

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the 2009A Bonds, interest on the 2009A Bonds is excluded from gross income for federal income tax purposes and is not subject to the federal alternative minimum tax. However, interest on the 2009A Bonds received by certain S corporations may be subject to tax, and interest on the 2009A Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the 2009A Bonds may have other federal tax consequences for certain taxpayers. In the opinion of Bond Counsel, interest on the 2009B Bonds is not excludable from gross income for federal income tax purposes. See "TAX MATTERS" herein.

\$80,095,000
Cascade Water Alliance
(King County, Washington)
Water System Revenue Bonds

\$4,940,000 2009A

\$75,155,000 2009B
(Taxable Build America Bonds –
Direct Payment)

Dated: Date of Delivery

Due: September 1, as shown on inside cover

The Water System Revenue Bonds, 2009A (the "2009A Bonds") and the Water System Revenue Bonds, 2009B (Taxable Build America Bonds – Direct Payment) (the "2009B Bonds," and together with the 2009A Bonds, the "Bonds") are being issued by Cascade Water Alliance ("Cascade"), a nonprofit corporation composed of municipal corporations and special purpose municipal corporations of the State of Washington (the "State") and organized for the purpose of providing water supply to meet future demands of its Members. The Bonds are being issued for the purposes of paying the cost of carrying out a portion of the capital program described in its 2009 Watershed Management Plan adopted on August 26, 2009 as Amendment No. 1 to the 2006 Watershed Management Plan, providing for a debt service reserve and paying the costs of issuing the Bonds. The Bonds are being issued only as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, in New York, New York ("DTC"), which will act as initial securities depository for the Bonds. Individual purchases of the Bonds will be made in the principal amount of \$5,000 or any integral multiple thereof within a single maturity and series. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive certificates representing their ownership interests.

Interest on the Bonds is payable on March 1 and September 1, commencing March 1, 2010, until maturity or prior redemption, by the fiscal agent of the State, currently The Bank of New York Mellon in New York, New York, as paying agent and registrar (the "Bond Registrar"). So long as DTC or its nominee is the Registered Owner of the Bonds, such payments will be made by the Bond Registrar to DTC, which is obligated to remit such payments to its broker-dealer Participants, which in turn are obligated to remit such payments to the Beneficial Owners of the Bonds as described herein.

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

Maturity Schedule on Inside Cover

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

The Bonds will not be secured by a mortgage, deed of trust or other security interest in Cascade's physical assets. The Bonds do not constitute a debt, liability or obligation of the State of Washington or any political subdivision thereof, nor the contracting of indebtedness or a pledge of the full faith and credit or taxing power of the State of Washington or any political subdivision thereof. The Bonds are payable solely from Cascade's Net Revenue and money and investments held by Cascade in certain funds and are not secured by a pledge of the full faith and credit or taxing power of any Member and are not payable from the revenue, assets or funds of any Member, except as expressly provided in the Interlocal Contract and the 2009 Bond Resolution. The Bonds are not obligations of King County or of any of the Members. The Bonds are not general obligations of Cascade. Cascade has no taxing power.

The Bonds are offered for delivery when, as and if issued, subject to prior sale, to withdrawal or modification of the offer without notice, and to receipt of the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. Certain other legal matters will be passed on for Cascade by its General Counsel, GordonDerr LLP, Seattle, Washington, and for the Underwriters by their counsel Orrick, Herrington & Sutcliffe LLP. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer on or about October 15, 2009.

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

September 23, 2009



\$80,095,000
Cascade Water Alliance
(King County, Washington)
Water System Revenue Bonds, 2009

Water System Revenue Bonds, 2009A
(Tax-Exempt – Bank Qualified)
Principal Amount of \$4,940,000

<u>Due</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP No. *</u>
2015	\$2,410,000	5.00%	2.25%	14739HAX9
2016	2,530,000	5.00	2.49	14739HAY7

Water System Revenue Bonds, 2009B
(Taxable Build America Bonds – Direct Payment)
Principal Amount of \$75,155,000

<u>Due</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP No. *</u>
2010	\$1,980,000	1.030%	100.000	14739HAZ4
2011	2,265,000	1.523	100.000	14739HBA8
2012	2,290,000	2.123	100.000	14739HBB6
2013	2,320,000	2.600	100.000	14739HBC4
2014	2,360,000	3.076	100.000	14739HBD2
***	***	***	***	***
2017	2,655,000	4.219	100.000	14739HBR1
2018	2,730,000	4.448	100.000	14739HBE0
2019	2,805,000	4.548	100.000	14739HBF7
2020	2,890,000	4.818	100.000	14739HBG5
2021	2,980,000	5.048	100.000	14739HBH3
2022	3,080,000	5.168	100.000	14739HBJ9
2023	3,180,000	5.318	100.000	14739HBK6
2024	3,290,000	5.418	100.000	14739HBL4
2025	3,405,000	5.518	100.000	14739HBM2
2026	3,530,000	5.618	100.000	14739HBN0

\$11,385,000 5.668% Term Bonds due September 1, 2029 at a price of 100.000% CUSIP No. 14739HBP5*

\$22,010,000 5.907% Term Bonds due September 1, 2034 at a price of 100.000% CUSIP No. 14739HBQ3*

* Copyright 2009, American Bankers Association. The CUSIP numbers herein are provided by Standard and Poor's CUSIP Service Bureau. These numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for the convenience of reference only. CUSIP numbers are subject to change. Neither Cascade nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers.

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

No dealer, broker, sales representative or other person has been authorized by Cascade to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by Cascade. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from Cascade, Cascade's Members and other sources that Cascade believes to be reliable, but it is not guaranteed as to accuracy or completeness. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Cascade or any Member since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information set forth in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

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

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CASCADE WATER ALLIANCE

11400 SE 8th Street, Suite 440

Bellevue, WA 98004

(425) 453-0930

Members of Cascade Water Alliance

City of Bellevue

Covington Water District

City of Issaquah

City of Kirkland

City of Redmond

Sammamish Plateau Water and Sewer District

Skyway Water and Sewer District

City of Tukwila

Board of Directors

Lloyd Warren, Sammamish Plateau Water and Sewer District

Mary-Alyce Burleigh, City of Kirkland

Jim Haggerton, City of Tukwila

Grant Degginger, City of Bellevue

David Knight, Covington Water District

David Kappler, City of Issaquah

John Marchione, City of Redmond

Jon Ault, Skyway Water and Sewer District

Chair

Vice-Chair

Secretary/Treasurer

Member

Member

Member

Member

Member

Administrative Staff

Chuck Clarke, Chief Executive Officer

Scott Hardin, Director of Finance and Administration

Michael Gagliardo, Director of Planning

Elaine Kraft, Intergovernmental and Communications Director

Jon Shimada, Capital Projects Director

Treasury Operations

King County Department of Executive Services

Finance and Business Operations Division, Treasury Operations Section

General Counsel

GordonDerr LLP

Seattle, Washington

Bond Counsel

Foster Pepper PLLC

Seattle, Washington

Financial Advisor

DashenMusselman, Inc.

Mount Vernon and Kirkland, Washington

Bond Registrar

The Bank of New York Mellon

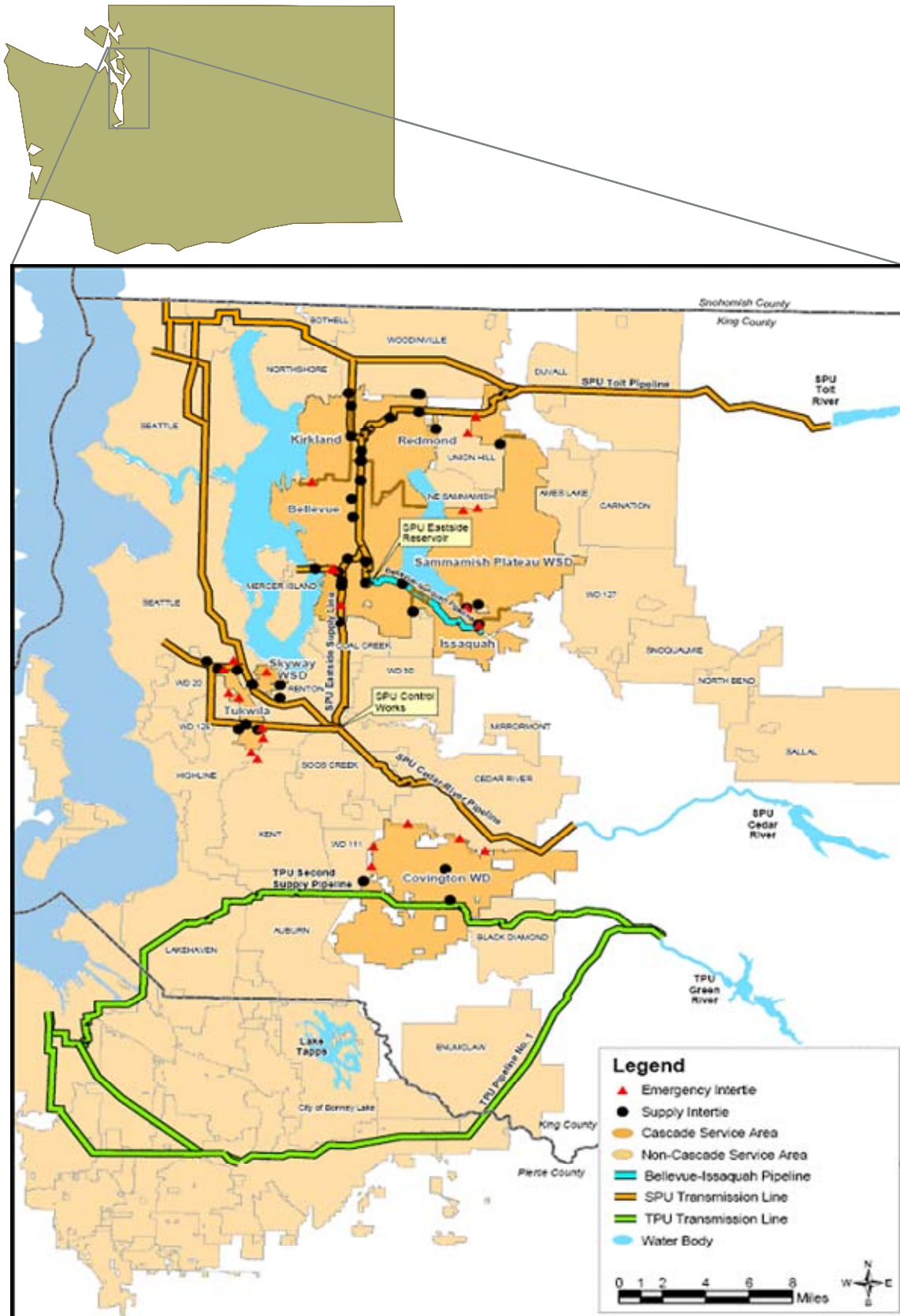
New York, New York

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Map of Cascade Water Alliance Service Area



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OFFICIAL STATEMENT

\$80,095,000

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

\$4,940,000 2009A

**\$75,155,000 2009B
(Taxable Build America Bonds –
Direct Payment)**

INTRODUCTION

General

Cascade Water Alliance (“Cascade”) is an instrumentality of its members (the “Members”), all of which are municipal corporations of the State of Washington (the “State”), and Cascade is organized as a nonprofit corporation under the authority of the Interlocal Cooperation Act, chapter 39.34 of the Revised Code of Washington (“RCW”) and the Nonprofit Miscellaneous and Mutual Corporation Act, chapter 24.06 RCW. Cascade was formed to provide wholesale water supply to meet the current and future water supply needs of the Members. The current Members are the cities of Bellevue, Issaquah, Kirkland, Redmond and Tukwila, Covington Water District, Sammamish Plateau Water and Sewer District and Skyway Water and Sewer District. Cascade furnishes this Official Statement, which includes the cover page and the appendices, in connection with the sale of its Water System Revenue Bonds, 2009A (the “2009A Bonds”) and its Water System Revenue Bonds, 2009B (Taxable Build America Bonds – Direct Payment) (the “2009B Bonds,” and together with the 2009A Bonds, the “Bonds”).

The Bonds are being issued pursuant to chapters 39.34 and 39.46 RCW and Resolution No. 2009-11 adopted by the Board of Directors of Cascade (the “Board”) on August 26, 2009 and Resolution No. 2009-12 adopted by the Board on September 23, 2009 (together, the “2009 Bond Resolution”). The Bonds are secured by a pledge of and lien on Net Revenue (as that term is later defined) on a parity with the pledge and lien securing Cascade’s Water System Revenue Bonds, 2006 (the “2006 Bonds”), outstanding as of September 1, 2009 in the aggregate principal amount of \$51,515,000. See “Pledge of Net Revenue” below. The Bonds, the 2006 Bonds and any bonds that Cascade may issue in the future secured by a pledge of and lien on Net Revenue on a parity with the pledge and lien securing the Bonds and the 2006 Bonds (“Future Parity Bonds”), are referred to collectively as “Parity Bonds.”

Capitalized terms not defined herein shall have the meanings assigned to them in the 2009 Bond Resolution or in the Interlocal Contract, as defined and described below. A copy of Resolution No. 2009-11, authorizing the issuance of the Bonds, is included as Appendix B, and a copy of the Interlocal Contract is included as Appendix C.

Under the Interlocal Contract, the Members have agreed to pay to Cascade the Member Charges described in “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT – Member Charges.” Member Charges comprise Cascade’s principal source of Gross Revenue, as defined and described in “SECURITY FOR THE BONDS – Pledge Under the 2009 Bond Resolution.” See “CASCADE WATER ALLIANCE – Management Discussion of Financial Operations.”

Cascade Water Alliance

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

Cascade is responsible for managing, on behalf of the Members, a regional water transmission and supply system (as further defined in the 2009 Bond Resolution, the “System”), pursuant to an interlocal contract among the Members adopted April 1, 1999, as amended and restated on December 15, 2004 (the “Interlocal Contract”), and is required to plan and to provide water to the Members for use within their existing and future water service area boundaries. Cascade has made water supply commitments to the Members under the Interlocal Contract. See “CASCADE WATER ALLIANCE – Water Supply and Transmission” and Appendix C.

Purpose of the Bonds

Cascade is issuing the Bonds to pay the cost of carrying out a portion of the capital program described in its 2009 Watershed Management Plan adopted on August 26, 2009 as Amendment No. 1 to the 2006 Watershed Management Plan, providing for

a debt service reserve and paying the costs of issuing the Bonds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS.”

Pledge of Net Revenue

The Bonds are payable from and secured by a pledge of Cascade’s Net Revenue and all money and investments held by Cascade in its water system revenue bond fund (the “Bond Fund”), its rate stabilization fund, its RCFC Fund into which regional capital facilities charges (“RCFCs”) are deposited, and its construction fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Internal Revenue Code of 1986, as amended (the “Code”). This pledge of Net Revenue constitutes a charge upon the Net Revenue superior to any other charges whatsoever and on a parity with the pledge of and lien on Net Revenue securing the 2006 Bonds, Future Parity Bonds, payments to be made under certain interest rate management agreements related to Parity Bonds (“Payment Agreement Payments”) that may be entered into in the future and all payments required to be made into the Reserve Accounts under any resolution authorizing the issuance of Parity Bonds (each, a “Parity Bond Authorizing Resolution”), in each case subject to specific conditions. See “SECURITY FOR THE BONDS.”

The Bonds will not be secured by a mortgage, deed of trust or other security interest in Cascade’s physical assets. The Bonds do not constitute a debt, liability or obligation of the State or any political subdivision thereof, nor the contracting of indebtedness or a pledge of the full faith and credit or taxing power of the State or any political subdivision thereof. The Bonds are payable solely from Cascade’s Net Revenue and money and investments held by Cascade in certain funds and are not secured by a pledge of the full faith and credit or taxing power of any Member or the revenue, assets or funds of any Member and are not payable from the revenue, assets or funds of any Member, except as expressly provided in the Interlocal Contract and the 2009 Bond Resolution. The Bonds are not obligations of King County or of any of the Members. The Bonds are not general obligations of Cascade. Cascade has no taxing power.

Interlocal Contract

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

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

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

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

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

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

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

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

The Members

The eight current Members of Cascade are located within King County and are shown below, along with the key metrics that Cascade uses to describe its wholesale customer base and to impose Member Charges. Cascade equivalent residential units (“CERUs”) are assigned to each Member based on an inventory of the Member’s water service connections, in accordance with water industry standards pertaining to meter flow capacity as an indicator of potential system demand. Cascade’s administrative dues and conservation charges, which are separate from Demand Share Charges (as that term is later defined), are imposed on Members based on the number of CERUs assigned, making it possible for a Member to be billed even if that Member does not receive any water from Cascade. The Demand Share Charge, Cascade’s primary mechanism for recovering costs from Members, is imposed on Members based on their estimated share of total water to be provided through Cascade (their “Demand Share”). Demand Shares are computed annually for each Member that takes water based on a rolling three-year history of actual wholesale water demand, and are generally expressed in millions of gallons per peak season day. Members also pay a new water surcharge for wholesale water demand in excess of an “old water allowance” specified in their prior wholesale service agreements with the City of Seattle (“Seattle”), and will continue to do so until the new water surcharge expires on December 31, 2011. See “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT – Member Charges” and “THE MEMBERS,” below and Appendix A.

CERUs, Percentage of Total Demand Shares and Member Charges for Each Member for 2009

<u>Member</u>	<u>Cascade Equivalent Residential Units ⁽¹⁾</u>		<u>Percentage of Total Demand Shares ⁽²⁾</u>	<u>Member Charges ⁽³⁾</u>	
	<u>Number</u>	<u>% of Total</u>		<u>Amount</u>	<u>% of Total</u>
City of Bellevue	66,606	37.63%	55.75%	\$15,333,467	48.29%
Covington Water District ⁽⁴⁾	17,378	9.82	0.00	185,943	0.59
City of Issaquah	11,199	6.33	1.56	1,652,694	5.20
City of Kirkland	17,778	10.04	14.24	3,975,994	12.52
City of Redmond	30,634	17.31	18.98	6,692,011	21.08
Sammamish Plateau Water and Sewer District ⁽⁵⁾	20,775	11.74	0.57	1,597,226	5.03
Skyway Water and Sewer District	3,788	2.14	1.30	360,727	1.14
City of Tukwila	<u>8,840</u>	<u>4.99</u>	<u>7.59</u>	<u>1,954,535</u>	<u>6.16</u>
Total	176,997	100.00%	100.00%	\$31,752,957	100.00%

⁽¹⁾ The information shown regarding CERUs is as of December 31, 2008.

⁽²⁾ The information shown regarding Demand Shares (each Member’s Demand Share for 2009, as a percentage of the total number of Demand Shares) is based on actual Member Demand Share Charges during the period of 2005 through 2007 and is used to establish each Member’s projected 2009 Demand Share Charge. See “THE MEMBERS – Demand Shares.”

⁽³⁾ Projected Member Charges for 2009.

⁽⁴⁾ Covington Water District is not assigned Demand Shares because it did not receive any wholesale water from Cascade during the period 2005 through 2007.

⁽⁵⁾ In accordance with Cascade’s Rate Methodology, Demand Shares are computed for Sammamish Plateau Water and Sewer District based on its average annual wholesale water demand, rather than peak season wholesale water demand, because it has not been taking wholesale water during the peak season. Demand Shares for all other members are based on peak season wholesale water demand.

Note: Totals may not foot due to rounding.

Source: Cascade

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

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

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

DESCRIPTION OF THE BONDS

General

The Bonds are dated their date of delivery and are issued in denominations of \$5,000 or any integral multiple thereof within a single maturity and series and bear interest from their dated date (or the most recent date to which interest has been paid thereon) at the rates shown on the inside cover. Interest on the Bonds is payable semiannually on each March 1 and September 1, commencing March 1, 2010, until maturity or prior redemption. The Bonds are to mature, subject to redemption prior to maturity, on the dates and in the amounts set forth on the inside cover page. Interest is to be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Designation of 2009B Bonds as “Build America Bonds”

Cascade has made irrevocable elections to have Section 54AA of the Code apply to the 2009B Bonds so that the 2009B Bonds are designated “Build America Bonds,” and furthermore to have subsection 54AA(g) of the Code apply to the 2009B Bonds so that the 2009B Bonds are treated as “qualified bonds” with respect to which Cascade will be allowed a credit payable by the United States Treasury to Cascade pursuant to Section 6431 of the Code in an amount equal to 35 percent of the interest payable on the 2009B Bonds on each interest payment date. As a result of these elections, interest on the 2009B Bonds is not excludable from gross income of owners of the 2009B Bonds for federal income tax purposes, and owners of the 2009B Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2009B Bonds. See “TAX MATTERS” herein. The obligation of the United States Treasury under Section 6431 of the Code to make direct payments to Cascade in respect of interest payments on the 2009B Bonds does not constitute a full faith and credit guarantee of the 2009B Bonds by the United States of America.

Federal Credit Payments for “Build America Bonds”

The 2009 Bond Resolution defines the federal credit payments expected to be received by Cascade in respect of the 2009B Bonds as a component of Gross Revenue. The 2009 Bond Resolution provides that in calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account, the amount of interest payable on those Parity Bonds that are issued and sold as Build America Bonds (such as the 2009B Bonds) for any fiscal year (or other designated twelve-month period) is to be reduced by the federal credit payments scheduled to be received by Cascade in respect of such Build America Bonds in such fiscal year (or other designated twelve-month period). See “SECURITY FOR THE BONDS – Bond Fund.”

The Code establishes certain ongoing requirements that must be met subsequent to the delivery of the 2009B Bonds in order for Cascade to continue to receive federal credit payments. Many of these requirements are identical to those applicable to tax-exempt bonds such as the 2009A Bonds such as requirements relating to the use and expenditure of the available project proceeds of the 2009B Bonds, yield and other restrictions on investments of available project proceeds.

The Internal Revenue Service has advised that in general, the federal credit payments made in respect of Build America Bonds such as the 2009B Bonds are payments that are treated as overpayment of tax. Accordingly, rules relating to overpayments of tax, such as credits against liabilities in respect of an internal revenue tax and offsets, interest on overpayments of tax and limitations on credits or refunds of overpayments of tax also apply to the federal credit payments made in respect of Build America Bonds.

Noncompliance by Cascade with any of the provisions required to claim the federal credit payments, or an internal revenue tax liability of Cascade (such as a federal payroll tax liability) against which federal credit payments may be offset could result in Cascade not receiving expected federal credit payments. As described above, Cascade has taken federal credit payments into account in calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account.

Cascade has authorized its appropriate officers to take such actions as are necessary or appropriate for Cascade to receive from the United States Treasury the applicable federal credit payments in respect of the 2009B Bonds, such as the timely filing with the Internal Revenue Service of Form 8038-CP – “Return for Credit Payments to Issuers of Qualified Bonds” in the manner prescribed by Internal Revenue Service Notice 2009-26. Cascade also has covenanted in the 2009 Bond Resolution that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement of Cascade to receive from the United States Treasury the applicable federal credit payments in respect of any Bonds, including the 2009B Bonds, sold and issued as Build America Bonds. Cascade has covenanted to comply with the provisions of the Code compliance with which would result in the interest on such Bonds being excluded from gross income for federal

income tax purposes but for an irrevocable election to have Section 54AA of the Code apply to such Bonds, including the 2009B Bonds.

Registration and Payment

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

If the book-entry system of transfer for the Bonds is discontinued, Cascade is required to execute, and the Bond Registrar is required to deliver to the Beneficial Owners, Bond certificates in fully registered form. Thereafter, interest on the Bonds is to be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the Registered Owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date (the “2009 Record Date”) or, at the request of a Registered Owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer to an account in the United States designated in writing by that Registered Owner prior to the 2009 Record Date, and principal of and premium, if any, on the Bonds are to be payable upon presentation and surrender of the Bonds by the Registered Owners to the Bond Registrar.

For so long as any Bonds are held in fully immobilized form, DTC, its nominee or a successor depository will be deemed to be the Registered Owner for all purposes under the 2009 Bond Resolution, and all references to Registered Owners will mean DTC or its nominee or a successor depository and will not mean the Beneficial Owners. Neither Cascade nor the Bond Registrar has any responsibility or obligation to DTC participants or to the persons for whom the participants act as nominees with respect to the Bonds regarding the accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or interest on the Bonds, or any notice that is permitted or required to be given to Registered Owners under the 2009 Bond Resolution (except such notice as is required to be given by the Bond Registrar to DTC or its nominee or a successor depository).

Transfer and Exchange

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

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

Optional Redemption Provisions

Optional Redemption of 2009A Bonds. The 2009A Bonds are not subject to redemption prior to maturity.

Optional Redemption of 2009B Bonds – Prior to September 1, 2019. The 2009B Bonds of each maturity are subject to redemption prior to their respective stated maturity dates, at the option of Cascade, from any source of available funds, as a whole or in part on a *pro rata* basis and not by lot (as further described below) in authorized denominations, on any date prior to September 1, 2019, at a redemption price equal to 100 percent of the principal amount of 2009B Bonds to be redeemed plus the Make-Whole Premium (as defined herein), if any, together with accrued interest to the date fixed for redemption.

