

***2017-2018 ADOPTED
BUDGET***

DECEMBER 31, 2016



Water for today...
and tomorrow

2017-2018 ADOPTED BUDGET

DECEMBER 31, 2016

2017 Board Members

Fred Butler, Chair

Mayor, City of Issaquah

John Stokes, Vice Chair

Mayor, City of Bellevue

Penny Sweet, Secretary/Treasurer

Councilmember, City of Kirkland

John Marchione, Director

Mayor, City of Redmond

Allan Ekberg, Director

Mayor, City of Tukwila

Lloyd Warren, Director

President, Sammamish Plateau Water

Jon Ault, Director

Commission President, Skyway Water & Sewer District

2017 Alternate Board Members

Mary Lou Pauly

Deputy Council President, City of Issaquah

Vandana Slatter

Councilmember, City of Bellevue

Doreen Marchione

Councilmember, City of Kirkland

Angela Birney

Councilmember, City of Redmond

Joe Duffie

Council President, City of Tukwila

Mahbubul Islam

Commissioner, Sammamish Plateau Water

C. Gary Schulz

Commission Vice President, Skyway Water & Sewer District

Water for today...
and tomorrow



This document was prepared by Christopher Paulucci, Finance and Administration Manager, and Scott Hardin, Director of Finance & Administration. Questions or requests for information should be addressed to:

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INTRODUCTORY SECTION

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- Cascade's Mission
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TRANSMITTAL LETTER

December 31, 2016

Cascade Water Alliance Members, Board Members and Alternate Board Members:

We are pleased to present to you the 2017-2018 Cascade Water Alliance Budget that was adopted by the Cascade Board on October 26, 2016, by Resolution No. 2016-15. The 2017-2018 Budget establishes the financial plan to provide for continued improvement in the delivery of safe, reliable and clean water to Cascade's Members. The Budget will enable the provision of all Cascade services, as well as the operations, maintenance, planning, and infrastructure improvements needed for Cascade's water transmission and supply system.

Cascade's 2017-2018 budget was built from the "ground up," starting with the Board-approved strategic goals listed in the 2010 Strategic Plan. After identifying targets, measures, and strategies to achieve the goals, staff allocated appropriate budget resources to ensure their success. Other work plan resources, not specifically listed in the strategic plan, were added after review of short-term operational needs at the White River project and other exigencies. The final layer of budget resources was added for overhead required to support the programmatic functions. The Performance Measures section of this Budget Book describes the interconnection of strategic goals, targets, measures, strategies, budget, and performance reporting.

The 2017-2018 Budget positions Cascade well to advance several key initiatives in 2017:

Cascade's conservation program continues to provide opportunities for customers to conserve water and to lower utility bills through activities such as gardening classes, commercial irrigation audits, the Conservation Road Show, showerhead and aerator installations at apartment complexes, and a conservation item order page on Cascade's website. Cascade is also evaluating strategies to manage peak-season demand using new technologies and best practices.

The 2017-2018 Budget estimated resources and expenditure authority of Cascade Water Alliance is as follows:



Appropriation Authority

Fund	2017	2018
Operating	\$46,352,837	\$50,933,487
Regional Capital Facilities Charge	8,407,000	8,407,000
Rate Stabilization	2,212,286	2,234,409
Construction	21,530,925	24,098,651
Bond	30,495,953	30,237,852
Total	\$108,999,001	\$115,911,399

Although Cascade has a biennial budget, Member rates and charges will continue to be adopted annually.

In 2017, Cascade will collect **\$37,646,188** from its Members (excluding RCFC’s, which are variable). In 2018, Cascade is forecast to collect **\$39,152,036**.

Major budgeted operating expenses in 2017 and 2018 include:

	<u>2017</u>	<u>2018</u>
Water contracts with Seattle and Tacoma utilities	\$23,025,616	\$22,299,929
Lake Tapps operations and maintenance	2,380,700	2,490,700
Cascade staff salary & benefits	2,140,467	2,152,803
Other professional services	1,194,000	1,051,000
Conservation program	610,000	610,000
Communications & intergovernmental	420,000	420,000
<u>Other, miscellaneous</u>	<u>1,747,000</u>	<u>1,879,300</u>
Total	\$31,517,783	\$30,903,732

The budgeted expenditures above do not include interfund transfers, debt service, and Capital Improvement Program (CIP) costs. Also, due to rate smoothing, reserve requirements, and prior year adjustments, member charges in any year will not exactly match budgeted operating expenses. The figures above are meant to provide an approximate correlation of member charges and operating expenses.

The 2017-2018 Budget will meet cash flow, debt coverage and reserve requirements as mandated by Cascade’s fiscal policies.



The 2017-2018 CIP is \$6,722,161 (2017) and \$18,980,404 (2018), which includes security improvements, piezometers and dike improvements, and various small Lake Tapps projects. It also includes minor improvements to the Bellevue-Issaquah Pipeline. The largest CIP projects will be payments to Seattle Public Utilities and Tacoma Public Utilities for water supply contracts.

The Debt Service budget in 2017 and 2018 is \$11,994,462 and \$11,953,525, respectively. Other outstanding debt includes a Public Works Trust Fund loan bonds issued in 2006 and 2009.

Funding for the 2017-2018 Budget reflects an average 3.0% increase in Member water charges in 2017. At this time the average projected rate increase for 2018 is 4.0%. Capital projects are funded by Cascade's 2012 bond proceeds.

The 2017 Regional Capital Facilities Charge (RCFC) is the same as the 2009 through 2016 level of \$6,005, and is forecast to remain at \$6,005 in 2018.

At the beginning of 2017, staffing will be at the full level (eleven positions) authorized by the Board on March 18, 2008, and on December 15, 2010:

- | | |
|-------------------------------|--|
| 1. Chief Executive Officer | 7. Intergovernmental & Communications Director |
| 2. Program & Policy Assistant | 8. Management Assistant |
| 3. Capital Projects Director | 9. Director of Finance & Administration |
| 4. Director of Planning | 10. Water Resources Manager |
| 5. Economist | 11. Finance & Administration Manager |
| 6. Operations Manager | |

Cascade's budget development process and document continues to improve. It is our goal to pursue the Government Finance Officers Association of the United States and Canada (GFOA) Distinguished Budget Presentation Award this year. This program establishes criteria that have helped us improve Cascade's Budget in a manner that enables the document to serve as a policy document, an operations guide, a financial plan, and a communications device. In an effort to build a budget document that meets recognized quality indicators, Cascade intends to apply the GFOA criteria to budgets, with the goal of receiving the GFOA Distinguished Budget Presentation Award.

Preparation of the budget is a complex task. We would like to thank member staff and Cascade staff for their role in identification and discussion of policy issues embodied in the 2017-2018 Budget.



Respectfully submitted,

A handwritten signature in black ink that reads "Chuck Clarke".

Chuck Clarke
Chief Executive Officer

A handwritten signature in black ink that reads "Christopher N. Paulucci".

Christopher N. Paulucci CPA CGMA
Finance and Administration Manager



CASCADE'S VISION

Create a lasting legacy by establishing a model for regional cooperation and effective public resource management.

CASCADE'S MISSION

Cascade provides safe, clean and reliable water to our members in a cost effective and environmentally responsible manner. We accomplish our mission by:

- Constructing, managing and operating water supply infrastructure;
- Fostering flexible long-range supply and demand planning for the region;
- Supporting the water needs of people and fish;
- Building partnerships and regional collaboration;
- Maintaining "One Cascade" comprised of diverse members that share common mission and values.

ABOUT CASCADE

Cascade Water Alliance is a joint municipal utility services authority composed of cities and water districts working together to ensure a clean, safe and reliable water supply today and well into the future. Cascade supplies approximately 350,000 residents and 22,000 businesses in Bellevue, Kirkland, Redmond, Issaquah, Sammamish, Tukwila and Skyway - nearly 50 percent of retail water sales in King County outside of Seattle.

The Interlocal Contract that established Cascade in 1999 (amended in 2004 and superseded by a Joint Municipal Utilities Services Agreement in 2012) gives it the responsibility to:

- Purchase wholesale water from other regional suppliers
- Coordinate conservation and supply management
- Acquire, construct and manage water supply infrastructure
- Foster regional water planning that provides adequate water for both people and fish

Cascade's 2012 Transmission and Supply Plan describes four major programs that will be the Cascade Water system:



- The Block Contract with Seattle
- Purchase of water from Tacoma
- Development of the Lake Tapps Reservoir as a municipal water supply source
- Independent water supplies

Cost-effective conservation efforts to reduce regional demand and the development of new water sources are both important elements of Cascade's long-term water supply plan.

Cascade is governed by a Board of Directors that consists of elected officials from our Members. Officials are appointed to the Cascade Board by their fellow Council Members or Commissioners. Officers and Committee Chairs are appointed by the Board. Cascade's Board of Directors for 2017 is shown here.

(Board Alternates are listed on inside cover)



Fred Butler, Chair - Mayor, City of Issaquah



John Stokes, Vice Chair, - Mayor, City of Bellevue



Penny Sweet, Secretary/Treasurer - Councilmember, City of Kirkland



Jon Ault, Director – Commission President, Skyway Water & Sewer District



Angela Birney, Public Affairs Committee Chair – Councilmember, City of Redmond

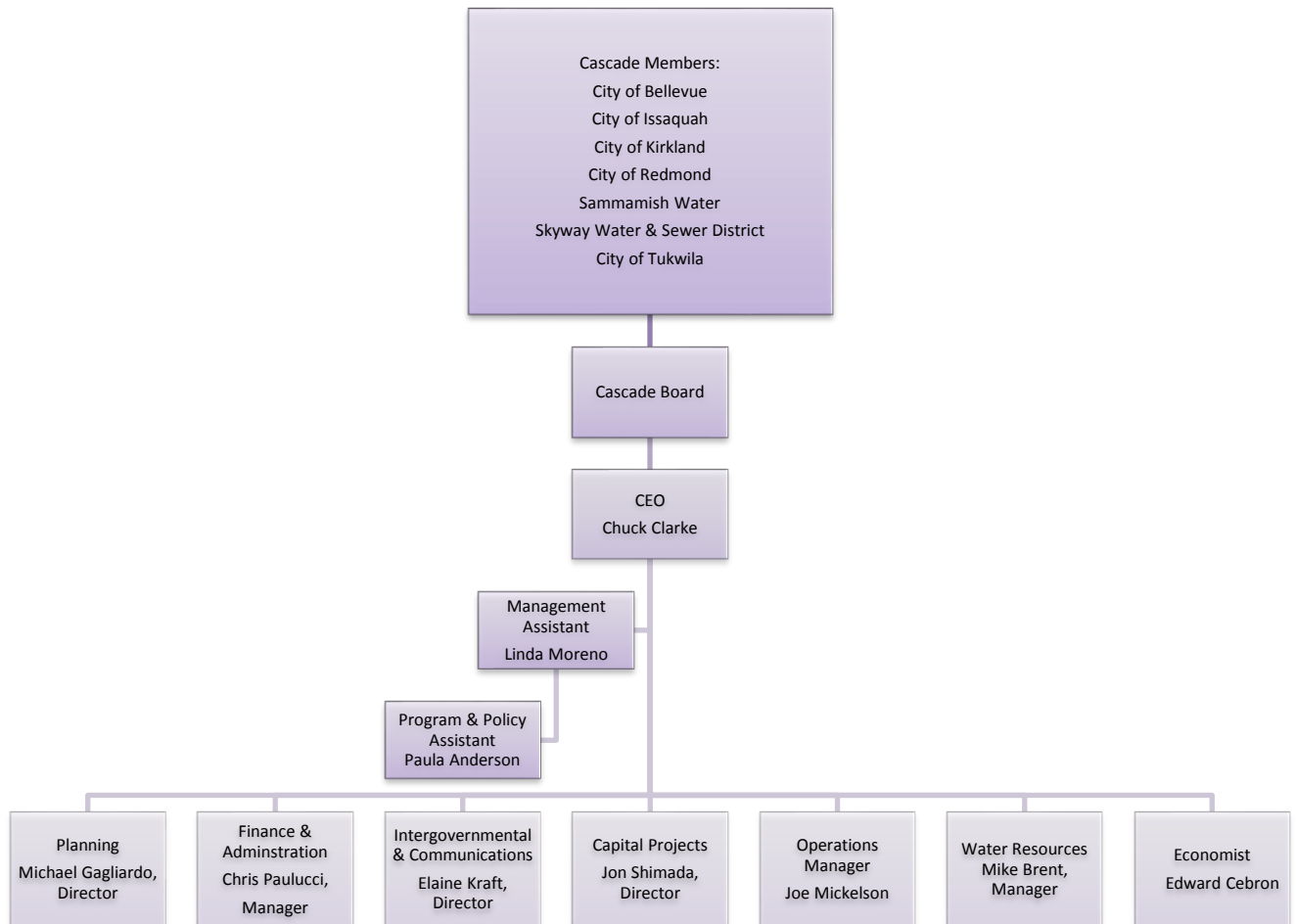


Allan Ekberg, Director –Major, City of Tukwila



Lloyd Warren, Resource Management Committee Chair-President, Sammamish Plateau Water

2017-2018 ORGANIZATION CHART



FINANCIAL SECTION

- Capital Improvement Program
- 2017-2018 Budget Adoption Resolution
- 2017-2018 Rates and Charges Resolution
- 2017 Regional Capital Facilities Charge Resolution
- 2015 Audited Financial Statements



CAPITAL IMPROVEMENT PROGRAM

The 2017-2018 Capital Improvement Program (CIP) is funded at \$6,722,161 in 2017 and \$18,980,404 in 2018, and includes nine active projects. Six of the active projects are associated with the White River - Lake Tapps system, which Cascade acquired from Puget Sound Energy in December 2009. Another project accomplishes relatively minor capital improvements to the Bellevue-Issaquah Pipeline. Water contracts with Tacoma and Seattle comprise the final two capital projects. Cascade’s 2017-2018 CIP expenditures are funded by RCFC revenues and proceeds from bond debt issued in 2006 (refinanced in 2014), 2009, and 2012.

The CIP summary table below displays the current seven-year CIP and the 2017-2018 CIP:

CIP Projects	2017	2018	2019	2020	2021	2022	2023	2017 - 2023 Total
Upper conveyance projects			\$ 285,000	\$ 500,000				\$ 785,000
Lake Tapps reservoir ongoing piezometers & dike improvements	\$ 200,000	\$ 200,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 900,000
Lower conveyance projects	\$ 100,000	\$ 240,000				\$1,950,000		\$ 2,290,000
Security and SCADA	\$ 300,000	\$ 100,000	\$ 300,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 1,100,000
Facilities: roofs, planking, decking, etc.	\$ 65,000	\$ 20,000	\$ 100,000	\$ 275,000	\$ 190,000			\$ 650,000
Equipment	\$ 95,000	\$ 50,000	\$ 50,000		\$ 50,000		\$ 50,000	\$ 295,000
Bellevue-Issaquah Pipeline improvements		\$ 100,000		\$ 100,000		\$ 100,000		\$ 300,000
Capital risk	\$ 550,000	\$ 750,000	\$ 1,000,000	\$ 1,450,000	\$ 1,500,000	\$ 750,000	\$1,500,000	\$ 7,500,000
SUBTOTAL	\$ 1,310,000	\$ 1,460,000	\$ 1,835,000	\$ 2,525,000	\$ 1,940,000	\$3,000,000	\$1,750,000	\$13,820,000
Tacoma agreement	\$ 5,412,161	\$ 5,520,404	\$ 5,630,812	\$ 5,743,428	\$ 5,858,297	\$5,630,812	\$5,743,428	\$39,539,343
Seattle contract		\$12,000,000						\$12,000,000
TOTAL CIP	\$ 6,722,161	\$18,980,404	\$ 7,465,812	\$ 8,268,428	\$ 7,798,297	\$8,630,812	\$7,493,428	\$65,359,343

The seven-year CIP includes projects that were included in the 2012 Transmission & Supply Plan (TSP). The 2012 TSP has delayed Lake Tapps water treatment and transmission (pipeline) projects farther into the future than projected in the 2004 TSP, due to the execution of continuing water supply contracts with Tacoma and Seattle.

More detailed information for each project is shown in the tables that follow:

Project Name: Upper Conveyance System Improvements

Program: White River/Lake Tapps



Estimated Start Date: 2019
 Estimated Completion Date: Ongoing
 2017 Budget: \$0
 2018 Budget: \$0
 Total Project Budget: \$785,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$0	\$0	\$285,000	\$500,000	\$0	\$0	\$0	\$785,000

Project Description: Placeholder program for capital improvement projects needed in the upper conveyance system of the White River/Lake Tapps Project. In 2019, it is anticipated that improvements will be made to the Wolslegal Basin 6-foot valve and sediment removed from Printz Basin. In 2020, it is anticipated that a new plunger valve will be installed at the Valvehouse facility.

Project Name: Lake Tapps Reservoir Ongoing Piezometers and Dike Improvements

Program: White River/Lake Tapps
 Estimated Start Date: 2017
 Estimated Completion Date: Ongoing
 2017 Budget: \$200,000
 2018 Budget: \$200,000
 Total Project Budget: \$900,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2015-2021 Total
\$200,000	\$200,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$900,000

Project Description: Placeholder program for capital improvements related to the Lake Tapps Reservoir dikes and piezometers. In 2017 and 2018, it is expected that a seismic study of the dikes started in 2016 will generate a set of recommendations to be made to various dikes to meet current seismic codes. The funding set aside in 2017 and 2018 will pay for these recommendations. In addition, this funding will pay for any adjustments necessary for the piezometers and weirs needed to monitor seepage through the dikes.

