	607,625	1,116,130
Depreciation and amortization	655,224	635,065
Communication and public information	177,991	191,082
Office expenses	141,276	128,849
Bank charges	513	964
Rent	114,981	116,089
Maintenance	645,161	1,746,703
Operations	1,677,304	1,852,014
Insurance	101,040	72,775
Dues and subscriptions	37,451	37,557
Miscellaneous	492,752	199,473
<b>Total Operating Expenses</b>	<b>28,520,101</b>	<b>30,448,487</b>
<b>Operating (Loss) Income</b>	<b>205,979</b>	<b>(2,330,081)</b>
<b>Nonoperating Revenue (Expenses)</b>		
Interest income	447,327	720,827
Interest expense, net of amount capitalized	(4,231,044)	(1,796,820)
<b>Total Nonoperating Revenue (Expenses)</b>	<b>(3,783,717)</b>	<b>(1,075,993)</b>
<b>Capital Contributions (Expenses)</b>		
Regional capital facilities charges	3,212,676	3,797,144
Repurchase of regional capital facilities charges credits	(10,186,250)	-
<b>Total Capital Contributions (Expenses)</b>	<b>(6,973,574)</b>	<b>3,797,144</b>
<b>Total Change in Net Assets</b>	<b>(10,551,312)</b>	<b>391,070</b>
Net assets, beginning of year	69,749,129	69,596,551
Prior period adjustment (Note 13)	-	(238,492)
Net assets, beginning of year, as restated	69,749,129	69,358,059
<b>Net Assets, End of Year</b>	<b>\$ 59,197,817</b>	<b>\$ 69,749,129</b>

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows  
For the Years Ended December 31, 2011 and 2010

	2011	2010 <i>(Restated, Note 13)</i>
<b>Cash Flows from Operating Activities:</b>		
Cash received from members	\$ 28,726,080	\$ 28,118,406
Cash paid to suppliers	(25,754,905)	(27,904,316)
Cash paid to and for employees	(2,067,430)	(1,113,742)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>903,745</b>	<b>(899,652)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Regional capital facilities charges	3,805,283	2,949,560
Payments on long-term debt	(3,723,178)	(3,389,474)
Proceeds from sale of capital assets	200,000	
Acquisition of capital assets	(19,614,939)	(7,695,167)
Interest paid on bonds and other term debt	(5,419,696)	(4,597,012)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(24,752,530)</b>	<b>(12,732,093)</b>
<b>Cash Flows from Investing Activities:</b>		
Interest received	464,354	784,185
<b>Net Cash Provided by Investing Activities</b>	<b>464,354</b>	<b>784,185</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(23,384,431)</b>	<b>(12,847,560)</b>
Cash and cash equivalents, beginning of year	64,557,040	77,404,600
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 41,172,609</b>	<b>\$ 64,557,040</b>
<b>Cash and Cash Equivalents Balance is Composed of the Following at December 31:</b>		
Cash and cash equivalents	\$ 15,766,164	\$ 18,659,511
Restricted cash and cash equivalents	25,406,445	45,897,529
	<b>\$ 41,172,609</b>	<b>\$ 64,557,040</b>
<b>Supplemental Disclosure:</b>		
Fixed assets acquired through accounts payable	\$ 63,641	\$ 218,583

See accompanying notes.

- 13 -

(Continued)

CASCADE WATER ALLIANCE

Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2011 and 2010

	2011	2010 <i>(Restated, Note 13)</i>
<b>Reconciling of Operating Income to Net Cash From Operating Activities:</b>		
Net operating income	\$ 205,979	\$ (2,330,081)
Adjustments to reconcile change in operating income to net cash provided by (used in) operating activities-		
Depreciation and amortization	655,224	635,065
Changes in operating assets and liabilities-		
Prepaid expenses	(36,648)	(5,337)
Payables related to water rights acquisition	(328,724)	847,878
Payables related to IRS Social Security refund	(294,017)	294,017
Retiroactive water credit	701,931	(341,194)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 903,745</b>	<b>\$ (899,652)</b>

See accompanying notes.

- 14 -



**CASCADE WATER ALLIANCE**

*Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010*

**Note 1 - Organization and Summary of Significant Accounting Policies**

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

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

**Basis of Accounting** - The financial statements of Cascade are prepared utilizing the flow of economic resources measurement focus and full accrual basis accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14. Cascade applies statements issued by the GASB due to the fact that its members are governmental and all of its board members are appointed by other governmental entities. Cascade applies all statements and interpretations issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989 that are not in conflict with standards issued by the GASB. All activities are accounted for as a single proprietary (enterprise) fund.

**Cash 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, 2007, the King County Investment Pool (the Pool) which holds Cascade investments was rated 'AAA' by Standard & Poor's Rating Services. Standard & Poor's is a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A, 1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office. In January, 2008, the rating of the King County Investment Pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. The rating had not been restored as of December 31, 2011.

**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 assets and a credit to accounts receivable.

**CASCADE WATER ALLIANCE**

*Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010*

**Note 1 - Continued**

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

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

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.

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

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

**Revenues and Expenses** - Revenues and expenses are distinguished between operating and 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. 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 2011 and 2010 is \$6,005 per new Cascade Equivalent Residential Unit (CERU). During 2011, four Cascade Members participated in the RCFC Credit Purchase Program allowing Cascade to purchase RCFC credits at \$2,500 per CERU.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010**

**Note 1 - Continued**

**Federal Tax Status** - Cascade Water Alliance is an authority and instrumentality of its governmental members, organized as a non-profit corporation pursuant to Washington State's Intercal 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses, as appropriate, during the reporting period. Actual results could differ from those estimates.

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

**Reclassifications** - Certain reclassifications were made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications have no effect on change in net assets.