“Make-Whole Premium” means, with respect to any 2009B Bond or portion thereof to be redeemed, an amount calculated by an Independent Banking Institution (as defined below) equal to the positive difference, if any, between:

1. The sum of the present values, calculated as of the date fixed for redemption of:
 - a. Each interest payment that, but for the redemption, would have been payable on the 2009B Bond or portion thereof being redeemed on each regularly scheduled interest payment date occurring after the date fixed for redemption through the maturity date of such 2009B Bond (excluding any accrued interest for the period prior to the date fixed for redemption); provided, that if the date fixed for redemption is not a regularly scheduled interest payment date with respect to such 2009B Bond, the amount of the next regularly scheduled interest

payment will be reduced by the amount of interest accrued on such 2009B Bond or portion thereof to the date fixed for redemption; plus

- b. The principal amount that, but for such redemption, would have been payable on the maturity date of the 2009B Bond or portion thereof being redeemed; minus

2. The principal amount of the 2009B Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (a) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Comparable Treasury Yield (as defined below), plus 30 basis points.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Independent Banking Institution that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the 2009B Bond or portion thereof being redeemed. The Comparable Treasury Yield will be determined as of the third business day immediately preceding the applicable date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the 2009B Bond or portion thereof being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the 2009B Bond or portion thereof being redeemed; and (ii) closest to and less than the remaining term to maturity of the 2009B Bond or portion thereof being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1 percent, with any figure of 1/200th of 1 percent or above being rounded upward.

If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined below) as of the date fixed for redemption.

“Comparable Treasury Issue” means the United States Treasury security selected by the Independent Banking Institution as having a maturity comparable to the remaining term to maturity of the 2009B Bond or portion thereof being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the 2009B Bond or portion thereof being redeemed.

“Independent Banking Institution” means an investment banking institution of national standing that is a primary United States government securities dealer in the City of New York designated by Cascade (which may be either of the Underwriters). If Cascade fails to appoint an Independent Banking Institution at least 45 days prior to the date fixed for redemption (or such shorter time as may be agreed upon by Cascade and the Bond Registrar), or if the Independent Banking Institution appointed by Cascade is unwilling or unable to determine the Comparable Treasury Yield, the Comparable Treasury Yield will be determined by an Independent Banking Institution designated by the Bond Registrar with all costs for the Independent Banking Institution to be paid by Cascade.

“Comparable Treasury Price” means, with respect to any date on which a 2009B Bond or portion thereof is being redeemed, either (i) the average of five Reference Treasury Dealer (defined below) quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (ii) if the Independent Banking Institution is unable to obtain five such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Independent Banking Institution, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Independent Banking Institution, at 5:00 p.m. New York City time on the third business day preceding the date fixed for redemption.

“Reference Treasury Dealer” means a primary United States Government securities dealer in the United States appointed by Cascade and reasonably acceptable to the Independent Banking Institution (which may be either of the Underwriters). If Cascade fails to select the Reference Treasury Dealers within a reasonable period of time, the Bond Registrar will select the Reference Treasury Dealers in consultation with Cascade.

Optional Redemption of 2009B Bonds – On or After September 1, 2019. The 2009B Bonds of each maturity are subject to redemption prior to their respective stated maturity dates, at the option of Cascade, from any source of available funds, as a whole or in part on a *pro rata* basis and not by lot in authorized denominations on any date on or after September 1, 2019, at

a redemption price equal to 100 percent of the principal amount of 2009B Bonds to be redeemed, without premium, together with accrued interest to the date fixed for redemption.

Optional Redemption of Term Bonds. If fewer than all of the 2009B Bonds of a single maturity after September 1, 2019, are optionally redeemed as provided above, the principal amount of 2009B Bonds of such maturity that is redeemed shall be applied to reduce the mandatory sinking fund payments with respect to such 2009B Bonds on a *pro rata* basis and not by lot, in authorized denominations.

Extraordinary Optional Redemption

No Extraordinary Optional Redemption of 2009A Bonds. The 2009A Bonds are not subject to extraordinary optional redemption.

Extraordinary Optional Redemption of 2009B Bonds. The 2009B Bonds of each maturity are subject to redemption prior to their respective stated maturity dates, at the option of Cascade upon the occurrence of a Tax Law Change (defined below), from any source of available funds, as a whole or in part on a *pro rata* basis and not by lot, in authorized denominations, on any date (i) prior to September 1, 2019, at a redemption price equal to 100 percent of the principal amount of 2009B Bonds to be redeemed plus the Make-Whole Premium (using a discount rate equal to the Comparable Treasury Yield plus 100 basis points), if any, together with accrued interest to the date fixed for redemption, and (ii) on or after September 1, 2019, at a redemption price equal to 100 percent of the principal amount of 2009B Bonds to be redeemed, without premium, together with accrued interest to the date fixed for redemption.

“Tax Law Change” means legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by Cascade, would be to suspend, reduce or terminate the timely payment from the United States Treasury to or to the order of Cascade with respect to the 2009B Bonds, or to or to the order of state or local government issuers generally with respect to obligations of the general character of the 2009B Bonds, pursuant to Sections 54AA or 6431 of the Code of an amount equal to at least 35 percent of the interest due thereon on each interest payment date (the “Subsidy Payments”); provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by Cascade to comply with the requirements under the Code to receive such Subsidy Payments.

Mandatory Redemption Provisions

Mandatory Redemption for 2009B Bonds. The 2009B Bonds maturing in the years 2029 and 2034 are designated as Term Bonds and, if not previously redeemed under the optional or extraordinary optional redemption provisions set forth above or purchased for cancellation under the provisions set forth in Section 8(d) of the Authorizing Resolution, shall be called for redemption *pro-rata* at a redemption price equal to 100 percent of the principal amount of the 2009B Bonds to be redeemed, without premium, together with accrued interest, to the date fixed for redemption, on September 1 in the years and principal amounts set forth below.

2009B Term Bonds Stated to Mature in 2029

Mandatory Redemption Years	Mandatory Redemption Amounts	Principal Redeemed per \$5,000	Remaining Principal per \$5,000
2027	\$3,660,000	\$1,607.38	\$3,392.62
2028	3,795,000	1,666.67	1,725.95
2029	3,930,000	1,725.95	–

2009B Term Bonds Stated to Mature in 2034

Mandatory Redemption Years	Mandatory Redemption Amounts	Principal Redeemed per \$5,000	Remaining Principal per \$5,000
2030	\$4,075,000	\$ 925.72	\$4,074.28
2031	4,235,000	962.06	3,112.22
2032	4,395,000	998.41	2,113.81
2033	4,565,000	1,037.03	1,076.78
2034	4,740,000	1,076.78	–

Provisions Relating to Mandatory Redemption. If Cascade redeems under the optional redemption provisions or purchases for cancellation Term Bonds, the principal amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) may be credited against one or more scheduled mandatory redemption amounts for Term Bonds of the same series and maturity.

Selection of the 2009B Bonds for Redemption

If less than all of a maturity of the 2009B Bonds is to be redeemed, the Registrar will select the 2009B Bonds to be redeemed, from the outstanding 2009B Bonds of such maturity not previously called for redemption, *pro rata* as nearly as practicable in proportion to the principal amounts of the 2009B Bonds owned by each Registered Owner in whose name such 2009B Bonds are registered on the 2009 Record Date immediately preceding a date fixed for redemption. “*Pro rata*” is to be determined, in connection with any redemption, in part, by multiplying the principal amount of the 2009B Bonds of such maturity to be redeemed on the applicable date fixed for redemption by a fraction, the numerator of which is equal to the principal amount of 2009B Bonds of such maturity owned by a Registered Owner, and the denominator of which is equal to the total amount of the 2009B Bonds of such maturity then outstanding immediately prior to such date fixed for redemption.

If the 2009B Bonds are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole Registered Owner of the 2009B Bonds, partial redemptions will be done in accordance with DTC procedures. It is Cascade’s intent that redemption allocations made by DTC be made in accordance with these same proportional provisions. However, Cascade can provide no assurance that DTC will allocate redemptions among beneficial owners on such a proportional basis.

Notice of Redemption

So long as the Bonds are held by DTC in book-entry form, notice of redemption is to be given as provided in the Letter of Representations. Notice of redemption is to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first class mail to the Registered Owner of any Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice. The requirement of giving notice of redemption will be deemed to have been fulfilled when notice has been mailed, whether or not notice is actually received by that Registered Owner.

Notice of redemption is also to be given to the Municipal Securities Rulemaking Board (the “MSRB”).

In the case of an optional redemption, the notice of redemption may state that Cascade retains the right to rescind that notice on or prior to the scheduled redemption date and that notice and optional redemption shall be of no effect to the extent that Cascade gives notice to the affected Registered Owners at any time prior to the redemption date that Cascade is rescinding the redemption notice in whole or in part. Any Bonds subject to a rescinded notice of redemption are to remain outstanding, and the rescission will not constitute an Event of Default.

Effect of Redemption

Interest on each Bond called for redemption will cease to accrue on the date fixed for redemption except in the case of a rescinded optional redemption as described above, or unless that Bond is not redeemed when presented.

Purchase of Bonds

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

PURPOSE AND APPLICATION OF BOND PROCEEDS

Cascade is issuing the Bonds for the purposes of paying the cost of carrying out a portion of the capital program described in its 2009 Watershed Management Plan, adopted on August 26, 2009 as Amendment No. 1 to the 2006 Watershed Management Plan, providing for a debt service reserve and paying the costs of issuing the Bonds.

2009 Watershed Management Plan

The 2009 Watershed Management Plan, adopted on August 26, 2009 as Amendment No. 1 to the 2006 Watershed Management Plan, describes financing elements necessary to implement Cascade’s Transmission and Supply Plan, which was approved by the Board in 2004. Cascade is in the process of preparing its 2010 Transmission and Supply Plan, which will replace the current Transmission and Supply Plan, and expects to modify certain elements of its capital plan. Cascade has determined that the projects to be financed by the Bonds are necessary for the long-term supply needs of the Members. The 2009 Watershed Management Plan describes the System and Cascade’s current water supply strategy, system analysis, infrastructure needs and current capital improvement and financial programs. Cascade plans to use a combination of local and regional water sources to provide water to the Members. Cascade expects that demand management implemented through its water conservation program will remain a vital element in Cascade’s water resource management program. As part of its long-term plan, Cascade is acquiring property and facilities for the future use of Lake Tapps as a source of supply from Puget Sound Energy (“PSE”), which acquisition includes assets, PSE’s current water rights, applications for new water rights, and related facilities, and plans in the future to build transmission and storage facilities to transport the local and regional water sources to meet the water supply needs of the Members. Cascade has agreed to purchase all of PSE’s White River Hydroelectric Project. The outcome of the 2010 Transmission and Supply Plan process and the water sources selected to meet Member demand will determine the timeframe for design and construction of the water treatment and transmission

facilities necessary to deliver water from Lake Tapps to the Members. See “CASCADE WATER ALLIANCE – Water Supply and Transmission.”

Cascade expects to apply a portion of the proceeds of the Bonds to make payments to PSE relating to certain assets at Lake Tapps, to make certain mitigation payments relating to the Lake Tapps acquisition and to provide for payment of costs of planning, design, route assessment and environmental review relating to Lake Tapps assets and required water transmission lines, all consistent with the 2009 Watershed Management Plan.

In accordance with the 2009 Watershed Management Plan, regional transmission projects will be needed to deliver water purchased from the City of Tacoma (“Tacoma”) to the Members, although the 2009 Watershed Management Plan contemplates that these projects will not be pursued until 2025 or later. Transmission planning and design, as well as a transmission system routing study to determine the sizing and routing of the proposed transmission pipelines, have been completed. The transmission system is expected to be developed in stages, as water is purchased from Tacoma in the future. A portion of the proceeds of the Bonds will be used to pay costs of limited segments of the transmission system. See “CASCADE WATER ALLIANCE - Water Supply and Transmission,” herein.

Estimated Sources and Uses of Funds

Cascade expects to use Bond proceeds as follows:

Estimated Sources and Uses of Funds			
<u>Sources of Funds</u>	<u>2009A Bonds</u>	<u>2009B Bonds</u>	<u>Total</u>
Par Amount of the Bonds	\$ 4,940,000	\$ 75,155,000	\$ 80,095,000
Original Issue Premium	<u>761,955</u>	<u>-</u>	<u>761,955</u>
Total Sources of Funds	\$ 5,701,955	\$ 75,155,000	\$ 80,856,955
<u>Uses of Funds</u>			
Deposit to 2009 Construction Account	\$ 5,289,774	\$ 69,722,226	\$ 75,012,000
Deposit to 2009 Reserve Account	347,303	4,577,648	4,924,951
Costs of Issuance ⁽¹⁾	<u>64,878</u>	<u>855,126</u>	<u>920,004</u>
Total Uses of Funds	\$ 5,701,955	\$ 75,155,000	\$ 80,856,955

⁽¹⁾ Includes the Underwriters’ discount and fees and expenses of bond counsel, the Bond Registrar, Financial Advisor, general counsel and rating agencies, and other costs of issuance.

SECURITY FOR THE BONDS

Pledge Under the 2009 Bond Resolution

Cascade has pledged the Net Revenue and all money and investments held in the Bond Fund, the Rate Stabilization Fund, the RCFC Fund and the Construction Fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) to the payment of principal of and premium, if any, and interest on the Parity Bonds, all Payment Agreement Payments and all payments required to be made into the Reserve Accounts under any Parity Bond Authorizing Resolution. The 2009 Bond Resolution provides that this pledge of Net Revenue constitutes a charge upon the Net Revenue superior to any other charges whatsoever.

The 2009 Bond Resolution provides that the Parity Bonds and Payment Agreements are payable solely from Net Revenue and from the funds expressly set forth in the 2009 Bond Resolution. The Parity Bonds and any Payment Agreements are not general obligations of Cascade, and Cascade has no taxing power. The 2009 Bond Resolution does not pledge, and neither the Parity Bonds nor any Payment Agreements are payable from, the full faith and credit or taxing power of any Member. No Member is responsible for payment of the Parity Bonds except as set forth in the Interlocal Contract.

“Net Revenue” for any fiscal year (or other designated twelve-month period) means the Gross Revenue for that fiscal year (or other designated twelve-month period) less Operations and Maintenance Costs for that fiscal year (or other designated twelve-month period). In calculating Net Revenue, Cascade is not to take into account any non-cash gains or losses with respect to any real or personal property, investment or agreement that it may be required to recognize under generally accepted accounting principles, such as unrealized mark-to-market gains and losses.

“Gross Revenue” means all of the earnings and revenues received by Cascade from any source whatsoever including but not limited to: (i) Member Charges; (ii) revenues from the sale, lease or furnishing of other commodities, services, properties or facilities; (iii) the receipt of earnings from the investment of money in any maintenance fund or similar fund; (iv) federal credit payments received by Cascade in respect of Build America Bonds; and (v) withdrawals from the Rate Stabilization Fund. Member Charges include all payments that Members are required by the Interlocal Contract to make to Cascade, including but not limited to all rates and charges, RCFCs, dues, assessments and other payments from Members. See “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT – Member Charges.” Gross Revenue does not include: (i) principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a

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

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

The Bonds are additionally secured by the 2009 Reserve Account in the Bond Fund held by Cascade. See "SECURITY FOR THE BONDS – Bond Fund – 2009 Reserve Account."

The Interlocal Contract

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

Flow of Funds

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

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

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

Rate Covenant

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

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

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

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

Covenant to Enforce the Interlocal Contract

Cascade has covenanted in the 2009 Bond Resolution to enforce the provisions of the Interlocal Contract, including the provisions providing for payment of Member Charges, the Step Up Provisions and provisions requiring any withdrawing Member to continue payment of its allocable share of debt service on the Parity Bonds as a “then-existing obligation of Cascade.” Cascade is not permitted to waive any right or to fail to declare any default under or in connection with the Interlocal Contract that would reduce the payments or extend the dates for payments to Cascade provided therein or would materially adversely affect the security of the Registered Owners of any Parity Bonds then outstanding.

Certain Additional Covenants

In the 2009 Bond Resolution, Cascade has also made covenants and agreements relating to operation and maintenance of the System; sale, transfer or disposition of the System; liens upon the Net Revenue; maintenance of books and accounts; maintenance of insurance; and application of condemnation awards and insurance proceeds. See Appendix B - Resolution No. 2009-11, Section 18.

Bond Fund

Cascade has established the Bond Fund, and within the Bond Fund, the Debt Service Account, the 2006 Reserve Account and the 2009 Reserve Account. Any reserve account securing Parity Bonds into which deposits are required to be made pursuant to a Parity Bond Authorizing Resolution, including the 2006 Reserve Account and the 2009 Reserve Account, is referred to as a “Reserve Account.”

So long as any Parity Bonds are outstanding, Cascade has agreed to set aside and to pay into the Bond Fund out of the Net Revenue certain fixed amounts without regard to any proportion, as follows:

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

Reserve Accounts. Except as otherwise expressly provided in the 2009 Bond Resolution, the amount necessary to make the amount on deposit in the Reserve Accounts equal to the Reserve Requirement.

The 2009 Bond Resolution provides that the fixed amounts described above are to be a lien and charge against Net Revenue.

Reserve Requirement. For any issue of Future Parity Bonds, Cascade may establish a separate reserve requirement for that issue and any related Payment Agreement Payments, to be held in a separate account in the Bond Fund. That special account will secure that issue of Future Parity Bonds and those Payment Agreement Payments, and that issue of Future Parity Bonds and those Payment Agreement Payments will not have any claim on or to the money or Reserve Insurance in the Reserve Account that provides for the Reserve Requirement on the Bonds. The Reserve Accounts established for the 2006 Bonds and the Bonds are separate Reserve Accounts, and the Reserve Requirement for the Parity Bonds secured by the 2006 Reserve Account differs from the Reserve Requirement for the Parity Bonds secured by the 2009 Reserve Account. **The Bonds are not secured by the 2006 Reserve Account, and the 2006 Bonds are not secured by the 2009 Reserve Account.**

2009 Reserve Account. On the date of issuance of the Bonds, Cascade is required to deposit into the 2009 Reserve Account any combination of Bond proceeds, Reserve Insurance or other money legally available, in the amount necessary to make the amount on deposit therein equal to the Reserve Requirement for the Bonds. Cascade intends to meet the Reserve Requirement for the Bonds from Bond proceeds. See “PURPOSE AND APPLICATION OF BOND PROCEEDS – Estimated Sources and Uses of Funds.” “Reserve Requirement” means, as of any date of calculation, (1) with respect to Parity Bonds secured by the 2009 Reserve Account, the lesser of Maximum Annual Debt Service on outstanding Parity Bonds secured by the 2009 Reserve Account or 125 percent of Average Annual Debt Service on outstanding Parity Bonds secured by the 2009 Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account exceed 10 percent of the original proceeds of the Parity Bonds secured by the 2009 Reserve Account. In calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account, the amount of interest payable on those Parity Bonds that are issued and sold as Build America Bonds for any fiscal year (or other designated twelve-month period) shall be reduced by the federal credit payments scheduled to be received by Cascade in respect of such Build America Bonds in such fiscal year (or other designated twelve-month period). See “DESCRIPTION OF THE BONDS – Federal Credit Payments for ‘Build America Bonds’.”

The 2009 Bond Resolution provides that, in the event there is a deficiency in the Debt Service Account that prevents making any payment secured by the 2009 Reserve Account, that deficiency is to be made up from the 2009 Reserve Account, first, by the withdrawal of cash therefrom, second, from the proceeds of the sale of investments held therein, and third, from pro rata draws under each Reserve Insurance, if any. Any deficiency created in the 2009 Reserve Account by reason of any such withdrawal is to be made up from Net Revenue first available after making necessary provisions for the required payments into the Debt Service Account, first, to reinstate each Reserve Insurance credit thereto, pro rata, and second, to make up any remaining deficiency. The money in the 2009 Reserve Account may be applied against the last outstanding Parity Bonds secured by the 2009 Reserve Account. If the Reserve Requirement for the Parity Bonds secured by the 2009 Reserve Account is fully provided for, any money in excess of the Reserve Requirement for the Parity Bonds secured by the 2009 Reserve Account may be withdrawn and deposited consistent with the 2009 Bond Resolution. See Appendix B - Resolution No. 2009-11, Section 13.

2006 Reserve Account. On the date of issuance of the 2006 Bonds, Cascade deposited 2006 Bond proceeds in the amount of \$3,896,950.00 into the 2006 Reserve Account to meet the Reserve Requirement for the 2006 Bonds. “Reserve Requirement” means, as of any date of calculation, with respect to Parity Bonds secured by the 2006 Reserve Account, the lesser of Maximum Annual Debt Service on outstanding Parity Bonds secured by the 2006 Reserve Account or 125 percent of Average Annual Debt Service on outstanding Parity Bonds secured by the 2006 Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the 2006 Reserve Account exceed 10 percent of the original proceeds of the Parity Bonds secured by the 2006 Reserve Account. The Bonds are not secured by the 2006 Reserve Account.

RCFC Fund

Cascade has established the RCFC Fund for the deposit of RCFCs each year. RCFCs are paid to Cascade by each Member for each new equivalent residential unit connected to its water distribution system, and are intended to allocate growth costs to those Members that require capacity increases due to growth in customer demand. The RCFC Fund is pledged to the payment of the Parity Bonds.

Rate Stabilization Fund

Cascade has established a Rate Stabilization Fund. The 2009 Bond Resolution provides that Cascade may at any time, as determined by Cascade and consistent with the 2009 Bond Resolution, deposit Gross Revenue other than RCFCs in the Rate Stabilization Fund. Cascade may at any time withdraw any or all of the money from the Rate Stabilization Fund for inclusion in the Gross Revenue and disbursement consistent with “Flow of Funds” above. If a deposit or withdrawal is made within 90 days after the end of a fiscal year, Cascade may specify that the deposit or withdrawal is to be allocated to the prior fiscal year rather than to that fiscal year. Deposits to the Rate Stabilization Fund are excluded from the definition of “Gross Revenue” and are not to be treated as Gross Revenue until withdrawn from the Rate Stabilization Fund. No deposit of Gross Revenue may be made into the Rate Stabilization Fund to the extent that such deposit would prevent Cascade from satisfying the Coverage Requirement in any fiscal year.

The balance in the Rate Stabilization Fund as of June 30, 2009 was \$6,426,178. Cascade has planned in its budget to use \$1,486,140 from the Rate Stabilization Fund during 2009.

Future Parity Bonds and Payment Agreements

Cascade may issue Future Parity Bonds and enter into Payment Agreements only for lawful System purposes and only if the conditions set forth in the 2009 Bond Resolution, and summarized below, are met and complied with at the time of the issuance of those Future Parity Bonds or entry into that Payment Agreement. Cascade does not have authority to issue bonds with a pledge of or lien on Net Revenue superior to the pledge of and lien on Net Revenue securing the Bonds. Based on present State law, Cascade does not have authority to enter into Payment Agreements. Cascade may or may not gain such legal authority in the future. The following are conditions to the issuance of Future Parity Bonds:

- (a) There may be no deficiency in the Bond Fund;
- (b) Except in the case of Future Parity Bonds being issued for the sole purpose of providing for the costs of refunding Parity Bonds for which no coverage certification is required by the 2009 Bond Resolution, no Event of Default, nor any event or condition which with notice and/or the passage of time would constitute an Event of Default, has occurred and is continuing, nor may the issuance of those Future Parity Bonds or the entry into that Payment Agreement, in and of itself, cause an Event of Default or any event or condition which with notice and/or the passage of time would constitute an Event of Default;
- (c) The Parity Bond Authorizing Resolution must provide for the payment of the principal of and interest on those Future Parity Bonds or Payment Agreement Payments out of the Bond Fund;
- (d) Unless a separate reserve is provided for in accordance with the 2009 Bond Resolution, the Parity Bond Authorizing Resolution must provide for the deposit into the 2006 Reserve Account of any combination of Future Parity Bond proceeds, Reserve Insurance, or other money legally available, in the amount, if any, necessary to make the amount on deposit in the 2006 Reserve Account equal to the Reserve Requirement for Parity Bonds secured by the 2006 Reserve Account upon the issuance of those Future Parity Bonds; and
- (e) There must be on file with Cascade a certificate of the Chief Executive Officer or an Independent Consulting Engineer, as the case may be, demonstrating compliance with the coverage requirements of the 2009 Bond Resolution. The certificate may take into account certain adjustments, as set forth in the 2009 Bond Resolution. See Appendix B - Resolution No. 2009-11, Section 20.

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

If the Future Parity Bonds are for the sole purpose of refunding Parity Bonds (including costs of issuance and providing for the Reserve Requirement), no certificate is required under the 2009 Bond Resolution if, as a result of the issuance of those Future Parity Bonds, (a) the various annual maturities of the refunding Future Parity Bonds will not extend more than a year longer than the Parity Bonds being refunded and (b) the Annual Debt Service on all outstanding Parity Bonds will not increase more than \$5,000 in any fiscal year in which the Parity Bonds to be refunded were scheduled to remain outstanding.

Nothing in the 2009 Bond Resolution prevents Cascade from issuing (a) Future Parity Bonds to refund maturing Parity Bonds, money for the payment of which is not otherwise available, or (b) revenue bonds that are a charge upon the Gross Revenue subordinate to the charge for the payment of the principal of and premium, if any, and interest on the Parity Bonds, all payments to be made under Payment Agreements and all payments required to be made into the Reserve Accounts under any Parity Bond Authorizing Resolution, and then only if the remedy of acceleration is expressly denied to the owners of those subordinate bonds under all circumstances.

Events of Default and Remedies; No Acceleration

Neither a Registered Owner nor any Bond Owners' Trustee has the right under the 2009 Bond Resolution to accelerate the payment of debt service on the Bonds upon the occurrence of an Event of Default. Cascade thus would be liable only for principal and interest payments as they became due, and the Registered Owners would be required to seek a separate judgment for each payment, if any, not made. Any such action for money damages would be subject to any limitations on legal claims and remedies against public bodies under State law. Amounts recovered would be applied to unpaid installments of interest prior to being applied to unpaid principal and premium, if any, which had become due. See Appendix B - Resolution No. 2009-11, Section 27. The 2009 Bond Resolution defines certain "Events of Default" and provides for certain remedies following the occurrence of an Event of Default. See Appendix B - Resolution No. 2009-11, Section 27.