Project Name: Lower Conveyance System Improvements



Program: White River/Lake Tapps
 Estimated Start Date: 2017
 Estimated Completion Date: Ongoing
 2017 Budget: \$100,000
 2018 Budget: \$240,000
 Total Project Budget: \$2,290,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$100,000	\$240,000	\$0	\$0	\$0	\$1,950,000	\$0	\$2,290,000

Project Description: Placeholder program for capital improvements needed to address the lower conveyance system of the White River/Lake Tapps project. In 2017, Cascade plans to replace the Bear Trap Cover which was removed to use as an entry point for the Condition Assessment in 2014-15. In 2018, it is anticipated that Standpipe #3 will be replaced with #4 parts, Forebay operators 2 and 3 will be replaced, and the Tunnel Intake trash rack cleaner will be replaced.

Project Name: Security and SCADA Improvements

Program: White River/Lake Tapps
 Estimated Start Date: 2017
 Estimated Completion Date: Ongoing
 2017 Budget: \$300,000
 2018 Budget: \$100,000
 Total Project Budget: \$900,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$300,000	\$100,000	\$300,000	\$100,000	\$100,000	\$100,000	\$100,000	\$1,100,000

Project Description: When Cascade purchased the White River Project from PSE, it included an existing security system and Supervisory Control and Data Acquisition System (SCADA). In 2014, Cascade hired a consultant to develop a long term strategic plan for the White River Project security needs. In 2016, Cascade started construction of Phase 1 improvements of the strategic plan. In 2017, funds will be used to finish construction of Phase 1, start design of Phase 2, and to perform



some upgrades to the SCADA system at the Powerhouse. In 2018, construction of Phase 2 improvements will start.

Project Name: Facility Improvements

Program: White River/Lake Tapps

Estimated Start Date: 2017

Estimated Completion Date: Ongoing

2017 Budget: \$65,000

2018 Budget: \$20,000

Total Project Budget: \$650,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$65,000	\$20,000	\$100,000	\$275,000	\$190,000	\$0	\$0	\$650,000

Project Description: Placeholder program for capital improvements necessary for facilities needed for operations and maintenance of the White River/Lake Tapps project. In 2017 and 2018, Cascade plans to paint the Powerhouse exterior, improve the Crew Quarters facility, and install new windows and paint the Gatehouse. In the future, other facility improvements will be made such as; other roof replacements, wood decking, window replacements, facility demolitions, hazardous material abatement, etc.

Project Name: White River/Lake Tapps Equipment

Program: White River/Lake Tapps

Estimated Start Date: 2017

Estimated Completion Date: Ongoing

2017 Budget: \$95,000

2018 Budget: \$50,000

Total Project Budget: \$250,000

7-Year CIP



2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$95,0000	\$50,000	\$50,000	\$0	\$50,000	\$0	\$50,000	\$295,000

Project Description: Placeholder program for the purchase of equipment necessary for operations and maintenance of the White River/Lake Tapps project. This may include marine and land vehicles (boats, backhoes, trucks, cranes, etc.), USGS gauges, new generators, trailers, mobile housing, etc.

Project Name: Bellevue Issaquah Pipeline Improvements

Program: Bellevue Issaquah Pipeline

Estimated Start Date: 2017

Estimated Completion Date: Ongoing

2017 Budget: \$0

2018 Budget: \$100,000

Total Project Budget: \$300,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$0	\$100,000	\$0	\$100,000	\$0	\$100,000	\$0	\$300,000

Project Description: Placeholder program for capital improvements necessary for the Bellevue Issaquah Pipeline. Placeholder amounts of \$100,000 are budgeted every other year in case of needed repairs or upgrades.

Project Name: Capital Risk

Program: Capital Projects

Estimated Start Date: 2017

Estimated Completion Date: Ongoing

2017 Budget: \$550,000

2018 Budget: \$750,000

Total Project Budget: \$7,500,000

7-Year CIP

2017	2018	2019	2020	2021	2022	2023	2017-2023 Total
\$550,000	\$750,000	\$1,000,000	\$1,450,000	\$1,500,000	\$750,000	\$1,500,000	\$7,500,000



Project Description: Placeholder program for large project contingency such as replacement of the Powerhouse Valve #2 with a plunger type valve, other dike seismic improvement projects, lower conveyance systems improvements identified by the condition assessment inspections, energy recovery, and other unforeseen capital projects needed to operate and maintain the White River Project in the most cost-effective manner possible.

Project Name: New Tacoma Agreement

Program: Water Supply Contracting

Start Date: 2013

Estimated Completion Date: Ongoing

2015 Budget: \$5,202,000

2016 Budget: \$5,306,040

Total Project Budget: \$119,740,686 (through 2042)

7-Year CIP

2015	2016	2017	2018	2019	2020	2021	2015-2021 Total
\$5,202,000	\$5,306,040	\$5,412,161	\$5,520,404	\$5,630,812	\$5,743,428	\$5,858,297	\$38,673,142

Project Description: 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 is financing initial payments totaling \$20 million under the amended structure with bond proceeds.

Project Name: Seattle Extension Contract

Program: Water Supply Contracting

Start Date: 2013

Estimated Completion Date: Ongoing

2015 Budget: \$0

2016 Budget: \$0

Total Project Budget: \$22,000,000 (through 2024)



7-Year CIP

2015	2016	2017	2018	2019	2020	2021	2015-2021 Total
\$0	\$0	\$0	\$12,000,000	\$0	\$0	\$0	\$12,000,000

Project Description: An agreement has been reached to amend the current Seattle Agreement. The existing capacity of 33.3 mgd was extended through 2039, then ramped 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. The amendment was ratified in 2013.



2017-2018 BUDGET ADOPTION RESOLUTION



Attachment 1

CASCADE WATER ALLIANCE
RESOLUTION No. 2016-15

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE, A WASHINGTON MUNICIPAL CORPORATION, PROVIDING FOR A CASCADE WATER ALLIANCE BUDGET AND ADOPTING A BUDGET FOR 2017 AND A BUDGET FOR 2018

WHEREAS, the Cascade Water Alliance ("Cascade") is a Washington municipal corporation formed under authority of the Joint Municipal Utilities Authority Act (Chapter 39.106 RCW) to provide water supply to its Members; and

WHEREAS, by Resolution 2010-08, the Board established a two-year fiscal biennium budget that will consist of the adopted two consecutive annual budgets, which together shall be referred to as "the biennial budget" which will appropriate funds for two consecutive but non-transferrable years, and that at the beginning of the second year of the biennium, the Board will consider and re-confirm the budget for the second year; and

WHEREAS, Cascade staff developed preliminary annual budgets for 2017 and 2018 and made presentations to the Board at its June 22 and July 27, 2016, Board meetings; and

WHEREAS, the Board of Directors of Cascade determined that it is reasonable, appropriate, consistent with applicable law, and Cascade's Joint Municipal Utility Services Agreement, and in the best interests of Cascade to adopt two consecutive annual budgets, which together shall be referred to as "the biennial budget."

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE, as follows:

Section 1. 2017 Budget.

A. Estimated Resources and Expenditures. The 2017 budget estimated resources and expenditure authority of the Cascade Water Alliance is hereby adopted as follows:

<i>Fund</i>	<i>2017 appropriation authority</i>
Operating	\$46,352,837
Regional Capital Facilities Charge	\$8,407,000
Rate Stabilization	\$2,212,286
Construction	\$21,530,925
Bond	\$30,495,953
Total	\$108,999,001

B. Staffing. 2017 staffing of the Cascade Water Alliance is hereby established as follows:

1. Chief Executive Officer	7. Intergovernmental & Communications Director
2. Program & Policy Assistant	8. Management Assistant
3. Capital Projects Director	9. Director of Finance & Administration
4. Director of Planning	10. Water Resources Manager
5. Business Manager	11. Operations Manager
6. Economist	



C. Budget Document. The Chief Executive Officer and the Director of Finance and Administration are hereby directed to prepare, by December 31, 2016, a final 2017 budget document to include, at a minimum, the following:

- Line-item expenditure and revenue detail
- Comparative tables with prior years' data
- Narrative description of budget activity
- Financial policies
- Capital Improvement Program project descriptions, including cost estimates and historic cost projections
- Cash flow and borrowing projections and assumptions
- Performance measures tied to Cascade's Strategic Plan
- Organization chart
- Staff salary schedule

Section 2. 2018 Budget.

A. Estimated Resources and Expenditures. The 2018 Budget estimated resources and expenditure authority of the Cascade Water Alliance is hereby adopted as follows:

<i>Fund</i>	<i>2018 appropriation authority</i>
Operating	\$50,933,487
Regional Capital Facilities Charge	\$8,407,000
Rate Stabilization	\$2,234,409
Construction	\$24,098,651
Bond	\$30,237,852
Total	\$115,911,399

B. Staffing. 2018 staffing of the Cascade Water Alliance is hereby established as follows:

1. Chief Executive Officer	7. Intergovernmental & Communications Director
2. Program & Policy Assistant	8. Management Assistant
3. Capital Projects Director	9. Director of Finance & Administration
4. Director of Planning	10. Water Resources Manager
5. Business Manager	11. Operations Manager
6. Economist	

C. Budget document. The Chief Executive Officer and the Director of Finance and Administration are hereby directed to prepare, by December 31, 2016, a final 2018 budget document to include, at a minimum, the following:

- Line-item expenditure and revenue detail
- Comparative tables with prior years' data
- Narrative description of budget activity
- Financial policies
- Capital Improvement Program project descriptions, including cost estimates and historic cost projections
- Cash flow and borrowing projections and assumptions
- Performance measures tied to Cascade's Strategic Plan
- Organization chart
- Staff salary schedule



D. Mid-Biennium Review. Beginning no later than September 1, 2017, and completed prior to December 31, 2017, the Board will consider a mid-biennium budget review and adjust and re-confirm the 2018 Budget.

Section 3. 2017 - 2023 Capital Improvement Program.

The 2017 and 2018 budgets include the following Capital Improvement Program plan expenditures:

CIP Projects	2017	2018	2019	2020	2021	2022	2023
Upper conveyance projects			\$ 285,000	\$ 500,000			
Lake Tapps reservoir ongoing piezometers & dike improvements	\$ 200,000	\$ 200,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Lower conveyance projects	\$ 100,000	\$ 240,000				\$1,950,000	
Security and SCADA	\$ 300,000	\$ 100,000	\$ 300,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Facilities: roofs, planking, decking, etc.	\$ 65,000	\$ 20,000	\$ 100,000	\$ 275,000	\$ 190,000		
Equipment	\$ 95,000	\$ 50,000	\$ 50,000		\$ 50,000		\$ 50,000
Bellevue-Isaquah Pipeline improvements		\$ 100,000		\$ 100,000		\$ 100,000	
Capital risk	\$ 550,000	\$ 750,000	\$ 1,000,000	\$ 1,450,000	\$ 1,500,000	\$ 750,000	\$1,500,000
SUBTOTAL	\$ 1,310,000	\$ 1,460,000	\$ 1,835,000	\$ 2,525,000	\$ 1,940,000	\$3,000,000	\$1,750,000
Tacoma agreement	\$ 5,412,161	\$ 5,520,404	\$ 5,630,812	\$ 5,743,428	\$ 5,858,297	\$5,630,812	\$5,743,428
Seattle contract		\$12,000,000					
TOTAL CIP	\$ 6,722,161	\$18,980,404	\$ 7,466,812	\$ 8,268,428	\$ 7,796,297	\$8,630,812	\$7,493,428


Section 4. Effect.

This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held on the 26th day of October 2016.


 Attest – Chuck Clarke, Chief Executive Officer

CASCADE WATER ALLIANCE


 Fred Butler, Chair


 John Stokes, Vice Chair


 Penny Sweet, Secretary/Treasurer

Members
 Yes 6
 No 0

Demand Share
 Yes 92.8 %
 No 0 %

Include in CWAC?
 Yes
 No

2017-2018 RATES AND CHARGES RESOLUTION

Attachment 1



CASCADE WATER ALLIANCE
RESOLUTION No. 2016-16

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE, A WASHINGTON MUNICIPAL CORPORATION, ADOPTING RATES AND CHARGES FOR THE YEAR 2017

WHEREAS, the Cascade Water Alliance ("Cascade") is a Washington municipal corporation formed under authority of the Joint Municipal Utilities Authority Act (Chapter 39.106 RCW) to provide water supply to its Members; and

WHEREAS, the Joint Municipal Utility Services Agreement provides for the payment of Administrative Dues by Cascade Members; and

WHEREAS, the Joint Municipal Utility Services Agreement provides for the Board of Directors (the Board) to set Rates and Charges according to the rate calculation methodology, which includes a calculation of demand shares and a uniform pricing structure with a commodity charge and fixed charges allocated by demand share; and

WHEREAS, the Joint Municipal Utility Services Agreement provides that the Board may adopt wholesale charges in addition to normal demand share charges to encourage resource conservation; and

WHEREAS, the Joint Municipal Utility Services Agreement provides that the Board must set Rates and Charges at levels sufficient for all expenses of Cascade; and

WHEREAS, by Resolution 2010-08, the Board established a two-year fiscal biennium budget that will consist of the adopted two consecutive annual budgets, which together shall be referred to as "the biennial budget." The Board further resolved that the Regional Capital Facilities Charge ("RCFC") will continue to be approved annually and that when the biennial budget is adopted, the RCFCs for the first year of the biennial budget would be determined and the RCFCs for the second year to be projected. A mid-biennium budget review and opportunity for budget adjustment is to be provided prior to a re-confirmation of the budget for the second year.



NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE CASCADe WATER ALLIANCE as follows:

Section 1. Cascade Equivalent Residential Units (CERUs) for 2017.

CERUs for each Member for 2017 are as follows:

TABLE 1

Member	2017 Adopted CERUs
Bellevue	67,377.0
Issaquah	14,230.0
Kirkland	19,206.0
Redmond	32,301.0
Sammamish Plateau Water	22,916.0
Skyway WSD	3,845.5
Tukwila	8,116.0
Total	167,991.5

Section 2. 2017 Demand Shares.

Adopted demand shares for each Member for 2017 are as follows:

TABLE 2

Member	Demand Shares	Demand Share percentage
Bellevue	19.5152	52.9%
Issaquah	1.4980	4.1%
Kirkland	5.2762	14.3%
Redmond	6.5257	17.7%
Sammamish Plateau Water	1.0361	2.8%
Skyway WSD	0.4047	1.1%
Tukwila	2.6296	7.1%
Total	36.8855	100.0%

Except that, in accordance with the Interlocal Contract, no Member shall have a Weighted Vote of less than one.

Section 3. Summary of Member Charges.

2017 Adopted Member Charges (excluding RCFC) are hereby established as shown in Table 3 below.

Administrative dues shall be assessed against each Member at the rate of \$19.67 per CERU multiplied by 100% of that Member's CERUs.

The demand share charge shall be \$335,428 per Demand Share percentage.

The conservation program charge shall be \$4.76 per CERU. The charge is applicable to 100% of a Member's CERUs.



TABLE 3

Member	Administrative Dues	Conservation Charges	Demand Share Charges	Total
Bellevue	\$1,325,012	\$320,766	\$17,746,629	\$19,392,407
Issaquah	\$279,842	\$67,746	\$1,362,252	\$1,709,840
Kirkland	\$377,698	\$91,435	\$4,798,055	\$5,267,188
Redmond	\$635,220	\$153,777	\$5,934,291	\$6,723,288
Sammamish Plateau Water	\$450,658	\$109,098	\$942,189	\$1,501,945
Skyway WSD	\$75,624	\$18,307	\$368,039	\$461,970
Tukwila	\$159,606	\$38,638	\$2,391,306	\$2,589,550
Total	\$3,303,660	\$799,767	\$33,542,761	\$37,646,188

Section 6. Effect.

This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held on the 26th day of October 2016.

CASCADE WATER ALLIANCE

Fred Butler, Chair

John Stokes, Vice Chair

Penny Sweet, Secretary/Treasurer

Attest – Chuck Clarke, Chief Executive Officer

Members
 Yes 6
 No 0

Demand Share
 Yes 92.8 %
 No 0 %

Include in CWAC?

- Yes
- No



2017-2018 REGIONAL CAPITAL FACILITIES CHARGE RESOLUTION

Attachment 1



CASCADE WATER ALLIANCE
RESOLUTION NO. 2016-17

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE,
A WASHINGTON MUNICIPAL CORPORATION,
SETTING THE REGIONAL CAPITAL FACILITIES CHARGE FOR THE YEAR 2017**

WHEREAS, the Cascade Water Alliance ("Cascade") is a Washington municipal corporation formed under authority of the Joint Municipal Utilities Authority Act (Chapter 39.106 RCW) to provide water supply to its Members; and

WHEREAS, the Joint Municipal Utility Services Agreement authorizes Cascade to adopt a Regional Capital Facilities Charge ("RCFC"), and in furtherance of that Agreement the Board of Directors has adopted a methodology for calculating the RCFC which has been used to calculate the RCFC; and

WHEREAS, by Cascade Water Alliance Code 5.55.020, the Board established a two-year fiscal biennium budget that will consist of the adopted two consecutive annual budgets, which together shall be referred to as "the biennial budget." The Board further resolved that the RCFC will continue to be approved annually and that when the biennial budget is adopted, the RCFCs for the first year of the biennial budget would be determined and the RCFCs for the second year to be projected.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE, as follows:

Section 1. Determination of the RCFC for 2017

The RCFC effective January 1, 2017, shall be \$6,005 per Cascade Equivalent Residential Unit (CERU).

Section 2. Effect


This Resolution shall be in full force and effect on the date of its adoption.



Attachment 1

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held on the 26th day of October 2016.

CASCADE WATER ALLIANCE


Fred Butler, Chair


John Stokes, Vice Chair


Penny Sweet, Secretary/Treasurer


Attest – Chuck Clarke, Chief Executive Officer

Members
Yes 6
No 0

Demand Share
Yes 92.8 %
No 0 %

Include in CWAC?