**Note 2 - Capitalizable Contracts**

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

Year Beginning January 1,	Year Ending December 31,	Average Daily Demand (million gallons per day-mgd)
2004	2023	30.3
2024	2029	25.3
2030	2034	20.3
2035	2039	15.3
2040	2044	10.3
2045	2053	5.3

Amortization of the Seattle Water Contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$5,979 and \$5,978 for the years ended December 31, 2011 and 2010, respectively.

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.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010**

**Note 2 - Continued**

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

Year Beginning January 1,	Year Ending December 31,	Average Daily Demand (million gallons per day-mgd)
2009	2017	3.0
2018	2023	5.0

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

Year Beginning January 1,	Year Ending December 31,	Average Daily Demand (million gallons per day-mgd)
2009	2011	2.0
2012	2014	3.0
2015	2017	4.0
2018	2019	5.0
2020	2021	6.0
2022	2023	7.0
2024	2025	8.0

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

Year	Average Daily Demand (million gallons per day-mgd)
2026	6.0
2027	4.0
2028	3.0
2029	2.0
2030	1.0

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

**CASCADE WATER ALLIANCE**

*Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010*

**Note 2 - Continued**

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

	<u>2011</u>	<u>2010</u>
System development charges	\$ 13,736,666	\$ 16,484,000
Capacity reservation fees	9,420,442	9,420,442
	<u>\$ 23,157,108</u>	<u>\$ 25,904,442</u>

The system development charges relate to the base amount of water and the capacity reservation fees relate to the additional water to be supplied. The base water supply agreement is considered to have an indefinite term and therefore will be evaluated annually for impairment and not amortized. As of December 31, 2011 and 2010, management does not believe an impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract. Amortization expense for this additional water supply contract was \$238,492 for both of the years ended December 31, 2011 and 2010.

During 2011, City of Bonney Lake has entered into an agreement with Cascade for water rights purchase under the Tacoma Water Contract for a total of \$2,747,334 that expires 2018 with a monthly payment of \$200,000 in 2011 and 2012, and \$391,222 thereafter. At December 31, 2011, the water rights receivable of \$2,547,334 is included in the balance sheets.

**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, 2011 and 2010, was \$6,402,939 and \$6,330,300, respectively. Interest capitalized in 2011 and 2010 was \$886,197 and \$3,587,011, respectively. The interest rebate related to the Build America Bonds was \$1,292,686 and \$1,248,350 for the years ended December 31, 2011 and 2010, respectively, and is included as an offset to interest expense in the statements of revenues, expenses and changes in net assets.

**Project in Process -**

**Tacoma Cascade Pipeline** - A pipeline extending from the Tacoma Water supply pipelines was 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. Timing of the completion of this project depends on the 2011 Transmission and Supply Plan update and on negotiations currently underway with Tacoma Public Utilities.

**CASCADE WATER ALLIANCE**

*Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010*

**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>2011</u>	<u>2010</u>
Unrestricted cash and equivalents	\$ 15,786,953	\$ 18,871,456
Restricted cash and equivalents	25,343,067	45,764,757
<b>Total</b>	<b>41,130,020</b>	<b>64,636,213</b>
Add fair value adjustment	102,299	187,481
Less checks in excess of cash	(59,710)	(266,654)
<b>Total Cash and Cash Equivalents</b>	<b>\$ 41,172,609</b>	<b>\$ 64,557,040</b>

**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 Balance Sheets as of December 31 are as follows:

	<u>2011</u>	<u>2010</u>
Restricted cash and cash equivalents, current portion	\$ -	\$ 19,200,000
Restricted cash and cash equivalents, long-term	25,406,445	26,697,529
	<u>\$ 25,406,445</u>	<u>\$ 45,897,529</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010

Note 4 - Continued

Changes in restricted assets for the year ended December 31, 2011, are as follows:

	Balance 12/31/2010	Additions	Disbursements	Interest/ Unrealized Gain	Balance 12/31/2011
Revenue bond funds	\$ 19,276,338	\$ 8,632,129	\$ (9,464,583)	\$ 138,530	\$ 18,582,414
Construction funds	26,621,191	225,194	(20,128,597)	106,243	6,824,031
	<u>\$ 45,897,529</u>	<u>\$ 8,857,323</u>	<u>\$ (29,593,180)</u>	<u>\$ 244,773</u>	<u>\$ 25,406,445</u>

Included in this schedule are interest earnings of \$86,518 and unrealized gains of \$46,353 for the revenue bonds funds, and interest earnings of \$55,276 and unrealized gains of \$17,025 for the construction funds.

Note 5 - Capital Assets

The following summarizes the changes in fixed assets of Cascade:

	Restated Balance 12/31/2010	Additions	Transfers	Deletions	Balance 12/31/2011
<b>Capital Assets</b>					
<b>Being Depreciated:</b>					
Lake Tapps	\$ 78,213,463	\$ 593,279	\$ -	\$ -	\$ 78,806,742
Equipment and furniture	825,894	99,807	81,000	-	1,006,701
Seattle water contract	204,216	-	-	-	204,216
Tacoma water contract	9,420,442	-	-	-	9,420,442
Bellevue Issaquah pipeline	22,033,919	5,002	-	-	22,038,921
Less accumulated depreciation and amortization	(2,609,348)	(772,013)	-	-	(3,381,361)
<b>Total Capital Assets</b>	<b>108,088,586</b>	<b>(73,925)</b>	<b>81,000</b>		<b>108,095,661</b>
<b>Capital Assets</b>					
<b>Not Being Depreciated:</b>					
Tacoma water district	16,484,000	-	-	(2,747,334)	13,736,666
Tacoma water contract	31,595,453	900,176	(81,000)	-	32,495,629
Other equipment	81,000	-	-	-	81,000
Eastside reservoir	253,215	9,352	-	-	262,567
<b>Total Capital Assets</b>	<b>48,413,668</b>	<b>909,528</b>	<b>(81,000)</b>	<b>(2,747,334)</b>	<b>46,494,862</b>
<b>Total Capital Assets</b>	<b>\$ 156,502,254</b>	<b>\$ 835,603</b>	<b>\$ -</b>	<b>\$ (2,747,334)</b>	<b>\$ 154,590,523</b>