Defeasance

If Cascade deposits irrevocably with an escrow agent money and/or noncallable Government Obligations (as defined in the 2009 Bond Resolution) which, together with the earnings thereon, are sufficient, without any reimbursement thereof, to pay

the principal of any particular Parity Bond or Parity Bonds or portions thereof becoming due (the “Defeased Bonds”), together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, all liability of Cascade with respect to the Defeased Bonds will cease, the Defeased Bonds will be deemed not to be outstanding under the 2009 Bond Resolution and the Registered Owners of the Defeased Bonds will be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds. The escrow agent is required to hold the money, Government Obligations and earnings in trust exclusively for those Registered Owners, and that money, Government Obligations and earnings will not secure any other Parity Bonds under the 2009 Bond Resolution.

In determining the sufficiency of the money and Government Obligations deposited pursuant to the 2009 Bond Resolution, that escrow agent is required to receive, at the expense of Cascade, and may rely upon: (i) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to Cascade and that escrow agent; and (ii) an opinion of Bond Counsel to the effect that (a) all conditions set forth in the 2009 Bond Resolution regarding defeasance have been satisfied and (b) defeasance of the Defeased Bonds will not cause interest on any Defeased Bonds (other than Build America Bonds or any other Bonds the interest on which is not excluded for federal income tax purposes) to be includable in gross income for federal income tax purposes. The 2009 Bond Resolution provides that the Defeased Bonds will no longer be secured by or entitled to the benefits of the Parity Bond Authorizing Resolution, except for the purposes of any payment from the money or Government Obligations deposited with that escrow agent and except for the provisions of the 2009 Bond Resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of the Parity Bonds.

Defeasance of the 2009B Bonds may result in certain consequences described in “TAX MATTERS – 2009B Bonds.”

Amendments to the 2009 Bond Resolution and Interlocal Contract

The 2009 Bond Resolution may not be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as provided in and in accordance with and subject to the provisions of the 2009 Bond Resolution. Cascade has reserved the right to make certain amendments to the 2009 Bond Resolution without the consent of or notice to the Registered Owners, subject to certain conditions. The conditions include delivery to Cascade and the Bond Registrar an opinion of Bond Counsel stating that the supplemental resolution is authorized or permitted by the 2009 Bond Resolution and, upon the execution and delivery thereof, will be valid and binding upon Cascade in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the entitlement of Cascade to receive from the United States Treasury the applicable federal credit payments in respect of the 2009B Bonds or materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding. See Appendix B - Resolution No. 2009-11, Section 25.

Cascade has covenanted in the 2009 Bond Resolution that it will not permit the Interlocal Contract to be modified or amended in any respect subsequent to the initial issuance of the Bonds, except as consistent with and subject to the provisions of the 2009 Bond Resolution. Cascade may amend the Interlocal Contract without the consent of or notice to the Registered Owners for certain purposes, subject to certain conditions. The conditions include delivery to Cascade and the Bond Registrar of an opinion of Bond Counsel, stating that the amendment is authorized or permitted by the 2009 Bond Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2009A Bonds or the entitlement of Cascade to receive from the United States Treasury the applicable federal credit payments in respect of the 2009B Bonds. See Appendix B - Resolution No. 2009-11, Section 26. Cascade has agreed that it will not amend provisions of the Interlocal Contract that eliminate or materially diminish certain obligations of the Members, without the prior written consent of each Registered Owner of each Parity Bond at the time outstanding. See Appendix B – Resolution No. 2009-11, Section 26.

MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT

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

Covenants Relating to Member Charges

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

Pursuant to the Interlocal Contract, if, in connection with the issuance of obligations, any Member establishes a new lien position on revenues relating to its water utility, that Member is required to covenant in the relevant documents that the

Member Charges will be treated: (i) as part of that Member's internal operation and maintenance costs payable prior to debt service on those obligations; and/or (ii) for any portion of those Member Charges that is allocable to capital costs, as a contract resource obligation payable prior to debt service on those obligations. If any Member has existing revenue obligations relating to its water utility with covenants inconsistent with those described in this paragraph, the Member is obligated to include similar covenants in the documents relating to any new parity obligations, to take effect upon payment of those existing obligations.

Binding Nature of Member Obligation

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

Member Step Up Provisions

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

Member Disputes

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

Member Withdrawal

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

Dissolution of Cascade

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

returned to the Member that originally transferred them to Cascade. That presumption may be overcome by a showing that another asset distribution is in the best interests of efficient and economic water supply. The proceeds of any sale of assets must be distributed among the then current Members based on the Demand Shares at the time of dissolution. See Appendix C – Interlocal Contract, Section 10.3.

Preservation of Tax Exemption for Interest on Tax-Exempt Bonds

Each Member has covenanted that it will take all actions necessary to prevent interest on tax-exempt bonds issued by or on behalf of Cascade (such as the 2009A Bonds) from being included in gross income for federal income tax purposes and that it will neither take any action nor make or permit any use of proceeds of tax-exempt bonds issued by or on behalf of Cascade or other funds treated as proceeds of those bonds at any time during the term of those bonds that will cause interest on those bonds to be included in gross income for federal income tax purposes.

Member Charges

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

Rates and Charges. The Board sets rates and charges for delivery of water (called “Demand Share Charges”) according to a Rate Calculation Methodology adopted by the Board in accordance with the Interlocal Contract. The Rate Calculation Methodology provides for the definition and calculation of Demand Shares and for a uniform price structure with a commodity charge and fixed charges allocated by Demand Share. Cascade’s Demand Share Charge for 2009 is \$584,988 per Demand Share.

Regional Capital Facilities Charge. Each Member is required to pay RCFCs to Cascade for each new equivalent residential unit connected to that Member’s water distribution system. RCFCs are intended to allocate growth costs to those Members that require capacity increases due to growth in customer demand. Any new Member with adequate water supply is required to begin paying RCFCs fifteen years prior to the date that its own supply is expected to be insufficient. Members that lose their independent supply are required to pay an amount equal to the RCFCs allocable to the number of equivalent residential units that can be served by the replacement supply to be provided by Cascade. The RCFC for 2009 is set at \$6,005 per new CERU.

Administrative Dues. Each Member is required to pay annual dues to defray part of Cascade’s administrative costs, based upon the number of equivalent residential units served by that Member’s water system, regardless of water usage or capacity, and whether or not those units are served by water from Cascade. Total dues collected from the Members in any year may not exceed the greater of \$1 million or 5 percent of Cascade’s annual revenue requirement less debt service. Dues for 2009 are assessed at the rate of \$7.58 per CERU.

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

Conservation Program Charge. A conservation program charge is assessed to each Member at a rate of \$4.70 per CERU. A Member that does not have a supply commitment from Cascade or a Member with a supply commitment but not subject to payment of RCFCs pays 70 percent of the conservation program charge.

Sale of Water to Non-Members

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

Bond Owner Reliance

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

CASCADE DEBT

Scheduled Debt Service on Parity Bonds

The scheduled annual debt service requirements for the Parity Bonds, shown on the basis of a fiscal year ending December 31, are set forth in the following table. Principal payments on Term Bonds are shown in the years in which they are subject to mandatory redemption in accordance with the 2009 Bond Resolution.

Scheduled Debt Service Requirements

	Outstanding Parity Bonds		The Bonds		Total
	Principal	Interest	Principal	Interest	Debt Service
2009	\$ 1,295,000	\$ 2,601,750	\$ -	\$ -	\$ 3,896,750
2010	1,350,000	2,546,950	1,980,000	3,486,781	9,363,731
2011	1,410,000	2,486,050	2,265,000	3,951,888	10,112,938
2012	1,480,000	2,415,550	2,290,000	3,917,392	10,102,942
2013	1,555,000	2,341,550	2,320,000	3,868,775	10,085,325
2014	1,630,000	2,263,800	2,360,000	3,808,455	10,062,255
2015	1,710,000	2,182,300	2,410,000	3,735,862	10,038,162
2016	1,800,000	2,096,800	2,530,000	3,615,362	10,042,162
2017	1,890,000	2,006,800	2,655,000	3,488,862	10,040,662
2018	1,980,000	1,912,300	2,730,000	3,376,847	9,999,147
2019	2,080,000	1,813,300	2,805,000	3,255,417	9,953,717
2020	2,185,000	1,709,300	2,890,000	3,127,845	9,912,145
2021	2,295,000	1,600,050	2,980,000	2,988,605	9,863,655
2022	2,410,000	1,485,300	3,080,000	2,838,175	9,813,475
2023	2,530,000	1,364,800	3,180,000	2,679,000	9,753,800
2024	2,655,000	1,239,625	3,290,000	2,509,888	9,694,513
2025	2,780,000	1,113,513	3,405,000	2,331,636	9,630,148
2026	2,915,000	981,463	3,530,000	2,143,748	9,570,210
2027	3,050,000	843,000	3,660,000	1,945,433	9,498,433
2028	3,205,000	690,500	3,795,000	1,737,984	9,428,484
2029	3,365,000	530,250	3,930,000	1,522,883	9,348,133
2030	3,530,000	362,000	4,075,000	1,300,131	9,267,131
2031	3,710,000	185,500	4,235,000	1,059,420	9,189,920
2032	-	-	4,395,000	809,259	5,204,259
2033	-	-	4,565,000	549,646	5,114,646
2034	-	-	4,740,000	279,992	5,019,992
	<u>\$ 52,810,000</u>	<u>\$ 36,772,450</u>	<u>\$80,095,000</u>	<u>\$64,329,285</u>	<u>\$234,006,735</u>

Capital Plan and Future Financing

Cascade's 2006 Watershed Management Plan included a capital program that estimated Cascade's capital needs to range from \$196 million to \$241 million over six years, including projects funded with the 2006 Bonds. Cascade is in the process of preparing its 2010 Transmission and Supply Plan, which will replace the current Transmission and Supply Plan, and expects to modify certain elements of its capital plan. However, as a result of the acquisition of Lake Tapps assets and the renegotiation of the Seattle Agreement, Cascade has been able to postpone or eliminate many of the capital needs included in the 2006 Watershed Management Plan. As a result, the 2009 Watershed Management Plan does not include any capital projects other than those expected to be funded with the Bonds. Cascade does not expect to issue additional long-term indebtedness within the next two years.

Outstanding Debt

Cascade issued \$55,230,000 of Parity Bonds in 2006, of which \$51,515,000 is outstanding as of September 1, 2009.

Cascade has two outstanding Public Works Trust Fund Loans from the State: (i) a \$100,000 loan with no interest and a balance as of July 1, 2009 of \$20,000, for planning purposes and with a final maturity date of July 1, 2011, and (ii) a \$750,000 loan with an interest rate of 0.5 percent and a balance as of July 1, 2009 of \$671,053, for pre-construction activities and with a final maturity date of July 1, 2025. The loans represent subordinate lien obligations that are subordinate to the Bonds and are not subject to acceleration.

CASCADE WATER ALLIANCE

General

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

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

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

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

Cascade Purposes

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

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

Cascade Powers

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

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

Water Supply and Transmission

Pursuant to the Interlocal Contract, Cascade has made water supply commitments to the Members. Cascade has completed a Transmission and Supply Plan, adopted by the Board on September 29, 2005, which defined a resource strategy designed to meet the projected supply needs of the Members through 2050, including purchase of water from Seattle and Tacoma, acquisition and development of transmission facilities, and development of new water supply sources and treatment facilities. Because updated water demand projections for Cascade’s members have indicated decreased water requirements compared to previous projections, and assuming that in the future Cascade will be able to obtain additional water under new or amended water purchase contracts, particularly with Seattle, larger scale supply projects are anticipated to be delayed for approximately 10 to 15 years. Cascade is in the process of reviewing its Transmission and Supply Plan to update its policies and implementation activities, and expects to approve a 2010 Transmission and Supply Plan in 2010. The Board also adopted the 2006 Watershed Management Plan relating to financing regional water supply, water transmission, water quality and protection, and other water-related purposes and in August 2009 adopted a 2009 Watershed Management Plan to amend and update the 2006 Watershed Management Plan

To meet the water supply requirements in excess of the Members’ own resources, Cascade purchases water from Seattle under a 50-year Declining Block Water Supply Agreement (the “Seattle Agreement”) and Cascade has entered into a wholesale water purchase agreement with Tacoma to supplement water purchased from Seattle (the “Tacoma Agreement”). Cascade will need to develop transmission assets in order to transport water from Tacoma to the Members through what is known as the Tacoma-Cascade Pipeline. Water purchased under the Seattle Agreement and Tacoma Agreement is expected to serve as Cascade’s primary water supply source over the next 10 to 15 years. Cascade anticipates developing Lake Tapps, located in Pierce County (adjacent to King County), for long-term water supply. A portion of the proceeds of the Bonds will be used to acquire the Lake Tapps assets from PSE, which amounts include PSE’s current water rights, applications for new water rights and related facilities, and to make certain mitigation and payments relating thereto. Based on Cascade’s demand forecast, the Lake Tapps supply will offer capacity sufficient to meet the needs of the current Members beyond the needs expected to be met through the Seattle Agreement and the Tacoma Agreement. Cascade owns a 24-inch diameter transmission pipeline between Bellevue and Issaquah and will use a portion of the proceeds of the Bonds to pay the costs of constructing a minor portion of the Tacoma-Cascade Pipeline. To maximize water resources, Cascade provides a regional conservation program to the Members.

Seattle Agreement. Cascade’s primary water supply is water purchased from Seattle under the Seattle Agreement that became effective January 1, 2004 and extends through December 31, 2053. Based on changes in water demand forecasts, Seattle determined that additional water supply would be available for Cascade, and therefore, in December 2008 Cascade and Seattle executed an amendment to the Seattle Agreement that provided for additional water through 2023. The Seattle Agreement entitles Cascade to a specified amount (block) of water supply and transmission each year for a 50-year period ending December 31, 2053, on a “take or pay” basis. The amount of the block can be amended based on new members joining Cascade or existing Members withdrawing from Cascade prior to December 31, 2011 or a reduction in water yield available to Seattle due to an order of an appropriate federal or state regulatory agency. The Seattle Agreement does not include provisions for termination. Increased amounts of water are available during the peak season and peak month. At the end of the Seattle Agreement term, Cascade may continue to purchase from Seattle up to 5.3 million gallons per day (“MGD”) of water (average daily demand) for Members that cannot be served economically by any other means.

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

Amount of Water to be Supplied to Cascade from Seattle

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

Source: Cascade

Tacoma Agreement. The Tacoma Agreement entitles Cascade to a permanent supply of 4 MGD of water (average daily demand) each year, and an additional guaranteed reserved supply of 6 MGD (average daily demand) through 2026, declining to 1 MGD (average daily demand) in 2030 (the “Additional Supply”), and discontinuing thereafter. Increased deliveries are available during peak season. The Tacoma Agreement includes minimum purchase requirements from 2009 through 2025, and entitles Cascade to additional temporary water, based on availability. The Tacoma Agreement required that Cascade pay system development charges and capacity reservation fees to Tacoma, which charges and fees have been paid, in addition to paying for the metered water based on wholesale water rates. Cascade has not taken delivery of water from Tacoma and will need to complete construction of the Tacoma-Cascade Pipeline in order to do so. Cascade is obligated to provide Tacoma with a plan by December 1, 2015 that demonstrates Cascade’s ability to provide for the long term water needs of the Members; if Cascade does not do so, Tacoma may terminate its obligation to provide the Additional Supply. Termination for the reasons described in the previous sentence applies only to Additional Supply, and not to the permanent supply of 4 MGD (average daily demand). Should Cascade be in default in payments under the Tacoma Agreement, Tacoma may terminate the entire Tacoma Agreement by providing at least six months’ written notice of termination. Cascade has made all payments to Tacoma as required under the Tacoma Agreement.

Lake Tapps Project. Cascade entered into a purchase agreement with PSE to purchase the Lake Tapps assets for a total cost of \$30,000,000, with a \$25,000,000 payment due on the closing date and another \$5,000,000 due upon issuance by the State Department of Ecology (“Ecology”) of municipal water rights. The project includes an intake on the White River, a canal pipeline, flow-way, fish screens, and bypass to Lake Tapps; the Lake Tapps dams and dikes; the lake intake, tunnel, forebay, and penstocks off Lake Tapps; structures that return water from Lake Tapps to the White River; and water rights, including the existing hydro claim, new municipal water rights applications, and a flow regime for the White River as agreed upon in a 2008 settlement agreement with the Muckleshoot Indian Tribe and the Puyallup Tribe of Indians or such alternate flow regime as may be agreed to by Cascade and both of the Tribes. PSE applied to Ecology for a change in its existing water rights and for new municipal water rights. Cascade is acquiring PSE’s existing water rights and the municipal water rights applications and related facilities. Cascade is currently preparing an Environmental Impact Statement (“EIS”) and working with Ecology to finalize the conditions of the municipal water rights. Both the EIS and the water rights are expected to be finalized in late 2009 or early 2010. The closing date of the purchase is contingent upon completion of necessary boundary line adjustment approvals by local jurisdictions and resulting title insurance updates. It is expected that the conditions of closing, primarily title work related to boundary line adjustments to property, will be met in September or October of 2009, and closing is to occur within 45 business days after the conditions have been met. To utilize Lake Tapps as a water source, Cascade is required to develop and construct infrastructure, including building a water treatment facility and transmission pipeline. The 2010 Transmission and Supply Plan will include a timeline for construction of the improvements to the facilities of Lake Tapps.

Transmission and Storage Facilities. Cascade owns a 24-inch diameter transmission pipeline between Bellevue and Issaquah and has agreements in place with the cities of Bellevue and Issaquah to provide operation and maintenance of the pipeline.

To transport water from Tacoma and Lake Tapps, Cascade will be required to construct additional pipelines. Cascade conducted a transmission system routing study to determine the sizing and routing of the proposed transmission pipelines for water purchased from Tacoma. In April 2007, Cascade issued a Final EIS relating to construction of a proposed Tacoma-Cascade Pipeline to provide transmission from Tacoma to Cascade’s Members. Cascade is not proceeding with construction of the pipeline because it was able to negotiate for additional supply under the Seattle Agreement, which is expected to serve the needs of the Members for approximately 10 to 15 years. While Cascade is not proceeding with the pipeline project at this time, it intends to make strategic improvements or land acquisitions as opportunities become available.

Cascade expects to include additional regional storage in its transmission system. Cascade expects regional storage to provide a continuous supply of water when peak use exceeds the hydraulic capacity of the transmission pipeline system. A portion of the proceeds of the Bonds will be used to pay or reimburse Cascade for the cost of certain transmission facilities. Cascade anticipates acquiring a water storage reservoir in the Bellevue area in the future.

Transmission and Supply Plan

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

The Transmission and Supply Plan contains data and technical analysis addressing existing water supply and transmission contracts, assets and infrastructure; demand forecasts; conservation program; reclaimed water program; water supply strategy; system analysis, infrastructure needs and capital program; source water protection; water quality maintenance and monitoring; operation and maintenance programs; and financial program. The Transmission and Supply Plan will be updated

in 2010 and will include a new water demand forecast through 2060, and a new plan and timeline for transmission and supply projects due to changed demand projections and additional supply resources, primarily through the Seattle Agreement.

Governance and Administration

Cascade is governed by a Board consisting of one individual representative of each respective Member’s legislative authority. Members may appoint alternative representatives to the Board, although each Board member and alternative Board member must be an elected official of the Member. Board member terms do not expire; Board members continue in their positions until replaced by resolution or motion of the Member being represented or until they are no longer an elected official of the Member being represented. The Board adopted corporate By-laws, amended and restated on May 27, 2009, which specify the powers and duties of the Board and its Executive Committee, standing committees, officers and employees. The Board holds monthly meetings to conduct the business of Cascade. All meetings of the Board are required to be conducted as open public meetings under the State’s Open Public Meetings Act and other applicable law.

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

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

<u>Board Member</u>	<u>Member Represented and Elected Position</u>	<u>Date of Initial Appointment</u>
Lloyd Warren, Chair	Commissioner, Sammamish Plateau Water and Sewer District	January 2005
Mary-Alyce Burleigh, Vice Chair	Councilmember, City of Kirkland	June 2002
Jim Haggerton, Secretary/Treasurer	Mayor, City of Tukwila	March 2000
Grant Degginger	Mayor, City of Bellevue	March 2001
David Knight	Commissioner, Covington Water District	March 2007
David Kappler	Councilmember, City of Issaquah	December 2005
John Marchione	Mayor, City of Redmond	April 2004
Jon Ault	President, Skyway Water and Sewer District	February 2004

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

Management. Day to day management is provided by a Chief Executive Officer who serves at the pleasure of the Board. The Chief Executive Officer is responsible for appointment of other staff positions, subject to confirmation by the Board or Executive Committee, and has authority to enter into obligations under \$25,000 unless otherwise provided with specific delegated authority. A Director of Finance and Administration is responsible for the day-to-day financial operations. Names and brief resumes are provided below.

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

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

Michael Gagliardo, Director of Planning. Mr. Gagliardo has been with Cascade since its inception in 1999, first as General Manager followed by his current role as Director of Planning. Prior to joining Cascade, Mr. Gagliardo was Director of the United States Conference of Mayors’ Urban Water Council and Managing Director of the Conference’s Municipal Waste

Management Association. From 1980 until 1995, he was associated with the Northeast Maryland Waste Disposal Authority (Baltimore, MD), being appointed its Executive Director in 1986. Mr. Gagliardo received a Bachelor of Science degree in Natural Resources Management from the University of Maryland (College Park).

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

Elaine Kraft, Intergovernmental and Communications Director. Ms. Kraft has served in this position since June 2008. Prior to assuming this position, Ms. Kraft served as communications director to King County Executive Ron Sims for 10 years, and she has held communications and governmental directorships at Weyerhaeuser Company, the Coors Brewing Company and the Washington State Legislature. Ms. Kraft earned Master's of Business Administration and Masters of Public Administration degrees from the University of Puget Sound and a Bachelor's of Arts in Editorial Journalism and in Political Science from the University of Washington.

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

Treasury Operations and Investments. Cascade has appointed the Treasury Operations Section of the King County Department of Executive Services, Finance and Business Operations Division to provide treasury operations. Cascade's funds are invested as is lawful for funds invested by a county treasurer under State law. Cascade's funds are commingled with funds of other agencies of King County (the "County"), through the King County Investment Pool (the "Pool"). Due to certain impaired investments made on behalf of the Pool in 2008 (described below), Cascade recognized a loss of \$750,000 to \$900,000 and anticipates that it will realize a similar loss when the last of the impaired investments is restructured.

King County Investment Pool. The Pool invests cash reserves for all agencies of the County and approximately 100 special districts and other public entities such as fire, school, sewer and water districts and other public authorities. It is one of the largest investment pools in the State, with an asset balance of about \$4.2 billion as of May 31, 2009. On average, funds of County agencies comprise 40 percent of the Pool and those of outside districts comprise 60 percent.

The County's Executive Finance Committee (the "Committee") establishes County investment policies and oversees the investment portfolio to ensure that specific investments comply with both those investment policies and State law. The Pool is allowed to invest only in certain types of highly-rated securities, including certificates of deposit, U.S. treasury obligations, federal agency obligations, municipal obligations, repurchase agreements, and commercial paper. The Pool's rate of return has averaged approximately five percent over the past 13 years.

The following five paragraphs are taken from the most recent information provided at the website of the Treasury Operations Section of the King County Department of Executive Services, Finance and Business Operations Division, as of July 27, 2009. The website address is: <http://www.kingcounty.gov/operations/Finance/news/CommercialPaper.aspx>, which is not incorporated into this Official Statement by reference.

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

In early 2008, the Pool held four impaired commercial paper investments in its portfolio with an outstanding par value of \$207 million. The County has participated in restructuring auctions for three of the four impaired investments and has recovered a total of \$75.2 million, or about 50 percent of the adjusted par value of these securities.

The County is waiting for the restructuring process to conclude for Victoria Finance LLC ("Victoria") (the only outstanding commercial paper obligation remaining in the Pool's portfolio \$52.9 million adjusted par value). Since December 2008, the County has been receiving monthly *pro rata* cash payments from the receiver of Victoria totaling \$12.5 million, reducing the County's outstanding principal value to \$40.4 million. Due to the stressed market conditions for this type of security, the County cannot predict what it may eventually recover from the upcoming restructuring of the Victoria investment. The formal restructuring is not expected to take place until late 2009 at the earliest. The Victoria investment has been segregated into a small "impaired pool" separate from the large "performing pool." The impaired pool was established by the County to help account for the recovery of funds from the various restructuring auctions and post-auction residual cash payments.

The County has asked PFM to conduct quarterly reviews of all assets in the Pool. In its most recent assessment, dated March 31, 2009, PFM concluded that “the county’s investment pool is of sound quality, well diversified and appears to have ample liquidity.... The portfolio possesses very high credit quality.” The most recent portfolio review can be obtained at the following web site link, which is not incorporated into this Official Statement by reference:

<http://www.kingcounty.gov/operations/Finance/news/CommercialPaper.aspx>

Standard & Poor’s Ratings Services (“S&P”), first rated the Pool in 2005 and granted the Pool its highest rating of AA Af. In mid-January 2008, S&P took the temporary action of suspending its rating of the Pool with the understanding that the County could request a restored rating by separating any impaired investments into an impaired pool, which the County subsequently completed. S&P has since modified its rating criteria for investment pools, and the County has announced it is reconsidering the benefits and costs associated with a pool rating. The County has announced it will decide in the second half of 2009 whether to pursue a new S&P pool rating.

Retirement Plans. Cascade provides a defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute four percent of their annual salary to the plan, and Cascade contributes seven percent of each employee’s salary. Employee and employer contributions to the plan were \$26,532 and \$46,275, respectively, for the year ended December 31, 2008.