- Yes
- No



2015 AUDITED FINANCIAL STATEMENTS

CASCADE WATER ALLIANCE

Financial Statements and
Government Auditing Standards Report

For the Years Ended December 31, 2015 and 2014

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Clark Nuber PS

Independent Auditor's Report

To the Board of Directors
Cascade Water Alliance
Bellevue, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Cascade Water Alliance (Cascade) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise Cascade's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cascade as of December 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and modified approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets on pages 3 through 10 and on pages 33 through 37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016 on our consideration of Cascade's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cascade's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Clark Nuber P.S." in a cursive style.

Certified Public Accountants
July 21, 2016

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Management's Discussion and Analysis presents our review of Cascade Water Alliance's (Cascade) net position as of December 31, 2015 and 2014, and Cascade's financial performance for the years then ended. These comments should be read in conjunction with Cascade's financial statements, which follow this section.

Overview of the Financial Statements

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

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

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

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

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

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

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

Major debt financing to date includes:

- \$10,000,000 borrowed in 2004 from member Sammamish Plateau Water and Sewer District for acquisition of water supply sources and water systems (repaid from bond proceeds in 2006);
- \$25,904,442 owed to the City of Tacoma for acquisition of water supply sources and water systems (repaid from bond proceeds in 2006);
- Twenty-five year \$55,230,000 revenue bond proceeds (2006 revenue bonds) to pay the Sammamish Plateau Water and Sewer District and City of Tacoma and to finance system development (refunded by 2014 revenue bonds);



CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

- 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;
- Twenty-five year \$42,695,000 revenue bond proceeds (2012 revenue bonds) to acquire independent supply production capacity, to restructure the Tacoma Water Contract, to extend the Seattle Water Contract, and to fund Lake Tapps capital improvements; and
- Fifteen year \$29,220,000 refunding revenue bonds (2014 revenue bonds) to pay a portion of the cost of refunding the callable portion of the outstanding 2006 Bonds. The net proceeds were placed in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of the 2006 bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$2,692,477. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The government advance refunded the 2006 revenue bonds to reduce its total debt service payments over 14 years by \$6,270,530 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,462,625. At December 31, 2015, \$40,690,000 of defeased bonds remain outstanding.

Condensed Financial Statements
Statements of Net Position as of December 31, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 21,027,024	\$ 16,722,806	\$ 25,493,353
Net capital assets	271,805,152	265,652,583	263,735,209
Other assets	39,417,403	54,935,363	62,258,081
Total Assets	<u>332,249,579</u>	<u>337,310,752</u>	<u>351,486,643</u>
Deferred Outflows of Resources	2,194,966	2,379,014	
Current liabilities	14,964,179	16,332,199	14,292,682
Long-term liabilities	253,018,894	264,815,782	283,764,874
Total Liabilities	267,983,073	281,147,981	298,057,556
Invested in capital assets, net of related debt	21,519,773	19,925,423	10,370,564
Restricted for-			
Debt service	23,158,989	24,986,410	26,569,680
Unrestricted	21,782,710	13,629,952	16,488,843
Total Net Position	<u>\$ 66,461,472</u>	<u>\$ 58,541,785</u>	<u>\$ 53,429,087</u>

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Financial Analysis

Current assets increased by 26.8% in 2015 due in large part to increases in cash and cash equivalents, offset by the difference in accounts receivable between 2015 and 2014. Net capital assets increased by over \$6 million with a number of large capital projects in 2015 and other assets decreased by 28.2% because bond proceeds were used for those projects. Current liabilities decreased by 8.38%, due largely to a decrease in accounts payable at year end. Invested in capital assets net of related debt increased by 8.0% because capital projects increased. Unrestricted net assets which consist of accumulated assets that do not meet the definition of invested in capital assets, net of related debt or restricted increased by 59.10%.

Condensed Financial Statements

 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Water sales	\$ 31,761,946	\$ 30,747,222	\$ 29,642,807
Administrative dues	2,966,435	3,014,341	2,729,012
Conservation program and other	2,911,519	1,223,993	1,213,193
Total Operating Revenue	37,639,900	34,985,556	33,585,012
Cost of water sold	19,909,486	20,830,850	19,101,196
Other operating costs	13,067,538	12,876,638	11,718,455
Total Operating Expenses	32,977,024	33,707,488	30,819,651
Operating Income	4,662,876	1,278,068	2,765,361
Nonoperating expenses	(5,597,562)	(6,178,709)	(19,943,342)
Capital contributions	8,854,373	10,013,339	8,458,044
Changes in Net Position	7,919,687	5,112,698	(8,719,937)
Net position, beginning of year	58,541,785	53,429,087	62,149,024
Net Position, End of Year	\$ 66,461,472	\$ 58,541,785	\$ 53,429,087

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.



CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Results of Operations (Continued)

Conservation charges decreased by 31.1% in 2015 to \$843,102 from \$1,223,993 in 2014 as the corresponding conservation budget was reduced as well. Total operating revenues for 2015 were \$37,639,900 compared to \$34,985,556 for 2014, an increase of 1.7%, attributable to increased demand share charges. The cost of water sold decreased by 4.4% because in 2015 Seattle reduced our cost by 10% during a summer drought curtailment. The increased demand share revenue coupled with the water cost savings resulted in a 264.8% increase in operating income for 2015. Nonoperating income/expenses decreased by 9.4% due a decrease in interest expense. Capital contributions were down 11.6% in 2015 over 2014 but were still higher than what was budgeted. Overall net assets increased by 54.9% in 2015.

Capital Assets and Long-Term Debt

The capital assets of Cascade increased \$6.0 million in 2015 due to ongoing capital projects. Capital asset expenditures have been funded from capital contributions and the 2006, 2009, and 2012 revenue bonds.

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

In 2014, Cascade issued revenue bonds in the amount of \$29,220,000. The proceeds of this obligation were used to advance refund the 2006 bonds.

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

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

Amortization of the Seattle water contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$561,775 and \$561,775 for the years ended December 31, 2015 and 2014, respectively.



CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Capital Assets and Long-Term Debt (Continued)

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

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

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

Interest Capitalization - Interest costs incurred for the acquisition and/or construction of assets are subject to capitalization based on the guidelines established by Governmental Accounting Standards Board (GASB) Statements No. 34 and 62. Interest paid was \$6,846,632 and \$7,940,605 for the years ended December 31, 2015 and 2014, respectively. Total interest incurred on bonds for the years ended December 31, 2015 and 2014, was \$7,171,223 and \$7,700,178, respectively. No interest was capitalized in 2015 and 2014.

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

Barrier Apron Improvement - In 2015, in coordination with the United States Army Corps of Engineers (USACE) and other interested parties, (Tribes, State and Federal fishery agencies) Cascade replaced the severely damaged downstream apron on the Barrier Structure with a newly designed and improved apron. The USACE Mud Mountain Dam Fish Passage Barrier Structure Apron Repair project (the Apron Repair Project) was a requirement of Reasonable and Prudent Alternative (RPA) action item under the Mud Mountain Biological Opinion and Conference Opinion issued to the USACE by the National Marine Fisheries Service in October 2014 (Bi-Op). Cascade performed the apron replacement on behalf of the USACE under the 2010 Cooperative Agreement. As with other Barrier Structure activities, the USACE was responsible for environmental and regulatory coordination, and obtaining all applicable environmental authorizations necessary to carry out the work.

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

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Projects in Process

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

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

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

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

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

Lake Tapps Milfoil Control - Due to a delayed refilling of the Lake Tapps Reservoir in 2015, Cascade conducted only minimal milfoil control efforts in 2015. Annual inspections and maintenance will continue as necessary to control the invasive weed.

White River System Operator - Veolia Water started working on January 1, 2012, under contract by Cascade, to operate and maintain the White River - Lake Tapps Reservoir Project. For 2014, the fixed fee budget was \$1.5 million and a variable budget of \$1.3 million. A Project Operations and Maintenance Manual was completed in 2012.

Security Improvements - After a security strategic plan was performed by Carollo Engineers in 2015, a study was conducted to look at each Cascade asset and evaluate them to determine the potential range of threats, liability, and impacts on operation in the event of a loss. Each asset was prioritized using a pairwise comparison, then prioritizations were refined based on operational importance, public safety, and economic value. Each asset was prioritized high, medium, or low. Cascade is going out to bid in early 2016 to implement some of the high priority recommendations.

Powerhouse Valve #3 Replacement - An options analysis has been completed for powerhouse valve #3, with the recommended option being a configuration utilizing a new "plunger" valve and installing it in a cast in place of the concrete vault on the south side of the tailrace just outside the powerhouse. If successful, the new valve will dissipate energy, provide more flow capacity, be able to control flow, and have a longer service life. Next steps are to get to 60% design and order the valve from the VAG manufacturer.

Bellevue Issaquah Pipeline (BIP) - A Memorandum of Understanding was signed in 2013 between Cascade and the City of Bellevue to operate and maintain the BIP. A project to install meters along the BIP began in 2014 and will be completed in early 2016.



CASCADE WATER ALLIANCE

Management’s Discussion and Analysis

Projects in Process (Continued)

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

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

Electronic Document Management System - Cascade began implementing an electronic document management system (EDMS) at its main office in Bellevue and at the White River Lake Tapps facilities in 2013. Implementation continued through 2015 in a phased-in approach. The EDMS will improve document storage, access, security, and retrieval.

Other White River Lake Tapps Projects - Several repair and upgrade projects, as described more fully in Cascade’s Capital Improvement Program, were advanced in 2015 and will continue in 2016, including:

- Network and IT architecture upgrades
- SCADA upgrades
- Valve house controls upgrade

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, 2015, Cascade had the following investments:

Investment Type	Fair Value	Effective Duration
King County Investment Pool	\$ 49,231,887	0.93 years

Impaired Investments - As of December 31, 2015, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment’s underlying securities. Additionally, the Impaired Pool accepted the cash out option for the residual investments in four commercial paper assets that were part of completed enforcement events. Cascade’s share of the impaired investment pool principal is \$119,944, and Cascade’s fair value of these investments is \$75,270.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Invested Funds (Continued)

Interest Rate Risk - As of December 31, 2015, the Pool's average duration was 0.93 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, 2015, Cascade's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office.

Budget Variances

Capital expenditures in 2015 related to the White River Lake Tapps project improvements, the Tacoma contract, and other major capital expenditures, were held within budget.

RCFC revenue was budgeted to be \$8.4 million in 2015, but actual RCFC revenue was \$8.9 million due to improved construction growth in Cascade's service area. RCFC revenue is budgeted to remain around \$8.4 million in 2015.

Wholesale water costs were lower than budgeted by \$0.65 million because costs were reduced 10% by Seattle during Seattle's water drought curtailment.

Interest revenue in 2015 was \$0.75 million lower than budgeted due to prevailing and persistent low interest rates nationally.

The administrative and conservation dues were within budget in 2015.

Maintenance costs were \$1.1 million higher in 2015 than 2014 due to repairs done to a portion of the existing concrete flume that had exposed rebar.

USACE reimbursement was \$1.8 million higher than budget because of the barrier apron replacement.

Total fund expenditures were held within budgeted amounts in 2015. In the Operating Fund, conservation program rebate expenditures were \$99,935 less than budgeted due to the lower than anticipated interest in the commercial rebate program. Unexpended funds are carried forward in fund balances and are incorporated into Cascade's rate model for future year budgeting and planning.

Requests for Information

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

CASCADe WATER ALLIANCE

 Statements of Net Position
 December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 13,360,258	\$ 8,033,636
Regional capital facility charges receivable	1,399,928	2,635,349
Restricted cash and cash equivalents, current portion	5,306,040	5,202,000
Interest rebate receivable	379,356	377,320
Water rights receivable, current portion	391,222	391,222
Prepaid expenses	190,220	83,279
Total Current Assets	21,027,024	16,722,806
Capital Assets Net of Accumulated Depreciation:		
Equipment and furniture	1,579,426	1,554,939
Seattle water contract	22,267,611	22,267,611
Tacoma water contract	121,168,551	121,168,551
SR900 pipeline	10,021,201	10,021,201
Bellevue Issaquah pipeline	22,176,148	22,100,209
Lake Tapps buildings	2,641,128	2,087,707
	179,854,065	179,200,218
Less accumulated depreciation and amortization	(20,402,537)	(14,994,158)
	159,451,528	164,206,060
Capital Assets Not Being Depreciated:		
Lake Tapps - infrastructure	95,063,834	84,156,733
Projects in process and assets not yet in service-		
Tacoma Cascade Pipeline	17,027,223	17,027,223
Eastside reservoir	262,567	262,567
Total Capital Assets	271,805,152	265,652,583
Restricted cash and cash equivalents, net of current portion	30,345,224	45,464,144
Water rights receivable, net of current portion	9,066,968	9,458,190
Bond issuance costs, net of accumulated amortization of \$74,264 (\$66,446 - 2014)	5,211	13,029
Total Assets	\$ 332,249,579	\$ 337,310,752
Deferred Outflows of Resources:		
Advanced refunding of debt	\$ 2,194,966	\$ 2,379,014
Total Deferred Outflows of Resources	\$ 2,194,966	\$ 2,379,014

See accompanying notes.

CASCADe WATER ALLIANCE

 Statements of Net Position (Continued)
 December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Liabilities and Net Position		
Payables and accrued liabilities	\$ 1,434,917	\$ 3,297,693
Payables related to Tacoma water contract, current portion	5,306,040	5,202,000
Long-term debt payable from unrestricted assets, current portion	<u>40,876</u>	<u>40,673</u>
	6,781,833	8,540,366
Payables From Restricted Assets:		
Accrued interest	2,807,346	2,666,833
Long-term debt, current portion	<u>5,375,000</u>	<u>5,125,000</u>
	<u>8,182,346</u>	<u>7,791,833</u>
Total Current Liabilities	14,964,179	16,332,199
Long-Term Debt, Net of Current Portion:		
Long-term debt payable from unrestricted assets	353,862	393,539
Long-term debt payable from restricted assets	<u>132,805,000</u>	<u>138,180,000</u>
	133,158,862	138,573,539
Other Long-Term Liabilities:		
Payable related to Seattle water contract	17,000,000	17,000,000
Payable related to Tacoma water contract, net of current portion	94,132,647	99,438,687
Bond premium, net of amortization	<u>8,727,385</u>	<u>9,803,556</u>
Total Liabilities	\$ 267,983,073	\$ 281,147,981
Deferred Inflows of Resources		
Net Position:		
Invested in capital assets, net of related debt	\$ 21,519,773	\$ 19,925,423
Restricted for-		
Debt service	23,158,989	24,986,410
Unrestricted	<u>21,782,710</u>	<u>13,629,952</u>
Total Net Position	\$ 66,461,472	\$ 58,541,785

See accompanying notes.

CASCADE WATER ALLIANCE

 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenue:		
Water sales	\$ 31,761,946	\$ 30,747,222
Administrative dues	2,966,435	3,014,341
Conservation program and other	2,911,519	1,223,993
Total Operating Revenue	37,639,900	34,985,556
Operating Expenses:		
Cost of water sold	19,909,486	20,830,850
Salaries and benefits	1,713,505	1,585,345
Professional services	2,004,493	2,073,509
Conservation rebate program	123,891	245,125
Depreciation and amortization	4,337,360	5,028,940
Communication and public information	305,576	313,274
Office expenses	75,565	69,354
Rent	165,874	163,422
Maintenance	1,017,312	5,050
Operations	3,066,216	3,066,444
Insurance	96,468	96,488
Dues and subscriptions	43,260	29,666
Miscellaneous	118,018	200,021
Total Operating Expenses	32,977,024	33,707,488
Operating Income	4,662,876	1,278,068
Nonoperating Revenue (Expenses):		
BAB rebate	1,133,996	1,148,494
Interest income	448,253	603,938
Interest expense	(7,179,811)	(7,942,741)
Gain (loss) on disposition of assets		11,600
Total Nonoperating Expenses	(5,597,562)	(6,178,709)
Capital Contributions (Expenses):		
Regional capital facilities charges	8,854,373	10,013,339
Total Capital Contributions	8,854,373	10,013,339
Total Change in Net Position	7,919,687	5,112,698
Net position, beginning of year	58,541,785	53,429,087
Net Position, End of Year	\$ 66,461,472	\$ 58,541,785

See accompanying notes.



CASCADE WATER ALLIANCE

Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities:		
Cash received from members	\$ 37,639,900	\$ 34,985,556
Cash paid to suppliers	(28,758,156)	(27,499,955)
Cash paid to and for employees	(1,710,712)	(1,589,509)
Net Cash Provided by Operating Activities	7,171,032	5,896,092
Cash Flows From Capital and Related Financing Activities:		
Regional capital facilities charges	10,089,794	10,165,162
Water rights receivable	391,222	391,222
Proceeds from long-term debt		29,220,000
Payments on long-term debt	(5,164,474)	(44,982,644)
Acquisition of capital assets	(16,720,819)	(9,635,895)
Loss on disposition of assets		74,698
BAB rebate proceeds	1,133,996	1,148,494
Interest paid on bonds and other long-term debt	(7,037,262)	(8,270,042)
Net Cash Used in Capital and Related Financing Activities	(17,307,543)	(21,889,005)
Cash Flows From Investing Activities:		
Interest received	448,253	603,938
Net Cash Provided by Investing Activities	448,253	603,938
Net Change in Cash and Cash Equivalents	(9,688,258)	(15,388,975)
Cash and cash equivalents, beginning of year	58,699,780	74,088,755
Cash and Cash Equivalents, End of Year	\$ 49,011,522	\$ 58,699,780
Cash and Cash Equivalents Balance is Composed of the Following at December 31:		
Cash and cash equivalents	\$ 13,360,258	\$ 8,033,636
Restricted cash and cash equivalents	35,651,264	50,666,144
	\$ 49,011,522	\$ 58,699,780

See accompanying notes.