- 21 -

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010

Note 5 - Continued

	Restated Balance 12/31/2009	Additions	Transfers	Deletions	Restated Balance 12/31/2010
<b>Capital Assets</b>					
<b>Being Depreciated:</b>					
Lake Tapps	\$ -	\$ -	\$ 78,213,463	\$ -	\$ 78,213,463
Equipment and furniture	89,385	22,899	721,595	(7,985)	825,894
Seattle water contract	204,216	-	-	-	204,216
Tacoma water contract	9,420,442	-	-	-	9,420,442
Bellevue Issaquah pipeline	22,026,671	7,248	-	-	22,033,919
Less accumulated depreciation and amortization	(1,868,110)	(749,223)	-	7,985	(2,609,348)
<b>Total Capital Assets</b>	<b>29,872,604</b>	<b>(719,076)</b>	<b>79,935,058</b>		<b>108,088,586</b>
<b>Capital Assets</b>					
<b>Not Being Depreciated:</b>					
Lake Tapps	75,673,195	3,543,948	(79,213,463)	(3,680)	16,484,000
Tacoma water contract	16,484,000	-	-	-	16,484,000
Tacoma Cascade pipeline	30,193,803	1,414,813	-	(13,163)	31,595,453
Other equipment	34,595	-	46,405	-	81,000
Eastside reservoir	243,974	9,241	-	-	253,215
<b>Total Capital Assets</b>	<b>122,629,567</b>	<b>4,968,002</b>	<b>(79,167,058)</b>	<b>(16,843)</b>	<b>48,413,668</b>
<b>Total Capital Assets</b>	<b>\$ 152,502,171</b>	<b>\$ 4,248,926</b>	<b>\$ (232,000)</b>	<b>\$ (16,843)</b>	<b>\$ 156,502,254</b>

- 22 -

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010

Note 6 - Long-Term Debt - Unrestricted

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

	2011	2010
Public Works Trust Fund Loans (PWTF):		
\$100,000 loan authorized, payable in equal annual principal payments based on the amount of the loan drawn to the payment due date with the first payment due in July 2006 and the last payment due July 2011, interest at 0%, secured by the net revenue.	-	20,000
\$1,000,000 loan authorized, payable in equal annual principal payments based on the amount of the loan drawn to the payment due date with the first payment due July 2006 and the last payment due July 2025, plus interest at 50%, secured by the net revenue.	563,928	592,106
Total long-term debt	563,928	612,106
Less current portion	(40,069)	(59,869)
<b>Long-Term Portion</b>	<b>\$ 523,859</b>	<b>\$ 552,237</b>

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

	Principal	Interest
For the Year Ending December 31,		
2012	40,069	2,760
2013	51,565	2,560
2014	40,471	2,359
2015	40,673	2,156
2016	40,876	1,953
2017 - 2021	207,467	6,678
2022 - 2025	142,807	1,577
	<b>\$ 563,928</b>	<b>\$ 20,043</b>

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010

Note 6 - Continued

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

	Balance 12/31/2010	Proceeds	Repayments	Balance 12/31/2011
2011-				
Loan #PW-05-691-PWP-205	\$ 20,000	-	\$ (20,000)	\$ -
Loan #PW-05-691-PRE-142	592,106	-	(28,178)	563,928
	<b>\$ 612,106</b>	<b>\$ -</b>	<b>\$ (48,178)</b>	<b>\$ 563,928</b>
2010-				
Loan #PW-05-691-PWP-205	\$ 40,000	-	\$ (20,000)	\$ 20,000
Loan #PW-05-691-PRE-142	631,580	-	(39,474)	592,106
	<b>\$ 671,580</b>	<b>\$ -</b>	<b>\$ (59,474)</b>	<b>\$ 612,106</b>

Note 7 - Long-Term Debt - Restricted

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

	2011	2010
	-	-

Revenue Bonds:

\$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.	70,910,000	73,175,000

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010

Note 7 - Continued

\$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.

- \$8,880,000 term bonds due September 1, 2026, with interest payable semi-annually at 4.75 annual percentage rate.

- \$16,860,000 term bonds due September 1, 2031, with interest payable semi-annually at 5.00 annual percentage rate.

Total long-term debt	124,605,000	128,280,000
Less current portion	(3,770,000)	(3,675,000)
<b>Long-Term Portion</b>	<b>\$ 120,835,000</b>	<b>\$ 124,605,000</b>

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 ending December 31, 2011 and 2010, was \$105,877 and \$103,212, 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 ending December 31, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
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	23,015,000	24,425,000
	8,880,000	8,880,000
	16,860,000	16,860,000
	124,605,000	128,280,000
	(3,770,000)	(3,675,000)
	<b>\$ 120,835,000</b>	<b>\$ 124,605,000</b>

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010

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>	<i>Principal</i>	<i>Interest</i>
2012	\$ 3,770,000	6,332,942
2013	3,875,000	6,210,325
2014	3,990,000	6,072,255
2015	4,120,000	5,918,162
2016	4,330,000	5,712,162
2017 - 2021	24,490,000	25,279,326
2022 - 2026	29,775,000	18,687,148
2027 - 2031	36,555,000	10,177,101
2032 - 2034	13,700,000	1,638,897
	<b>\$ 124,605,000</b>	<b>\$ 86,028,318</b>

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

	<i>Balance 12/31/2010</i>	<i>Proceeds</i>	<i>Repayments</i>	<i>Balance 12/31/2011</i>
2011 Revenue Bonds	<b>\$ 128,280,000</b>	<b>\$ -</b>	<b>\$ (3,675,000)</b>	<b>\$ 124,605,000</b>
2010 Revenue Bonds	<b>\$ 131,610,000</b>	<b>\$ -</b>	<b>\$ (3,330,000)</b>	<b>\$ 128,280,000</b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010**

**Note 8 - Commitments**

**Lease Commitments** - Cascade leases office space under a noncancelable lease agreement expiring in February 2012. The lease calls for payments of \$9,679 per month with annual stepped increases. Cascade has entered into a five year operating lease agreement for its copier that expires August 2013 with a monthly payment of \$400.