Cascade also provides a retirement plan, available to all employees, through which employees can choose to make salary deferral contributions up to the maximum allowed by law. Cascade does not match contributions of new employees, and contributions for existing employees will be phased out by 2011. Employee salary deferrals were \$44,876, and Cascade’s matching contribution was \$37,264, for the year ended December 31, 2008.

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

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

Insurance. Cascade maintains insurance for its facilities, including fire and extended coverage, public liability and property damage on Cascade’s facilities as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems.

Accounting and Auditing. Cascade prepares annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the System as of the close of that fiscal year, and causes the financial and operating statements to be audited on an annual basis by the State Auditor and/or a certified public accountant selected by Cascade. Cascade’s most recent audited financial statements, for the year ended December 31, 2008, are included as Appendix G.

Management Discussion of Financial Operations

Cascade’s operating revenues are received principally from water sales, administrative dues, and conservation charges. Operating revenues in 2008 were within one percent of budget and expenditures were within the budgeted amount. RCFC revenue from Members was budgeted to be \$6,500,000 in 2008, but actual RCFCs were \$8,500,000. This variance is attributable to more new connections to Members’ systems than forecast for 2008, due to increased levels of construction activity. RCFC revenue in 2009 is expected to be lower than 2008 revenue, due to a decline in new connections to Members’ systems.

Cascade’s capital assets continued to increase in 2007 and 2008 due to the acquisition of supply contracts with Tacoma, development of the Tacoma-Cascade Pipeline and capitalization of expenditures to obtain water rights to Lake Tapps. Capital asset expenditures for these purposes in 2008 totaled \$15,500,000 and were funded from capital contributions and proceeds of the 2006 Bonds.

Amortization of the Seattle Agreement cost is based on the ratio of water to be supplied in each calendar year to total water to be supplied during the contract. Amortization expense for the Seattle Agreement was \$29,000 and \$23,000 for the years ended December 31, 2008 and 2007, respectively. The Tacoma Agreement is considered to have an indefinite term and therefore will be evaluated annually for impairment and not amortized. Through December 31, 2008, management does not believe impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

The following table shows financial activities of Cascade for 2005 through 2008 based on audited financial statements of Cascade.

Cascade Water Alliance				
Statement of Financial Activities				
(Fiscal Year Ending December 31)				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenue				
Water sales	\$ 22,465,785	\$ 20,298,751	\$ 18,241,038	\$ 17,032,531
Administrative dues	1,247,488	1,139,257	715,781	496,134
Conservation Program	<u>733,086</u>	<u>706,732</u>	<u>631,009</u>	<u>515,496</u>
Total Operating Revenue	\$ 24,446,359	\$ 22,144,740	\$ 19,587,828	\$ 18,044,161
Operating Expenses				
Cost of water sold	\$ 16,508,432	\$ 15,081,172	\$ 14,464,094	\$ 15,562,175
Salaries and benefits	970,463	608,581	484,658	411,492
Recruiting	-	-	4,195	19,173
Insurance	-	-	2,342	8,461
Meetings	-	-	7,482	9,633
Professional services	494,924	488,152	680,917	897,616
Conservation rebate program	640,629	517,275	437,346	-
Depreciation and amortization	408,229	419,968	231,726	11,276
Communication and public information	397,408	402,759	-	-
Taxes and licenses	-	-	1,219	1,439
Travel and entertainment	-	-	7,830	7,596
Office expenses	28,891	63,551	78,463	21,434
Bank charges	992	54,492	45,894	-
Rent	105,467	101,909	33,455	30,902
Maintenance	43,667	88,340	-	-
Dues and subscriptions	26,696	32,675	11,410	11,421
Charitable contributions	-	-	1,000	-
Miscellaneous	<u>31,881</u>	<u>143,405</u>	<u>3,481</u>	<u>-</u>
Total Operating Expenses	\$ 19,657,679	\$ 18,002,279	\$ 16,495,512	\$ 16,992,618
Total Operating Income	\$ 4,788,680	\$ 4,142,461	\$ 3,092,316	\$ 1,051,543
Non-Operating Revenue(Expenses)				
Interest income	\$ 1,103,555	\$ 1,420,976	\$ 1,511,408	\$ 181,258
Other income	-	-	6,280	-
Interest expense, net of amount capitalized	<u>(1,088,688)</u>	<u>(1,661,633)</u>	<u>(1,677,424)</u>	<u>(365,590)</u>
Total Non-Operating Revenue(Expenses)	\$ 14,867	\$ (240,657)	\$ (159,736)	\$ (184,332)
Capital Contributions				
Regional capital facilities charges	\$ 8,544,479	\$ 8,859,354	\$ 6,019,577	\$ 9,177,833
Increase in Net Assets	\$ 13,348,026	\$ 12,761,158	\$ 8,952,157	\$ 10,045,044
Net Assets, Beginning of the Year	\$ 54,309,824	\$ 41,548,666	\$ 32,596,509	\$ 22,551,465
Net Assets, End of the Year	\$ 67,657,850	\$ 54,309,824	\$ 41,548,666	\$ 32,596,509

Source: Cascade

Historical Debt Service Coverage Calculation

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Increase in Net Assets	\$13,348,026	\$12,761,158	\$8,952,157	\$10,045,044
Plus: Depreciation and Amortization	408,229	419,968	231,726	11,276
Plus: Interest expense, net of amount capitalized	1,088,688	1,661,633	1,677,424	365,590
Less: Regional capital facilities charges	8,544,479	8,859,354	6,019,577	9,177,833
Plus: Debt Service Fund Balance	<u>10,123,712</u>	<u>9,712,546</u>	-	-
Balance Available for Debt Service	\$16,424,176	\$15,695,951	\$4,841,730	\$ 1,244,077
Parity Bonds Debt Service	\$ 3,892,325	\$ 3,895,650	\$ 835,784	\$ -
Debt Service Coverage ⁽¹⁾	4.22	4.03	5.79	N/A

⁽¹⁾ See SECURITY FOR THE BONDS - Rate Covenant - Coverage Requirement.

Source: Cascade

Cascade's Total Assets increased 9.1 percent, or \$10,408,821, from 2007 to 2008 due primarily to the continued investment in the Tacoma-Cascade Pipeline and the Lake Tapps water rights project and increased Member Charges. There was a decrease in current liabilities of \$1,493,473 (31.8 percent) from 2007 to 2008 due primarily to payments made on accounts payable. Cascade's unrestricted net assets grew by \$9,355,697 (61.4 percent) from 2007 to 2008.

The following table shows the financial position of Cascade as of December 31 in the years 2005 through 2008 based on audited financial statements of Cascade.

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

Current Assets:	2008	2007	2006 ⁽¹⁾	2005
Cash and cash equivalents	\$ 26,273,072	\$ 15,419,303	\$ 9,916,599	\$ 6,808,687
Accounts receivable ⁽²⁾	-	413,299	211,111	5,524,034
Regional Capital Facility Charges receivable	1,205,681	3,999,235	1,423,182	-
Prepaid expenses	<u>10,854</u>	<u>6,809</u>	<u>15,704</u>	<u>31,017</u>
Total Current Assets	\$ 27,489,607	\$ 19,838,646	\$ 11,566,596	\$ 12,363,738
Capital Assets:				
Equipment and furniture	\$ 84,101	\$ 62,079	\$ 40,017	\$ 15,286
Computer equipment	-	-	-	19,252
Seattle water contract ⁽³⁾	204,216	204,216	204,216	204,216
Comprehensive plan	766,091	731,857	731,857	685,486
Bellevue-Issaquah pipeline	21,998,155	21,996,760	21,989,808	-
Less accumulated depreciation and amortization	(1,171,768)	(716,332)	(262,694)	(30,969)
Other Assets				
Bellevue-Issaquah pipeline	-	-	-	21,989,808
Lake Tapps water rights project	13,627,107	10,775,891	9,335,597	7,806,125
Tacoma Water contract	25,904,442	25,904,442	25,904,442	28,220,214
Tacoma Cascade pipeline	22,751,612	13,240,370	6,219,823	-
Eastside reservoir	<u>128,135</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets	\$ 84,292,091	\$ 72,199,283	\$ 64,163,066	\$ 58,909,418
Restricted				
Cash and cash equivalents	\$ 12,310,206	\$ 21,618,078	\$ 25,924,079	\$ -
Other Long-term assets	<u>609,201</u>	<u>636,277</u>	<u>676,891</u>	<u>-</u>
Total Assets	\$ 124,701,105	\$ 114,292,284	\$ 102,330,632	\$ 71,273,156
Current Liabilities:				
Payables and accrued liabilities from current assets	\$ 659,235	\$ 2,092,655	\$ 1,005,895	\$ -
Accounts payable	-	-	-	1,963,080
Retroactive water credit	503,388	640,415	1,219,800	773,983
Long-term debt, current portion	59,474	42,500	207,500	15,180,888
Payables from restricted assets				
Accrued interest	679,538	679,538	677,662	35,142
Long-term debt current portion	<u>1,295,000</u>	<u>1,235,000</u>	<u>1,185,000</u>	<u>-</u>
Total Current Liabilities	\$ 3,196,635	\$ 4,690,108	\$ 4,295,857	\$ 17,953,093
Long-Term Debt, Net of Current Portion				
Long-term debt payable from unrestricted assets	\$ 671,579	\$ 748,027	\$ 632,500	\$ 20,723,554
Long-term debt payable from restricted assets	51,515,000	52,810,000	54,045,000	-
Other Long-term Liabilities				
Bond Premium, net of amortization	<u>1,660,041</u>	<u>1,734,325</u>	<u>1,808,609</u>	<u>-</u>
Total Liabilities	\$ 57,043,255	\$ 59,982,460	\$ 60,781,966	\$ 38,676,647
Net Assets:				
Invested in capital assets, net of related debt	\$ 30,751,038	\$ 17,450,837	\$ 7,958,066	\$ 38,185,864
Restricted for debt service	12,310,206	21,618,078	25,256,417	-
Unrestricted	<u>24,596,606</u>	<u>15,240,909</u>	<u>8,334,183</u>	<u>(5,589,355)</u>
Total Net Assets	\$ 67,657,850	\$ 54,309,824	\$ 41,548,666	\$ 32,596,509
Total Liabilities and Net Assets	\$ 124,701,105	\$ 114,292,284	\$ 102,330,632	\$ 71,273,156

⁽¹⁾ As reinstated in 2007.

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

⁽³⁾ Net of accumulated amortization of \$23,000 in 2007, \$29,000 in 2008, and \$0 in prior years.

Source: Cascade

THE MEMBERS

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

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

The following table shows the bond ratings currently assigned to the water or water/sewer revenue bonds of each Member by Moody's Investors Service ("Moody's") and S&P.

Member Bond Ratings

<u>Member</u>	<u>Moody's Rating</u>	<u>Standard & Poor's Rating</u>
City of Bellevue	Aa2	NR ⁽¹⁾
Covington Water District	A2	NR ⁽¹⁾
City of Issaquah	A3	NR ⁽¹⁾
City of Kirkland	A1	AAA
City of Redmond	NR ⁽¹⁾	AAA
Sammamish Plateau Water and Sewer District	A2	AAA
Skyway Water and Sewer District	NR ⁽¹⁾	NR ⁽¹⁾
City of Tukwila	A2	NR ⁽¹⁾

⁽¹⁾ NR indicates rating not applied for.

Demand Shares

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

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

Member Demand Shares for 2005 through 2009

<u>Member</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
City of Bellevue	20.87	21.55	22.35	22.46	21.36
Covington Water District	0.00	0.00	0.00	0.00	0.00
City of Issaquah	0.58	1.40	1.22	0.90	1.47
City of Kirkland	5.33	5.44	5.57	5.51	5.27
City of Redmond	7.11	7.53	7.49	7.44	6.68
Sammamish Plateau Water and Sewer District	0.22	0.83	0.61	0.85	0.85
Skyway Water and Sewer District	0.49	0.52	0.54	0.55	0.52
City of Tukwila	<u>2.84</u>	<u>2.98</u>	<u>3.00</u>	<u>3.09</u>	<u>2.93</u>
Total	37.44	40.24	40.79	40.80	39.08

Each Member Percentage of Total Demand Shares for 2005 through 2009

<u>Member</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
City of Bellevue	55.75%	53.55%	54.80%	55.05%	54.65%
Covington Water District	0.00	0.00	0.00	0.00	0.00
City of Issaquah	1.56	3.48	2.99	2.21	3.76
City of Kirkland	14.24	13.51	13.66	13.50	13.48
City of Redmond	18.98	18.70	18.36	18.24	17.10
Sammamish Plateau Water and Sewer District	0.57	2.06	1.50	2.08	2.19
Skyway Water and Sewer District	1.30	1.29	1.33	1.35	1.32
City of Tukwila	<u>7.59</u>	<u>7.41</u>	<u>7.36</u>	<u>7.57</u>	<u>7.50</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Totals may not foot due to rounding.

Source: Cascade

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

Cascade Equivalent Residential Units

Each Member is assigned a number of CERUs each year, based upon a calculation that takes into account meter sizes served and water flow. CERUs are intended to reflect relative water demand and are the basis for allocation of certain Cascade fees and charges, including administrative dues and conservation charges. CERUs are also used to determine growth in the number of customers served by Members, which is the basis for RCFCs assessed by Cascade. The following tables reflect CERUs as of December 31 of each year.

Member CERUs for 2005 through 2009 by Member

Member	2009	2008	2007	2006	2005
City of Bellevue	66,606	66,298	65,751	65,438	64,194
Covington Water District	17,378	17,073	16,738	16,218	15,350
City of Issaquah	11,199	11,060	10,666	10,331	9,355
City of Kirkland	17,778	17,681	17,527	17,356	17,057
City of Redmond	30,634	29,969	29,544	29,327	28,264
Sammamish Plateau Water and Sewer District	20,775	20,519	20,439	20,295	19,776
Skyway Water and Sewer District	3,788	3,773	3,765	3,762	3,750
City of Tukwila	<u>8,840</u>	<u>8,812</u>	<u>8,777</u>	<u>8,746</u>	<u>8,732</u>
Total	176,997	175,184	173,205	171,472	166,476

Each Member's Percentage of Member CERUs for 2005 through 2009

Member	2009	2008	2007	2006	2005
City of Bellevue	37.63%	37.84%	37.96%	38.16%	38.56%
Covington Water District	9.82	9.75	9.66	9.46	9.22
City of Issaquah	6.33	6.31	6.16	6.02	5.62
City of Kirkland	10.04	10.09	10.12	10.12	10.25
City of Redmond	17.31	17.11	17.06	17.10	16.98
Sammamish Plateau Water and Sewer District	11.74	11.71	11.80	11.84	11.88
Skyway Water and Sewer District	2.14	2.15	2.17	2.19	2.25
City of Tukwila	<u>4.99</u>	<u>5.03</u>	<u>5.07</u>	<u>5.10</u>	<u>5.25</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Totals may not foot due to rounding.

Source: Cascade

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

Member Charges

Each Member has agreed in the Interlocal Contract to pay all Member Charges required to be paid to Cascade by that Member. See “MEMBER COVENANTS UNDER THE INTERLOCAL CONTRACT – Member Charges,” and Appendix C. Member Charges are based on Demand Shares, CERUs or growth in CERUs, as described in the Interlocal Contract. The following tables show actual Member Charges for each Member for calendar years ended December 31, 2005 through 2008, expected Member Charges for 2009, and the percentages those charges represent of the total Member Charges in the related year.

Member Charges for 2005 through 2009 by Member

<u>Member</u>	<u>2009</u> ⁽¹⁾	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
City of Bellevue	\$15,333,467	\$14,073,436	\$14,489,934	\$12,212,860	\$12,521,071
Covington Water District	185,943	163,292	150,590	104,647	74,837
City of Issaquah	1,652,694	1,904,562	2,652,785	1,940,975	2,525,102
City of Kirkland	3,975,994	3,750,609	3,814,675	3,500,933	3,176,448
City of Redmond	6,692,011	8,534,545	6,955,680	5,079,249	5,971,918
Sammamish Plateau Water and Sewer District	1,597,226	2,443,056	958,273	1,070,398	1,490,501
Skyway Water and Sewer District	360,727	390,299	330,581	261,853	250,189
City of Tukwila	<u>1,954,535</u>	<u>1,731,039</u>	<u>1,651,576</u>	<u>1,436,490</u>	<u>1,211,928</u>
Total	\$31,752,597	\$32,990,838	\$31,004,094	\$25,607,405	\$27,221,994

Each Member's Percentage of Total Member Charges for 2005 through 2009

<u>Member</u>	<u>2009</u> ⁽¹⁾	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
City of Bellevue	48.29%	42.66%	46.74%	47.69%	46.00%
Covington Water District	0.59	0.49	0.49	0.41	0.27
City of Issaquah	5.20	5.77	8.56	7.58	9.28
City of Kirkland	12.52	11.37	12.30	13.67	11.67
City of Redmond	21.08	25.87	22.43	19.84	21.94
Sammamish Plateau Water and Sewer District	5.03	7.41	3.09	4.18	5.48
Skyway Water and Sewer District	1.14	1.18	1.07	1.02	0.92
City of Tukwila	<u>6.16</u>	<u>5.25</u>	<u>5.33</u>	<u>5.61</u>	<u>4.45</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

⁽¹⁾ Projected Member Charges for 2009.

Note: Totals may not foot due to rounding.

Source: Cascade

General Authority

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

Governing Bodies

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

Accounting and Auditing

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

Member and Regional Water Rates

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

Member and Other Regional Water Rates - 2009	
	Monthly Water Charge
<hr/>	
Cascade Members	
City of Bellevue	\$38.74
Covington Water District	48.91
City of Issaquah	40.34
City of Kirkland	44.58
City of Redmond ⁽¹⁾	34.01
Sammamish Plateau Water and Sewer District	31.16
Skyway Water and Sewer District	47.77
City of Tukwila	50.90
<hr/>	
Other Regional Cities or Districts	
City of Everett	\$22.00
City of Mercer Island	33.05
Northshore Utility District	40.00
City of Renton	28.50
City of Seattle	50.43
City of Tacoma	28.91
Woodinville Water District	44.88

⁽¹⁾ The City of Redmond has two separate service areas. The rate shown here is for the City Service Area. The rate for the Novelty Hill Service Area is \$47.91.

Source: Individual entities.

Member Information

City of Bellevue. The City of Bellevue (“Bellevue”) is located on the east side of Lake Washington, across the lake from Seattle. Bellevue was incorporated in 1953 and encompasses more than 31 square miles, with a population of 120,600, estimated as of April 1, 2009 by the State Office of Financial Management (“OFM”). See Appendix A - “City of Bellevue.”

Covington Water District. The Covington Water District (“Covington”) is located in the southeastern portion of King County, approximately 35 miles southeast of Seattle and 30 miles south of Bellevue. Covington was established in 1959 and encompasses an area of approximately 55 square miles, with boundaries that include the City of Covington, approximately 60 percent of the City of Maple Valley, and approximately 10 percent of the City of Black Diamond, and unincorporated areas of King County. Covington has a total population of approximately 72,000, as of December 31, 2008, as estimated by Covington based on an average number of customers per connection plus estimated number of citizens on exempt wells. Of this estimated population, approximately 70 percent is served by Covington with the balance on wells. See Appendix A - “Covington Water District.”

City of Issaquah. The City of Issaquah (“Issaquah”) is located in the central portion of King County, approximately 15 miles southeast of Seattle. Issaquah was founded in 1892 and encompasses approximately 11.4 square miles. Issaquah has a population of 26,890, estimated as of April 1, 2009, by OFM. See Appendix A - “City of Issaquah.”

City of Kirkland. The City of Kirkland (“Kirkland”) is located on the east side of Lake Washington, just northwest of Bellevue and approximately 12 miles northeast of Seattle. Kirkland was founded in 1888 and incorporated in 1905, and encompasses approximately 11 square miles. Kirkland has a population of 49,010, estimated as of April 1, 2009 by OFM. See Appendix A - “City of Kirkland.”

City of Redmond. The City of Redmond (“Redmond”) is located on the east side of Lake Washington, just northeast of Bellevue and approximately 15 miles east/northeast of Seattle. Redmond was founded in 1912 and encompasses approximately 16.6 square miles. Redmond has a population of 51,890, estimated as of April 1, 2009 by OFM. See Appendix A - “City of Redmond.”

Sammamish Plateau Water and Sewer District. The Sammamish Plateau Water and Sewer District (“Sammamish”) provides water and wastewater service to an area consisting primarily of rural and suburban residential property in the central portion of King County. Sammamish was founded in 1948 and provides water and wastewater service to all of the City of

Sammamish, portions of Issaquah and Redmond, and portions of unincorporated King County. Sammamish serves a population of 52,000, estimated as of May 2009 by Sammamish based on the number of equivalent residential units and average household size. See Appendix A - "Sammamish Plateau Water and Sewer District."

Skyway Water and Sewer District. The Skyway Water and Sewer District ("Skyway") is located in unincorporated King County, southwest of Lake Washington. Skyway was formed in 1986 through the merger of five separate water and/or sewer districts, and encompasses an area of approximately three square miles. Skyway provides water and wastewater service to an area consisting primarily of suburban residential property just south of Seattle. Skyway has a population of 12,000, estimated as of July 2009 by Skyway. See Appendix A - "Skyway Water and Sewer District."

City of Tukwila. The City of Tukwila ("Tukwila") is located in the western portion of King County, just south of Seattle. Tukwila was incorporated in 1908 and encompasses approximately 8.6 square miles. Tukwila has a population of 18,170, estimated as of April 1, 2009 by OFM. See Appendix A - "City of Tukwila."

TAX MATTERS

2009A Bonds

Exclusion From Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the 2009A Bonds, interest on the 2009A Bonds is excluded from gross income for federal income tax purposes.

Continuing Requirements. Cascade is required to comply with certain requirements of the Code after the date of issuance of the 2009A Bonds in order to maintain the exclusion of the interest on the 2009A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2009A Bond proceeds and the facilities financed or refinanced with 2009A Bond proceeds, limitations on investing gross proceeds of the 2009A Bonds in higher yielding investments in certain circumstances, and the requirement to comply with the arbitrage rebate requirement to the extent applicable to the 2009A Bonds. Cascade has covenanted in the 2009 Bond Resolution to comply with those requirements, but if Cascade fails to comply with those requirements, interest on the 2009A Bonds could become taxable retroactive to the date of issuance of the 2009A Bonds. Bond Counsel has not undertaken and does not undertake to monitor Cascade's compliance with such requirements.

Alternative Minimum Tax. Under existing federal law, interest on the 2009A Bonds received by individuals and corporations is not treated as an item of tax preference for purposes of the alternative minimum tax, and interest on the 2009A Bonds received by corporations is not taken into account in determining adjusted current earnings of corporations for purposes of the federal alternative minimum tax.

Tax on Certain Passive Investment Income of S Corporations. Under Section 1375 of the Code, certain excess net passive investment income, including interest on the 2009A Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25 percent of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax. Interest on the 2009A Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the 2009A Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit. The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the 2009A Bonds, are in compliance with requirements of the Code that must be satisfied in order for interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS would commence an audit of the 2009A Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the 2009A Bonds could adversely affect the market value and liquidity of the 2009A Bonds until the audit is concluded, regardless of its ultimate outcome.

2009A Bonds "Qualified Tax-Exempt Obligations" for Financial Institutions. Section 265 of the Code generally provides that 100 percent of any interest expense incurred by banks and other financial institutions that is allocable to tax-exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than certain private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$30,000,000 of tax-exempt obligations (other than certain private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental unit as "qualified tax-exempt obligations," only 20 percent of any interest expense deduction allocable to those obligations will be disallowed.

Cascade is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing less than \$30,000,000 of tax-exempt obligations (other than certain private activity bonds and other obligations not required to be included in such calculation) during the current calendar year, and has designated the 2009A Bonds as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. Therefore, only 20 percent of the interest expense deduction of a financial institution allocable to the 2009A Bonds will be disallowed for federal income tax purposes.

Original Issue Premium. The 2009A Bonds maturing in 2015 and 2016 have been sold at prices reflecting original issue premium (“Premium Bonds”). An amount equal to the excess of the purchase price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the purchaser's basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Premium Bonds.

Reduction of Loss Reserve Deductions for Property and Casualty Insurance Companies. Under Section 832 of the Code, interest on the 2009A Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15 percent of tax exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits. Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipts or accruals of interest on the 2009A Bonds into account in determining gross income.

Other Possible Federal Tax Consequences. Receipt of interest on the 2009A Bonds may have other federal tax consequences as to which prospective purchasers of the 2009A Bonds may wish to consult their own tax advisors.

2009B Bonds

This advice was written to support the promotion or marketing of the Bonds. This advice is not intended or written by Foster Pepper PLLC to be used, and may not be used, by any person or entity for the purpose of avoiding any penalties that may be imposed on any person or entity under the Code. Prospective purchasers of the 2009B Bonds should seek advice based on their particular circumstances from an independent tax advisor.

The following discussion generally describes certain aspects of the principal U.S. federal tax treatment of U.S. persons that are beneficial owners (“Owners”) of 2009B Bonds who have purchased 2009B Bonds in the initial offering and who hold the 2009B Bonds as capital assets within the meaning of Section 1221 of the Code. For purposes of this discussion, a “U.S. person” means an individual who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source of income, or (iv) a trust, if either: (a) a United States court is able to exercise primary supervision over the administration of the trust, and one or more United States persons have the authority to control all substantial decisions of the trust or (b) a trust has a valid election in effect to be treated as a United States person under the applicable treasury regulations.