CASCADe WATER ALLIANCE

 Statements of Cash Flows (Continued)
 For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income to Net Cash From		
Operating Activities:		
Net operating income	\$ 4,662,876	\$ 1,278,068
Adjustments to reconcile change in operating income to net cash provided by operating activities-		
Depreciation and amortization	4,337,360	5,028,940
Changes in operating assets and liabilities-		
Prepaid expenses	(106,941)	29,206
Payables and accrued liabilities	<u>(1,722,263)</u>	<u>(440,122)</u>
Net Cash Provided by Operating Activities	<u>\$ 7,171,032</u>	<u>\$ 5,896,092</u>

See accompanying notes.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Organization and Summary of Significant Accounting Policies

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

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

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

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

Concentration of Credit Risk - Cascade maintains cash balances at financial institutions that at times exceed federally insured limits.

As of December 31, 2015 and 2014, the King County Investment Pool (the Pool) which holds Cascade investments was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

Capital Assets - Capital assets purchased at more than \$5,000, 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 WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Continued

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

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

Deferred Outflow of Resources - Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involves no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. Deferred outflows of resources presented in this manner on the accompanying financial statements are related to the advanced refunding of bonds.

Long-Term Debt - Long-term debt is reported net of discounts, premiums and issuance costs. Discounts, premiums and issuance costs incurred on issuance of long-term debt are amortized by the interest method over the period the related debt is outstanding. A portion of the long-term debt is funded by Build America Bonds and is eligible for an annual interest rebate of up to 35%. The amount of the subsidy payment for the Build America Bonds was reduced by 7.3% through September 30, 2015 and then reduced by 6.8% through September 30, 2016.

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

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

Regional Capital Facilities Charges (RCFC) - RCFCs are paid to Cascade by each member for each new equivalent residential unit connected to its water distribution system, and are intended to allocate growth costs to those members that require capacity increases due to growth in customer demand. The RCFC for both 2015 and 2014 is \$6,005 per new Cascade Equivalent Residential Unit (CERU).

CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Continued

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

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

Reclassifications - Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. Such reclassifications have no effect on the previously reported change in net position or net position.

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

Note 2 - Capitalizable Contracts

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

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

Amortization of the Seattle Water Contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$561,775 for both years ended December 31, 2015 and 2014.

The Tacoma Water Contract - In December 2012, a water contract was signed between City of Tacoma and Cascade which superseded the Tacoma Water Contract signed in 2005. Under the water contract, minimum water purchase volumes have been replaced by a structured capacity reservation schedule, and a capacity commitment of 8.0 mgd is provided to Cascade through 2042. Cascade is required to make an annual installment payment in a range of \$1 million to \$6.8 million through 2042. The 2012 Tacoma Water Contract cost is amortized over the life of the contract which is 30 years. Amortization expense for this contract was \$3,991,356 for both years ended December 31, 2015 and 2014.

CASCADE WATER ALLIANCE

Notes to Financial Statements

For the Years Ended December 31, 2015 and 2014

Note 2 - Continued

The system development charges relate to the base amount of water and the capacity reservation fees relate to the additional water to be supplied under the 2005 Tacoma Water Contract. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

During 2011, the City of Bonney Lake entered into an agreement with Cascade for water rights purchase of the 2005 Tacoma Water Contract for a total of \$2,747,334. In 2013, City of Bonney Lake purchased an additional portion of water rights that extended the contract to 2019, with an annual payment of \$391,222 through maturity. At both December 31, 2015 and 2014, the water rights receivable of \$1,564,890 and \$1,956,112, respectively, is included in the statements of net position.

During 2013, the City of Auburn entered into an agreement with Cascade for water rights purchase of the 2005 Tacoma Water Contract for a total of \$7,893,300 plus an annual interest at 3.20% starting in 2017 that expires 2029, with annual interest payments of \$252,586 from 2017 to 2019 and with annual principal and interest payments of \$934,805 thereafter. City of Auburn has an option to purchase all of the capacity reservation fees of the 20015 Tacoma Water Contract for a total price of \$1,427,864 with the option expiring June 2017. At December 31, 2015 and 2014, the water rights receivable of \$7,893,300 for both years is included in the statements of net position.

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

Total interest incurred on bonds for the years ended December 31, 2015 and 2014, was \$7,177,821 and \$7,700,178, respectively. The interest rebate related to the Build America Bonds was \$1,133,996 and \$1,148,494 for the years ended December 31, 2015 and 2014, respectively, and is included as an offset to interest expense in the statements of revenues, expenses and changes in net position. No interest was capitalized in 2015 and 2014.

Project in Process -

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

Eastside Reservoir - The Eastside Reservoir is a concrete reservoir and booster pump station constructed and owned by the City of Seattle to serve Cascade's members. The purchase of the Eastside Reservoir by Cascade was considered probable when the Tacoma Cascade Pipeline was moving forward and the project designs were capitalized. When the completion of the Tacoma Cascade Pipeline was deferred on December 31, 2009, plans to purchase the reservoir were deferred as well. In addition to its use as a potential storage facility for Tacoma water, Cascade is currently evaluating the purchase of the Eastside Reservoir as a method of providing earthquake resiliency to its members.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

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. As of December 31, 2015, the net asset value at fair value price per share was \$0.9988. The King County Executive Finance Committee provides oversight of the Pool.

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

	2015	2014
Unrestricted cash and equivalents	\$ 13,596,696	\$ 8,037,993
Restricted cash and equivalents	35,694,106	50,676,282
	49,290,802	58,714,275
Add fair value adjustment	(58,916)	(11,747)
Less checks in excess of cash	(220,364)	(2,748)
Total Cash and Cash Equivalents	\$ 49,011,522	\$ 58,699,780

Impaired Investments

As of December 31, 2015, 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. The Impaired Pool also held the residual investments in two 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 \$119,944 and Cascade's fair value of these investments is \$75,270.

Interest Rate Risk

As of December 31, 2015, the Pool's average duration was 0.93 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, 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, 2015, 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, bank corporate note (rated at least "A" by two NRSROs), 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

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 4 - Restricted Cash and Cash Equivalents

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

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

	<u>2015</u>	<u>2014</u>
Restricted cash and cash equivalents, current portion	\$ 5,306,040	\$ 5,202,000
Restricted cash and cash equivalents, long-term	<u>30,345,224</u>	<u>45,464,144</u>
	<u>\$ 35,651,264</u>	<u>\$ 50,666,144</u>

Changes in restricted assets for the year ended December 31, 2015, are as follows:

	<u>Balance 12/31/2014</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Net Return</u>	<u>Balance 12/31/2015</u>
Revenue bond funds	\$ 24,986,711	\$ 8,330,241	\$ (10,236,953)	\$ 74,555	\$ 23,154,554
Construction funds	<u>25,679,433</u>	<u>5,034,773</u>	<u>(18,306,663)</u>	<u>89,167</u>	<u>12,496,710</u>
	<u>\$ 50,666,144</u>	<u>\$ 13,365,014</u>	<u>\$ (28,543,616)</u>	<u>\$ 163,722</u>	<u>\$ 35,651,264</u>

For the year ended December 31, 2015, changes in restricted assets included interest earnings of \$89,563 and unrealized losses of \$15,008 for the revenue bond funds and interest earnings of \$117,001 and unrealized losses of \$27,834 for the construction funds.

Changes in restricted assets for the year ended December 31, 2014, are as follows:

	<u>Balance 12/31/2013</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Net Return</u>	<u>Balance 12/31/2014</u>
Revenue bond funds	\$ 26,569,680	\$ 22,477,405	\$ (24,252,215)	\$ 191,841	\$ 24,986,711
Construction funds	<u>30,802,188</u>	<u>4,904,464</u>	<u>(10,178,033)</u>	<u>150,814</u>	<u>25,679,433</u>
	<u>\$ 57,371,868</u>	<u>\$ 27,381,869</u>	<u>\$ (34,430,248)</u>	<u>\$ 342,655</u>	<u>\$ 50,666,144</u>



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 5 - Capital Assets

The following summarizes the changes in capital assets of Cascade:

	Balance 12/31/2014	Additions	Transfers	Deletions	Balance 12/31/2015
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 1,554,939	\$ 37,980	\$ -	\$ (13,493)	\$ 1,579,426
Seattle water contract	22,267,611				22,267,611
Tacoma water 2005 contract	1,427,864				1,427,864
Tacoma water 2012 contract	119,740,687				119,740,687
SR900 pipeline	10,021,201				10,021,201
Bellevue Issaquah pipeline	22,100,209	75,939			22,176,148
Lake Tapps buildings	2,087,707	553,421			2,641,128
Total Capital Assets					
Being Depreciated	179,200,218	667,340		(13,493)	179,854,065
Less accumulated depreciation and amortization	(14,994,158)	(5,419,215)		10,836	(20,402,537)
Depreciable Capital Assets, Net	164,206,060	(4,751,875)		(2,657)	159,451,528
Capital Assets Not					
Being Depreciated:					
Lake Tapps - infrastructure	84,156,733	10,907,101			95,063,834
Tacoma Cascade pipeline	17,027,223				17,027,223
Eastside reservoir	262,567				262,567
Total Capital Assets Not					
Being Depreciated	101,446,523	10,907,101			112,353,624
Total Capital Assets	\$ 265,652,583	\$ 6,155,226	\$ -	\$ (2,657)	\$ 271,805,152



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 5 - Continued

	Restated Balance 12/31/2013	Additions	Transfers	Deletions	Balance 12/31/2014
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 1,384,317	\$ 197,623	\$ -	\$ (27,001)	\$ 1,554,939
Seattle water contract	22,267,611				22,267,611
Tacoma water 2005 contract	1,427,864				1,427,864
Tacoma water 2012 contract	119,740,687				119,740,687
SR900 pipeline	10,021,201				10,021,201
Bellevue Issaquah pipeline	22,049,184	51,025			22,100,209
Lake Tapps buildings	-	9,542	2,078,165		2,087,707
Total Capital Assets Being Depreciated	176,890,864	258,190	2,078,165	(27,001)	179,200,218
Less accumulated depreciation and amortization	(9,458,311)	(5,549,347)		13,500	(14,994,158)
Depreciable Capital Assets, Net	167,432,553	(5,291,157)	2,078,165	(13,501)	164,206,060
Capital Assets Not Being Depreciated:					
Lake Tapps - infrastructure	79,012,866	7,222,032	(2,078,165)		84,156,733
Tacoma Cascade pipeline	17,027,223				17,027,223
Eastside reservoir	262,567				262,567
Total Capital Assets Not Being Depreciated	96,302,656	7,222,032	(2,078,165)		101,446,523
Total Capital Assets	\$ 263,735,209	\$ 1,930,875	\$ -	\$ (13,501)	\$ 265,652,583

During the year ended December 31, 2014, Cascade made a change in accounting policy over certain buildings originally reported as part the purchase of the Lake Tapps and included in infrastructure assets. As a result of the change in accounting policy, total building assets of \$1,755,822 were transferred from the Lake Tapps infrastructure to buildings as reported in depreciable capital assets.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 6 - Long-Term Debt - Unrestricted

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

	<u>2015</u>	<u>2014</u>
<u>Public Works Trust Fund Loans (PWTF)</u>		
\$1,000,000 loan authorized, payable in equal annual principal payments based on the amount of the loan drawn to the payment due date with the first payment due July 2006 and the last payment due July 2025, plus interest at .50%, secured by net revenues.	\$ 394,738	\$ 434,212
Less current portion	<u>(40,876)</u>	<u>(40,673)</u>
Long-Term Portion	<u>\$ 353,862</u>	<u>\$ 393,539</u>

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

For the Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2016	\$ 40,876	\$ 1,953
2017	41,081	1,748
2018	41,286	1,543
2019	41,492	1,337
2020	41,700	1,129
2021 - 2022	84,026	1,632
2023 - 2025	<u>104,277</u>	<u>865</u>
	<u>\$ 394,738</u>	<u>\$ 10,207</u>



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 6 - Continued

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

	Balance 12/31/2014	Proceeds	Repayments	Balance 12/31/2015
2015-				
Loan #PW-05-691-PRE-142	\$ 434,212	\$ -	\$ (39,474)	\$ 394,738
	<u>\$ 434,212</u>	<u>\$ -</u>	<u>\$ (39,474)</u>	<u>\$ 394,738</u>
	Balance 12/31/2013	Proceeds	Repayments	Balance 12/31/2014
2014-				
Loan #PW-05-691-PRE-142	\$ 473,685	\$ -	\$ (39,473)	\$ 434,212
	<u>\$ 473,685</u>	<u>\$ -</u>	<u>\$ (39,473)</u>	<u>\$ 434,212</u>

Note 7 - Long-Term Debt - Restricted

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

	2015	2014
<u>Revenue Bonds</u>		
\$29,220,000 issued on August 5, 2014 for advanced refunding of the 2006 bonds and to pay the costs of issuing and selling the bonds. The bond is payable from and secured by a pledge of net revenues and assets held in the bond fund and construction fund; principal due serially through the year 2029, interest payable semi-annually at 4.00 annual percentage rate.	\$ 29,220,000	\$ 29,220,000
\$42,695,000 issued on December 27, 2012 for restructuring the Tacoma water contract in 2012, extending the Seattle water contract, acquiring independent supply production capacity, funding Lake Tapps capital improvements and cost of issuing the bond. The bond is payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund; principal due serially through the year 2038, interest payable semi-annually at 3.31 annual percentage rate.	40,690,000	41,695,000



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 7 - Continued

	<u>2015</u>	<u>2014</u>
\$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, 2017, interest payable semi-annually 3.61 annual percentage rate.	2,530,000	4,940,000
- \$75,155,000 due serially through September 1, 2034, with interest payable semi-annually 3.61 annual percentage rate.	63,940,000	63,940,000
\$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.	<u>1,800,000</u>	<u>3,510,000</u>
Total long-term debt	138,180,000	143,305,000
Less current portion	<u>(5,375,000)</u>	<u>(5,125,000)</u>
Long-Term Portion	<u>\$ 132,805,000</u>	<u>\$ 138,180,000</u>

The 2014 bonds were issued at a premium of \$4,396,430 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2015 and 2014 was \$516,099 and \$25,696, respectively.

The 2012 bonds were issued at a premium of \$5,764,037 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2015 and 2014 was \$330,487 and \$327,449, respectively.

The 2009 bonds were issued at a premium of \$761,955 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2015 and 2014 was \$124,623 and \$114,294 respectively.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 7 - Continued

The 2006 bonds were issued at a premium of \$1,857,106 which is being amortized over the life of the bonds. Amortization expense was \$74,284 for both years ended December 31, 2015 and 2014.

On September 3, 2014, Cascade issued \$29,220,000 of Water System Refunding Revenue Bonds. The net proceeds of \$44,363,880 (after issuance costs of \$130,224) were used to advance refund a portion of the 2006 Series Revenue Bonds.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from Cascade's liabilities. This advanced refunding was undertaken to reduce total debt service payments over the next 15 years by \$17,630,530 and resulted in an economic gain of \$5,462,625.

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

For the Year Ending December 31,	Principal	Interest
2016	\$ 5,375,000	\$ 6,823,707
2017	5,405,000	6,487,487
2018	5,605,000	6,233,097
2019	5,830,000	5,961,917
2020	6,070,000	5,676,845
2021 - 2024	26,945,000	19,486,318
2025 - 2028	31,665,000	13,736,801
2029 - 2032	27,425,000	8,071,993
2033 - 2038	23,860,000	3,064,513
	<u>\$ 138,180,000</u>	<u>\$ 75,542,678</u>

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

	Balance 12/31/2014	Proceeds	Repayments	Balance 12/31/2015
Revenue bonds	\$ 143,305,000	\$ -	\$ (5,125,000)	\$ 138,180,000

	Balance 12/31/2013	Proceeds	Repayments	Balance 12/31/2014
Revenue bonds	\$ 159,655,000	\$ 29,220,000	\$ (45,570,000)	\$ 143,305,000



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 8 - Commitments

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

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

For the Year Ending December 31,	
2016	\$ 186,561
2017	<u>118,318</u>
Total Minimum Rental Payments	<u>\$ 304,879</u>

Rent expense for operating leases totaled \$165,874 and \$163,422 for the years ended December 31, 2015 and 2014, 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, 2015.

Contracted services agreed to and expected to be expended in 2016 include the following:

Construction and design services	\$ 3,050,871
Consulting contracted services	<u>1,303,377</u>
	<u>\$ 4,354,248</u>

Note 9 - Retirement Benefits

Cascade provides a Section 401(a) defined contribution retirement plan (the Plan) to all full-time and certain part-time employees. Employees contribute 4% of their annual salary. Cascade contributes 7% of an employee's salary. In addition, as a replacement of the contribution to Social Security, employees contribute an additional 6.2% of their annual salary. Cascade contributes an additional 6.2% up to the limit (\$7,347 in 2015) established by the Internal Revenue Service. Employees are immediately vested upon enrollment and, therefore, having no forfeitures.

Employee and employer contributions were \$176,944 and \$149,332, respectively, for the year ended December 31, 2015 and \$148,036 and \$177,601, respectively, for the year ended December 31, 2014. As of December 31, 2015, accrued expenses under the Plan totaled \$33,146.