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

<i>For the Year Ending December 31,</i>	
2012	\$ 95,325
2013	175,220
2014	176,870
2015	181,716
2016	186,561
2017	111,318
	<u>\$ 927,010</u>

**Total Minimum Rental Payments**

Rent expense for operating leases totaled \$114,981 and \$116,089 for the years ended December 31, 2011 and 2010, 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, 2011.

Contracted services agreed to and expected to be received in 2011 include the following:

Construction and design services	\$ 899,585
Consulting contracted services	1,318,629
	<u>\$ 2,218,214</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 the 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 (\$6,622 in 2011). Employee and employer contributions were \$123,816 and \$155,675, respectively, for the year ended December 31, 2011 and \$46,032 and \$80,974, respectively, for the year ended December 31, 2010.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010**

**Note 9 - Continued**

Cascade also provides a Section 457 retirement plan available to certain employees who make salary deferral contributions up to the maximum allowed by law. Employee contributions were matched 0% and 33% by Cascade during the years ended December 31, 2011 and 2010, respectively. Employee salary deferrals and Cascade matching contributions were \$120,133 and \$14,667, respectively, for the year ended December 31, 2011 and \$106,528 and \$7,332, respectively, for the year ended December 31, 2010. Cascade will phase out this plan with contributions matched at 0% and 67% for the years ended December 31, 2011 and 2010.

**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 in 2011 and 2010 are as follows:

<b>2011 Member Charges-</b>	<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	\$ 14,464,877	\$ (789,528)	\$ 482,150	\$ 539,117	\$ 966,805	\$ 15,663,421
	Covington			116,578	140,921		257,499
	Issaquah	882,306	(65,345)	81,011	90,583	411,344	1,399,899
	Kirkland	4,034,665	(170,562)	131,304	146,818	318,265	4,460,470
	Redmond	5,438,284	(305,705)	224,870	251,439	842,200	6,451,088
	Sammamish	291,019	47,403	156,545	175,041	623,019	1,293,027
	Skyway	293,634		27,679	30,949	33,028	385,290
	Tukwila	1,877,642		62,510	69,895	18,015	2,028,062
	<b>Total</b>	<b>\$ 27,282,427</b>	<b>\$(1,283,757)</b>	<b>\$ 1,282,647</b>	<b>\$ 1,444,763</b>	<b>\$ 3,212,676</b>	<b>\$ 31,935,756</b>

  

<b>2010 Member Charges-</b>	<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	\$ 14,266,464	\$ (200,084)	\$ 422,853	\$ 540,267	\$ 777,648	\$ 15,807,148
	Covington			94,220	141,627		235,847
	Issaquah	809,346	66,895	71,496	91,345	887,062	1,926,144
	Kirkland	3,628,396	(3,552)	113,254	144,729	246,205	4,129,032
	Redmond	5,258,899	(59,294)	194,847	248,924	1,035,864	6,679,240
	Sammamish	239,885	(213,854)	72,838		855,713	954,582
	Skyway	272,609		24,035	30,709	(59,593)	267,960
	Tukwila	1,733,759		56,105	71,688	54,045	1,915,597
	<b>Total</b>	<b>\$ 26,209,358</b>	<b>\$ (409,889)</b>	<b>\$ 1,049,648</b>	<b>\$ 1,269,289</b>	<b>\$ 3,797,144</b>	<b>\$ 31,915,550</b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2011 and 2010**

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Note 11 - Outstanding Contingency**

In August 2008, Cascade executed agreements with the Muckleshoot Indian Tribe and Puyallup Tribe of Indians regarding Lake Tapps Reservoir water rights. The White River Management Agreement establishes an agreed flow regime, that limits diversions to maintain instream flows in the White River, and contains other provisions with respect to the operation and maintenance of the Lake Tapps Reservoir that address the concerns of the Muckleshoot Indian Tribe and Puyallup Tribe of Indians. Cascade made a payment of \$1,500,000 and \$13,000,000 to the Puyallup Tribe of Indians on September 4, 2008 and May 31, 2011, respectively. Cascade also made a payment of \$600,000 and \$6,200,000 to the Muckleshoot Indian Tribe on January 8, 2010 and on February 28, 2011, respectively.

**Note 12 - Stewardship, Compliance, and Accountability**

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

**Note 13 - Prior Period Adjustment**

During the year ended December 31, 2011, Cascade determined that the capacity reservation fees related to the additional water to be supplied under the Tacoma water contract should have been 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 since 2009. Cascade restated its financial statements for the years ended December 31, 2010 and 2009. The effect of the restatement was to decrease both Cascade's net assets and total change in net assets for 2010 and 2009 by \$238,492.

**Note 14 - Subsequent Event**

Subsequent to year-end, Cascade has entered into a 65-month office space lease that expires July 2017 with a monthly payment of \$6,999 through August 2012, increasing to \$13,999, for the first year, with additional annual stepped increases after the first year.

Additionally, Cascade converted from a Washington non-profit corporation to a Washington Joint Municipal Utility Service on July 12, 2012.

Finally, in February 2012, a pipe leak at a delivery point of Seattle Public Utilities water to a Cascade member utility resulted in a review to determine which agency is financially responsible for unforeseeable incidents at delivery points. This review may result in increased annual operational financial obligation for Cascade.