This summary is based on the Code, published revenue rulings, administrative and judicial decisions, and existing and proposed Treasury regulations (all as of the date hereof and all of which are subject to change, possibly with retroactive effect). This summary does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances, such as an Owner who may purchase 2009B Bonds in the secondary market, or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, non-U.S. persons, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, or dealers in securities. **Accordingly, before deciding whether to purchase any 2009B Bonds, prospective purchasers should consult their own tax advisors regarding the United States federal income tax consequences, as well as tax consequences under the laws of any state, local or foreign taxing jurisdiction or under any applicable tax treaty, of purchasing, holding, owing and disposing of the 2009B Bonds.**

In General. As described herein under the heading “DESCRIPTION OF THE BONDS—Designation of the Bonds as ‘Build America Bonds,’” Cascade has made irrevocable elections to have the 2009B Bonds treated as “Build America Bonds” within the meaning of Section 54AA(d) of the Code that are “qualified bonds” within the meaning of Section 54AA(g) of the Code. As a result of these elections, interest on the 2009B Bonds is not excludable from the gross income of the Owners for federal income tax purposes, and Owners of the 2009B Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2009B Bonds.

Payments of Interest. Interest paid on the 2009B Bonds will generally be taxable to Owners as ordinary interest income at the time it accrues or is received, in accordance with the Owner's method of accounting for U.S. federal income tax purposes. Owners who are cash-method taxpayers will be required to include interest in income upon receipt of such interest payment; Owners who are accrual-method taxpayers will be required to include interest as it accrues, without regard to when interest payments are actually received.

Disposition or Retirement. Upon the sale, exchange or other disposition of a 2009B Bond, or upon the retirement of a 2009B Bond (including by redemption), an Owner will recognize a capital gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (excluding any amounts attributable to accrued but unpaid interest, which will be taxable as such) and the Owner's adjusted tax basis in the 2009B Bond. Any such gain or loss will be United States source gain or loss for foreign tax credit purposes. If Cascade defeases any 2009B Bonds, such 2009B Bonds may be deemed to be retired and "reissued" for federal income tax purposes as a result of the defeasance. In such event, the Owner of a 2009B Bond would recognize a gain or loss on the 2009B Bond at the time of defeasance.

Backup Withholding. An Owner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding tax is 28 percent, but may change in the future) with respect to interest on the 2009B Bonds. This withholding generally applies if the Owner of a 2009B Bonds (i) fails to furnish the Bond Registrar or other payor with its taxpayer identification number; (ii) furnishes the Bond Registrar or other payor an incorrect taxpayer identification number; (iii) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the Bond Registrar or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the Owner is not subject to backup withholding. Any amount withheld may be creditable against the Owner's U.S. federal income tax liability and be refundable to the extent it exceeds the Owner's U.S. federal income tax liability.

The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the 2009B Bonds will be reported to the Owners and to the IRS.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on employee benefit plans subject to Title I of ERISA ("ERISA Plans"), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including, but not limited to, the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to Title I of ERISA but are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons" (each, a "Party in Interest")) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A Party in Interest who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The fiduciary of a Plan that proposes to purchase and hold any 2009B Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest, (ii) the sale or exchange of any property between a Plan and a Party in Interest and (iii) the transfer to, or use by or for the benefit of, a Party in Interest, of any Plan assets. Depending on the identity of the Plan fiduciary making the decision to acquire or hold 2009B Bonds on behalf of a Plan and other factors, U.S. Department of Labor Prohibited Transaction Class Exemption ("PTCE") 75-1 (relating to certain broker-dealer transactions), PTCE 84-14 (relating to transactions effected by independent "qualified professional asset managers"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by an insurance company general account), or PTCE 96-23 (relating to transactions directed by certain "in-house asset managers") (collectively, the "Class Exemptions") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code for certain transactions between Plans and persons who are Parties in interest solely by reason of providing services to such Plans or that are affiliated with such service providers, provided generally that such persons are not fiduciaries (or affiliates of such fiduciaries) with respect to the "plan assets" of any Plan involved in the transaction and that certain other conditions are satisfied.

By its acceptance of a 2009B Bond, each Beneficial Owner will be deemed to have represented and warranted that either (i) no "plan assets" of any Plan have been used to purchase such 2009B Bond, or (ii) the Underwriters are not a Party in Interest with respect to the "plan assets" of any Plan used to purchase such 2009B Bond, or (iii) the purchase and holding of

such 2009B Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

Each Plan fiduciary (and each fiduciary for a governmental or church plan subject to the rules similar to those imposed on Plans under ERISA) should consult with its legal advisor concerning an investment in any of the 2009B Bonds.

CONTINUING DISCLOSURE

Cascade has agreed to covenant for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data of Cascade and of the Members required to pay 10 percent or more of the Member Charges paid during the applicable fiscal year (the "Annual Disclosure Report"), by not later than nine months following the end of Cascade's fiscal year (currently, a year ending on December 31), commencing with the Annual Disclosure Report for the 2009 fiscal year, and to provide notices of the occurrence of certain enumerated events, if material. Each of the Members has agreed that in each year in which the Member Charges such Member is required to pay are 10 percent or more of the sum of the Member Charges paid by all of the Members in such year, such Member will provide to Cascade not later than August 31 of the following year historical financial information and operating data of the type included for such Member in the Official Statement and required to be updated by Cascade.

Cascade's Annual Disclosure Report and notices of material events are to be filed with the MSRB. The specific nature of the information to be contained in the Annual Disclosure Report and in notices of material events is set forth in Cascade's Continuing Disclosure Certificate, the proposed form of which is included in this Official Statement as Appendix F. Cascade was late in filing its Annual Disclosure Report for the fiscal year ended December 31, 2006. Other than as described in the preceding sentence, Cascade is in compliance with all written undertakings under paragraph (b)(5) of Securities and Exchange Commission Rule 15c2-12 (the "Rule") with respect to its prior obligations. Each of the Members has advised Cascade that during the past five years, such Member has never failed to comply with any of its previous undertakings specified in paragraph (b)(5) of the Rule.

UNDERWRITING

Barclays Capital Inc. and Edward D. Jones & Co., L.P. (the "Underwriters") have agreed, subject to certain conditions, to purchase all of the 2009A Bonds at a price of \$5,662,093.74, reflecting the principal amount of the 2009A Bonds plus an original issue premium of \$761,954.70 and less an underwriting discount of \$39,860.96.

The Underwriters have agreed, subject to certain conditions, to purchase all of the 2009B Bonds at a price of \$74,548,572.73, reflecting the principal amount of the 2009B Bonds and less an underwriting discount of \$606,427.27.

The bond purchase agreement between Cascade and the Underwriters provides that the Underwriters will purchase all of the Bonds if any are purchased and that the obligation of the Underwriters to accept and pay for the Bonds is subject to certain terms and conditions set forth therein, including the approval by counsel of certain legal matters.

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

RATINGS

Moody's Investors Service and Standard & Poor's Rating Services have assigned their municipal bond ratings of Aa3 and AA+, respectively, to the Bonds. Ratings were applied for by Cascade and certain information was supplied by Cascade and the Members to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the respective views of the rating agencies and an explanation of the significance of the ratings may be obtained from the rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings would be likely to have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

DashenMusselman, Inc. (the "Financial Advisor") has served as Financial Advisor to Cascade relative to the preparation of the Bonds for sale, timing of the sale and other factors relating to the Bonds. The Financial Advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement or other information provided relative to the Bonds. The Financial Advisor makes no guaranty, warranty or other representation on any matter related to the information contained in the Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, marketing, trading or distributing municipal securities.

INITIATIVE AND REFERENDUM

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

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

LEGAL INFORMATION

Absence of Litigation Affecting the Bonds or the Interlocal Contract

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

Pending Litigation

Muckleshoot Indian Tribe and City of Auburn v. Cascade Water Alliance (Cascade II), King County Superior Court Case No. 05-2-35788-6. In 2005, the City of Auburn (“Auburn”) and the Muckleshoot Indian Tribe challenged Cascade’s adoption of Cascade’s 2004 Transmission and Supply Plan and the related State Environmental Policy Act (“SEPA”) compliance. In 2008, following a comprehensive settlement related to the Lake Tapps water rights, the Muckleshoot Indian Tribe withdrew from the case. In early 2009, Auburn and Cascade requested, and the King County Superior Court agreed to extend, a stay of the case pending issuance of the SEPA documents related to the Lake Tapps water rights, anticipated in late 2009. In the litigation, Auburn argues that Cascade’s SEPA review of its earlier planning actions was insufficient because it allegedly did not adequately address Cascade’s planned acquisition and use of Lake Tapps. Auburn is currently unwilling to dismiss the litigation for fear of compromising any future challenge to the forthcoming SEPA for the Lake Tapps water rights. The litigation does not impact Cascade’s ability to issue SEPA documents for the Lake Tapps water rights or Ecology’s issuance of a decision on those water rights. However, if Auburn appeals the SEPA review of the Lake Tapps water rights project and Ecology’s decision on those water rights, Auburn would likely assert the issues raised in the current litigation.

Lummi Indian Nation et al. v. State of Washington, et al, King County Superior Court, Case No. 06-2-40103-4.

This lawsuit was brought by a number of Indian Tribes and environmental groups against the State challenging the constitutionality of legislation amending the laws that govern water utilities in the State. Cascade intervened in the lawsuit along with an organization of approximately 150 water systems. The matter is currently before the State Supreme Court. (Supreme Court Cause No. 81809-6). Cascade does not anticipate the lawsuit will impact Cascade’s ability to issue SEPA documents for the Lake Tapps water rights or Ecology’s issuance of a decision on those water rights. In addition, Cascade does not anticipate that the litigation will impact Cascade’s ability to provide water to its Members as contemplated in the Interlocal Contract.

Certain Legal Matters

Legal matters incident to the authorization, issuance and sale of the Bonds by the County are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The proposed form of the opinion of Bond Counsel with respect to the Bonds is attached as Appendix E. The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result.

Certain legal matters will be passed upon for Cascade by its General Counsel, GordonDerr LLP of Seattle, Washington, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Any opinion of Underwriters' Counsel will be rendered solely to the Underwriters, will be limited in scope and cannot be relied upon by investors.

MISCELLANEOUS

Potential Conflicts of Interest

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

Enforceability of Remedies

The remedies available to the Registered Owners upon an Event of Default under the 2009 Bond Resolution or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "Bankruptcy Code"), the remedies specified by the federal bankruptcy laws, the 2009 Bond Resolution and the various related documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by principles of equity. The proposed form of the approving opinion of Bond Counsel with respect to the Bonds is attached as Appendix E.

Summaries, Opinions and Estimates Qualified

The references, excerpts and summaries contained herein of the 2009 Bond Resolution, the Interlocal Contract and any other documents or agreements referred to herein do not purport to be complete statements of the provisions of such documents or agreements and reference should be made to such documents or agreements for a full and complete statement of all matters relating to the Bonds, the basic agreements securing the Bonds and the rights and obligations of the holders thereof. Resolution No. 2009-11 and the Interlocal Contract are included in their entirety in Appendix B and Appendix C, respectively. Copies of other reports, documents, agreements and studies referred to herein and in the Appendices hereto are available upon written request at the office of Cascade shown on page iii of this Official Statement.

The authorizations, agreements and covenants of Cascade are set forth in the 2009 Bond Resolution, and neither this Official Statement nor any advertisement of the Bonds is to be construed as a contract with the holders of the Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

CASCADE WATER ALLIANCE

By: /s/ Chuck Clarke
Chuck Clarke, Chief Executive Officer

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

City of Bellevue

Payments to Cascade

The City of Bellevue's ("Bellevue") budgeted payments to Cascade for 2009 total \$15,333,467, as follows:

Administration Dues	\$ 505,908
Demand Share	12,211,413
New Water Surcharge	801,090
RCFC	1,501,250
Conservation	<u>313,807</u>
Total	\$ 15,333,467

Note: Totals may not foot due to rounding.

Bellevue

Bellevue is located on the east side of Lake Washington, across the lake from the City of Seattle. Bellevue was incorporated in 1953, and encompasses approximately 31 square miles. Bellevue has a total population of approximately 120,600, as of April 1, 2009, according to the State's Office of Financial Management. Bellevue is organized as a code city, with a council manager form of government, with a seven member elected council. Bellevue's city council members are elected to overlapping four-year terms. The mayor is one of the seven city council members and is elected by council members to serve in that capacity. The city council has authority to set rates and charges for water service.

Bellevue's Water Utility

Bellevue's water utility service area covers 37.8 square miles. Bellevue's water utility owns and operates 616 miles of water distribution and transmission mains, 27 reservoirs with over 41 million gallons of storage, and 23 pump stations. Bellevue's water utility serves most of Bellevue as well as the adjacent communities of Clyde Hill, Hunts Point, Medina and Yarrow Point, and certain areas of unincorporated King County.

Bellevue's water utility purchases all of its water from Cascade, and has no other supply or treatment facilities. In 2008, Bellevue's water utility sold approximately 4,946 million gallons of water to approximately 37,299 water accounts. The largest customer of Bellevue's water utility represents less than 1.4 percent of the total water revenue, and the top ten customers represent less than 8.2 percent of the total water revenue.

Outstanding Debt

Bellevue's water utility is a component of Bellevue's combined water, sewer, and storm and surface water utility (the "waterworks utility"). Only the revenues of Bellevue's water utility are obligated under the Interlocal Contract. The revenues of the sewer and storm and surface water utilities are not obligated under the Interlocal Contract. As of June 1, 2009, the waterworks utility had \$2,105,000 of revenue bonds outstanding and \$412,000 of loans from the State Public Works Trust Fund. The bond ordinance for the waterworks utility currently has a debt service coverage requirement of 125 percent. Bellevue does not anticipate incurring additional debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Bellevue has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results of Bellevue's Water Utility

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

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

Fiscal Year Ending December 31

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues					
Service charges and fees	\$ 29,398,000	\$ 28,770,000	\$ 29,990,000	\$ 25,396,000	\$ 27,245,000
Other	<u>2,140,000</u>	<u>3,073,000</u>	<u>2,231,000</u>	<u>3,042,000</u>	<u>758,000</u>
Total operating revenues	\$ 31,538,000	\$ 31,843,000	\$ 32,221,000	\$ 28,438,000	\$ 28,003,000
Operating expenses					
Administrative and general	\$ 8,803,000	\$ 9,612,000	\$ 7,722,000	\$ 8,329,000	\$ 6,995,000
Maintenance and operations	16,182,000	16,517,000	16,720,000	14,495,000	13,350,000
Depreciation	<u>2,840,000</u>	<u>3,007,000</u>	<u>2,789,000</u>	<u>3,020,000</u>	<u>2,766,000</u>
Total operating expenses	\$ 27,825,000	\$ 29,136,000	\$ 27,231,000	\$ 25,844,000	\$ 23,111,000
Operating Income	\$ 3,713,000	\$ 2,707,000	\$ 4,990,000	\$ 2,594,000	\$ 4,892,000
Non-operating revenues (expenses)					
Interest income	\$ 1,037,000	\$ 1,483,000	\$ 1,013,000	\$ 445,000	\$ 180,000
Net change in fair value of Investments	112,000	8,000	110,000	35,000	(70,000)
Interest expense	(62,000)	(71,000)	(82,000)	(84,000)	(263,000)
Rental Income	269,000	346,000	232,000	179,000	180,000
Gain (loss) on disposal of fixed assets	98,000	-	12,000	-	-
Other non-operating revenues	<u>318,000</u>	<u>760,000</u>	<u>586,000</u>	<u>93,000</u>	<u>1,180,000</u>
Total non-operating revenues (expenses)	\$ 1,772,000	\$ 2,526,000	\$ 1,871,000	\$ 668,000	\$ 1,207,000
Income Before Contributions & Transfers	\$ 5,485,000	\$ 5,233,000	\$ 6,861,000	\$ 3,262,000	\$ 6,099,000
Special items, contributions and transfers:					
Transfers in	\$ 5,000	\$ -	\$ 39,000	\$ 22,000	\$ 72,000
Transfers out	(175,000)	(7,000)	(52,000)	(250,000)	(249,000)
Capital contributed from external sources	<u>3,416,000</u>	<u>2,600,000</u>	<u>1,642,000</u>	<u>1,698,000</u>	<u>1,726,000</u>
Net Income/Change In Net Assets	\$ 8,731,000	\$ 7,826,000	\$ 8,490,000	\$ 4,732,000	\$ 7,648,000
Total Net Assets – Beginning Of Year	\$123,249,000	\$ 115,423,000	\$ 106,933,000	\$ 102,201,000	\$ 94,553,000
Prior period adjustment	<u>1,957,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Assets – End Of Year	\$133,937,000	\$123,249,000	\$115,423,000	\$106,933,000	\$102,201,000

Note: Totals may not foot due to rounding.

Source: City of Bellevue.

Covington Water District

Payments to Cascade

Covington Water District's ("Covington") budgeted payments to Cascade for 2009 total \$185,943, as follows:

Administration Dues	\$125,576
Demand Share	0
New Water Surcharge	0
RCFC	0
Conservation	<u>60,367</u>
Total	\$185,943

Covington

Covington is located in the southeastern portion of King County, approximately 35 miles southeast of the City of Seattle and 30 miles south of the City of Bellevue. Covington's service area encompasses an area of approximately 55 square miles, with boundaries that include the City of Covington, approximately sixty percent of the City of Maple Valley, approximately 10 percent of the City of Black Diamond, and unincorporated areas of King County. Neither of the cities of Covington or Maple Valley have water utilities, but the City of Black Diamond does have a water utility. Since January 1, 1998 when the City of Black Diamond annexed 1.23 square miles of Covington, Covington has continued to serve customers in that area. Covington has a total population of approximately 72,000, as of December 31, 2008, as estimated by Covington based on average number of customers per connection plus estimated number of citizens on exempt wells. Of this estimated population, approximately 70 percent are served by Covington with the balance on wells.

Covington began in 1960, and has grown through mergers with two water districts within its service area boundaries and numerous small private water systems. Covington operates its facilities with 48 full and part-time employees and is governed by a board of commissioners (the "board") comprised of five elected officials who serve staggered six-year terms. The board serves as the governing body of Covington and has authority to set rates and charges.

The Water System

Covington's water system includes over 200 miles of mains and appurtenances including fire hydrants. Covington has wells with water rights totaling 5,971 gallons per minute, and pump capacity of 9,080 gallons per minute. All of Covington's average daily winter water demand (approximately 3 MGD) can be met from its own wells. Summer water demand (approximately 6MGD) is met through a combination of Covington's wells, water purchased through a contract with the city of Auburn, and the Tacoma Second Supply water. Covington has storage capacity of 23.5 million gallons in above-ground steel tanks.

Covington does not currently purchase water from Cascade. In 2008, the water utility sold approximately 1.265 billion gallons of water to approximately 16,057 accounts.

Outstanding Debt

As of December 31, 2008, Covington has a total of \$4,150,000 of outstanding water revenue bonds and \$16,190,358 of loans from the State's Public Works Trust Fund and \$17,134,671, relating to the water system. Covington's bond resolution currently has a debt service coverage requirement of 120 percent for bonds. Covington does not anticipate incurring additional debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Covington has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following tables shows historical operating results for Covington.

Historical Operating Statement (Fiscal Years Ending December 31)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u> ⁽¹⁾
Operating Revenues					
Water Service	\$ 8,332,391	\$ 7,831,384	\$ 7,976,142	\$ 6,747,478	\$ 7,002,546
Street Light Service	155,370	153,280	140,537	153,743	152,384
Other	<u>160,997</u>	<u>421,359</u>	<u>307,969</u>	<u>296,745</u>	<u>301,580</u>
Total Operating Revenues	\$ 8,648,758	\$ 8,406,023	\$ 8,424,648	\$ 7,197,966	\$ 7,456,510
Operating Expenses:					
Supply and pumping	\$ 244,739	\$ 121,236	\$ 114,206	\$ 132,593	\$ 124,184
Purchased water	769,692	686,084	848,496	834,874	866,668
Treatment	203,944	281,519	301,738	139,951	85,700
Transmission and Distribution	1,133,361	995,446	879,988	647,812	595,765
Engineering Division	323,137	321,774	365,660	381,343	399,587
Water Resource and environmental	397,138	345,870	308,453	267,424	322,451
Business Services Department	1,467,581	1,452,891	1,204,579	1,011,258	1,102,177
Administration	1,278,413	1,282,566	1,177,670	960,649	847,042
Street light expense	145,989	109,849	139,625	124,897	121,075
Taxes	<u>424,509</u>	<u>393,903</u>	<u>442,408</u>	<u>362,976</u>	<u>358,505</u>
Total Operating Expenses	\$ 6,388,503	\$ 5,991,138	\$ 5,782,823	\$ 4,863,777	\$ 4,823,154
Net Operating Income (before depreciation)	\$ 2,260,255	\$ 2,414,885	\$ 2,641,825	\$ 2,334,189	\$ 2,633,356
Depreciation Expense	\$ 2,980,240	\$ 2,888,091	\$ 2,565,807	\$ 1,969,356	\$ 1,809,433
Net Income (loss) from operations	\$ (719,985)	\$ (473,206)	\$ 76,018	\$ 364,833	\$ 823,923
Other Revenue (expenses):					
Interest income	\$ 725,263	\$ 1,138,545	\$ 1,094,254	\$ 703,484	\$ 471,807
Interest expense/amortized debt discounts	(1,235,133)	(1,246,098)	(1,305,424)	(696,108)	(426,022)
Miscellaneous income	12,456	15,039	8,211	7,200	7,200
Gain (loss)	<u>(396,271)</u>	<u>(5,335)</u>	<u>(63)</u>	<u>-</u>	<u>(794)</u>
Total other revenues (expenses)	\$ (893,685)	\$ (97,849)	\$ (203,022)	\$ 14,576	\$ 52,191
Net income (loss) before capital contribution	\$ (1,613,670)	\$ (571,055)	\$ (127,004)	\$ 379,409	\$ 876,114
Meter installation charges	\$178,576	\$ 230,433	\$ 334,488	\$ 390,935	\$ 410,478
Facility charges	4,834,348	2,845,310	5,485,855	7,078,502	3,370,879
Donated capital assets	886,399	2,155,501	4,029,402	5,504,868	2,452,614
Grant	<u>-</u>	<u>-</u>	<u>111,423</u>	<u>29,690</u>	<u>-</u>
Total capital contributions	\$ 5,899,323	\$ 5,231,244	\$ 9,961,168	\$13,003,995	\$ 6,233,971
Change in net assets	\$ 4,285,653	\$ 4,660,189	\$ 9,834,163	\$13,383,404	\$ 7,110,085
Total net assets, January 1	\$101,984,414	\$ 97,324,224	\$87,490,061	\$74,106,657	\$66,996,572
Total net assets, December 31	\$106,270,067	\$101,984,413	\$97,324,224	\$87,490,061	\$74,106,657

⁽¹⁾ As restated in 2005.

Source: Covington Water District.

City of Issaquah

Payments to Cascade

The City of Issaquah's ("Issaquah") budgeted payments to Cascade for 2009 total \$1,652,694, as follows:

Administration Dues	\$ 88,303
Demand Share	341,839
New Water Surcharge	118,914
RCFC	1,048,866
Conservation	<u>54,773</u>
Total	\$1,652,694

Note: Totals may not foot due to rounding.

Issaquah

Issaquah is located in the central portion of King County, approximately 15 miles southeast of the City of Seattle. Issaquah was founded in 1892 and encompasses approximately 11.4 square miles. Issaquah has an estimated population of 26,890, as of April 1, 2009, according to the State's Office of Financial Management. Issaquah is organized as a code city, governed by a mayor-council form of government, with a seven member elected council. Issaquah's council members are elected to overlapping four-year terms. The mayor is elected to serve in a part-time capacity, for a four year term. A city administrator and other officers and department directors are appointed by the mayor with approval of the council members. The city council has authority to set rates and charges for water service.

Issaquah's Water Utility

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

In addition to its independent well supply, Issaquah contracts and purchases water supply from Cascade. In 2008, Issaquah's water utility sold approximately 816.510 CCF's of water to approximately 6,164 accounts. The largest customer of the water utility represents approximately 0.787 percent of the total water revenue, and the top ten customers represent approximately \$241,677.68 of total water revenue.