Cascade also provides a Section 457 retirement plan available to certain employees who make salary deferral contributions up to the maximum allowed by law. No employer contributions were made to the Section 457 retirement plan. Employee salary deferrals were \$178,080 and \$162,988 for the years ended December 31, 2015 and 2014, respectively.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 10 - Concentrations

All water purchases by Cascade were from the City of Seattle as further described in Note 2. Water sales, conservation revenues, administration dues, regional capital facilities charges and contributions for member cities for the years ended December 31, 2015 and 2014 are as follows:

2015 Member Charges-

Members	Water Sales	Water Usage Adjustment	Conservation Revenues	Administration Dues	Regional Capital Facilities Charges	Total
Bellevue	\$ 17,337,500	\$ -	\$ 347,435	\$ 1,222,443	\$ 1,939,615	\$ 20,846,993
Issaquah	902,245		62,284	219,144	2,287,905	3,471,578
Kirkland	4,515,034		95,016	334,312	996,830	5,941,192
Redmond	5,446,712		163,071	573,763	1,792,493	7,976,039
Sammamish	910,387		114,815	403,973	1,720,433	3,149,608
Skyway	354,475		19,675	69,226	36,029	479,405
Tukwila	2,295,593		40,806	143,574	81,068	2,561,041
Total	\$ 31,761,946	\$ -	\$ 843,102	\$ 2,966,435	\$ 8,854,373	\$ 44,425,856

2014 Member Charges-

Members	Water Sales	Water Usage Adjustment	Conservation Revenues	Administration Dues	Regional Capital Facilities Charges	Total
Bellevue	\$ 16,762,457	\$ -	\$ 352,567	\$ 1,238,812	\$ 2,398,998	\$ 20,752,834
Issaquah	834,324		62,641	220,100	2,335,945	3,453,010
Kirkland	4,332,698	(35,600)	96,663	339,645	855,713	5,589,119
Redmond	5,305,553	35,600	165,293	580,791	2,398,998	8,486,235
Sammamish	907,410		116,420	409,064	1,798,498	3,231,392
Skyway	354,346		20,321	71,402	45,037	491,106
Tukwila	2,250,434		43,979	154,527	180,150	2,629,090
Total	\$ 30,747,222	\$ -	\$ 857,884	\$ 3,014,341	\$ 10,013,339	\$ 44,632,786



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 11 - Stewardship, Compliance, and Accountability

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

Note 12 - Risk Management

Cascade Water Alliance is a member of the Water and Sewer Risk Management Pool (the Risk Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Risk Pool was formed on November 1987 when water and sewer districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Risk Pool currently has 68 members and a fiscal year of November 1st through October 31st.

The Risk Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Risk Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 12 - Continued

Members make an annual contribution to fund the Risk Pool. The Risk Pool purchases insurance policies from unrelated underwriters as follows:

Type of Coverage	Member Deductible	Self-Insured Retention	Excess Limits
Property Loss:			
Buildings and contents	\$1,000 (c)	\$25,000	\$1,000,000,000
Flood	See (a) below	See (a) below	\$50,000,000
Earthquake	See (b) below	See (b) below	\$75,000,000
Terrorism	\$1,000	\$25,000	\$100,000,000
Boiler and machinery	\$1,000	\$25,000 - \$350,000	\$100,000,000
Auto - physical damage	\$1,000	\$25,000	\$10,000,000
Liability:			
Comprehensive general liability	\$1,000 (c)	\$200,000	\$10,000,000
Auto liability	\$1,000	\$200,000	\$10,000,000
Public officials errors and omissions	\$1,000	\$200,000	\$10,000,000
Employment practices	\$1,000	\$200,000	\$10,000,000
Other:			
Public officials bonds	Various	N/A	Various
Crime	\$1,000	\$25,000	\$2,000,000
Identity fraud	\$0	\$25,000	\$0

- a. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.
- b. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. If the stated deductible is on a percentage basis, the deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.
- c. In addition to the \$75,000,000 of shared earthquake coverage amongst pool members Cascade shares a \$10,000,000 policy with Sammamish Plateau Water that in the event that the earthquake did less than \$5M in damage to one of the parties then the other party would be able to collect the remaining available funds.
- d. Member deductible for Cyber liability is \$100,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.

Risk Pool members are responsible for a deductible on each coverage and the Risk Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible which exceeds \$25,000.



CASCADE WATER ALLIANCE

Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 12 - Continued

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2015, written notice must be in possession of the Risk Pool by April 30, 2015). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Risk Pool, a member is still responsible for contributions to the Risk Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Risk Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services.

The Risk Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Risk Pool and providing policy direction to the Risk Pool's Executive Director.

In the past three years (2014, 2013, and 2012), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

2017-2018 ADOPTED



REQUIRED SUPPLEMENTARY INFORMATION

CASCADE WATER ALLIANCE

Required Supplementary Information
For the Years Ended December 31, 2015 and 2014

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

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

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

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

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

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

See independent auditor's report.



CASCADE WATER ALLIANCE

Required Supplementary Information
For the Years Ended December 31, 2015 and 2014

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

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

Upper Conveyance System:	
Headworks Area Buildings	M; ICU; STI
Headgates	ICU; LTI
Rock Chutes	STI
Concrete Lined Canal	M
Timber Flume	LTI
6-Foot Outlet (Wolslegal Basin)	None
Fish Screen	STI
Twin Pipelines	M; STI; LTI
Lower Conveyance System:	
Tunnel Inlet/Lake Outlet	ICU
12-Foot Concrete Tunnel	LTI
"Bear Pit" Overflow Shaft	LTI
Forebay Caisson and Building	M; LTI
Penstocks/Standpipes/Surge Chambers	ICU; STI; LTI
Powerhouse	ICU

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

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

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

In 2012, DSO conducted the Second Periodic Dam Safety Inspection. Cascade addressed the issues raised by DSO.

See independent auditor's report.

CASCADE WATER ALLIANCE

Required Supplementary Information
For the Years Ended December 31, 2015 and 2014

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

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

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

The Manuals and 2013 budget were approved by Cascade and were the basis for Veolia's performance during 2013. The initial contract term is through 2016. Annual revisions to the Manuals and Budget for 2014 and 2015 were negotiated and agreed upon and are the basis for Veolia's performance during 2014, 2015 and 2016. Cascade extended the contract term for one additional five year period and may extend for one more additional period of up to five years.

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

- Contracted with AECOM to perform a condition assessment of certain Project facilities;
- Contracted with NAES to repair and upgrade the Fish Screen Facility;
- Contracted with GeoEngineers to assess the condition of the dikes;
- Performed inspections and effected repairs to the Timber Flume and Twin Pipelines and removal of sediment from the settling basins during the 2010/2011 and 2014/2015 outages;
- Performed removal of sediment from settling basins during the 2010/2011 and 2014/2015 outages;
- Implemented DSO recommended monitoring routines on Dikes 9,10 and 12;
- Implemented DSO recommendations on Dike 8;
- Implemented seismic remediation project on Dike 3 in 2014/2015;
- Installed piezometers in all Dikes;
- Demonstrated available discharge capacity;
- Completed PMP/PMF study;
- Performed repairs and inspection of the Barrier Structure in 2010, 2011, 2012, 2013, 2014 and 2015;
- Repaired the ecology block wall on Dike 13 in 2013;
- Repaired Tailrace "wingwall" adjacent to rail road crossing in 2011;
- Performed repairs on Dikes 2B, 3 and 11 in 2012;
- Performed repairs on Dikes 1, 3, 4 and 12 in 2013;
- Improved and upgraded Project security (fences, gates, locks, etc.);
- Contracted with Carollo to develop security master plan;
- Improved and upgraded gaging stations;

See independent auditor's report.

CASCADE WATER ALLIANCE

Required Supplementary Information
For the Years Ended December 31, 2015 and 2014

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

- Repaired pipeline and valve leaks;
- Implemented plan for Powerhouse roof replacement;
- Replaced roofs on Headworks area buildings;
- Removed Gatekeeper residence and related outbuildings;
- Upgraded SCADA system;
- Developed plan to comply with L&I / DOSH recommendations; implementation is ongoing;
- Removed hazardous wastes from Powerhouse;
- Removed lead paint in Powerhouse;
- Installed electric meters and disconnected power to non-essential equipment;
- Removed and salvaged unnecessary or retired/obsolete equipment;
- Upgraded and replaced culverts at headworks and valve house;
- Stockpiled sand for emergencies at strategic locations;
- Replaced telephone system;
- Performed HPA required plantings along Tailrace and on Dike 11;
- Conducted inspections of all cranes and performed necessary maintenance and repairs;
- Contracted with Carollo Engineers to perform condition assessment on Lower Conveyance System;
- Implemented Lower Conveyance System repairs/improvements recommended by Carollo, including replacement of Tunnel Intake Trash Racks and Stop Logs, concrete repairs, maintenance of Tunnel Intake slide gate and replacement of fill gate; maintenance of Forebay slide gates, relief valve repairs and flow tube repairs;
- Contracted with HDR Engineering to design Timber Flume replacement and Headgate improvements;
- Completed replacement of the Timber Flume, including repairs to an existing section of concrete flume;
- Completed implemented Headgate Improvement Project;
- Performed repairs to slide gates at 6 foot valve in Dingle Basin;
- Inspected and performed repairs to ten 10 foot tunnels;
- Performed maintenance on Fish Screens;
- Performed routine maintenance and repairs on roads; and
- Performed routine vegetation removal.

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

See independent auditor's report.



CASCADE WATER ALLIANCE

Required Supplementary Information
For the Years Ended December 31, 2015 and 2014

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

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 2016-2017 Biennium are summarized below:

Lake Tapps Project Operation and Maintenance Budget:	
2016	\$ 3,076,415
2017	3,144,200
Lake Tapps Project CIP Budget:	
2016	\$ 1,745,000
2017	1,550,000
2018	1,500,000
2019 - 2020	4,750,000

The Operation and Maintenance Budget and CIP for Cascade's 2016-2017 Biennium were adopted by the Board in September 2015.

See independent auditor's report.

2017-2018 ADOPTED



ADDITIONAL AUDITOR'S REPORT
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Clark Nuber PS

**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**

Independent Auditor's Report

To the Board of Directors
Cascade Water Alliance
Bellevue, Washington

We have audited, in accordance with the 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, the financial statements of the business-type activities of Cascade Water Alliance (Cascade) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Cascade's basic financial statements, and have issued our report thereon dated July 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cascade's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Cascade's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Clark Nuber ^{PS}

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cascade's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Clark Nuber P.S." in a cursive style.

Certified Public Accountants
July 21, 2016



CASCADE WATER ALLIANCE

Schedule of Findings and Responses
For the Year Ended December 31, 2015

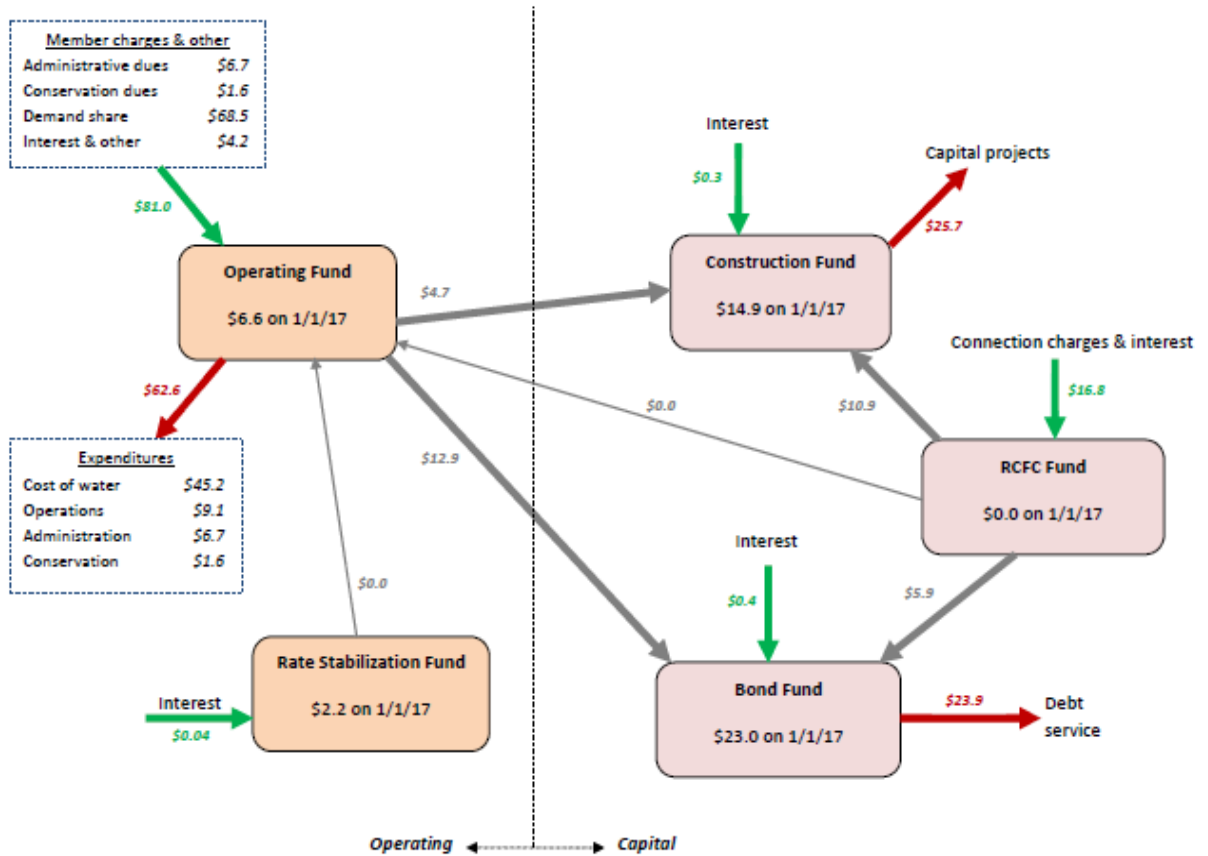
No matters are reported.

STATISTICAL SECTION

- Combined 2017-2018 Financial Structure Summary
- 2017-2018 Fund Activity Summary
- 2017-2018 Revenue and Expenditure Summary
- Revenues, Expenditures, and Changes in Net Assets: 2014-2018
- 2017-2018 Cash Flow Summary
- 2017-2018 Member Rates and Charges
- Coverage Ratio and Debt Capacity
- Performance Measures
- Staff Salary Scale

COMBINED 2017-2018 FINANCIAL STRUCTURE SUMMARY (\$MILLIONS)

Combined 2017-2018 Cascade Water Alliance Financial Structure Summary (\$ in millions)



2017 FUND ACTIVITY SUMMARY

	Operating	Regional Capital Facilities Charge	Rate Stabilization	Construction	Bond	Total
Estimated beginning balance January 1, 2017	\$6,635,221	\$0	\$2,195,817	\$14,887,143	\$10,838,346	\$34,556,527
Revenue	39,717,616	8,407,000	16,469	111,654	442,326	\$48,695,064
Transfers in	0	0	0	6,532,129	7,016,594	\$13,548,723
Total resources	\$46,352,837	\$8,407,000	\$2,212,286	\$21,530,925	\$18,297,266	\$96,800,313
Expenditures	31,517,360	0	0	6,722,161	11,953,212	\$50,192,732
Transfers out	5,141,723	8,407,000	0	0	0	\$13,548,723
Ending balance December 31, 2017	9,693,754	0	2,212,286	14,808,764	6,344,054	\$33,058,858
Total uses	\$46,352,837	\$8,407,000	\$2,212,286	\$21,530,925	\$18,297,266	\$96,800,313

2018 FUND ACTIVITY SUMMARY

	Operating	Regional Capital Facilities Charge	Rate Stabilization	Construction	Bond	Total
Estimated beginning balance January 1, 2018	\$9,693,754	\$0	\$2,212,286	\$14,808,764	\$6,344,054	\$33,058,858
Revenue	41,239,732	8,407,000	22,123	148,088	223,668	\$50,040,611
Transfers in		0	0	9,141,800	11,740,991	\$20,882,790
Total resources	\$50,933,487	\$8,407,000	\$2,234,409	\$24,098,651	\$18,308,713	\$111,656,955
Expenditures	30,851,708	0	0	18,980,404	11,912,472	\$61,744,584
Transfers out	12,475,790	8,407,000	0	0	0	\$20,882,790
Ending balance December 31, 2018	7,605,988	0	2,234,409	5,118,247	6,396,241	\$21,354,885
Total uses	\$50,933,487	\$8,407,000	\$2,234,409	\$24,098,651	\$18,308,713	\$111,656,955

The activity displayed above is measured on a cash basis.

2017-2018 REVENUE AND EXPENDITURE SUMMARY

Revenue

The 2016, 2017 and 2018 adopted estimated revenue amounts, excluding bond debt proceeds and BABs reimbursements, are as follows:

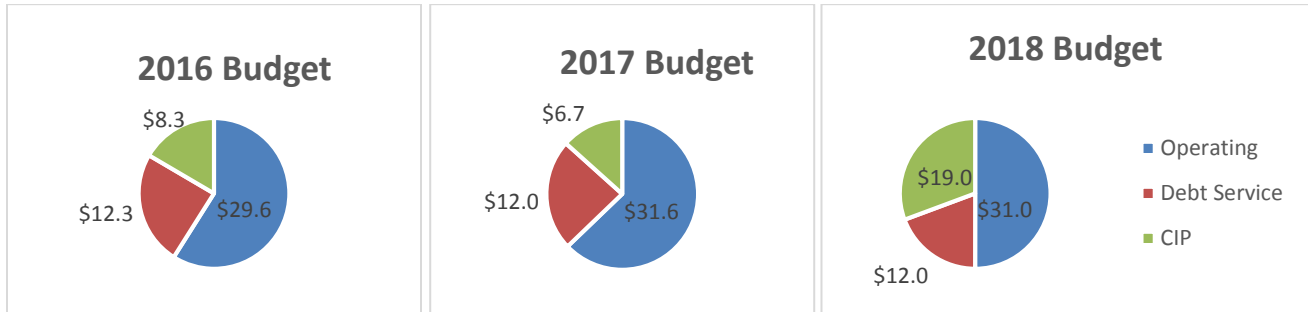
Revenue Sources	2016	2017	2018	% Change	% Change
Administrative charges to Members	\$3,103,511	\$3,303,660	\$3,378,266	6.45%	2.26%
Conservation charges to Members	846,043	799,767	801,663	-5.47%	0.24%
Water Demand Share Charges to Members, net of adjustments and reimbursements	32,600,146	33,542,761	34,972,107	2.89%	4.26%
Regional Capital Facilities Charges (RCFC) from Members	9,007,500	8,407,000	8,407,000	-6.67%	0.00%
Interest earnings	245,352	350,664	449,880	42.92%	28.29%
Other	1,661,784	1,720,762	1,637,815	3.55%	-4.82%
Total	\$47,464,336	\$48,124,614	\$49,646,731	1.39%	3.16%

Administrative charges to Members will increase by 6.45% and Conservation charges to Members will decrease 5.47% in 2017. Water demand share charges will increase by 2.89% in 2017. Overall the set charges to members will increase by 3.00% in 2017. RCFC revenues improved in 2016 and are anticipated to remain at normal levels. Interest revenue will increase in 2017 and 2018 as fund balances are built up to cover the \$12 million lump-sum contract payment to Seattle due December 2018.