**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2011 and 2010**

**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 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.

See independent auditors' report.

**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2011 and 2010**

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 (Wolselegal 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.

See independent auditors' report.

**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2011 and 2010**

**Capital Assets Assessment Since Cascade Ownership**

The Lake Tapps Project has been operated by PSE, under contract to Cascade, since Cascade acquired the Project from PSE in 2009. During this time, Cascade has conducted additional facility condition assessment and repair/maintenance/upgrade activities, including:

- Contracting with AECOM to perform a condition assessment of certain Project facilities;
- Contracting with NAES to repair and upgrade the Fish Screen Facility;
- Contracting with GeoEngineers to assess the condition of the dikes;
- Performing inspections and effecting repairs to the Timber Flume and Twin Pipelines and removal of sediment from the settling basins during the 2010-2011 outage;
- Implementing DSO recommended monitoring routines on Dikes 9, 10 and 12;
- Implementing DSO recommendations on Dike 8;
- Demonstrating available discharge capacity;
- Initiating PMP/PMF study;
- Performing repairs and inspection of the Barrier Dam in 2010 and 2011;
- Repairing the ecology block wall on Dike 13 in 2011;
- Repairing Tailrace "wingwall" adjacent to rail road crossing in 2011;
- Performing repairs on Dikes 2B, 3 and 11 in 2012;
- Performing routine maintenance and repairs on roads; and
- Performing routine vegetation removal.

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

Cascade also selected Veolia Water North America (Veolia) as its long-term contract operator for the Project. 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, Veolia will, in addition to performing all necessary operation and maintenance activities:

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

The Manuals and 2013 Budget will be 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.

*See independent auditors' report.*

**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2011 and 2010**

**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 2011-2012 Biennium are summarized below:

Lake Tapps Project Operation and Maintenance Budget:

2011	\$ 3,519,887
2012	\$ 3,502,095

Lake Tapps Project CIP Budget:

2011	\$ 814,000
2012	\$ 1,364,000
2013-2016	\$ 105,075,695
2017-2023	\$ 674,374,030

The Operation and Maintenance Budget and CIP for Cascade's 2013-2014 Biennium are being developed for adoption by the Board in September 2012.

*See independent auditors' report.*

***Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards***

Certified Public  
Accountants  
and Consultants

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

***ADDITIONAL AUDITORS' REPORT  
IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the business-type activities of Cascade Water Alliance (Cascade) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Cascade is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Cascade's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cascade's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Cascade's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cascade's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Clark Nuber P.S.*  
Certified Public Accountants  
September 26, 2012

No matters were reported.

## **APPENDIX G: ADDITIONAL CREDIT EVALUATION CONSIDERATIONS**

### **Introduction**

Cascade Water Alliance (“Cascade”), like other water systems, seeks a competitive cost of capital to deliver high quality, affordable services to its customers. Yet in today’s market, credit ratings and the cost of capital in the water sector may not reflect risk and resilience characteristics that contribute to the financial health of water systems. For example, there is currently little differentiation in the market between systems with strong asset management practices, proactive water demand management, resilient supply sources, and low energy-intensity, despite the fact that such characteristics make systems more flexible in responding to volatile economic and environmental conditions. Consequently, utilities that are building sustainable systems may not benefit from the cost of capital that would be justified by a more systematic analysis of their relative risk.

Current markets do reflect perceived risks associated with changing physical, legal and economic environments. Yet because there is little data for investors to compare the actual risk or resilience of systems to sector trends such as water competition, asset replacement needs and extreme weather, risk premiums are less likely to be driven by data and more likely to be shaped by market biases. Addressing data gaps in the market is essential if capital providers are to support strong management practices and resilient systems.

To support alignment of the market with emerging best practices, Cascade has endeavored to develop and pilot additional credit evaluation considerations for water systems. These considerations consist of the following six elements:

- Institutional Stability and Management
- Demand Management
- Dependability of Water Supplies
- Full-Cost Pricing
- Asset Management
- Energy Intensity of Water Treatment and Delivery

### **Institutional Stability and Management**

*Municipal Corporation.* On July 12, 2012, Cascade converted to a municipal corporation under the 2011 Joint Municipal Utility Services Act, chapter 39.106 RCW. In 1999, the Members entered into an interlocal agreement (“Interlocal Agreement”) to form a nonprofit corporation with authority as a watershed management partnership under the Interlocal Cooperation Act, chapter 39.34 RCW. The 2011 Washington Legislature enacted the Joint Municipal Utility Services Act to improve the mechanism for cooperation among local government utilities that provide water, wastewater, stormwater and/or flood control services. On March 28, 2012, the Board approved an amendment to the Interlocal Agreement in order to convert Cascade to a Joint Municipal Utility Services Authority under the 2011 Joint Municipal Utility Services Act. Following ratification by the Members’ legislative authorities and filing with State Secretary of State, Cascade became the State’s first Joint Municipal Utilities Services Authority and a municipal corporation.

*Supply Commitment to Members.* The Joint Municipal Utilities Services Agreement (the “Joint Agreement”) provides that Cascade will provide for each Member’s water needs, as projected in the Cascade Water Supply Plan and as agreed to by that Member, from the Supply System, net of Independent Supply and subject to the other limitations established in the Joint Agreement, on a parity with all other Full Supply Commitments, and with a guaranteed priority no lower than for any other Supply Commitment made by Cascade.

*Step Up Provisions.* The strength of the Members underpins Cascade’s own strength. Of the seven Members, four (the cities of Bellevue, Kirkland, Redmond, and the Sammamish Plateau Water & Sewer District) currently have AAA ratings from Standard & Poor’s. Together, these four Members contributed over 85 percent of Cascade’s Gross Revenues in 2011. All Cascade Members are subject to step-up requirements to enhance Cascade’s financial security and its ability to meet its financial obligations. See “MEMBER COVENANTS UNDER THE JOINT AGREEMENT – Member Step Up Provisions.”