Outstanding Debt

As of June 1, 2009, the water utility had a total of \$8,015,000 of outstanding water revenue bonds. The bond ordinance for the water utility currently has a debt service coverage requirement of 125 percent. Issaquah does not anticipate incurring additional debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Issaquah has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

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

Issaquah Water Utility
(Fiscal Year Ended December 31)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues					
Charges for Services	\$ 5,501,000	\$ 5,856,000	\$ 5,650,947	\$5,002,700	\$ 5,272,151
Total Operating Revenues	\$ 5,501,000	\$ 5,856,000	\$ 5,650,947	\$5,002,700	\$ 5,272,151
Operating Expenses:					
Maintenance & Operations	\$ 3,974,000	\$ 3,987,000	\$ 2,936,830	\$2,663,621	\$ 2,692,825
Administrative & General	170,000	186,000	176,982	-	117,342
Depreciation	<u>1,509,000</u>	<u>1,464,000</u>	<u>1,407,696</u>	<u>1,23,638</u>	<u>872,517</u>
Total Operating Expenses	\$ 5,653,000	\$ 5,637,000	\$ 4,521,508	\$ 3,896,259	\$ 3,682,684
Operating Income (Loss)	\$ (152,000)	\$ 219,000	\$ 1,129,439	\$1,106,441	\$ 1,589,467
Non-operating Revenues (Expenses):					
Intergovernmental	\$ -	\$ -	\$ -	\$ 44,350	\$ -
Investment Earnings	123,000	305,000	255,538	100,490	17,747
Interest Expense	(433,000)	(451,000)	(465,046)	(482,633)	(503,799)
Debt Issuance Costs	-	(6,000)	(6,440)	(6,440)	(6,440)
Gain (loss) on capital asset disposition	-	-	-	-	-
Other Non-operating Revenues (Expenses)	<u>(6)</u>	<u>3,000</u>	<u>-</u>	<u>14,313</u>	<u>104,082</u>
Total Non-operating Revenues (Expenses)	\$ (316,006)	\$ (149,000)	\$ (215,948)	\$ (329,920)	\$ (388,410)
Income before Contributions & Transfers	\$ (468,006)	\$ 70,000	\$ 913,491	\$776,521	\$ 1,201,057
Capital Grants	\$ -	\$ -	\$ -	\$ -	\$ 7,239
Capital Contributions	1,295,000	1,081,000	1,106,694	4,032,721	2,364,172
Transfers In ⁽¹⁾	-	2,028,000	2,424,004	2,654,092	1,891,853
Transfers Out ⁽²⁾	<u>(177,000)</u>	<u>(2,195,000)</u>	<u>(2,465,431)</u>	<u>(2,777,662)</u>	<u>(2,015,423)</u>
Total capital contributions	\$ 1,118,000	\$ 914,000	\$ 1,065,267	\$ 3,909,151	\$ 2,247,841
Change in net assets	\$ 649,994	\$ 984,000	\$ 1,978,758	\$4,685,672	\$ 3,448,898
Total net assets, January 1	\$53,680,411	\$52,696,411	\$50,336,256	\$45,650,584	\$42,201,686
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>381,397</u>	<u>-</u>	<u>-</u>
Total net assets, December 31	\$54,330,405	\$53,680,411	\$52,696,411	\$50,336,256	\$45,650,584

⁽¹⁾ Transfers In represent net between funds.

⁽²⁾ Transfers Out represent operating.

Source: City of Issaquah

City of Kirkland

Payments to Cascade

The City of Kirkland's ("Kirkland") budgeted payments to Cascade for 2009 total \$3,975,994, as follows:

Administration Dues	\$ 134,779
Demand Share	3,119,396
New Water Surcharge	277,918
RCFC	360,300
Conservation	<u>83,601</u>
Total	\$ 3,975,994

Kirkland

Kirkland is located in the eastern portion of King County, along the eastern shore of Lake Washington, approximately twelve miles northeast of the City of Seattle. Kirkland was founded in 1888 and incorporated in 1905, and encompasses approximately 11 square miles. Kirkland has an estimated population of 49,010, as of April 1, 2009, according to the State's Office of Financial Management. Kirkland is organized as a code city, with a council manager form of government, with a seven member elected council. Kirkland's council members are elected to overlapping four-year terms. The mayor is one of the seven council members and is elected by council members to serve in that capacity. The city council has authority to set rates and charges for water service.

Potential Annexation

On April 7, 2009, the Kirkland City Council passed a resolution to submit a notice of intention to the King County Boundary Review Board to place the question of annexation of Kirkland's Potential Annexation Area ("PAA") on the November 2009 General Election ballot. If the vote for annexation is affirmative, the population of the City would increase by approximately 33,000 and the land area would be expanded by about seven square miles. The effective date for the annexation is expected to be during 2011, although the exact date will not be set formally until after the annexation vote. Most homeowners and businesses within the PAA and a small portion of City residents in the northern part of city limits receive these services through the Northshore Utility District. If annexation occurs, the City of Kirkland would establish agreements with the current utility providers to continue providing service.

The Water Division

Kirkland's water division includes two reservoirs for storage: one with a capacity of 14.3 million gallons and one with a capacity of 11.5 million gallons. The water division maintains 164 miles of water mains, 1,836 fire hydrants, three pump stations and 34 pressure control stations.

Kirkland's water division purchases all of its water, and has no other supply or treatment facilities. In 2008, the water utility sold approximately 2.09 million gallons of water per day to approximately 11,980 retail accounts within Kirkland and in small portions of the city of Redmond and city of Bellevue service areas. The largest customer of the water utility represents approximately 0.7 percent of the total water revenue and the top ten accounts represent approximately 4.0 percent of the total water revenue.

Outstanding Debt

Kirkland has a combined utility system for purposes of financing, which includes a water division and a sewer division. Only the revenues of the water division are obligated under the Interlocal Contract. The revenues of the sewer division are not obligated under the Interlocal Contract. At the end of 2008, the combined system had \$3,785,000 of outstanding water and sewer revenue bonds, and \$3,908,521 of loans from the State's Public Works Trust Fund. The bond ordinance for the combined utility currently has a debt service coverage requirement of 125 percent of annual debt. Kirkland does not anticipate incurring additional combined utility debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Kirkland has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The historical operating results reported for the Cascade Water Alliance, Water System Revenue Bonds, 2006 displayed financial information for only the water utility. These figures represented pro forma, unaudited results because the City accounts for the water utility within a combined water/sewer Fund.

Kirkland is changing to reporting historical operating results of the combined Water/Sewer Utility as this is the information presented in the annual financial statements as audited by the Washington State Auditor's Office. Revenue and expense items reflect operations of the combined water and sewer utility for the period 2004-2008 are presented below. For the year-ended December 31, 2008, Kirkland's water operating revenue totaled \$9,012,449, or 49.6 percent of the total operating revenues for the combined water/sewer utility.

The following table shows historical operating results for the City of Kirkland Water/Sewer Utility.

Historical Net Income Kirkland Water/Sewer Utility

Operating Revenue	2008	2007	2006	2005	2004
Charges for Services	\$17,875,957	\$16,640,746	\$15,346,381	\$13,468,590	\$13,556,896
Other Operating Revenue	<u>293,709</u>	<u>99,250</u>	<u>176,797</u>	<u>159,427</u>	<u>104,751</u>
Total Operating Revenues	\$18,169,666	\$16,739,996	\$15,523,178	\$13,628,017	\$13,661,647
Operations and Maintenance	\$10,433,719	\$10,158,684	\$9,566,941	\$8,987,055	\$8,229,678
Administrative and General	2,247,727	2,066,270	2,140,286	2,018,315	1,961,018
Taxes	539,310	516,333	461,687	392,070	313,764
Depreciation	<u>2,146,712</u>	<u>2,004,010</u>	<u>1,834,281</u>	<u>1,706,146</u>	<u>1,617,643</u>
Total Operating Expenses	\$15,367,468	\$14,745,297	\$14,003,195	\$13,103,586	\$12,122,103
Operating Income (Loss)	\$ 2,802,198	\$ 1,994,699	\$ 1,519,983	\$ 524,431	\$ 1,539,544
Non-Operating Revenue (Expenses)					
Interest Revenue	\$ 872,144	\$ 949,415	\$ 723,542	\$ 372,198	\$ 273,824
Interest Expense	(206,533)	(236,663)	(261,840)	(286,842)	(322,557)
Amortization Expense	(70,081)	(56,123)	(28,465)	(24,889)	(15,536)
Contributed Capital	3,692,062	2,992,911	3,277,123	3,316,498	4,384,720
Operating Transfers	(609,801)	(161,500)	(95,470)	(351,878)	(88,000)
Other Non-Operating Revenue	<u>-</u>	<u>23,605</u>	<u>-</u>	<u>-</u>	<u>(81,965)</u>
Total Non-Operating Rev./Exp.	\$ 3,677,791	\$ 3,511,645	\$ 3,614,890	\$ 3,025,087	\$ 4,150,486
Change in net assets	\$ 6,479,989	\$ 5,506,344	\$ 5,134,873	\$ 3,549,518	\$ 5,690,030
Total net assets, January 1	\$89,848,031	\$ 82,260,087	\$77,125,213	\$73,575,694	\$67,885,664
Prior Period Adjustment	<u>-</u>	<u>2,081,600</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net assets, December 31	\$96,328,020	\$ 89,848,031	\$82,260,086	\$77,125,213	\$73,575,694

Source: City of Kirkland

Note: Totals may not foot due to rounding.

City of Redmond

Payments to Cascade

The City of Redmond's ("Redmond") budgeted payments to Cascade for 2009 total \$6,692,011, as follows:

Administration Dues	\$ 229,419
Demand Share	4,157,070
New Water Surcharge	601,917
RCFC	1,561,300
Conservation	<u>142,305</u>
Total	\$6,692,011

Note: Totals may not foot due to rounding.

Redmond

Redmond is located in the eastern portion of King County, approximately 15 miles east of the City of Seattle. Redmond was founded in 1912 and encompasses approximately 16.6 square miles. Redmond has an estimated population of 51,890, as of April 1, 2009, according to the State's Office of Financial Management. Redmond is organized as a code city, governed by a mayor –council form of government, with a seven member elected council. Redmond's council members are elected at large to staggered four-year terms. The mayor is elected to serve in a full time capacity for a four-year term. Department directors are appointed by the mayor with approval of the council members. The city council has authority to set rates and charges for water service.

Redmond's Water Utility

Redmond has certificate rights in connection with its water/waste water utilities further described below to withdraw 5,229 acre-feet of groundwater annually with a maximum instantaneous withdrawal of 3,680 gallons per minute. Redmond's water transmission and distribution system includes approximately 319 miles of pipe ranging in size from 1 inch to 24 inches in diameter. There are seven miles of joint use water transmission and distribution pipe ranging in size from 1 inch to 24 inches. Redmond has 20 pressure zones, seven reservoirs totaling 22.6 million gallons, three additional shared reservoirs totaling 9.2 million gallons, five booster pump stations, four additional shared booster pump stations, 67 pressure reducing stations, and five wells providing a combined capacity of 3,680 gallons per minute. Redmond's water storage facilities are covered, ground level reservoirs or standpipes.

Redmond receives approximately 65 percent of its water from Cascade and 35 percent from its own wells. In 2008, Redmond sold approximately 2.3 billion gallons of water to approximately 15,037 accounts. The largest customer represents approximately 11 percent of the total water revenue and the top ten accounts represent approximately 19 percent of the total water revenue. Redmond's service area includes an area outside of the city limits, in unincorporated King County, known as Novelty Hill, which includes a population of approximately 10,000.

Total operating revenues include water and sewer sales, Metro sewage treatment fees, water and sewer engineering fees, hydrant fees, and regional capital facility charges. In 2008, 39 percent of total operating revenues were directly attributable to water.

Outstanding Debt

Redmond operates two water/wastewater utilities – one within the city (the "city system") and one for the Novelty Hill service area Redmond maintains separate fund accounting for the two systems (the "Redmond City Water/Wastewater Fund" and the "Novelty Hill Water/Wastewater Fund," respectively). Both of these utilities' operations are self-supported through user charges. Only the revenues of the water systems (and not wastewater systems) are obligated under the Interlocal Contract. As of July 1, 2009, Redmond had \$11,755,000 in city system revenue bonds outstanding and Redmond anticipates that it may (but is not committed to) issue an additional \$34,000,000 in city system revenue bonds in the next 12 months. The bond ordinance for the city system revenue bonds currently has a debt service coverage requirement of 120 percent.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Redmond has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following tables show historical operating results for Redmond's City Water/Wastewater Fund and Novelty Hill Water/Wastewater Fund. In calendar year 2008, water sales accounted for approximately 39 percent of the total revenues of the combined water/wastewater systems. Only the revenue from the water systems is obligated under the Interlocal Contract.

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

Operating Revenues:	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Charges for services	\$ 15,955,407	\$ 17,147,574	\$ 13,008,108	\$ 12,831,662	\$ 12,431,502
Metro service	<u>9,004,176</u>	<u>8,979,837</u>	<u>8,076,973</u>	<u>7,826,443</u>	<u>7,251,920</u>
Total Operating Revenues	\$ 24,959,583	\$ 26,127,411	\$ 21,085,081	\$ 20,658,105	\$ 19,683,422
Operating Expenses:					
Administrative and general	\$ 4,679,909	\$ 3,886,570	\$ 3,688,074	\$ 3,443,364	\$ 3,249,291
Purchased water	6,435,471	4,092,011	3,876,813	4,070,321	2,756,911
Metro service	8,956,916	8,792,731	7,898,305	7,860,449	7,059,363
Maintenance and operations	2,662,972	2,594,531	2,429,571	2,361,481	2,504,628
Taxes	555,037	552,646	496,044	439,957	284,354
Depreciation and amortization	<u>3,208,262</u>	<u>2,938,491</u>	<u>2,537,612</u>	<u>2,389,421</u>	<u>2,282,935</u>
Total Operating Expenses	\$ 26,498,567	\$ 22,856,980	\$ 20,926,419	\$ 20,564,993	\$ 18,137,482
Operating Income (Loss) ⁽¹⁾	\$ (1,538,984)	\$ 3,270,431	\$ 158,662	\$ 93,112	\$ 1,545,940
Non-operating Revenues (Expenses):					
Interest and investment revenue	\$ 370,859	\$ 606,643	\$ 648,338	\$ 443,353	\$ 294,026
Grants	-	23,505	-	-	-
Interest expense	(44,005)	(5,081)	(8,626)	(12,170)	(15,715)
Amortization of Debt Issue Costs	(64)	-	-	-	-
Miscellaneous	<u>97,782</u>	<u>90,784</u>	<u>92,882</u>	<u>56,241</u>	<u>45,291</u>
Total non-operating Revenues (Expenses)	\$ 424,572	\$ 715,851	\$ 732,594	\$ 487,424	\$ 323,602
Income before contributions and transfers	\$ (1,114,412)	\$ 3,986,282	\$ 891,256	\$ 580,536	\$ 1,869,542
Capital contributions	\$ 4,313,997	\$ 12,045,105	\$ 8,117,202	\$ 5,470,929	\$ 2,189,890
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,494)</u>	<u>(23,555)</u>
Change in net assets	\$ 3,199,585	\$ 16,031,387	\$ 9,008,458	\$ 6,022,971	\$ 4,035,877
Total net assets - beginning	\$133,722,912	\$117,691,525	\$108,683,067	\$102,660,096	\$ 99,013,677
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(389,458)</u>
Total net assets ending	\$136,922,497	\$133,722,912	\$117,691,525	\$108,683,067	\$102,660,096

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

Source: The City of Redmond

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues:					
Charges for services	\$ 4,126,378	\$ 4,632,173	\$ 2,632,351	\$ 3,172,980	\$ 2,869,510
Metro service	<u>971,616</u>	<u>893,120</u>	<u>730,657</u>	<u>630,888</u>	<u>570,896</u>
Total Operating Revenues	\$ 5,097,994	\$ 5,525,293	\$ 3,363,008	\$ 3,803,868	\$ 3,440,406
Operating Expenses:					
Administrative and general	\$ 717,079	\$ 534,070	\$ 521,953	\$ 416,399	\$ 339,090
Purchased water	2,507,659	2,545,014	1,175,926	1,813,228	1,525,731
Metro service	929,155	849,386	671,933	593,981	396,138
Maintenance and operations	548,353	423,978	251,465	245,860	223,141
Taxes	100,270	110,983	83,316	64,793	60,901
Depreciation and amortization	<u>1,105,549</u>	<u>1,002,211</u>	<u>905,454</u>	<u>868,816</u>	<u>828,101</u>
Total Operating Expenses	\$ 5,908,065	\$ 5,465,642	\$ 3,610,047	\$ 4,003,077	\$ 3,373,102
Operating Income (Loss)	\$ (810,071)	\$ 59,651	\$ (247,039)	\$ (199,209)	\$ 67,304
Non-operating Revenues (Expenses):	\$ 318,863				
Interest and investment revenue	19,036	\$ 356,520	\$ 235,351	\$ 125,735	\$ 67,533
Miscellaneous	<u>41,643</u>	<u>37,074</u>	<u>56,109</u>	<u>4,630</u>	<u>-</u>
Total non-operating Revenues (Expenses)	\$ 379,542	\$ 393,594	\$ 291,460	\$ 130,365	\$ 67,533
Income before contributions and transfers	\$ (430,529)	\$ 453,245	\$ 44,421	\$ (68,844)	\$ 134,837
Capital contributions	\$ 8,134,129	\$ 4,182,086	\$ 2,914,084	\$ 1,784,127	\$ 4,048,361
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	\$ 7,703,600	\$ 4,635,331	\$ 2,958,505	\$ 1,715,283	\$ 4,183,198
Total net assets - beginning	\$ 62,985,485	\$ 58,350,154	\$ 55,391,649	\$ 53,676,366	\$ 50,466,556
Prior Period Adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(973,388)</u>
Total net assets - ending	\$ 70,689,085	\$ 62,985,485	\$ 58,350,154	\$ 55,391,649	\$ 53,676,366

Source: The City of Redmond

Sammamish Plateau Water and Sewer District

Payments to Cascade

Sammmamish Plateau Water and Sewer District's ("Sammamish") budgeted payments to Cascade for 2009 total \$1,597,226, as follows:

Administration Dues	\$ 157,999
Demand Share	125,906
New Water Surcharge	464,692
RCFC	750,625
Conservation	<u>98,004</u>
Total	\$1,597,226

Note: Totals may not foot due to rounding.

Sammmamish

Sammmamish is located in the central portion of King County, approximately 15 miles east of Seattle. Sammmamish encompasses an area of approximately 30 square miles, with boundaries that include the City of Sammmamish, portions of the cities of Issaquah and Redmond, and portions of unincorporated King County. Sammmamish serves an approximate population of 52,000, as of May 2009, as estimated by Sammmamish based on the number of equivalent residential units and average household size in the district.

Sammmamish was founded in 1948, and has grown through mergers with two neighboring water districts. Sammmamish operates its facilities with 52 full-time employees and is managed by a board of commissioners (the "board") comprised of five elected officials who serve staggered six-year terms. The board serves as the governing body of Sammmamish and has authority to set rates and charges.

The Water System

Sammmamish's water system consists of 297 miles of water mains. Sammmamish has 14 wells with a total water capacity of 15.2 MGD and pump capacity of 10,235 gallons per minute. Sammmamish has eight water storage reservoirs with a combined storage capacity of 23 million gallons. Additionally, Sammmamish has an intertie agreement with the Northeast Sammmamish Sewer and Water District, the City of Issaquah and Union Hill Water Association, Overdale Water Association and Ames Lake Water Association. All of the Intertie Agreements except the Northeast Sammmamish Sewer and Water District are for emergency use. The Northeast Sammmamish Sewer and Water District intertie allows water to flow through a jointly owned tank to/from the Northeast Sammmamish service area.

Sammmamish does purchase water from Cascade. In 2008, Sammmamish sold approximately 1.62 million gallons of water to approximately 16,805 accounts. The largest customer of the water utility represented approximately 1.8 percent of the total water revenue and the top ten customers represented approximately 10.7 percent of the total water revenue.

Outstanding Debt

Sammmamish has a combined utility system for purposes of financing, which includes a water system and a sewer system. Only the revenues of the water utility are obligated under the Interlocal Contract. The revenues of the sewer division are not obligated under the Interlocal Contract. At the end of 2008, the system had \$23,750,000 of outstanding water and sewer revenue bonds and \$3,807,222 of loans from the State's Public Works Trust Fund. The bond resolution currently has a debt service coverage requirement of 125 percent. Sammmamish does anticipate incurring additional debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Sammmamish has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Sammamish's combined water and sewer system. In 2008, the water sales provided approximately 50 percent of the total revenues of the combined water and sewer system. Only the revenues of the water utility are obligated under the Interlocal Contract.

Historical Operating Statement (Fiscal Years Ended December 31)					
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenue					
Water service	\$ 7,311,605	\$ 7,408,850	\$ 7,667,514	\$ 6,628,494	\$ 6,885,860
Sewer service	6,920,361	6,869,718	6,253,945	6,149,144	5,533,294
Street lights	91,675	87,993	87,527	88,221	88,417
Sewer inspections	49,885	27,844	19,836	84,600	64,800
Miscellaneous revenue	<u>233,246</u>	<u>215,173</u>	<u>217,331</u>	<u>199,455</u>	<u>202,393</u>
Total Operating Revenues	\$ 14,606,772	\$ 14,609,578	\$ 14,246,153	\$ 13,149,914	\$ 12,774,764
Operating Expense					
Depreciation	\$ 5,710,412	\$ 5,611,854	\$ 5,433,120	\$ 5,419,799	\$ 4,692,656
Other Operating Expense	<u>12,037,966</u>	<u>10,697,821</u>	<u>10,250,079</u>	<u>9,442,071</u>	<u>8,265,955</u>
Total Operating Expense	\$ 17,748,378	\$ 16,309,675	\$ 15,683,199	\$ 14,861,870	\$ 12,958,611
Operating Income (Loss)	\$ (3,141,606)	\$ (1,700,097)	\$ (1,437,046)	\$ (1,711,956)	\$ (183,847)
Non-Operating Revenue					
Investment income	\$ 851,373	\$ 1,102,871	\$ 1,001,323	\$ 331,012	\$ 363,516
Assessment income	128,754	77,055	95,339	69,644	83,131
Loan interest income	9,567	-	174,458	358,821	20,822
Rental income	62,008	73,788	38,768	36,975	32,128
Miscellaneous revenue	<u>66,259</u>	<u>418,344</u>	<u>48,672</u>	<u>14,868</u>	<u>15,556</u>
Total Non-Operating Revenue	\$ 1,117,961	\$ 1,672,058	\$ 1,358,560	\$ 811,320	\$ 515,153
Non-Operating Expense					
Interest on long-term debt	\$ 711,313	\$ 834,003	\$ 899,326	\$ 941,073	\$ 533,313
Amortization of debt discount	104,655	113,758	110,800	115,333	117,190
Extraordinary Expense	968,468	-	-	-	-
Net loss on disposition of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,395</u>	<u>85,712</u>
Total Non-Operating Expense	\$ 1,784,436	\$ 947,761	\$ 1,010,126	\$ 1,080,801	\$ 736,215
Income (Loss) Before Capital Contributions	\$ (3,808,081)	\$ (975,800)	\$ (1,088,612)	\$ (1,981,437)	\$ (404,909)
Capital Contributions	\$ 8,570,046	\$ 3,285,379	\$ 7,993,013	\$ 6,000,349	\$ 5,667,734
Change in Net Assets	\$ 4,761,965	\$ 2,309,579	\$ 6,904,401	\$ 4,018,912	\$ 5,262,825
Total Net Assets, January 1	\$154,273,582	\$ 151,964,003	\$145,059,602	\$141,040,690	\$135,777,865
Total Net Assets, December 31	\$159,035,547	\$ 154,273,582	\$151,964,003	\$145,059,602	\$141,040,690

Source: Sammamish Plateau Water and Sewer District.

Skyway Water and Sewer District

Payments to Cascade

Skyway Water and Sewer District's ("Skyway") budgeted payments to Cascade for 2009 total \$360,727 as follows:

Administration Dues	\$ 28,692
Demand Share	284,289
New Water Surcharge	0
RCFC	29,950
Conservation	<u>17,797</u>
Total	\$360,727

Note: Totals may not foot due to rounding.

Skyway

Skyway is located unincorporated King County, Southwest of Lake Washington. Skyway encompasses an area of approximately three square miles, bordering the cities of Renton, Seattle and Tukwila. Skyway has an approximate population of 12,000, as of July 2009, as estimated by Skyway.

Skyway began in 1986, and has grown through mergers with several water and sewer utilities within its service area boundaries. Skyway is managed by a board of commissioners (the "board") comprised of three elected officials who serve staggered six-year terms. The board serves as the governing body of Skyway and has authority to set rates and charges.

The Water System

Skyway's water system includes six water storage reservoirs that provide standby, fire protection and equalizing storage. Four pumping stations are used to deliver water to customers at higher elevations. Skyway maintains water treatment facilities to treat water used from groundwater wells.

Skyway purchases water through Cascade, from the City of Renton, and draws water from its own wells. In 2008, the water utility sold approximately 205 million gallons of water to approximately 3,300 accounts, most of which are residential. The largest customer of the water utility represents 0.6 percent of the total operating revenues of the combined water and sewer utility, and the top 10 customers represent approximately 3.0 percent of the total operating revenue.

Outstanding Debt

Skyway has a combined water and sewer utility for purposes of financing, which includes a water division and a sewer division. Only the revenues of the water system are obligated under the Interlocal Contract. The revenues of the sewer division are not obligated under the Interlocal Contract. At the end of 2008, the combined system had \$1,509,386 of outstanding water and sewer revenue bonds, and \$6,140,940 of loans from the State's Public Works Trust Fund. The bond resolution for the outstanding utility has a debt service coverage requirement of 125 percent. Skyway does anticipate incurring additional debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Skyway has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Skyway's combined water and sewer systems. Only the revenues from the water system are obligated under the Interlocal Contract. In 2008, water revenues were 31 percent of total operating revenues.