Expenditures

Cascade’s 2016, 2017 and 2018 adopted total expenditure budgets are shown here (in \$ millions):



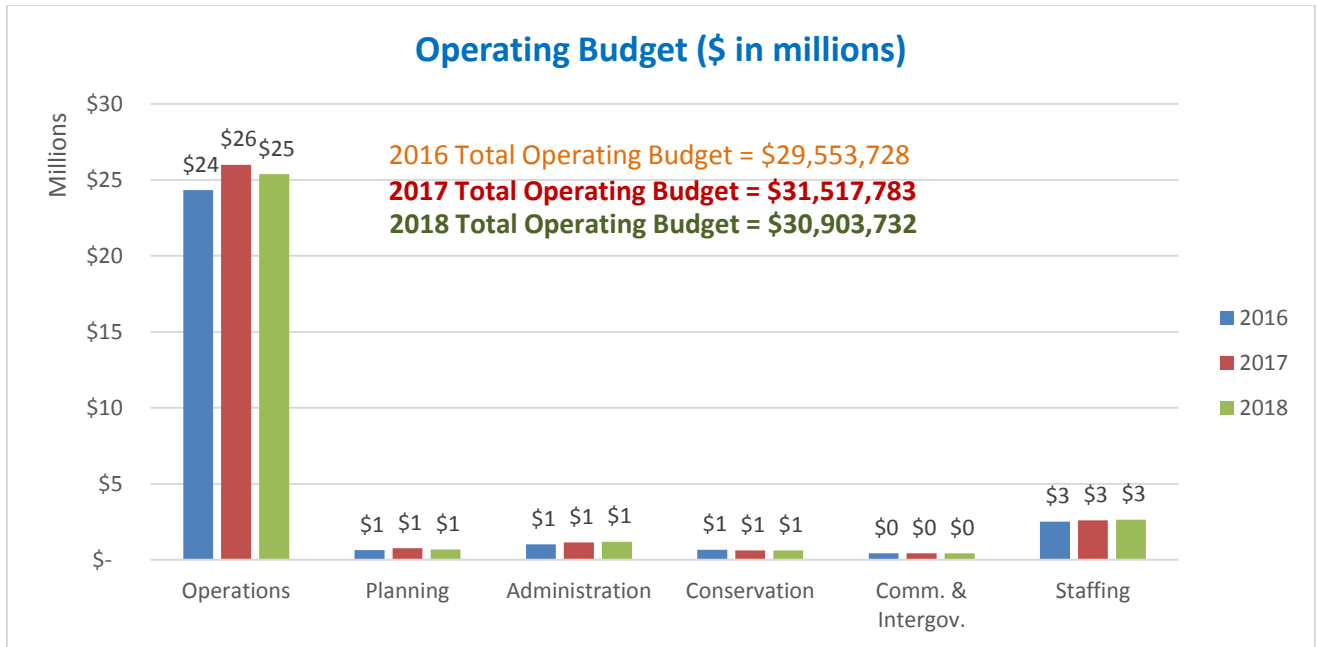
Total 2016, 2017 and 2018 adopted Operating (non-CIP or debt service) expenditure budgets are as follows:

Expenditures	2016	2017	2018	% Change	% Change
Purchased water, net of adjustments	\$21,451,657	\$23,025,616	\$22,248,526	7.34%	-3.37%
Operating expenditures	4,081,785	4,488,739	4,523,872	9.97%	0.78%
Administrative expenditures	3,174,244	3,303,661	3,378,267	4.08%	2.26%
Conservation expenditures	846,043	799,767	801,664	-5.47%	0.24%
Total	\$29,553,729	\$31,617,783	\$30,952,329	6.98%	-2.10%

**see chart on next page for descriptions of major expenditure changes for 2017 and 2018.*

Increases in the 2017-2018 Operating budgets over 2016 are driven mostly by increases in the cost of water. The majority of the budget increase in 2017 is due to a water contract true-up payment of \$1.6 million to Seattle. Other increases include anticipated higher Lake Tapps operator contract costs and wage contingency funding for anticipated staff turnover in 2017 and 2018. Also, there was a slight reduction in Conservation expenditures and debt service costs.

This chart displays changes to the Operating budget by functional area:



Seattle water costs will increase in 2017 over 2016. The Seattle block contract amounts in 2017 and 2018 are the same as in 2016, i.e., 33.3 mgd.

Other significant expenditures in 2017-2018 include (dollar amounts are estimates and may differ from actual amounts expended):

\$1,573,960	Water contracts	(Operations)
\$100,000	Lake Tapps operator	(Operations)
\$100,000	Contingency (staff turnover)	(Administrative)
\$75,000	Water quality program	(Operations)
\$65,000	Engineering consulting	(Operations)
\$56,000	USGS joint funding agreements	(Operations)
\$55,000	US Army Corps Engr. Fish passage	(Operations)
\$21,770	Other additions	(Administrative)
(\$50,000)	Milfoil control	(Operations)
(\$22,500)	Legal services	(Administrative)
(\$10,373)	Other reductions	(Administrative)
\$1,963,857	Net increase in Operating budget over 2016	

The debt service budget is \$11,994,461 and \$11,953,525 for 2017 and 2018, respectively.

The 2017-2018 budget will meet cash flow, debt coverage and reserve requirements as mandated by Cascade’s fiscal policies.

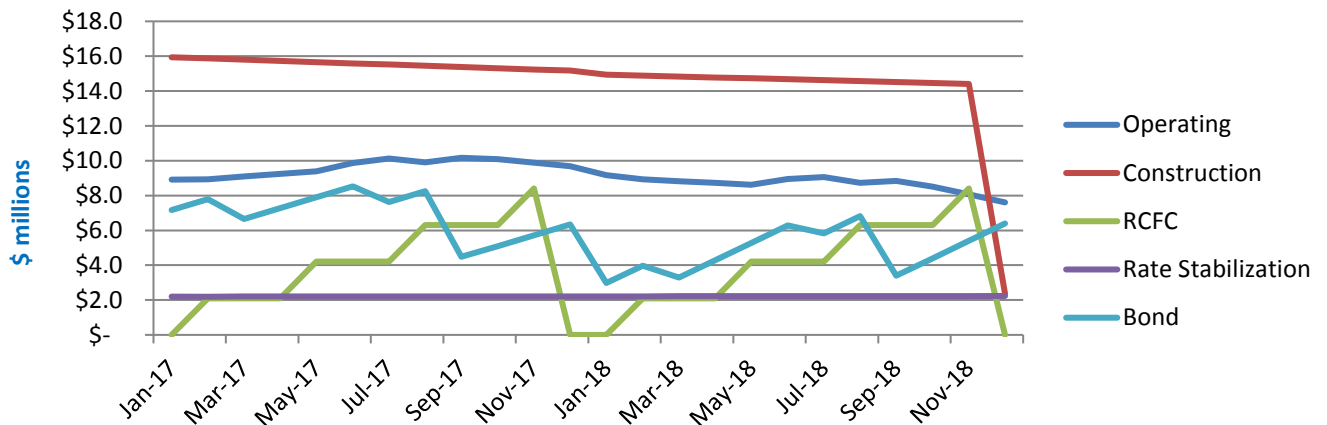
REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS: 2016 – 2018

	2014 actual	2015 actual	2016 est.	2017 budget	2018 budget
Operating Revenue:					
Water sales	\$ 30,747,222	\$31,761,946	\$32,600,142	\$33,542,761	\$34,972,107
Administrative dues	3,014,341	2,966,435	3,103,512	3,303,660	3,378,266
Conservation program	1,223,993	2,911,519	846,044	799,767	801,663
Total Operating Revenue	34,985,556	37,639,900	36,549,698	37,646,188	39,152,036
Operating Expenses:					
Cost of water sold	20,830,850	19,909,486	21,451,656	23,025,616	22,299,929
Salaries and benefits	1,585,345	1,713,505	1,946,744	2,140,467	2,152,803
Lake Tapps asset management	3,066,444	3,066,216	2,204,888	3,192,200	3,303,700
Professional services	2,073,509	2,004,493	1,506,721	1,119,500	1,074,300
Conservation program	245,125	123,891	134,697	390,000	390,000
Depreciation and amortization	5,028,940	4,337,360	4,257,052	4,682,757	5,151,033
Communication and public information	313,274	305,576	285,227	420,000	420,000
Office expenses	69,354	75,565	248,570	629,300	681,897
Insurance	96,488	96,468	177,420	100,000	100,000
Rent	163,422	165,874	165,874	211,000	240,000
Maintenance	5,050	1,017,312	157,533	210,700	210,700
Dues and subscriptions	29,666	43,260	35,212	40,000	40,000
Miscellaneous	200,021	118,018	12,977	39,000	39,000
Total Operating Expenses	33,707,488	32,977,024	32,584,571	36,200,540	36,103,362
Operating Income	1,278,068	4,662,876	3,965,127	1,445,648	3,048,674
Non-Operating Revenue (Expenses)					
BAB rebate	1,148,494	1,133,996	1,517,320	1,114,866	1,079,072
Interest income	603,938	448,253	392,380	350,664	449,880
Interest expense, net of amount capitalized	(7,942,741)	(7,179,811)	(7,308,314)	(6,494,988)	(6,249,051)
Loss on disposition of assets	11,600				
Total Non-Operating Revenue (Expenses)	(6,178,709)	(5,597,562)	(5,398,613)	(5,029,458)	(4,720,100)
Capital Contributions					
Regional Capital Facilities Charge	10,013,339	8,854,373	9,007,500	8,407,000	8,407,000
Increase in Net Assets	5,112,698	7,919,687	7,574,014	4,823,190	6,735,574
Net Assets, beginning of year	53,429,087	58,541,785	66,461,472	74,035,487	78,858,676
Net Assets, end of year	\$58,541,785	\$66,461,472	\$74,035,487	\$78,858,676	\$85,594,250

2017 AND 2018 CASH FLOW SUMMARY

Fund balances will remain positive for each month of 2017 and 2018, as illustrated in this chart:

Cash flow: 2017-2018 month-end balances, by fund



Cash flow balances shown above are estimated in timing and amount.

The capital payments for the water contracts with Seattle and Tacoma are the reason for the variability in the construction fund cash flow. For the Bond fund the large variability is caused by the debt service payments and fund transfers from the RCFC and Operating funds to meet sufficiency needs. Transfers to the Construction and Bund and the quarterly billing of RCFC invoices is the cause of the variability in the RCFC fund.

The Rate Stabilization fund will maintain a relatively smooth fund balance throughout 2017 and 2018.

2017 AND 2018 MEMBER RATES AND CHARGES

Note: The Member Rates and Charges tables that follow below are presented as adopted by the Board on October 26, 2016.

CERU

Cascade Equivalent Residential Units (CERUs) projected for each Member in 2016-2020 are:

Member	2016	2017	2018	2019	2020
Bellevue	67,377	67,717	68,027	68,337	68,647
Issaquah	14,230	14,600	14,920	15,240	15,560
Kirkland	19,206	19,376	19,526	19,676	19,826
Redmond	32,301	32,601	32,881	33,161	33,441
Sammamish Water	22,916	23,216	23,536	23,856	24,176
Skyway WSD	3,846	3,851	3,856	3,861	3,866
Tukwila	8,116	8,131	8,146	8,161	8,176
Total	167,992	169,492	170,892	172,292	173,692

DEMAND SHARE

Demand Shares projected for each Member in 2016-2020 are:

Member	2016	2017	2018	2019	2020
Bellevue	19.3595	19.5152	19.4958	19.4593	19.3566
Issaquah	1.0574	1.4980	1.6375	1.7660	1.6167
Kirkland	5.0889	5.2762	5.3170	5.3587	5.2735
Redmond	6.1327	6.5257	6.7632	6.8450	6.6551
Sammamish Water	1.0135	1.0361	1.0352	1.0710	1.0042
Skyway WSD	0.3731	0.4047	0.4098	0.4070	0.3984
Tukwila	2.5498	2.6296	2.6468	2.6329	2.5707
Total	35.5749	36.8855	37.3053	37.5399	36.8752

DEMAND SHARE PERCENTAGES

Demand Shares percentages* projected for each Member in 2016-2020 are:

Member	2016	2017	2018	2019	2020
Bellevue	54.42%	52.91%	52.26%	51.84%	52.49%
Issaquah	2.97%	4.06%	4.39%	4.70%	4.38%
Kirkland	14.30%	14.30%	14.25%	14.27%	14.30%
Redmond	17.24%	17.69%	18.13%	18.23%	18.05%
Sammamish Water	2.85%	2.81%	2.77%	2.85%	2.72%
Skyway WSD	1.05%	1.10%	1.10%	1.08%	1.08%
Tukwila	7.17%	7.13%	7.10%	7.01%	6.97%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

SUMMARY OF MEMBER CHARGES

2017 Adopted and 2018 Forecast Member Charges (excluding Regional Capital Facilities Charges) are shown below. Administrative Dues will be assessed against each Member at the rate of \$19.67 per CERU multiplied by 100% of that Member's CERUs. The Demand Share Charge for 2017 is \$335,428 per Demand Share. The Conservation Program Charge for 2017 is \$4.76/CERU. The charge is applicable to 100% of a Member's CERUs.

2017 Member charges

Member	Administrative Dues	Conservation Charges	Demand Share Charges	Total
Bellevue	\$1,325,012	\$320,766	\$17,746,629	\$19,392,407
Issaquah	\$279,842	\$67,746	\$1,362,252	\$1,709,840
Kirkland	\$377,698	\$91,435	\$4,798,055	\$5,267,188
Redmond	\$635,220	\$153,777	\$5,934,291	\$6,723,288
Sammamish Water	\$450,658	\$109,098	\$942,189	\$1,501,945
Skyway WSD	\$75,624	\$18,307	\$368,039	\$461,970
Tukwila	\$159,606	\$38,638	\$2,391,306	\$2,589,550
Total	\$3,303,660	\$799,767	\$33,542,761	\$37,646,188

The average Member rate increase (excluding adjustments) from 2016 to 2017 is 3.00%. Individual Member changes range from 0.16% to + 35.65%:



2018 Member charges

Member	Administrative Dues	Conservation Charges	Demand Share Charges	Total
Bellevue	\$1,349,720	\$320,289	\$18,276,470	\$19,946,479
Issaquah	\$291,004	\$69,055	\$1,535,097	\$1,895,156
Kirkland	\$386,198	\$91,645	\$4,984,418	\$5,462,261
Redmond	\$649,796	\$154,197	\$6,340,189	\$7,144,182
Sammamish Water	\$462,736	\$109,807	\$970,444	\$1,542,987
Skyway WSD	\$76,747	\$18,212	\$384,197	\$479,156
Tukwila	\$162,065	\$38,458	\$2,481,292	\$2,681,815
Total	\$3,378,266	\$801,663	\$34,972,107	\$39,152,036

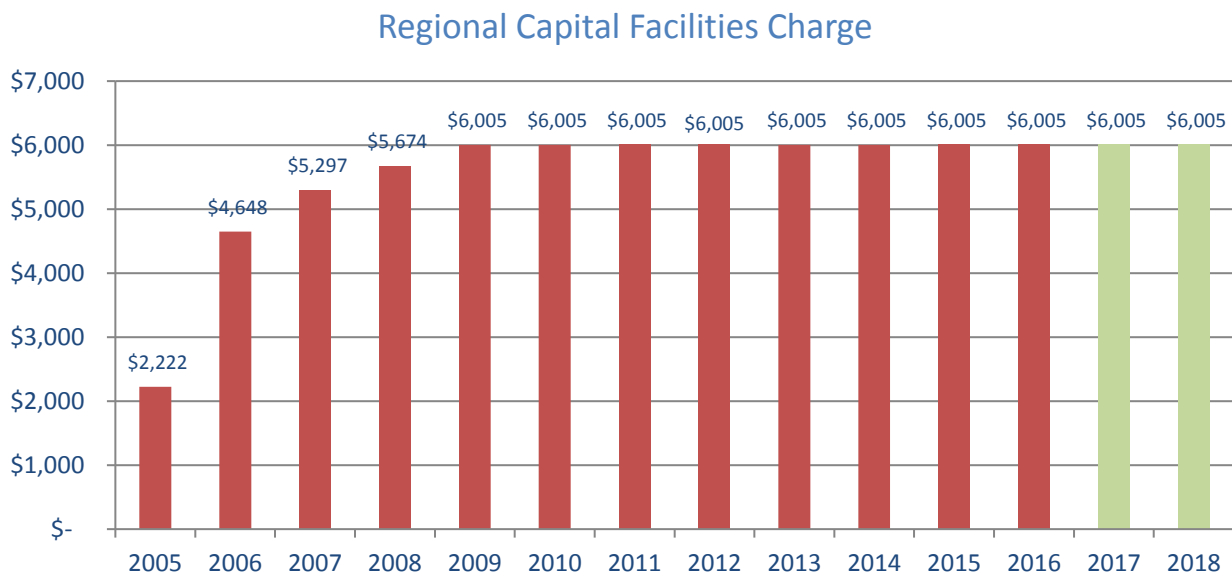
The average Member rate increase (excluding adjustments) from 2016 to 2017 is projected to be 4.00%. Individual Member changes range from 2.86% to 10.84%:

Member	Increase over 2016 charges
Bellevue	0.16%
Issaquah	35.65%
Kirkland	2.73%
Redmond	5.39%
Sammamish Water	2.54%
Skyway WSD	6.73%
Tukwila	2.57%
Total	3.00%



REGIONAL CAPITAL FACILITIES CHARGE

Regional Capital Facilities Charges (RCFC's) are charges for new water connections and are based on a pro rata share of Cascade's Capital Investment Program costs. RCFC revenues are used to repay debt and to fund capital projects. A history of RCFC rates are shown below:



The 2017 Regional Capital Facilities Charge (RCFC) is the same as the 2016 level of \$6,005. During the budget development process, Cascade analyzes its capital projects requirements and rate structure to develop a RCFC recommendation for the coming biennium. The current CIP does not warrant an increase in the RCFC. At the same time, however, Cascade has made and will continue to make capital investments over the next ten years that justify not reducing the RCFC. Also, it is more prudent for financial planning purposes to keep the charge at its current level rather than reducing it now to increase it significantly in just a few years. At this time, there is not a firm basis for increasing or decreasing the charge, and freezing it for one year will stabilize the RCFC revenue stream, which is important because Cascade's debt service is a real expense that rates would have to cover to the extent that RCFCs do not.