*Board Decision Structure.* All Board actions must be approved by Dual Majority Vote of all Members, except where the Joint Agreement requires a 65 percent Dual Majority Vote and in certain cases ratification by the same percentage of Member legislative bodies. The Executive Committee has 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. The standing committees of the Board are governed by the Open Public Meetings Act and have been established as follows:

- Finance and Management Committee. The finance and management committee is responsible for the ongoing oversight of the administrative, business systems, and other management and financial affairs of Cascade, including the annual outside audit.
- Resource Management Committee. The resource management committee considers and makes recommendations to the Board on matters relating to planning and development of water supply resources, operations and maintenance, water quality, and water conservation.
- Public Affairs Committee. The public affairs committee considers and makes recommendations to the Board on matters relating to general outreach, public information and communication programs, community outreach and relationships, public relations, intergovernmental affairs, state and federal affairs, and membership.

*Examples of Major Board Initiatives.* In 2011, Cascade developed and adopted a Strategic Plan based on Cascade’s vision for the future with the assistance of Cascade’s employees, Board, Members, and the community. The initiative confirmed that a goal-oriented environment is in place within all functional areas, which enables Cascade to establish an efficient and effective future organizational strategy that focuses on improving its competitive position within the Puget Sound region. In 2011, Cascade adopted a new model for allocating Cascade’s costs to the Members. Existing water contracts have been established to secure future water supply capacity for the Members. The new cost allocation model, which focuses less on usage-based Member charges, eliminates disadvantages in the prior cost allocation model for Members that lack significant independent supply.

*Management Team and Organizational Structure.* Cascade maintains a unique organizational structure and business model that allows for quick and efficient decision making. Cascade’s CEO has a good understanding of the water industry and is respected throughout the nation. Cascade has experienced and highly competent employees. The organization is successful at leveraging limited staff resources to provide high-quality services professionally and efficiently. Cascade has a well-engaged Board, whose members work well together and a transparent governmental process that facilitates open communication with Members.

*Fiscal Policies.* Cascade’s fiscal policies were adopted by the Board in 2003 and amended by the Board in 2012. The fiscal policies focus on three primary objectives: financial integrity and stability; rate equity among members; and efficiency and conservation. Traditional content is related to budgeting, accounting, investing and reporting. In addition, specific policies define: equity funding from Regional Capital Facilities Charges (“RCFCs”) for growth and from rates for repair and replacement; 10 and 20 year rate planning; 5-year rate smoothing through use of the rate stabilization fund; and a policy-based coverage requirement of 1.25 (in excess of the 1.00 bond covenant requirements). In aggregate, the fiscal policies promote conservative and stable financial management and consideration of the long-term strategic requirements of Cascade.

## **Demand Management**

In July 2012, the Board adopted the Transmission and Supply Plan (the “TSP”), which demonstrates how Cascade will meet the water demands of its Members through 2060. This comprehensive plan builds on the initial Cascade TSP adopted in 2004. The TSP evaluates the historical and current water demand of the Members and forecasts future demand. A flexible portfolio of supply sources are recommended to meet the forecast demand.

Cascade used an econometric modeling approach to statistically correlate water demand with factors the influence demand. Inputs to the forecasting model included: water production; water billing; temperature; precipitation; population; number of households (single family and multi-family); household income; employment; marginal price of water; and passive and active conservation measures. This established an average day and peak week baseline demand forecast for residential (gallons per household per day) and non-residential (gallons per employee per day) water needs.

Weather conditions, the type of residential development (single family homes use more water than multi-family homes) and type of employment (industrial establishments use more water than commercial/institutional establishments) directly impact water demand. National studies indicate that as income increases water demand also increases. However, national studies also indicate that water use decreases as the price of water increases.

Conservation savings can be achieved by establishing State or Federal water use standards for plumbing fixtures and other activities. These savings will be achieved as new development proceeds and as older fixtures are replaced (passive conservation). Other conservation savings will be achieved as individual utilities develop and implement additional conservation programs (active conservation). Cascade has incorporated projected savings from both types of conservation into its forecast of future demand.

An uncertainty analysis was performed to generate a range of possible future water need scenarios. Six inputs (considered to have the most impact on water demand) were included in the uncertainty analysis: number of households; number of employees; temperature; precipitation; marginal price of water; and household income. A probabilistic range of projected demand was produced based on a range of values for the key inputs. A Monte Carlo simulation was then used to establish a range of demand forecasts based on random draws from this data set. The uncertainty analysis also

randomly selected from a range of climate change conditions (the climate change scenarios used were developed by the Climate Impacts Group at the University of Washington for the King County Climate Change Technical Committee).

In addition to this uncertainty analysis, Cascade also considered the potential impact of local groundwater supplies being lost (to contamination or regulatory actions), more severe impacts of climate change and high growth in areas not served by one of the major regional water suppliers and included a contingency amount to address these situations. This analysis resulted in a baseline forecast of demand for the Members, a forecast considering climate change and a forecast considering climate change and a regional contingency.

Flattening trends in water consumption in the Puget Sound region and the reduced growth resulting from the economic recession caused Cascade to make further downward adjustments in the demand forecast. Recent growth and short-term growth projections from the Members were used to adjust the forecast through 2020 when the growth rate was assumed to return to that predicted by the econometric model.

Cascade anticipates that actual demand (average day and peak week) will fall within the range defined by the adjusted mean and the 95 percent exceedance forecast, which accounts for possible increased demand due to climate change, as well as water savings due to continuing conservation efforts. Cascade's supply portfolio is designed to provide adequate supply to meet needs within this range.