Historical Operating Statement Statements of Revenues, Expenses, and Changes in Net Assets (Fiscal Years Ended December 31)

Operating Revenues	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Customer Sales	\$ 4,564,963	\$ 4,498,132	\$ 4,096,053	\$ 3,768,901	\$ 3,679,912
Turn On/Turn Off Charges	20,090	21,000	13,550	15,700	16,820
Late Penalty Charges	61,631	64,158	58,781	56,246	51,025
Permits & Inspections	14,090	16,836	34,242	29,248	19,370
Interest on Liens	<u>358</u>	<u>2,926</u>	<u>1,160</u>	<u>1,187</u>	<u>535</u>
Total Operating Revenues	\$ 4,661,132	\$ 4,603,052	\$ 4,203,786	\$ 3,871,282	\$ 3,767,662
Operating Expenses					
Maintenance & Operations	\$ 2,648,036	\$ 2,480,912	\$ 2,298,132	\$ 2,144,735	\$ 2,137,953
Administrative & General	775,110	788,258	724,961	595,451	624,083
Depreciation & Amortization	<u>1,026,086</u>	<u>1,007,344</u>	<u>842,857</u>	<u>621,809</u>	<u>611,589</u>
Total Operating Expenses	\$ 4,449,232	\$ 4,276,514	\$ 3,865,950	\$ 3,361,995	\$ 3,373,625
Operating Income	\$ 211,900	\$ 326,538	\$ 337,836	\$ 509,287	\$ 394,037
Non-Operating Revenues (Expenses)					
Interest on Investments	\$ 82,340	\$ 117,016	\$ 138,398	\$ 224,961	\$ 177,121
Interest on Assessments	348	3,893	5,773	9,854	12,683
G.O. Bond – Tax Assessment	-	-	1,915	5,735	3,824
Investment Service Fees	(5,542)	(5,115)	(5,271)	(13,081)	(11,544)
Interest Expense	(121,697)	(132,498)	(119,578)	(131,445)	(145,262)
Tower Rental	108,620	109,360	69,769	74,588	54,638
Rental House Income – Net	-	-	-	-	(313)
Bond Fund Service Fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>(361)</u>	<u>(365)</u>
Total Non-Operating Revenue	\$ 64,069	\$ 92,656	\$ 91,006	\$ 170,251	\$ 90,782
Income Before Capital Contributions	\$ 275,969	\$ 419,194	\$ 428,842	\$ 679,538	\$ 484,819
Capital Contributions	\$ 308,834	152,381	1,643,895	289,492	254,733
Change in Net Assets	\$ 584,803	\$ 571,575	\$ 2,072,737	\$ 969,030	\$ 739,552
Total Net Assets – January 1	\$25,773,264	\$ 25,201,689	\$ 23,128,952	\$ 22,159,922	\$ 21,420,370
Total Net Assets – December 31	\$26,358,067	\$ 25,773,264	\$ 25,201,689	\$ 23,128,952	\$ 22,159,922

Source Skyway Water & Sewer District

City of Tukwila

Payments to Cascade

The City of Tukwila's ("Tukwila") budgeted payments to Cascade for 2009 total \$1,954,535, as follows:

Administration Dues	\$ 67,222
Demand Share	1,662,900
New Water Surcharge	0
RCFC	182,717
Conservation	<u>41,697</u>
Total	\$1,954,535

Note: Totals may not foot due to rounding.

Tukwila

Tukwila is located in the western portion of King County, just south of the City of Seattle. Tukwila was incorporated as a city in 1908 and encompasses approximately 8.6 square miles. Tukwila has an estimated population of 18,170, as of April 1, 2009, according to the State's Office of Financial Management. Tukwila is organized as a code city, governed by a mayor form of government, with a seven member elected council. Tukwila's city council members are elected to overlapping four-year terms. The mayor is elected to serve in a full-time capacity, for a four year term. A city administrator and other officers and department directors are appointed by the mayor with approval of the council members. The city council has authority to set rates and charges for water service.

Tukwila's Water Utility

Tukwila is actively using reclaimed water for non-potable uses such as irrigation from a separate system supplied by King County Department of Natural Resources. Tukwila's water transmission and distribution system supplies customers with approximately 807 million gallons of water annually through 40 miles of water mains and 2,170 meters. Tukwila has a two million gallon covered pre-stressed concrete reservoir and booster pump station. Tukwila has several emergency interties with adjoining jurisdictions, cities, and water districts.

Nearly all the water that Tukwila receives is purchased through Cascade. In 2008, Tukwila sold approximately 760 million gallons of water to approximately 2,100 accounts. The largest account represents 5.0 percent of the total water consumption and the top ten accounts represent approximately 27 percent of the total water consumption.

Outstanding Debt

Tukwila has a combined waterworks utility for purposes of financing, which includes water and sewer utilities. Only the revenues of the water utility are obligated under the Interlocal Contract. The revenues of the sewer utility are not obligated under the Interlocal Contract. At the end of 2008, the combined utility had \$5,165,000 of outstanding water and sewer revenue bonds, and \$4,554,087 of loans from the State's Public Works Trust Fund. The bond ordinance for the water utility currently has a debt service coverage requirement of 135 percent. Tukwila does anticipate incurring additional debt in the next 12 months.

Debt Repayment Record

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

Continuing Disclosure

During the previous five years, Tukwila has complied in all material respects with any previous undertakings in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

Historical Operating Results

The following table shows historical operating results for Tukwila. Tukwila has combined its water and sewer utilities for purposes of financing. Only the revenues of the water utility are obligated under the Interlocal Contract. For 2008 the water utility provided approximately 48 percent of the total operating revenues of the combined system.

Statement of Revenues, Expenses, and Changes in Fund Net Assets Water/Sewer Utility For the year ended December 31

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenue					
Charges for Services	\$ 8,603,765	\$ 8,168,646	\$ 7,648,522	\$ 7,604,133	\$ 7,619,234
Other Operating Revenue	<u>18,143</u>	<u>6,741</u>	<u>5,437</u>	<u>578</u>	<u>1,338</u>
Total Operating Revenues	\$ 8,621,908	\$ 8,175,387	\$ 7,653,959	\$ 7,604,711	\$ 7,620,572
Operating Expenses					
Operations and Maintenance	\$ 5,701,671	\$ 5,488,380	\$ 5,185,919	\$ 4,882,923	\$ 4,606,999
Administrative and General	136,436	128,549	999,398	1,048,963	1,031,643
Taxes	261,188	245,908	233,290	229,550	237,769
Depreciation / Amortization	<u>953,552</u>	<u>726,347</u>	<u>697,289</u>	<u>704,709</u>	<u>646,937</u>
Total Operating Expenses	\$ 7,052,847	\$ 6,589,184	\$ 7,115,896	\$ 6,866,145	\$ 6,523,348
Operating Income (Loss)	\$ 1,569,061	\$ 1,586,203	\$ 538,063	\$ 738,566	\$ 1,097,224
Non-Operating Revenue (Expenses)					
Investment Income	\$ 232,657	\$ 399,125	\$ 398,891	\$ 200,104	\$ 125,680
Interest Expense	(243,167)	(360,491)	(231,553)	(218,544)	(234,791)
Amortization of Debt Premium	10,797	10,807	8,412	8,206	8,205
Amortization of Debt Discount	(6,093)	(6,919)	(15,557)	(16,579)	(16,579)
Other non-Operating Rev./Exp.	<u>(2,052)</u>	<u>(3,556)</u>	<u>(282)</u>	<u>-</u>	<u>-</u>
Total Non-Operating Rev./Exp.	\$ (7,858)	\$ 38,966	\$ 159,911	\$ (26,813)	\$ (117,485)
Income (Loss) Before Contributions and Transfers	\$ 1,561,203	\$ 1,625,169	\$ 697,974	\$ 711,753	\$ 979,739
Capital contributions	\$ 633,415	\$ 341,126	\$ 184,786	\$ 218,519	\$ 183,122
Transfers in	-	97,260	-	-	-
Transfers (out)	<u>(1,024,163)</u>	<u>(911,789)</u>	<u>(30,000)</u>	<u>(43,128)</u>	<u>(200,000)</u>
Change in Net Assets	\$ 1,170,455	\$ 1,151,766	\$ 852,760	\$ 887,144	\$ 962,861
Total Net Assets – Beginning	\$ 23,815,031	\$ 22,663,265	\$ 21,810,505	\$ 20,923,361	\$ 19,960,500
Total Net Assets – Ending	\$ 24,985,486	\$ 23,815,031	\$ 22,663,265	\$ 21,810,505	\$ 20,923,361

Source: City of Tukwila.

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**APPENDIX B
RESOLUTION NO. 2009-11**

This Appendix B contains only Resolution No. 2009-11, adopted by the Board of Cascade on August 26, 2009. For a description of certain additional provisions of the Bonds contained in Resolution No. 2009-12, adopted on September 23, 2009, please see the front cover of this Official Statement, the inside front cover, and “DESCRIPTION OF THE BONDS” in this Official Statement.

RESOLUTION NO. 2009-11

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

Adopted August 26, 2009

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CASCADE WATER ALLIANCE

RESOLUTION NO. 2009-11

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

Authorizing and Directing the Sale of Those Bonds.

WHEREAS, Cascade Water Alliance (as further defined herein, "Cascade") is a Washington nonprofit corporation under Chapter 24.06 RCW composed of municipal corporations and special purpose municipal corporations which is organized under the authority of the Interlocal Cooperation Act (Chapter 39.34 RCW) for the purpose of providing water supply to meet the growing demands of its Members; and

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

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

WHEREAS, consistent with the Interlocal Contract and the Transmission and Supply Plan, Cascade adopted the Capital Program Coordination, Management and Finance Plan Amendment No. 1 on August 26, 2009 (the "2009 Watershed Management Plan"), which serves, among other things, as a "watershed management plan" under RCW 39.34.190; and

WHEREAS, the 2009 Watershed Management Plan describes various capital projects and associated rights, properties and facilities necessary to carry out Cascade's mission; and

WHEREAS, Cascade desires to issue water system revenue bonds to provide for part of the cost of carrying out the 2009 Watershed Management Plan, to provide for a debt service reserve and to pay the costs of issuing and selling those bonds;

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

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

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

(b) "Annual Debt Service" means, with respect to any Parity Bonds outstanding as of the date

of calculation, for any fiscal year (or other designated twelve-month period), all amounts required to be paid in that fiscal year (or other designated twelve-month period) in respect of Principal of and interest on those Parity Bonds, subject to the following:

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

(2) notwithstanding clause (1) of this definition, if a Payment Agreement is in effect with respect to any Variable Interest Rate Bonds pursuant to which Cascade receives payments based on a variable rate in exchange for making payments based on a fixed rate, the interest rate on those Variable Interest Rate Bonds during the period that Payment Agreement is scheduled to be in effect shall be assumed to be the fixed rate specified in that Payment Agreement;

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

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

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

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

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

constitutes 25% or more of the initial aggregate Principal of that series or subseries of Parity Bonds.

(e) “Board” means the Board of Directors of Cascade.

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

(g) “Bond Counsel” means a firm of lawyers nationally recognized and accepted as bond counsel and so employed by Cascade for any purpose under the 2009 Bond Resolution applicable to the use of that term.

(h) “Bond Insurance” means any bond insurance policy guaranteeing the payment when due of all or part of the Principal of and interest on any Parity Bonds.

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

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

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

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

(m) “Build America Bonds” means the 2009 Bonds of any series to which Cascade elects to have Section 54AA of the Code apply.

(n) “Capital Appreciation Bonds” means any Parity Bonds, all or a portion of the interest on which is compounded and accumulated at the rates or in the manner, and on the dates, set forth in the applicable Parity Bond Authorizing Resolution and is payable only upon redemption or on the maturity date of those Parity Bonds. Parity Bonds that are issued as Capital Appreciation Bonds, but later convert to obligations on which interest is paid periodically, shall be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a Principal amount equal to their Accreted Value on the conversion date.

(o) “Cascade” means Cascade Water Alliance, a Washington nonprofit corporation under Chapter 24.06 RCW composed of municipal corporations and special purpose municipal corporations which is organized under the authority of the Interlocal Cooperation Act (Chapter 39.34 RCW) for the purpose of providing water supply to meet the growing demands of its Members and a watershed management partnership

created pursuant to Chapter 39.34 RCW. “Cascade” includes a successor entity to all of Cascade’s rights and obligations material to the Parity Bonds, including a successor municipal corporation.

(p) “Chief Executive Officer” means the Chief Executive Officer of Cascade, or any other officer who succeeds to substantially all of the responsibilities of that office specified in the 2009 Bond Resolution.

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

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

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

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

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

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

(w) “Future Parity Bonds” means all revenue bonds and other obligations of Cascade for borrowed money (including, without limitation, financing leases) issued or incurred after the date of the issuance of the Bonds, the payment of which constitutes a lien and charge on the Net Revenue equal in rank with the lien and charge upon the Net Revenue required to be paid into the Bond Fund to pay and secure the payment of the Principal of and interest on the 2006 Bonds and the 2009 Bonds.

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

(y) “Gross Revenue” means all of the earnings and revenues received by Cascade from any source whatsoever including but not limited to: (a) Member Charges; (b) revenues from the sale,

lease or furnishing of other commodities, services, properties or facilities; (c) the receipt of earnings from the investment of money in any maintenance fund or similar fund; (d) federal credit payments received by Cascade in respect of Build America Bonds; and (e) withdrawals from the Rate Stabilization Fund. However, the Gross Revenue shall not include: (a) Principal proceeds of Parity Bonds or any other borrowings, or earnings or proceeds from any investments in a trust, defeasance or escrow fund created to defease or refund obligations relating to the System (until commingled with other earnings and revenues included in the Gross Revenue) or held in a special account for the purpose of paying a rebate to the United States Government under the Code; (b) income and revenue which may not legally be pledged for revenue bond debt service; (c) improvement district assessments; (d) federal or state grants allocated to capital projects; (e) payments under bond insurance or other credit enhancement policy or device; (f) insurance or condemnation proceeds used for the replacement of capital projects or equipment; (g) earnings in any construction fund or bond redemption fund; (h) deposits to the Rate Stabilization Fund; or (i) any revenues generated by any Member's Water Supply Assets that are not part of the System, except those amounts that are payable to Cascade pursuant to the Interlocal Contract or another interlocal agreement.

(z) "Independent Consulting Engineer" means either (1) an independent licensed professional engineer experienced in the design, construction or operation of municipal utilities of comparable size and character to the System or (2) an independent certified public accountant or other professional consultant experienced in the development of rates and charges for municipal utilities of comparable size and character to the System.

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

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

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

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

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

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

(gg) "Net Revenue" for any fiscal year (or other designated twelve-month period) means the Gross Revenue for that fiscal year (or other designated twelve-month period) less Operations and Maintenance Costs for that fiscal year (or other designated twelve-month period). In calculating Net Revenue, Cascade shall not take into account any non-cash gains or losses with respect to any real or personal property, investment or agreement that it may be required to recognize under generally accepted accounting principles, such as unrealized mark-to-market gains and losses.

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

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

(jj) "Parity Bond Authorizing Resolution" means one or more resolutions of Cascade (including the 2006 Bond Resolution and the 2009 Bond Resolution) that authorize the issuance and sale and establish the terms of a particular series of Parity Bonds and other matters relating to the same plan of finance.

(kk) "Parity Bonds" means the 2006 Bonds, the 2009 Bonds and any Future Parity Bonds.

(ll) "Payment Agreement" means a written agreement that (1) is entered into by Cascade for the purpose of managing or reducing Cascade's exposure to fluctuations or levels of interest rates for Parity Bonds or for other interest rate, investment, asset or liability management purposes related to Parity Bonds, (2) is entered into on either a current or forward basis with a Qualified Counterparty, (3) is

authorized by any applicable laws of the State in connection with, or incidental to, the issuance, incurring or carrying of particular bonds, notes, bond anticipation notes, commercial paper, or other obligations for borrowed money, or lease, installment purchase or other similar financing agreements or certificates of participation therein, (4) provides for an exchange of payments based on interest rates, ceilings or floors on those payments, options on those payments, or any combination thereof or any similar device and (5) expressly provides that Cascade's obligation to make regularly scheduled payments thereunder constitutes a charge on Net Revenue equal in rank with the charge upon Net Revenue required to be paid into the Bond Fund to pay the Principal of and interest on the Parity Bonds.

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

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

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

(pp) "Qualified Counterparty" means a party (other than Cascade or a party related to Cascade) who is the other party to a Payment Agreement and (1) at the time of execution of the Payment Agreement, (a) whose claims-paying ability is or senior unsecured debt obligations are rated in one of the three highest rating categories of each of at least two Rating Agencies or (b) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by an entity whose claims-paying ability is or senior unsecured debt obligations are rated in one of the three highest rating categories of each of at least two Rating Agencies (in each case, without regard to any gradations within a rating category), and (2) who is otherwise qualified to act as the other party to a Payment Agreement under any applicable laws of the State.

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

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

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

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

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

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

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

(xx) "Reserve Account" means any reserve account securing Parity Bonds into which deposits are required to be made pursuant to a Parity Bond Authorizing Resolution, including the 2006 Reserve Account and the 2009 Reserve Account.

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

(zz) "Reserve Requirement" means, as of any date of calculation, (1) with respect to Parity Bonds secured by the 2006 Reserve Account, the lesser of Maximum Annual Debt Service on outstanding Parity Bonds secured by the 2006 Reserve Account or 125% of Average Annual Debt Service on outstanding Parity Bonds secured by the 2006 Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the 2006 Reserve Account exceed 10% of the original proceeds of the Parity Bonds secured by the 2006 Reserve Account, and (2) with respect to Parity Bonds secured by the 2009 Reserve Account, the lesser of Maximum Annual Debt Service on outstanding Parity Bonds secured by the 2009

Reserve Account or 125% of Average Annual Debt Service on outstanding Parity Bonds secured by the 2009 Reserve Account, but at no time shall the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account exceed 10% of the original proceeds of the Parity Bonds secured by the 2009 Reserve Account. Unless otherwise provided in the 2009 Bond Sale Resolution, in calculating Annual Debt Service for purposes of determining the Reserve Requirement for Parity Bonds secured by the 2009 Reserve Account, the amount of interest payable on those Parity Bonds that are issued and sold as Build America Bonds for any fiscal year (or other designated twelve-month period) shall be reduced by the federal credit payments scheduled to be received by Cascade in respect of such Build America Bonds in such fiscal year (or other designated twelve-month period).

(aaa) “Rule” means paragraph (b)(5) of Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as such Rule may be amended from time to time.

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

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

(ddd) “State” means the State of Washington.

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

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

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

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

(iii) “Treasurer” means the treasurer of Cascade appointed pursuant to the Bylaws of Cascade and other persons or entities carrying out treasury operations under the direction of that treasurer.

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

(kkk) “2006 Bond Resolution” means, collectively, Resolution No. 2006-07 and Resolution No. 2006-08 of Cascade, as the same may be amended or supplemented in accordance therewith.

(lll) “2006 Reserve Account” means the Reserve Account in the Bond Fund created pursuant to Resolution No. 2006-03 of Cascade and renamed the 2006 Reserve Account in Section 13 of this resolution.

(mmm) “2009 Bond” means each bond authorized to be issued pursuant to, under the authority of and for the purposes provided in the 2009 Bond Resolution.

(nnn) “2009 Bond Insurer” means the provider of Bond Insurance for the 2009 Bonds purchased by Cascade, if any.

(ooo) “2009 Bond Resolution” means, collectively, this resolution and any 2009 Bond Sale Resolution, as the same may be amended or supplemented in accordance with Section 25 of this resolution.

(ppp) “2009 Bond Sale Resolution” means one or more resolutions of the Board adopted pursuant to this resolution and confirming the sale and final terms of one or more series of 2009 Bonds.

(qqq) “2009 Construction Account” means the 2009 Bonds Construction Account created pursuant to Section 14 of this resolution.

(rrr) “2009 Reserve Account” means the 2009 Reserve Account in the Bond Fund created in Section 13 of this resolution.

(sss) “2009 Watershed Management Plan” means the Capital Program Coordination, Management and Finance Plan Amendment No. 1 adopted by Cascade on August 26, 2009, which serves, among other things, as a “watershed management plan” under RCW 39.34.190, together with such amendments as may be adopted by the Board consistent with applicable law.

(ttt) “Undertaking” means Cascade’s undertaking pursuant to Section 23 of this resolution

and the 2009 Bond Sale Resolution to provide annual financial information and notice of material events.

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

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

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

Section 3. Authorization and Description of 2009 Bonds. For the purpose of providing all or a part of the money required to (1) pay part of the cost of carrying out the 2009 Watershed Management Plan, (2) provide for a debt service reserve for the 2009 Bonds, and (3) pay the costs of issuing and selling the 2009 Bonds, Cascade shall issue and sell the 2009 Bonds, in one or more series, in the aggregate Principal amount of not to exceed \$85,000,000, the total aggregate Principal amount of each series to be specified in the 2009 Bond Sale Resolution. Each series of 2009 Bonds shall be designated “Cascade Water Alliance Water System Revenue Bonds, 2009,” each with such additional series designation or other designations established by the 2009 Bond Sale Resolution. Each series of 2009 Bonds shall be dated its date of delivery to the initial purchaser thereof; shall be in fully registered form; shall be in the denominations of \$5,000 each or any integral multiple thereof within a single maturity; and shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification. The 2009 Bonds shall bear interest (computed on the basis of a 360-day year of twelve 30-day months), payable semiannually on each March 1 and September 1, commencing on the date specified in the 2009 Bond Sale Resolution, to the maturity or earlier redemption of the 2009 Bonds, at the rate or rates as the Board hereafter shall establish in the 2009 Bond Sale Resolution.

The 2009 Bonds shall mature or be subject to mandatory redemption in accordance with the final maturity schedule set forth in the 2009 Bond Sale Resolution.

Section 4. 2009 Bond Sale Resolution. The Board may adopt the 2009 Bond Sale Resolution with respect to one or more series of 2009 Bonds and in each 2009 Bond Sale Resolution may provide for the matters described in this resolution and such other terms and conditions and such other matters that the Board deems necessary and appropriate to carry out the purposes of this resolution. Once adopted, each 2009 Bond Sale Resolution shall be deemed a part of this resolution as if set forth herein.

Each 2009 Bond Sale Resolution may provide for Bond Insurance and/or Reserve Insurance for the applicable series of 2009 Bonds, and conditions or covenants relating thereto, including additional terms, conditions and covenants relating to that series of 2009 Bonds that are required by the 2009 Bond Insurer and/or Reserve Insurance provider, if any, and are consistent with the provisions of this resolution, including but not limited to restrictions on investments and requirements of notice to and requirements for obtaining the consent of the 2009 Bond Insurer and/or Reserve Insurance provider, if any.

For 2009 Bond Sale Resolution may approve and authorize the execution and delivery on behalf of Cascade of any contracts consistent with the provisions of this resolution for which Cascade’s approval is necessary or to which Cascade is a party and that are related or incidental to the initial issuance and sale of the applicable series of 2009 Bonds, the initial establishment of the interest rate or rates on that series of 2009 Bonds and any redemption of the 2009 Bonds, including but not limited to a purchase contract for that series of 2009 Bonds, contracts relating to Bond Insurance and Reserve Insurance for that series of 2009 Bonds and similar contracts for those purposes.

Each 2009 Bond Sale Resolution may specify that the applicable series of 2009 Bonds are Build America Bonds and may further specify whether the applicable federal credit payments in respect of such Build America Bonds are to be tax credits or direct payments.

Section 5. Registration and Transfer or Exchange of 2009 Bonds. The 2009 Bonds shall be issued only in registered form as to both Principal and interest and recorded on the Bond Register. The Bond Register shall contain the name and mailing address of the Registered Owner of each 2009 Bond and the Principal amount and number of each of the 2009 Bonds held by each Registered Owner.

2009 Bonds surrendered to the Bond Registrar may be exchanged for 2009 Bonds in any authorized denomination of an equal aggregate Principal amount and of the same series, interest rate and maturity. 2009 Bonds may be transferred only if endorsed in

the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer of 2009 Bonds shall be at the expense of Cascade, except that the Bond Registrar may make a charge to any Registered Owner requesting such exchange or transfer in the amount of any tax or other governmental charge required to be paid with respect thereto. The Bond Registrar is not required to exchange or transfer any 2009 Bond after the giving of notice calling that 2009 Bond for redemption, in whole or in part.

The 2009 Bonds initially shall be registered in the name of Cede & Co., as the nominee of DTC. The 2009 Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of the Letter of Representations. Neither Cascade nor the Bond Registrar shall have any responsibility or obligation to DTC participants or to the persons for whom DTC participants act as nominees with respect to the 2009 Bonds regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of Principal of or premium, if any, or interest on the 2009 Bonds, or any notice that is permitted or required to be given to Registered Owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC or its nominee).

For so long as any 2009 Bonds are held in fully immobilized form, DTC, its nominee or any successor depository shall be deemed to be the Registered Owner for all purposes hereunder and all references to Registered Owners shall mean DTC, its nominee or any successor depository and shall not mean the owners of any beneficial interests in the 2009 Bonds. Registered ownership of those 2009 Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it; (ii) to any substitute depository appointed by Cascade or that substitute depository's successor; or (iii) to any person if the 2009 Bonds are no longer held in immobilized form.

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

If (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be

obtained, or (ii) Cascade determines that the 2009 Bonds are to be in certificated form, the ownership of 2009 Bonds may be transferred to any person as provided herein and the 2009 Bonds no longer shall be held in fully immobilized form.

Section 6. Mutilated, Lost, Stolen and Destroyed 2009 Bonds. In case any 2009 Bond shall become mutilated or be destroyed, stolen or lost, Cascade may, if not then prohibited or otherwise required by law, cause to be executed and delivered a new 2009 Bond of like amount, series, interest rate, maturity date and tenor in exchange and substitution for and upon cancellation of that mutilated 2009 Bond, or in lieu of and in substitution for that destroyed, stolen or lost 2009 Bond, upon payment by the Registered Owner thereof of the reasonable expenses and charges of Cascade and the Bond Registrar in connection therewith, and in the case of a 2009 Bond destroyed, stolen or lost, the filing with the Bond Registrar of evidence satisfactory to it that that 2009 Bond was destroyed, stolen or lost, and of the ownership thereof, and furnishing Cascade and the Bond Registrar with indemnity satisfactory to each of them. If the mutilated, destroyed, stolen or lost 2009 Bond already has matured or been called for redemption in accordance with its terms it shall not be necessary to issue a new 2009 Bond prior to payment. If the provisions of State law at any time differ from the provisions of this Section with respect to the requirements or procedures for replacing or otherwise handling mutilated, lost, stolen or destroyed bonds, then the provisions of State law shall prevail.