Although Cascade adopts biennial budgets, the RCFC will continue to be adopted annually, in accordance with Resolution No. 2010-08.



COVERAGE RATIO AND DEBT CAPACITY

Cascade’s fiscal policies require that Cascade comply with bond covenants and satisfy related coverage requirements. In addition, the fiscal policies require that Cascade establish member charges sufficient to maintain net revenues that provide a debt coverage ratio of no less than 1.25 times total annual debt service. For this purpose, available revenues shall include member charges, interest earnings, miscellaneous revenues, and transfer to the operating fund from the rate stabilization fund. Expenses shall include operating expenses and transfers from the operating fund into the rate stabilization fund. Expenses shall not include capital expenditures, capacity investments such supply acquisition investments or conservation investments with quantifiable return in reduced water demand, or minimum payment obligations related to maintaining unused capacity rights. The following table shows Cascade’s actual debt coverage ratio since 2012, and the projected ratios for 2017 and 2018:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Ratio	1.61	1.42	1.48	1.53	1.34	2.15	1.36

The 2017-2018 Budget has been developed to ensure that Cascade’s coverage ratio remains in compliance with fiscal policies.

Cascade’s fiscal policies provide guidance on debt management. In accordance with the policies, Cascade will issue debt for investments in system infrastructure that provide tangible or intangible assets. Debt will not be used to fund ongoing operating and maintenance costs that cannot be capitalized. When debt is used for capital investment, the term of debt shall not exceed the reasonable useful life of the asset being acquired, constructed or enhanced. The Board shall determine the term and structure of debt issued by Cascade. In determining debt structure, the Board shall consider the useful life of assets, existing debt and debt service load, plans for future debt issuance, market conditions, impacts on rates and charges, potential effect on Cascade’s credit-worthiness, and other factors that the Board deems relevant. Cascade will not use nontraditional debt, such as derivatives, swaps, variable rate obligations or other financial mechanisms, unless such instruments are allowable under Washington law, determined by the Board to be in the best interest of Cascade, and found by the Board to provide financial benefit to Cascade without undue risk. Cascade will not use derivatives or swaps without the Board first adopting policy by resolution on the use of such mechanisms and approval by a 65 percent dual majority vote. Cascade will also provide in payment agreements for derivatives or swaps that termination payments to a provider will be subordinate to debt service on a member’s bond obligations. Cascade may consider debt refunding, defeasance or restructuring when demonstrated to be financially advantageous. When



Cascade accumulates cash and investments in excess of identified near-term requirements, Cascade will consider debt reduction as one of the potential uses for such resources. Cascade shall make timely filings of regular disclosures of information required by its bond covenants to the Municipal Securities Rulemaking Board (MSRB), including certain financial information and operating data of Cascade and of its Members and notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the annual disclosure report and in notices of material events is set forth in the continuing disclosure certificates of Cascade's bonds. The CEO will be responsible to execute the disclosures and notify the Board of such reports.

Cascade's outstanding debt as of December 31, 2016, is \$132,805,000. The percentage of Cascade's forecasted revenues committed to debt repayment is 31.68% in 2017 and 30.35% in 2018.



2017-2018 PERFORMANCE MEASURES

Cascade’s performance measures are based on Cascade’s Strategic Plan (as adopted in 2010 and updated by the Board in 2011 and 2013). Achievement of performance measures, in turn, is the basis for assigning strategies and budget resources for the 2017-2018 biennium. All performance measures were reviewed and updated in 2015 and 2016. Some previous measures were revised or deleted, and others were added. The tables below show the updated connections among the Strategic Plan, performance measures, work strategies, and budget.

Management Efficiency and Organizational Development						
<i>Strategic Direction: Strive for effective utility management through variety of organizational efficiency approaches</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Document knowledge of departers	Percentage of unique activity areas identified and documented	<ul style="list-style-type: none"> • Create and organize an evolving library of important facts and observations for Cascade activities and programs • Continue development of library, including organizational structure / template 	2015: 100% of Lake Tapps drawdown projects & lessons learned 2016: 100% of three project areas 2017: 100% of three project areas 2018: 100% of three project areas	2015: 50% complete (documentation of projects performed both by documents and by pictures)	N/A	N/A
Develop a succession plan for Cascade staff members	Percentage of applicable staff with completed succession plans	<ul style="list-style-type: none"> • Develop and distribute template for staff to use to create succession plans • Update job descriptions • Do recruitment spreadsheets • Put a strategy in place for replacement of individuals • Cross-train 	2014: 100% 2015: 100% 2016: 100% 2017: 100% 2018: 100%	2014: 0% 2015: 50% (updated all job descriptions, developed desired qualifications for all jobs, and started the process of discussing retirement replacements)	N/A	N/A



Management Efficiency and Organizational Development

Strategic Direction: Strive for effective utility management through variety of organizational efficiency approaches

<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Develop mechanisms to evaluate and control Cascade's strategic plan implementation	<ul style="list-style-type: none"> Number of strategic goals with performance measures: 1) established 2) met Annual Committee of the Whole (COW) meeting to review strategic goals and performance measures 	<ul style="list-style-type: none"> Develop timeline and plan to create and evaluate measures Ensure that performance measures data are being collected in all areas Review by COW 	2014: <ul style="list-style-type: none"> 85% established 100% of established met 2015: <ul style="list-style-type: none"> 80% established 100% of established met 2016: <ul style="list-style-type: none"> 85% established 100% of established met 2017: <ul style="list-style-type: none"> 85% established COW review and update 2018: <ul style="list-style-type: none"> 90% completed or established COW review and update 	2014: <ul style="list-style-type: none"> 77% established 80% of established met 2015: <ul style="list-style-type: none"> N/A – under review N/A – under review mission, vision, and goals reviewed and updated 	N/A	N/A
Promote professional and personal development for Cascade staff members	Number of completed individual staff development activities	Identify professional development opportunities and provide encouragement and funding	2014: 2 per person* 2015: 2 per person* 2016: 2 per person* 2017: 2 per person* 2018: 2 per person* (*or as agreed-upon during performance review)	2014: met 45% of goal 2015: 80%	\$18,000	\$18,000

Management Efficiency and Organizational Development

Strategic Direction: Strive for effective utility management through variety of organizational efficiency approaches

<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
<p>Improve teamwork through fostering internal and external communication of issues, ideas and purpose</p>	<ul style="list-style-type: none"> • Number of staff meetings • Number of scheduled team events • Number of formal annual teambuilding events 	<p>Conduct teambuilding activities and improve communication and expectations</p>	<p>2015:</p> <ul style="list-style-type: none"> • 40 • 12 • 1 <p>2016:</p> <ul style="list-style-type: none"> • 40 • 12 • 1 <p>2017:</p> <ul style="list-style-type: none"> • 40 • 12 • 1 <p>2018:</p> <ul style="list-style-type: none"> • 40 • 12 • 1 	<p>2015:</p> <ul style="list-style-type: none"> • 40 • 12 • 1 	N/A	N/A
<p>Enhance collaboration with members, in the areas of:</p> <ul style="list-style-type: none"> • non-drinking water services • expand drinking water services (e.g., low-income programs, member asset management programs, etc.) • rate structure assessment and development, supply and demand modeling, emergency management, communications, etc. 	<ul style="list-style-type: none"> • Number of topical training sessions • Number of outreach opportunities for consultation with members 	<ul style="list-style-type: none"> • Use on-call engineering contract for audits, service area analysis • Policy and options analysis for possible service packages • Review and evaluation with Board and member staff • Refinement until Board direction on further activity • Implement if and when directed 	<p>2015:</p> <ul style="list-style-type: none"> • 3 topical training sessions and / or outreach opportunities (combined) <p>2016:</p> <ul style="list-style-type: none"> • 3 topical training sessions and / or outreach opportunities (combined) <p>2017: none</p> <p>2018: workshop on demand forecasting</p>	<p>2015: Six, including:</p> <ul style="list-style-type: none"> • user charges • RCFCs • resiliency • insurance partnership • benchmarking • low-income 	N/A	\$10,000



Management Efficiency and Organizational Development

Strategic Direction: Strive for effective utility management through variety of organizational efficiency approaches

<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Increase Cascade revenues other than rates	<ul style="list-style-type: none"> Revenue increase amount Number of opportunities evaluated 	Identify revenue-enhancing opportunities	2015: 1 opportunity 2016: <ul style="list-style-type: none"> phase 2 of power initial review of selling water 2017: <ul style="list-style-type: none"> revised investment strategy hydropower investment decision 2018: hydro implemented (if affirmation)	2015: phase I of power opportunity done	\$0	\$0

Finance and Administration

Strategic Direction: Maintain Cascade’s financial efficiency and stability

<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Continually improve Cascade’s rate structure to ensure fair and equitable cost allocation model	<ul style="list-style-type: none"> Review and validation of rate structure and payments 	<ul style="list-style-type: none"> Periodically review and assess Determine what equitable means Review member equity 	2014: reviewed and validated 2015: recalibrated CERU 2016: <ul style="list-style-type: none"> annual check of CERUs review of member cost allocations for fairness 2017: N/A - done 2018: N/A - done	2014: reviewed and validated 2015: done	N/A	N/A



Finance and Administration						
<i>Strategic Direction: Maintain Cascade’s financial efficiency and stability</i>						
Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Enhance Cascade management approach to vendor procurement	Enhanced vendor procurement practices in use	Monitor and maintain procurement practices and adjust as needed	2015: enhanced vendor procurement practices in use 2016: enhanced vendor procurement practices in use 2017: enhanced vendor procurement practices in use 2018: enhanced vendor procurement practices in use	2015: achieved	N/A	N/A
Pursue the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award by following the established criteria for budget documentation development.	<ul style="list-style-type: none"> • Additional criteria met toward achieving GFOA award • Achievement of GFOA award 	Review successful organizations’ documents and GFOA criteria guidelines; training as necessary	2014: I 2015: I 2016: final criteria – performance measures 2017: achievement of GFOA award for 2017-2018 budget book 2018: N/A if completed in 2017	2014: I 2015: I	N/A	N/A



Finance and Administration

Strategic Direction: Maintain Cascade’s financial efficiency and stability

Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Perform continuing reassessment of Cascade’s financial structure (e.g., capital funding strategy)	<ul style="list-style-type: none"> Enhanced and simplified rate model via compartmentalizing functionality: conceptual flowchart, restructured files, parallel testing and reconciliation, implement modified model Cascade fiscal policies revised Cascade rate methodology revised Cascade RCFC methodology revised Portion of RCFC revenue to Construction fund 	Collaborate with CEO and others to review and revise fiscal policies; measure and report progress on capital strategy	2014: revised if needed 2015: report to Board on progress on capital strategy 2016: 55% RCFC to Construction 2017: 60% of RCFC to Construction 2018: 65% of RCFC to Construction 2019: 70% of RCFC to Construction 2020: 75% of RCFC to Construction	2014: done 2015: done	N/A	N/A



Finance and Administration

Strategic Direction: Maintain Cascade’s financial efficiency and stability

Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Maintain adequate bond structure and financing to reduce cost to Cascade Members; optimize long-term capital strategy through the use of both debt and equity at appropriate levels	<ul style="list-style-type: none"> • Present value reduction in debt service • Continuation of fiscal policy transition 	Assess market conditions	2014: <ul style="list-style-type: none"> • refunding of 2006 bonds to achieve 8% savings • 40% of RCFC revenue directly to Construction fund 2015: <ul style="list-style-type: none"> • continued fiscal policy transition • 45% of RCFC revenue directly to Construction fund 2016: <ul style="list-style-type: none"> • continued fiscal policy transition • 50% of RCFC revenue directly to Construction fund 2017: evaluate refunding of 2009 bonds 2018: refund 2009 bonds if viable	2014: <ul style="list-style-type: none"> • 13% present value savings on 2006 bonds • 40% of RCFC to Construction 2015: 50% of RCFC to Construction	\$20,000	\$0 (embedded in issuance costs)

Regional, Policy, and Intergovernmental Relationships

Strategic Direction: Participate proactively in policy, legal, and regulatory issues

Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Ensure continued regional leadership by participating in regional planning and community service initiatives as appropriate	<ul style="list-style-type: none"> Number of staff or board members named to represent, attend or speak at regional initiatives or events Attendance and participation at meetings and events of: Forum, WWUC 	<ul style="list-style-type: none"> Identify appropriate boards, panels, activities for Cascade to be at table and get appointed or attend Find opportunities to be a presence at programs, chambers, etc. Prioritize time to allow attendance at meetings Communicate duties as required 	2014 – 2018: <ul style="list-style-type: none"> 2 events per year 80% attendance at Forum 50% attendance at WWUC 	2014: 10 events, 100% attendance 2015: 10 events, 100% attendance	\$5,000	\$5,000
Ensure continuous communication with member agencies' governing bodies	<ul style="list-style-type: none"> Number of meetings with each member board, presentations to governing bodies, appearances, newsletters, and implemented communication and outreach plans A completed annual report Committee, staff, and Board meeting presentations Number of monthly member updates 	<ul style="list-style-type: none"> Determine each members' needs and wants Develop and implement individual communication & outreach plans for members Update vehicles and amounts as needed 	2014: 2 meeting with Board members, 1 meeting with governing bodies, 1 annual report, 4 newsletters, 2 member updates 2015 – 2018: 2 meeting with Board members, 1 meeting with governing bodies, 1 annual report, 4 newsletters, 12 member updates	2014: met all targets as listed 2015: met all targets as listed	\$5,000	\$5,000

Regional, Policy, and Intergovernmental Relationships

Strategic Direction: Participate proactively in policy, legal, and regulatory issues

Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Maintain Cascade on-going legislative agenda to advance Cascade’s overall mission	<ul style="list-style-type: none"> • An approved legislative agenda • Number of meetings with state, federal lawmakers and regional decision makers on Cascade agenda • Number of newsletters • Completed annual report • Number of press releases 	<ul style="list-style-type: none"> • Twice yearly meetings • Create legislative agenda and get adopted by PAC and Board • Have an active presence in Olympia, Washington DC • Lobby as needed • Prepare board members to lobby as needed • Prepare materials • Quarterly newsletters 	2014: approved by November 2013, meet twice 2015: approved by November 2014, meet twice 2016: approved by November 2015, meet twice 2017: approved by November 2016, meet twice 2018: approved by November 2017, meet twice	2014: approved November 2013, met twice 2015: approved November 2014, met twice 2016: approved November 2015 2017: approved November 2014, met twice 2018: approved November 2015	\$50,000	\$50,000
Continue reassessing and updating Cascade’s stakeholder involvement strategy	<ul style="list-style-type: none"> • Number of groups listed • Input received from all Members, member staff to identify and assess additional stakeholders to add • Percentage of new callers, visitors and attendees at events added to lists • Updated strategies 	<ul style="list-style-type: none"> • Ask Members and Forum for input • Identify best ways to reach all • Develop and follow plan in conjunction with other outreach • Develop and implement annual Lake Tapps outreach plan 	2014: <ul style="list-style-type: none"> • input received by October 2013 for 2014 planning • two updated strategies 2015: <ul style="list-style-type: none"> • input received by October 2014 for 2015 planning • two updated strategies 2016: <ul style="list-style-type: none"> • input received by October 2015 for 2016 planning • two updated strategies 2017: <ul style="list-style-type: none"> • input received by October 2016 for 2017 planning • two updated strategies 2018: <ul style="list-style-type: none"> • input received by October 2017 for 2018 planning • two updated strategies 	2014: input received in 2013, 2 updated strategies 2015: input received October 2014, updated 3 strategies	\$10,000	\$10,000

Regional, Policy, and Intergovernmental Relationships

Strategic Direction: Participate proactively in policy, legal, and regulatory issues

Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Continue Cascade presence and involvement in the national policy, legal, and regulatory arena	Number of Cascade staff or board members on panels, speak, author articles etc. in national arena	Identify opportunities; select presenter; prepare materials	2014: two 2015: two 2016: two 2017: two 2018: two	2014: two 2015: two	\$5,000	\$5,000
Document member low income programs and evaluate potential Cascade assistance or role	<ul style="list-style-type: none"> Completed documentation of member low income programs Completed summary of member low income demographics Completed pilot low income conservation assistance program Completed evaluation of low income assistance cost-effectiveness 	<ul style="list-style-type: none"> Undertake studies Evaluate results Develop recommendations Communicate with members 	2014: 2 documented member low income summaries 2015: implement and complete pilot program implementation for Skyway 2016: continue analysis of pilot program 2017: <ul style="list-style-type: none"> completed pilot program analysis and report to Board 2018: N/A	2014: 2 completed 2015: pilot completed	N/A	N/A
Initiate and develop a Cascade Water Resiliency program and participate in a regional resiliency effort being undertaken by the Water Supply Forum and led by Seattle	A regional resiliency plan drafted, covering the areas of earthquake, water quality, drought, and climate change	Establish four work groups composed of staff and consultants to address challenges facing the region in assuring a sustainable water supply	2016: resiliency plan drafted 2017: implement plan 2018: implement plan	2015: N/A - new	N/A	N/A



Regional, Policy, and Intergovernmental Relationships						
<i>Strategic Direction: Participate proactively in policy, legal, and regulatory issues</i>						
Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
An annual targeted communications and outreach plan that addresses members' needs and provides outreach to community partners and stakeholders	A plan developed and approved by the Public Affairs Committee and the Board	<ul style="list-style-type: none"> • Seek input from members and staff • Create and implement plan 	2014: PAC approval by October 2013, implementation begun by November 2013 2015: PAC approval by October 2014, implementation begun by November 2014 2016: PAC approval by October 2015, implementation begun by November 2015 2017: PAC approval by October 2016, implementation begun by November 2016 2018: PAC approval by October 2017, implementation begun by November 2017	2014: met both targets 2015: met both targets	\$15,000	\$15,000

Communications and Outreach						
<i>Strategic Direction: Advance Cascade's ability to provide effective public services through relationship building, information sharing, and effective marketing and branding</i>						
Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Implement effective communication approaches to disseminate Cascade news and water efficiency information to appropriate stakeholders in a timely and efficient manner	Number of communications vehicles for each message distributed	Disseminate information via news release, web posting, social media, advertising, etc.	2014: 4 2015: 4 2016: 4 2017: 4 2018: 4	2014: 4 2015: 4	\$10,000	\$10,000



Communications and Outreach						
<i>Strategic Direction: Advance Cascade’s ability to provide effective public services through relationship building, information sharing, and effective marketing and branding</i>						
Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Develop individualized co-messaging strategies with each member	Number of outreach meetings with members on co-messaging	Part of annual planning new focus only	2014: 2 2015: 2 2016: 2 2017: 2 2018: 2	2014: 2 2015: 2	N/A	N/A
Create water efficiency communication strategies	Number of water efficiency outreach efforts	Work with members to set plan	2015: 4 quarterly meetings 2016: 4 quarterly meetings 2017: created and implemented web outreach plan 2018: created and implemented web outreach plan	2015: 4 meetings	N/A	N/A
Create a Cascade history to preserve institutional information	<ul style="list-style-type: none"> Interviews conducted Writing, editing, designing, printing, and disseminating completed 	Write, edit, design, print, and disseminate a Cascade history	2015: completed interviews 2016: printed history by March 2016 2017: N/A, completed 2018: N/A, completed	2015: completed interviews; draft completed	N/A	N/A



Environmental Protection and Water Quality

Strategic Direction: Strive for sustainability by managing water resources, infrastructure, and investments while protecting the natural environment

<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Participate in regional water emergency response cooperation efforts, to be led by Joe, with Elaine’s support for communication and outreach	<ul style="list-style-type: none"> Completed Water System Response Plan (WSRP) Completed <i>Cascadia Rising</i> exercise Implemented member emergency response effort 	<ul style="list-style-type: none"> Review by SPU in September 2011 Final Draft to Board and Members in October 2011 Adopt as part of TSP <i>Cascadia Rising</i>; coordinate Cascade and members’ participation (2016) 	2015: acceptable WSRP, ready to be implemented 2016: <ul style="list-style-type: none"> updated WSRP completed <i>Cascadia Rising</i> exercise a developed plan for member emergency response effort 2017: completed table-top exercise with members 2018: plan updated	2015: implemented WSRP	N/A	N/A
Continue long-term river flow and water quality monitoring program for White River and Lake Tapps	Continuation and expansion of USGS cooperative gaging and WQ monitoring programs; developed comprehensive lake water quality study scope and schedule	<ul style="list-style-type: none"> Close out annual agreements Renew and manage annual USGS contracts Design lake water quality study for 2017 in 2016 Approve proposal for additional gage station in 2016 Develop proposal for relocated gage above the barrier structure (2017) Identify additional sponsors for funding stations Consultation and coordination with Tribes 	2014: continued USGS cooperative gaging and water quality (WQ) monitoring programs 2015: continued USGS cooperative gaging and WQ monitoring programs 2016: continued USGS cooperative gaging and WQ monitoring programs; new gage installed below tailrace 2017: continued USGS cooperative gaging and WQ monitoring programs; relocated gage above Buckley; designed lake WQ study 2018: continued USGS cooperative gaging and WQ monitoring programs; designed lake WQ study	2014: target met 2015: target met	\$285,000 operating; \$98,000 CIP	\$300,000 gage program, operating; \$450,000 lake WQ study CIP



Environmental Protection and Water Quality						
<i>Strategic Direction: Strive for sustainability by managing water resources, infrastructure, and investments while protecting the natural environment</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Develop a sustainability policy for Cascade and its members that emphasizes a carbon-neutral, zero footprint, and energy-neutral environmental impact	Pending					
Analyze Lake Tapps watershed basin planning and regulatory needs	<ul style="list-style-type: none"> Completed review and comment on Shoreline Management Plans amended / adopted by Pierce County, Sumner, Bonney Lake, and Buckley Decision on State Forest Practices Act (SFPA) 	<ul style="list-style-type: none"> Monitor updates to Pierce County, Bonney Lake, and Buckley SMP's and comment on programs Determine whether to add examination of SFPA to regular reviews 	2015: <ul style="list-style-type: none"> completed review and comment on SMP amendments as proposed completed review and comment on shoreline permit applications, as necessary sign up to receive SFPA notices; review and comment on applications as necessary 2016: same as 2015 2017: same as 2015 2018: same as 2015	2015: all targets met	N/A	N/A
Establish invasive species (e.g., milfoil) identification, evaluation, and control targets	Rate of control of invasive species	<ul style="list-style-type: none"> Perform yearly survey to establish target treatment areas and levels Chemical treatment Lake drawdown Hand-pulling of vegetation 	2015: 80%-90% controlled 2016: 80%-90% controlled 2017: 80%-90% controlled 2018: 80%-90% controlled	2015: 90%	\$100,000	\$100,000



Environmental Protection and Water Quality						
<i>Strategic Direction: Strive for sustainability by managing water resources, infrastructure, and investments while protecting the natural environment</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Development of a long-term water quality management policy for the Lake Tapps / White River Project which provides long-term protection for its use as a municipal water supply system	Board adoption of a Lake Tapps / White River Project water quality management policy	<ul style="list-style-type: none"> • Prepare background material and policy options for the Resource Management Committee • Determine consultant assistance needed; scope and budget activity; select consultant • Develop draft policy options and recommendation for the Committee of the Whole 	2015: background material prepared 2016: finalized work plan; prioritized activities; developed scopes for consultant activities 2017: consultant selected; policy options and recommendations prepared 2018: developed policy for Board adoption	2015: target met	\$100,000	\$50,000

Water Efficiency						
<i>Strategic Direction: Utilize conservation as a cost-effective water supply and demand planning tool and develop a well-defined water conservation program</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Develop water efficiency program goals with Cascade’s members and establish baselines to measure Program’s effectiveness	Adopted water conservation savings goals	<ul style="list-style-type: none"> • Provide water efficiency programs and services that provide quantifiable water savings • Establish baselines for achievement 	2014: 0.6 cumulative savings, 1.0 mgd peak season savings 2015: 0.6 mgd cumulative savings, 1.0 peak season savings 2016: 0.6 mgd cumulative savings, 1.0 peak season savings 2017: 2018:	2014: 178,459 gpd savings 2015:	N/A	N/A



Water Efficiency						
<i>Strategic Direction: Utilize conservation as a cost-effective water supply and demand planning tool and develop a well-defined water conservation program</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Optimize cost-effective water efficiency measures	<ul style="list-style-type: none"> • Cost per gallon savings per measure • Marginal cost of water supply or savings per measure 	Annual comparative analysis that reviews market and determines how much water to buy or build	2015: less than \$8 2016: less than \$8 2017: less than \$8 2018: less than \$8	2015: less than \$8	N/A	N/A

Long Term Water Supply						
<i>Strategic Direction: Ensure flexibility when providing safe, clean and reliable water supply to Cascade’s customers</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Develop a collaborative strategy regionally for the impact of earthquakes, climate change, drought, and water quality	<ul style="list-style-type: none"> • Completed Cascade draft assessment of its resiliency • Developed Cascade action plan • Earthquake workshop conducted 	In 2017-2018, conduct Phase 2 of the regional resiliency plan, to include: <ul style="list-style-type: none"> • Addressing earthquake risks and water quality risks as a high priority in 2017-2018 • Translating the regional resiliency work to Cascade and its members • Conducting an earthquake workshop by 2017 (in 2017, the primary focus will be the development of Cascade’s role, if any, on addressing earthquakes) • Exploring measures that Cascade members can use to mitigate risks and tools to respond to an emergency. 	2015: completed Forum draft assessment 2016: <ul style="list-style-type: none"> • finalized Phase I assessment and initial action plan • phase 2 begun 2017: <ul style="list-style-type: none"> • completed refinement of risk and consequences • developed mitigation and response strategies to lower risk consequences • earthquake workshop completed 2018: continued development of risk mitigation strategies	2015: completed	\$0-\$100,000	\$0-\$100,000



Long Term Water Supply						
<i>Strategic Direction: Ensure flexibility when providing safe, clean and reliable water supply to Cascade's customers</i>						
Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Develop a demand forecast model as the basis for the 2019 TSP update	Developed Cascade demand forecast model	Update demand forecast model Maintain flexibility through constant monitoring and modification of both the supply and demand sides of water services	2015: N/A - new 2016: <ul style="list-style-type: none"> scope updated for demand forecast model determine need to further assess member independent supply 2017: scope of effort 2018: forecast complete	2015: N/A	\$5,000	\$50,000
Effective and efficient long-term water supply strategy	A strategy in place	<ul style="list-style-type: none"> Initiate Seattle contract discussions Explore potential contracts with Seattle Consider reclaimed water 	2015: no action 2016: no action 2017: start discussions 2020: <i>strategy in place</i>	2015: N/A	N/A	N/A
Asset Management Plan that meets customer service level expectations at the lowest life cycle costs	A developed Strategic Asset Management Plan for the White River Project	<ul style="list-style-type: none"> Veolia's O & M Manual includes steps to develop an Asset Management Plan for the Project Reassess adequacy of Asset Management Plan, specifically for BIP and other capital projects 	2015: reviewed Plan 2016: reviewed Plan 2017: reviewed Plan 2018: reviewed Plan	2014: completed 2015: reviewed	N/A	N/A
Ensure safe operations of the White River Project	Injury loss time	Operator and Cascade to develop and implement safety program	2014: 0 2015: 0 2016: 0 2017: 0 2018: 0	2014: 0 2015: 0	N/A	N/A



Long Term Water Supply

Strategic Direction: Ensure flexibility when providing safe, clean and reliable water supply to Cascade’s customers

Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Maintain long-term ability to meet water right operations agreement obligations	<ul style="list-style-type: none"> • New cooperative agreement with US Army Corps of Engineers (USACE) for operations • Completed real estate transfer agreements for Mud Mountain Dam (MMD) fish passage project (FPP) • Completed long-term operation agreement with USACE • Progress on design/construction of Cascade intake modifications 	<ul style="list-style-type: none"> • Review and comment on MMD fish passage project design • Develop 2016 cooperative agreement • Negotiate real estate and operational agreements for Board consideration • Manage implementation of Cascade intake modifications • Observe MMD FPP construction 	<p>2015:</p> <ul style="list-style-type: none"> • development begun on new cooperative agreement • development begun on real estate transfer agreements <p>2016:</p> <ul style="list-style-type: none"> • development of new cooperative agreement completed • reviewed and commented on MMD fish passage project design • development of real estate transfer agreements completed • development on operational agreements (during and post-construction) completed • design of Cascade intake modifications completed <p>2017:</p> <ul style="list-style-type: none"> • finalized real estate and operational agreements • inclusion of Cascade intake modifications in final construction contract secured <p>2018: construction of Cascade intake modifications</p>	2015: completed	\$200,000	\$200,000



Long Term Water Supply						
<i>Strategic Direction: Ensure flexibility when providing safe, clean and reliable water supply to Cascade's customers</i>						
Strategic Goals	Measures	Strategies	Targets	Achieved	2017 Budget	2018 Budget
Obtain secure access points to Lake Tapps for Cascade and its contractors	Number and nature of access points	<ul style="list-style-type: none"> Obtain permanent easement for use of Tapps Island boat launch Investigate purchase of private property and/or building facility on Cascade property to provide a secure access and moorage points to Lake Tapps 	2015: obtain agreement in principle for easement / land sqp with Tapps Island 2016: complete easement / property swap 2017: new boat mooring location identified 2018: N/A if 2017 accomplished	2015: completed	N/A	N/A
Maximize the value of Lake Tapps, e.g., by power generation, sale of some assets, etc.	Number of sources of new revenue identified	<ul style="list-style-type: none"> Do a hydrofeasibility study Evaluate wholesale irrigation 	2015: N/A - new 2016: 2 2017: hydropower investment decision 2018: hydro implemented (if affirmation)	2015: N/A	\$0	\$1 million (design)
Complete the Lake Tapps system condition assessment	Completed condition assessment for buildings and valve house operations	Hire consultant to perform system condition assessment, and continue to design and construction if necessary	2015: N/A - new 2016: completed buildings condition assessment 2017: completed buildings condition assessment 2018: completed valve house condition assessment	2015: N/A	TBD	TBD
Adopt and implement a long-term strategy for the powerhouse	Adopted and implemented strategy	<ul style="list-style-type: none"> Determine long-term valving system for the Powerhouse Implement intermediate strategy 	2015: <ul style="list-style-type: none"> finalized Carollo assessment report Phase I designed and constructed valve I repairs lead paint abatement electrical systems upgrades 2016: valve 3 emergency design & repair 2017: N/A 2018: N/A	2015: all completed	\$760,000 (CIP Capital Risk)	\$750,000 (CIP Capital Risk)



Long Term Water Supply						
<i>Strategic Direction: Ensure flexibility when providing safe, clean and reliable water supply to Cascade's customers</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Implement a security program for all Cascade assets	Implemented strategic plan	Implement the recommendations in the Carollo plan in three phases	2015: phase I designed & constructed 2016: phase I construction started 2017: phase I construction started 2018: phase 2 construction	2015: 90% design completed	In CIP	In CIP

Information Technology						
<i>Strategic Direction: Maintain appropriate IT infrastructure that supports Cascade vision and mission</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Develop IT strategy implementation plan, including document management	A completed IT strategy implementation plan with a specific timeline for implementation	Develop plan in collaboration with IT consultants	2014: draft completed 2015: draft completed 2016: implemented IT strategic plan, including document management 2017: implemented and updated IT strategic plan, including document management 2018: implemented and updated IT strategic plan, including document management	2014: not completed 2015: IT strategic plan adopted	N/A	N/A
Leverage Cascade office technology to ensure better customer service	<ul style="list-style-type: none"> A completed IT satisfaction survey to determine where IT improvements should be made Staff training program in place 	<ul style="list-style-type: none"> Develop and administer IT satisfaction survey of all Cascade staff Implement staff training as outlined in IT strategic plan 	2015: follow-up survey 2016: follow-up survey and staff training plan developed 2017: follow-up survey and staff training plan developed 2018: follow-up survey and staff training plan developed	2015: survey incorporated into IT strategic plan development	N/A	N/A



Information Technology						
<i>Strategic Direction: Maintain appropriate IT infrastructure that supports Cascade vision and mission</i>						
<i>Strategic Goals</i>	<i>Measures</i>	<i>Strategies</i>	<i>Targets</i>	<i>Achieved</i>	<i>2017 Budget</i>	<i>2018 Budget</i>
Develop a long-term SCADA system plan	Completed long-term strategic plan	Hire a consultant from the SCADA roster in 2015 to develop a long-term SCADA strategic plan	2015: develop long-term SCADA strategic plan 2016: long-term SCADA business case developed 2017: SCADA business case recommendations implemented 2018: N/A	2015: initiated, but deferred to 2016	In CIP	N/A

STAFF SALARY SCALE

Position	Grade	2016		2017 and 2018	
		Min.	Max.	Min.	Max.
No current position	1	\$3,575	\$5,434	\$3,632	\$5,521
No current position	2	\$4,111	\$6,250	\$4,177	\$6,350
Program & Policy Assistant	3	\$4,732	\$7,193	\$4,808	\$7,308
Management Assistant	4	\$5,450	\$8,285	\$5,537	\$8,418
Business Manager and Water Resources Manager	5	\$6,267	\$9,527	\$6,367	\$9,679
No current position	6	\$7,215	\$10,968	\$7,330	\$11,143
Finance and Administration Manager	7	\$8,300	\$12,618	\$8,433	\$12,820
Directors, and Operations Manager	8	\$9,551	\$14,515	\$9,704	\$14,747
Economist	9	\$10,983	\$16,693	\$11,159	\$16,960

As guided by Cascade's Human Resources Policies & Procedures Manual, salary scale increases are based on 90% of the Seattle-Tacoma Consumer Price Index for Urban Wage Earners (CPI-W) for the twelve-month period ended June 30. The COLA amount is subject to approval each year by the Board. For 2017, a 1.60% COLA was granted to all regular staff.



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