Demand conditions have shifted in the Puget Sound region in recent years. After decades of rapid growth in population and water needs, all of the regional water suppliers in the central Puget Sound area have experienced flat or even reduced demand during the past decade. With the effects of the recent recession and housing downturn possibly lingering for many years into the future, it is possible that even the adjusted forecast may overstate future demand.

### **Dependability of Water Supplies**

For supply planning, this means that the risk equation has changed. In the past, suppliers in the region faced the risk of growth outpacing supply, but today an equally critical risk is that new water supply projects may be built too soon and burden ratepayers with unnecessary costs. Since the region as a whole currently appears to have an abundance of supply, Cascade will continue to seek partnerships among regional water suppliers to use existing supplies and infrastructure for as long as possible. If demand remains flat or grows only slowly, it may be possible to delay some of the projects that Cascade has shown in its supply portfolio, thereby spreading costs over a longer time and reducing rate impacts and future borrowing needs.

The TSP process was designed to identify a viable portfolio of water sources that would provide Cascade with a secure, reliable, economical and flexible supply through at least 2050. Cascade conducted a multi-criteria evaluation of 28 source options, ranking each based on financial, operational, environmental, implementation and regional/intergovernmental considerations as well as reliability. These source options were combined into portfolios that could be developed over time to meet the forecast demand of the Members. The key features of the preferred portfolio are continued use of Member Independent Supplies, existing wholesale water purchase contracts and development of Lake Tapps as a long-term water supply to meet Member needs through 2060. In addition, the preferred portfolio incorporates additional wholesale purchase and development of smaller supplies (such as reclaimed water) that can be developed relatively quickly and provide flexibility. The preferred portfolio requires the construction of a transmission pipeline by 2024 and the first phase of the Lake Tapps project by 2030.

To address the risk of projects being built too soon, Cascade is engaged in discussions with its two major wholesale suppliers, Seattle Public Utilities ("Seattle") and Tacoma Water ("Tacoma"). These discussions are focused on restructuring the existing wholesale agreements to: better match Cascade's existing water needs; provide longer term access to wholesale water; and provide additional flexibility for Cascade as well as Seattle and Tacoma. See "CASCADE WATER ALLIANCE – Water Supply and Transmission." The fact that Cascade has secured water rights to develop Lake Tapps as a municipal water supply enables these discussions to proceed. With the ability to construct the Lake Tapps project, Cascade, Seattle and Tacoma can fully utilize existing sources of supply. Restructuring of the existing wholesale contracts could result in the need for new transmission pipelines and the Lake Tapps Project being pushed back by 10 to 15 years.

### **Full-Cost Pricing**

As a wholesale supplier of water, Cascade was organized by the Members to provide a stable and predictable revenue stream. Cascade is a utility enterprise that recovers all of its costs from Member Charges. Cascade's wholesale charges are based on Member customer base and a three-year rolling average of Member wholesale water demands. With the exception of RCFCs, all of Cascade's revenues are established by Board adoption of annual charges to Members. To mitigate annual variation in RCFC revenues, RCFCs are deposited into a separate RCFC account, and use of these funds is based on available fund balance without reliance on current year receipts. RCFC fund balances are used for cash funding of capital projects and repayment of debt in accordance with fiscal policies.

Cascade's adopted fiscal policies focus on three primary objectives: financial integrity and stability; rate equity among Members; and efficiency and conservation. In aggregate, the fiscal policies promote conservative and stable financial management and consideration of long-term strategic requirements of the utility. Cascade also has adopted rate and RCFC methodologies that delineate the rate structure and restrict the use of growth-related RCFC charges.

In the Pacific Northwest, water resources are primarily seasonally constrained due to weather patterns and limited storage capacity. Given this, Cascade's rates are specifically based on Member peak season demands, thus encouraging efficient use of available resource capacity. Peak season demand, in million gallons per day ("MGD"), defines the allocation of most costs to Members. This encourages the off-peak use of Cascade resources at little or no cost to Members, and is intended to generate conjunctive benefits of independent supplies. Similarly, Cascade has restructured and re-oriented its conservation program to increase peak season savings and enhance the return on conservation investments. Through efficient pricing and targeting critical demand metrics, Cascade is working to more efficiently use existing resources and defer new capacity investments.

Cascade's fiscal policies also require annual updates to a 10 year rate forecast and require a 20 year forecast on a six year cycle. In practice, Cascade maintains a rate and financial forecast model extending more than 70 years in order to plan through generations of capacity investments. Through this extended outlook, Cascade decision analysis can examine and compare long-term trends in revenue requirements, capital funding needs, risk, and costs for Members and their customers as related to isolated or programmatic decisions. Cascade's practices have regularly incorporated business analysis and risk assessment as central elements of prudent decision-making.

Since its inception, Cascade has recognized the long-term nature of its investments and service obligations. Cascade has established a consistent basis for decision-making consistent with those longer term requirements, with some of the results including:

- Annual rate increases averaging over 6 percent per year since formation, consistent with long-term forecasts and trends;
- A rate policy directing 5 year rate smoothing that results in rate increases in anticipation of future needs and use of the rate stabilization reserve to regulate related rate patterns. This continues to lead to orderly annual increases consistent with longer term revenue needs;
- Specific policies to create equity accumulation for capital projects through dedicated (restricted) funding from RCFCs and rates;
- Increases in RCFCs (growth charges) to more completely reflect capacity investment requirements; and
- Revised Member charge features to enhance equity among members and generational equity given changes in demands and strategies.

### **Asset Management**

As utilities face the challenges of managing in an era of uncertainty, it is essential that they establish a framework within which they make rational decisions. These decisions will find the appropriate balance between risk and consequences. Cascade has chosen an asset management approach to decision making to accomplish the goal of determining risks, measuring consequences and choosing a path forward providing its Board with both certainty and flexibility.

Cascade defines "asset management" as meeting agreed upon customer and environmental service levels while minimizing life cycle costs.

Cascade is developing a decision making framework and culture that assures long term water supply using a triple bottom line model which addresses supply, social and environmental costs and benefits. This leads to decisions which emphasize certainty of supply while still managing rates and costs in a rational way. To do this Cascade is addressing the following nine areas.

*Customer and Environmental Service Levels.* Cascade through its Board has adopted both customer service and environmental service levels for the Members. These are reflected not only in the regulatory processes Cascade is involved in but also in agreements it has in place with the Puyallup and Tulalip Tribes, the homeowners surrounding Lake Tapps (Cascade's future water supply), and the cities that surround Lake Tapps (Auburn, Sumner, Bonney Lake and Buckley). Cascade has agreed upon seasonal Lake Tapps levels with the community; reached consensus on White River instream flows and ramping rates for fish habitat; and entered into agreements with the cities that surround Lake Tapps. All of these agreements helped Cascade assure regulatory certainty first, by allowing Cascade to receive approval of a permanent water right and second, to minimize any potential issues when Cascade needs to construct transmission and treatment facilities.

*Risk Assessment and Quantifiables.* Cascade has adopted a method of scenario planning which incorporates risk assessment based on quantification (where appropriate) to analyze future risk and consequences. This has proven particularly important in looking at long-term water and demand planning, long-term water supply contracts and capital and operating investment decisions. This has led Cascade to rebalance its future water supply portfolio options which not



only assure water supply for the next 100 years, but also optimize future rate scenarios (while still incorporating full cost pricing) and provide portfolio adjustment flexibility for future policy makers.

*Life Cycle Cost Analysis Using Triple Bottom Line.* Cascade uses a business case approach when making project decisions. This takes into account triple bottom line (financial, social, environmental) cost and benefits and total lifecycle (capital, operations and maintenance, disposal) analysis of an asset. By considering these elements, only projects delivering high value will be selected for implementation. It also allows Cascade to choose alternatives which maximize rate payer value during the life of the decision.

*Long Range Planning.* Cascade has also adopted a formal long-term Strategic Plan which drives budget and decision making. This plan includes an operational implementation plan updated every two years with the Shortage Plan updated every five years.

*Asset and Data Systems.* Cascade has adopted a formal Computer Managed Maintenance System (“CMMS”) (using ORACLE Work and Asset Management (“WAM”)) to set a foundation for optimizing all asset decisions. A CMMS package maintains a computer database of information about an organization’s maintenance operations. This includes asset costs, maintenance history, age, condition assessment, asset usage, and other factors. By tracking this information, better management decisions can be made so that maintenance workers can do their jobs more effectively and future repair versus replacement decisions can be optimized, thereby optimizing the rate impacts for customers.

For those assets in which condition assessment and asset data has been collected, asset replacement schedules have been put in place with budget appropriations. For example, the 2300’ timber flume structure was condition assessed during a 2010 flow line outage and is now scheduled for replacement in 2015. The initial condition assessment was performed in 2006 by CH2M Hill with an associated capital budget stream. Another assessment is anticipated for the lower conveyance facilities in 2016.

Cascade is in the process of preparing for the implementation of a formal Document Management System in 2013 and 2014. This includes the inventory and integration of all documents, plans and specifications, and pictures obtained from Puget Sound Energy and developed by Cascade since its inception.

*Rational Rates and Affordability.* Cascade continues to adopt rates which incorporate principles of full cost pricing. Cascade will be formally reviewing both intergenerational equity and affordability issues in the next year.

In the last year, Cascade has updated its fiscal policies to assure future rate and economic stability. Cascade also continues to use a five-year rate smoothing policy to assure needed revenue while minimizing wide rate swings and provide more certainty on rates for decision makers. The Board remains committed to approving rates which implement its long-range strategic direction.

*Optimize Organizational Structure, Decision Making and Roles and Responsibilities.* Cascade has a unique organizational structure which allows for not only high quality decision making but also timely decision making. Contrary to many organizations, Cascade has a small staff, but utilizes many outside resources. This model, together with well documented policies and procedures (such as a recently developed procurement guidebook), allows Cascade management and staff to make quick and efficient decisions. Providing well thought out, transparent information assists the Board in efficient decision making. This direction continues a joint private/public model for Cascade which assures efficiency and effectiveness of both our analytical capability and timelines of decision.

*Normal Capital and Operational Decision Making Processes.* Cascade is unusual in the public sector in that it has fully developed a zero-based budget process. This allows Cascade to continually evaluate the effectiveness of its program and costs while at the same time continue to set and accomplish priority activities. Cascade’s zero-based budget starts with a blank slate, upon which the following are added to develop a full biennial budget: 1) funding for strategic initiatives as identified in the current Board-adopted Strategic Plan; 2) funding for specific and approved departmental non-capital work initiatives; 3) funding for capital improvement program items; and 4) funding and other incidental expenditures necessary to support the work identified above.

The Board continues to make both capital and operating decisions and policy decision consistent with the Strategic Plan while allowing Cascade staff to make implementation decisions.

*Track and Measure Results.* Cascade has developed an annual work plan approach to implementing the Board’s Strategic Plan. This work plan is reviewed by the Board to assure consistency with Board policy objectives. The results are reported to the Board annually and are the basis of CEO and staff performance. These results also allow clarity of purpose and responsibilities between the Board and staff.

### **Energy Intensity of Water Treatment and Delivery**

Cascade experiences energy requirements well below typical or average utility systems. A significant portion of both Cascade’s current infrastructure and contract supply sources are gravity rather than pumped systems, with little energy cost related to moving water. For future treatment investments, Cascade can assure that all appropriate efficiency

measures can be included in the design. Cascade additionally expects to have opportunities for hydroelectric energy generation from its Lake Tapps supply system when developed as a supply source as a means to offset related system energy needs.