Section 7. Payment of 2009 Bond Principal, Premium and Interest. Principal of and premium, if any, and interest on the 2009 Bonds shall be payable in lawful money of the United States of America. Interest on the 2009 Bonds shall be paid by checks or drafts mailed by the Bond Registrar on the interest payment date to the Registered Owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date (the "2009 Record Date") or, at the request of a Registered Owner of \$1,000,000 or more in aggregate Principal amount of 2009 Bonds, by wire transfer to an account in the United States designated in writing by that Registered Owner prior to the applicable 2009 Record Date. Principal of and premium, if any, on each 2009 Bond shall be payable upon presentation and surrender of that 2009 Bond by the Registered Owner thereof to the Bond Registrar. Notwithstanding the foregoing, payment of any 2009 Bonds registered in the name of DTC or its nominee shall be made in accordance with the operational arrangement of DTC referred to in the Letter of Representations.

Section 8. Redemption Provisions and Purchase of 2009 Bonds.

(a) Optional Redemption. All or some of the 2009 Bonds may be subject to redemption at the option of Cascade on the dates and at the prices specified in the 2009 Bond Sale Resolution.

(b) Mandatory Redemption. All or some of the 2009 Bonds may be designated as Term Bonds in the 2009 Bond Sale Resolution. If Term Bonds are not redeemed under the optional redemption provisions set forth above or purchased for cancellation under the provisions set forth below, they shall be called for redemption in such manner, on the dates and at the prices specified in the 2009 Bond Sale Resolution.

If Cascade redeems under the optional redemption provisions or purchases for cancellation Term Bonds, the Principal amount of the Term Bonds so redeemed or purchased (irrespective of their actual redemption or purchase prices) may be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. Unless otherwise specified in the 2009 Bond Sale Resolution, the Chief Executive Officer shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of that allocation at least 60 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.

(c) Partial Redemption. Portions of the Principal amount of any 2009 Bond, in integral amounts of \$5,000, may be redeemed, unless otherwise provided in the 2009 Bond Sale Resolution. Unless otherwise specified in the 2009 Bond Sale Resolution, whenever less than all of the 2009 Bonds of a single maturity within a series are to be redeemed, the Bond Registrar shall select the 2009 Bonds or portions thereof to be redeemed from the 2009 Bonds of that maturity by lot, or in such other manner as the Bond Registrar shall determine, except that, for so long as the 2009 Bonds are registered in the name of DTC or its nominee, DTC shall select the 2009 Bonds or portions thereof to be redeemed in accordance with the Letter of Representations.

If less than all of the Principal amount of any 2009 Bond is redeemed, upon surrender of that 2009 Bond to the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor, a new 2009 Bond (or 2009 Bonds, at the option of the Registered Owner) of the same series, maturity and interest rate in any of the denominations authorized by this resolution in the aggregate total Principal amount remaining unredeemed.

(d) Purchase of 2009 Bonds. Cascade reserves the right and option to purchase for

cancellation any or all of the 2009 Bonds at any time at any price plus accrued interest to the date of purchase.

(e) 2009 Bonds to be Canceled. All 2009 Bonds purchased for cancellation or redeemed under this Section shall be canceled.

Section 9. Notice and Effect of Redemption. While the 2009 Bonds are held by DTC in book-entry only form, any notice of redemption shall be given at the time, to the entity and in the manner required by DTC in accordance with the Letter of Representations, and the Bond Registrar shall not be required to give any other notice of redemption. If the 2009 Bonds cease to be in book-entry only form, Cascade shall cause notice of any intended redemption of 2009 Bonds to be given not less than 30 nor more than 60 days prior to the date fixed for redemption by first-class mail, postage prepaid, to the Registered Owner of any 2009 Bond to be redeemed at the address appearing on the Bond Register at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not notice is actually received by that Registered Owner.

In addition, the redemption notice shall be mailed by the Bond Registrar within the same period, postage prepaid, to each of the Rating Agencies at their offices in New York, New York, to the 2009 Bond Insurer, if any, and to such other persons and with such additional information as the Chief Executive Officer shall determine or as specified in the 2009 Bond Sale Resolution, but these additional mailings shall not be a condition precedent to the redemption of 2009 Bonds.

In the case of an optional redemption, the notice may state that Cascade retains the right to rescind that notice on or prior to the scheduled redemption date, and that notice and optional redemption shall be of no effect to the extent that Cascade gives notice to the affected Registered Owners at any time on or prior to the scheduled redemption date that Cascade is rescinding the redemption notice in whole or in part. Any 2009 Bonds subject to a rescinded notice of redemption shall remain outstanding, and the rescission shall not constitute an Event of Default.

Interest on each 2009 Bond called for redemption shall cease to accrue on the date fixed for redemption unless (a) that 2009 Bond is subject to a rescinded notice of redemption or (b) that 2009 Bond is not subject to a rescinded notice of redemption and is presented for payment pursuant to the call but is not redeemed by Cascade.

Section 10. Failure to Pay 2009 Bonds. If any 2009 Bond is not paid when properly presented at its

maturity or redemption date, Cascade shall be obligated to pay interest on that 2009 Bond at the same rate provided in that 2009 Bond from and after its maturity or redemption date until that 2009 Bond, Principal, premium, if any, and interest, is paid in full or until sufficient money for its payment in full is on deposit in the Bond Fund.

Section 11. Form and Execution of 2009 Bonds. The 2009 Bonds shall be prepared in a form consistent with the provisions of the 2009 Bond Resolution and State law and shall be signed by the Chair and Secretary of the Board, either or both of whose signatures may be manual or in facsimile.

Only 2009 Bonds bearing a Certificate of Authentication in substantially the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of the 2009 Bond Resolution:

CERTIFICATE OF AUTHENTICATION

This bond is one of the fully registered Cascade Water Alliance Water System Revenue Bonds, 2009, [Series], described in the 2009 Bond Resolution.

WASHINGTON STATE FISCAL AGENT
Bond Registrar

By: _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the 2009 Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of the 2009 Bond Resolution.

If any officer whose facsimile signature appears on a 2009 Bond ceases to be an officer of Cascade authorized to sign bonds before that 2009 Bond is authenticated or delivered by the Bond Registrar or issued by Cascade, that 2009 Bond nevertheless may be authenticated, delivered and issued and, when authenticated, issued and delivered, shall be as binding on Cascade as though that person had continued to be an officer of Cascade authorized to sign bonds. Any 2009 Bond also may be signed on behalf of Cascade by any person who, on the actual date of signing of that 2009 Bond, is an officer of Cascade authorized to sign bonds, although he or she did not hold the required office on the date of issuance of that 2009 Bond.

Section 12. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the 2009 Bonds which shall at all times be open to inspection by Cascade. The Bond Registrar is authorized, on behalf of

Cascade, to authenticate and deliver 2009 Bonds transferred or exchanged in accordance with the provisions of the 2009 Bonds and the 2009 Bond Resolution, to serve as Cascade's paying agent for the 2009 Bonds and to carry out all of the Bond Registrar's powers and duties under the 2009 Bond Resolution and Resolution No. 2006-04 establishing a system of registration for Cascade's bonds and obligations.

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

(a) Into the Debt Service Account,

(1) On the first business day of each month, in the month after the date of issuance and continuing through the first month in which interest is payable on the 2009 Bonds, equal installments in an aggregate amount equal to the interest on the 2009 Bonds to become due and payable on the first month in which interest is payable on the 2009 Bonds, except that the deposit into the Debt Service Account to be made on the first business day of the month in which interest is first payable on the 2009 Bonds may be reduced to the extent the amount on deposit therein and available to be used therefor is sufficient to make that payment on that date;

(2) On the first business day of each month, beginning in the month succeeding the month in which interest is first payable on the 2009 Bonds and continuing for as long as any of the 2009 Bonds are outstanding and unpaid, an amount equal to one-sixth of the interest on the outstanding 2009 Bonds to become due and payable on the next interest payment date, except that the monthly deposits into the Debt Service Account with respect to any interest payment date may be reduced to the extent the amount on deposit therein and available to be used therefor is sufficient to make that payment on that interest payment date; and

(3) On the first business day of each month, beginning in the month succeeding the month in which interest is first payable on the 2009 Bonds and continuing for as long as any of the 2009 Bonds are outstanding and unpaid, an amount equal to one-twelfth of the Principal of the outstanding 2009 Bonds to become due and payable on the next Principal payment date, except that the monthly deposits into the Debt Service Account with respect to any Principal payment date may be reduced to the extent the amount on deposit therein and available to be used therefor is sufficient to make that payment on that principal payment date.

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

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

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

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

On the date of issuance of the 2009 Bonds, Cascade shall deposit into the 2009 Reserve Account any combination of 2009 Bond proceeds, Reserve Insurance or other money legally available, in the amount necessary to make the amount on deposit in the 2009 Reserve Account equal to the Reserve Requirement for the 2009 Bonds. The payment of Principal of and premium, if any, and interest on the 2009 Bonds when due shall be secured by the 2009 Reserve Account. In the event that there shall be a deficiency in the Debt Service Account that prevents making any payment secured by the 2009 Reserve Account, that deficiency shall be made up from the 2009 Reserve Account, first, by the withdrawal of cash therefrom, second, from the proceeds of the sale of investments held therein, and third, from pro rata draws under each Reserve Insurance credited thereto. Any deficiency created in the 2009 Reserve Account by reason of any such withdrawal shall then be made up from the Net Revenue first available after making necessary provisions for the required payments into the Debt Service Account, first, to reinstate each Reserve Insurance, pro rata, and second, to make up any remaining deficiency. The money in the 2009 Reserve Account may be applied against the last outstanding Parity Bonds secured by the 2009 Reserve Account. If the Reserve Requirement for the Parity Bonds secured by the 2009 Reserve Account is fully provided for, any money in excess of the Reserve Requirement for the Parity Bonds secured by the 2009 Reserve Account may be withdrawn and deposited consistent with this Section and Section 19 of this resolution.

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

Notwithstanding the foregoing, for any Future Parity Bonds Cascade may establish a separate reserve requirement for that issue of Future Parity Bonds and any related Payment Agreement Payments, to be held in a separate Reserve Account within the Bond Fund, for the purpose of securing that issue of Future Parity Bonds and Payment Agreement Payments, and that issue of Parity Bonds and those Payment Agreement Payments shall not be secured by amounts in the 2006 Reserve Account or the 2009 Reserve Account or by Reserve Insurance credited to the 2006 Reserve Account or the 2009 Reserve Account.

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

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

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

Section 14. 2009 Construction Account. There is hereby created in the Construction Fund an account of Cascade known as the 2009 Bonds Construction

Account (the “2009 Construction Account”). The proceeds of the sale of the 2009 Bonds remaining after the deposit of any proceeds specified by the 2009 Bond Sale Resolution into the 2009 Reserve Account shall be deposited into the 2009 Construction Account to be used for the purpose of paying part of the cost of carrying out the 2009 Watershed Management Plan and the costs of issuing and selling the 2009 Bonds. Until needed to pay those costs, Cascade may invest those proceeds and interest thereon temporarily in any legal investment, and the investment earnings may, as determined by the Chief Executive Officer, be retained in the 2009 Construction Account and be spent for the purposes of that account or deposited in the Debt Service Account.

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

Section 16. Finding as to Sufficiency of Gross Revenue. The Board finds and determines (i) that the Gross Revenue and benefits to be derived from the operation and maintenance of the System, taking into account the Member Charges to be imposed from time to time for water and other services and commodities from the System consistent with Section 18(b) of this resolution, will be sufficient to meet all Operations and Maintenance Costs and to permit the setting aside into the Bond Fund out of the Gross Revenue of amounts sufficient to pay the Principal of and premium, if any, and interest on the 2006 Bonds and the 2009 Bonds and to make all payments required to be made into the 2009 Reserve Account under the 2009 Resolution and (ii) that in fixing the amounts to be paid into the Bond Fund Cascade has exercised due regard for Operations and Maintenance Costs, and has not bound and obligated itself to set aside and to pay into the Bond Fund a greater amount or proportion of the Gross Revenue than in the judgment of Cascade will be available over and above the Operations and Maintenance Costs.

Section 17. Pledge of Net Revenue. The Net Revenue and all money and investments held in the Bond Fund, the Rate Stabilization Fund, the RCFC Fund and the Construction Fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) are pledged to the payment of Principal of and premium, if any, and interest on the 2006 Bonds, the 2009 Bonds and all Future Parity Bonds, all Payment Agreement Payments and all payments required to be made into the Reserve Accounts under any Parity Bond Authorizing Resolution. This pledge of Net Revenue shall constitute a charge upon the Net Revenue superior to any other charges whatsoever. The Parity Bonds and Payment Agreements are payable solely from Net Revenue and the funds expressly set forth in this Section. Cascade has no taxing power. The Parity Bonds and Payment Agreements shall not be general obligations of Cascade. This resolution does not pledge, and neither the Parity Bonds nor the Payment Agreements are payable from, the full faith and credit or taxing power of any Member. No Member is responsible for payment of the Parity Bonds or the Payment Agreements except as set forth in the Interlocal Contract.

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

(a) Operation and Maintenance. Cascade will at all times maintain, preserve and keep the properties of the System in good repair, working order and condition, will make all necessary and proper additions, betterments, renewals and repairs thereto, and improvements, replacements and extensions thereof so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and will at all times operate or cause to be operated the properties of the System and the business in connection therewith in an efficient manner and at a reasonable cost.

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

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

Gross Revenue by law or contract in that fiscal year; and

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

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

(c) Interlocal Contract. Cascade shall enforce the provisions of the Interlocal Contract, including without limitation the provisions of the Interlocal Contract providing for payment of Member Charges, the provisions of Section 7.9.2(b) of the Interlocal Contract obligating other Members to pay a defaulting Member's Member Charges, and provisions requiring any withdrawing Member to continue payment of its allocable share of debt service on the 2009 Bonds as a "then-existing obligation of Cascade." Cascade shall not waive any right or fail to declare any default under or in connection with the Interlocal Contract that would reduce the payments or extend the dates for payments to Cascade provided therein or would materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding.

(d) Sale, Transfer or Disposition of the System. Except as provided in the Interlocal Contract, Cascade may sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part of the System or any real or personal property comprising a part of the System (each, as used in this paragraph, a "transfer") only upon approval of the Board by resolution that contains one or more of the following determinations, to be made at the discretion of the Board:

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

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

(3) Cascade receives from the transferee an amount equal to the fair market value of the portion of the System transferred. As used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the willing buyer and willing

seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus.

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

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

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

(e) Liens Upon the Net Revenue. Except as otherwise expressly provided in this resolution, Cascade will not at any time create or permit to accrue or to exist any lien, charge or other encumbrance upon the Net Revenue or any part thereof, prior or superior to the lien and charge thereon for the payment of the Principal of and interest on the 2006 Bonds and the 2009 Bonds, and will pay and discharge, or cause to be paid and

discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien, charge or other encumbrance upon the Net Revenue or any part thereof, prior or superior to, or on a parity with, the lien and charge thereon for the payment of the Principal of and interest on the 2006 Bonds and the 2009 Bonds, or which might materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding.

(f) Books and Accounts. Cascade will keep proper books, records and accounts with respect to the operations, income and expenditures of the System in accordance with generally accepted accounting practices relating to municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records and accounts to be audited on an annual basis by the State Auditor and/or by a certified public accountant selected by Cascade. It will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the System as of the close of that fiscal year, and the income and expenses for that fiscal year, including the amounts paid into the Bond Fund and into any and all special funds or accounts created pursuant to the provisions of this resolution, the status of all funds and accounts as of the end of that fiscal year, and the amounts expended for maintenance, renewals, replacements and capital additions to the System. That audit report and those statements shall be sent to any Registered Owner upon written request therefor being made to Cascade. Cascade may charge a reasonable cost for providing that audit report and those financial statements.

(g) Maintenance of Insurance. Cascade at all times will carry fire and extended coverage, public liability and property damage and such other forms of insurance with responsible insurers and with policies payable to Cascade on such of the buildings, equipment, works, plants, facilities and properties of the System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of like systems, or it will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of Cascade, to protect the System, the Registered Owners against loss.

(h) Condemnation Awards and Insurance Proceeds. If Cascade receives any condemnation awards or proceeds of an insurance policy in connection with any loss of or damage to any property of the System, it shall apply the condemnation award or insurance proceeds, in

Cascade's sole discretion, as follows: (i) to the cost of replacing or repairing the lost or damaged properties, (ii) to the payment, purchase for cancellation or redemption of Parity Bonds and to make any payments under Payment Agreements required pursuant to that payment, purchase for cancellation or redemption, (iii) to the cost of improvements to the System or (iv) with respect to proceeds of business interruption insurance only, in accordance with Sections 13 and 19 of this resolution.

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

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

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

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

(d) To make when due all payments required to be made into the Reserve Accounts, all payments required to be made under any agreement relating to the provision of Reserve Insurance, and all payments required to be made under any reimbursement agreement with a Reserve Insurance provider that requires those payments to be made on a parity with the payments required to be made into the Reserve Accounts;

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

(f) To make when due all payments required to be made into any revenue bond, note, warrant or other revenue obligation redemption fund, debt service account or reserve account created to pay or secure the payment of any revenue bonds, notes, warrants or other obligations of Cascade having a

charge upon the Net Revenue junior and inferior to the charge thereon for the payment of the Principal of and premium, if any, and interest on the Parity Bonds, all payments to be made under Payment Agreements and all payments required to be made into the Reserve Accounts under any Parity Bond Authorizing Resolution, in any priority not inconsistent with this resolution that Cascade may hereafter establish by resolution; and

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

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

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

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

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

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

(c) The applicable Parity Bond Authorizing Resolution shall provide for the payment of the

Principal of and interest on those Future Parity Bonds or Payment Agreement Payments out of the Bond Fund;

(d) Unless a separate reserve is provided for in accordance with Section 13 of this resolution, the applicable Parity Bond Authorizing Resolution shall provide for the deposit into the 2006 Reserve Account of any combination of Future Parity Bond proceeds, Reserve Insurance or other money legally available, in the amount, if any, necessary to make the amount on deposit in the 2006 Reserve Account equal to the Reserve Requirement for Parity Bonds secured by the 2006 Reserve Account upon the issuance of those Future Parity Bonds; and

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

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

(2) a certificate of an Independent Consulting Engineer that in his or her opinion (which opinion and underlying assumptions shall be set forth in the certificate), the Coverage Requirement will be satisfied, (A) assuming that those Future Parity Bonds are outstanding and any Parity Bonds to be refunded by those Future Parity Bonds are not outstanding, in each of the fiscal years for the five fiscal years next following the earlier of (I) the end of the period during which interest on those Future Parity Bonds is fully capitalized or, if that interest is not fully capitalized, the fiscal year in which those Future Parity Bonds are issued, or (II) the date on which substantially all new facilities or improvements financed in substantial part by those Future Parity Bonds are expected to commence operations and (B) in the fiscal year in which those Future Parity Bonds are issued and any subsequent fiscal year prior to but not included in the fiscal years for which certification is provided pursuant to the foregoing clause (A). That certificate may take into account the following adjustments:

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

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

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

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

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

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

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

payments to be made under Payment Agreements and all payments required to be made into the Reserve Accounts under any Parity Bond Authorizing Resolution.

Section 22. Preservation of Tax Exemption for Interest on 2009 Bonds That Are Tax-Exempt Bonds. Cascade covenants that it will take all actions consistent with the terms of the 2009 Bond Resolution and the 2009 Bonds reasonably within its power and necessary to prevent interest on the 2009 Bonds that are Tax-Exempt Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of the proceeds of the 2009 Bonds or other funds of Cascade treated as proceeds of the 2009 Bonds at any time during the term of the 2009 Bonds that will cause interest on the 2009 Bonds that are Tax-Exempt Bonds to be included in gross income for federal income tax purposes. Cascade also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Code is applicable to the 2009 Bonds, take all action necessary to comply (or to be treated as having complied) with that requirement in connection with the 2009 Bonds, including the calculation and payment of any penalties that Cascade has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the 2009 Bonds that are Tax-Exempt Bonds from being included in gross income for federal income tax purposes.

Cascade also covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any series of 2009 Bonds sold and issued as Build America Bonds. Without limiting the generality of the foregoing, Cascade will comply with the provisions of the Code compliance with which would result in the interest on Build America Bonds being excluded from gross income for federal tax purposes but for Cascade's irrevocable election to have Section 54AA of the Code apply to such 2009 Bonds.

Section 23. Undertaking to Provide Continuing Disclosure. If necessary to assist the underwriter of the 2009 Bonds in meeting its requirements under the Rule, as applicable to a participating underwriter for the 2009 Bonds, Cascade shall undertake in the 2009 Bond Sale Resolution, or in a separate certificate or agreement, to provide the annual financial information, operating data and notice of material events required under the Rule. A default under such any such undertaking shall not be deemed an Event of Default under this resolution, and the sole remedy

under any such undertaking in the event of any failure of Cascade to comply with such undertaking shall be an action to compel performance.

Section 24. Defeasance of Parity Bonds. If Cascade deposits irrevocably with an escrow agent money and/or noncallable Government Obligations which, together with the earnings thereon, are sufficient, without any reinvestment thereof, to pay the Principal of and premium, if any, on any particular Parity Bond or Parity Bonds or portions thereof becoming due (the "Defeased Bonds"), together with all interest accruing thereon to the due date or redemption date, and pays or makes provision for payment of all fees, costs and expenses of that escrow agent due or to become due with respect to the Defeased Bonds, all liability of Cascade with respect to the Defeased Bonds shall cease, the Defeased Bonds shall be deemed not to be outstanding hereunder and the Registered Owners of the Defeased Bonds shall be restricted exclusively to the money or Government Obligations so deposited, together with any earnings thereon, for any claim of whatsoever nature with respect to the Defeased Bonds, and that escrow agent shall hold that money, Government Obligations and earnings in trust exclusively for those Registered Owners and that money, Government Obligations and earnings shall not secure any other Parity Bonds under this resolution. In determining the sufficiency of the money and Government Obligations deposited pursuant to this Section, that escrow agent shall receive, at the expense of Cascade, and may rely upon: (a) a verification report of a firm of nationally recognized independent certified public accountants or other qualified firm acceptable to Cascade and that escrow agent; and (b) an opinion of Bond Counsel to the effect that (1) all conditions set forth in this Section have been satisfied and (2) defeasance of the Defeased Bonds will not cause interest on any Defeased Bonds that are Tax-Exempt Bonds to be includable in gross income for federal income tax purposes. The Defeased Bonds shall no longer be secured by or entitled to the benefits of the applicable Parity Bond Authorizing Resolution, except for the purposes of any payment from the money or Government Obligations deposited with that escrow agent and except for the provisions of this resolution relating to the execution, authentication, registration, exchange, transfer and cancellation of Parity Bonds.

Section 25. Supplemental Resolutions.

(a) The 2009 Bond Resolution shall not be modified or amended in any respect subsequent to the initial issuance of the 2009 Bonds, except as provided in and in accordance with and subject to the provisions of this Section.

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

(1) To provide for the issuance of Future Parity Bonds and the entry into Payment Agreements in accordance with the provisions of the 2009 Bond Resolution;

(2) To cure any formal defect, omission, inconsistency or ambiguity in the 2009 Bond Resolution in a manner not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding under a Payment Agreement then in effect;

(3) To impose upon the Bond Registrar (with its consent) for the benefit of the Registered Owners or Qualified Counterparties any additional rights, remedies, powers, authority, security, liabilities or duties that may lawfully be granted, conferred or imposed and that are not contrary to or inconsistent with the 2009 Bond Resolution as therefore in effect;

(4) To add to the covenants and agreements of, and limitations and restrictions upon, Cascade in the 2009 Bond Resolution, other covenants, agreements, limitations and restrictions to be observed by Cascade that are not contrary or inconsistent with the 2009 Bond Resolution as therefore in effect;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien, charge or pledge created or to be created by the 2009 Bond Resolution of any other money, securities or funds;

(6) To authorize different denominations of the 2009 Bonds and to make correlative amendments and modifications to the 2009 Bond Resolution regarding exchangeability of 2009 Bonds of different authorized denominations, redemptions of portions of 2009 Bonds of particular authorized denominations, provisions relating to DTC or its successor, and to make similar amendments and modifications of a technical nature not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding;

(7) To modify, alter, amend or supplement the 2009 Bond Resolution in any other respect that is not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding that does not involve a change described in subsection (c) of this Section;

(8) Because of change in federal law or rulings, to maintain the exclusion from gross income of the interest on the 2009 Bonds that are

Tax-Exempt Bonds from federal income taxation or to preserve the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any series of 2009 Bonds sold and issued as Build America Bonds in a manner not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding; and

(9) To add to the covenants and agreements of, and limitations and restrictions upon, Cascade in the 2009 Bond Resolution, other covenants, agreements, limitations and restrictions to be observed by Cascade that are requested by a Bond Insurer or Reserve Insurance provider and which are not materially adverse to the security of the Registered Owner of any Parity Bond then outstanding.

Before Cascade shall adopt any supplemental resolution pursuant to this subsection (b), there shall have been delivered to Cascade and the Bond Registrar an opinion of Bond Counsel, stating that that supplemental resolution is authorized or permitted by the 2009 Bond Resolution and, upon the execution and delivery thereof, will be valid and binding upon Cascade in accordance with its terms and will not (i) adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2009 Bonds that are Tax-Exempt Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any series of 2009 Bonds sold and issued as Build America Bonds, or (ii) materially adversely affect the security of the Registered Owner of any Parity Bond then outstanding.

(c) (1) Except for any supplemental resolution entered into pursuant to subsection (b) of this Section, subject to the terms and provisions contained in this subsection (c) and not otherwise, Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds shall have the right from time to time to consent to and approve the adoption by Cascade of any supplemental resolution deemed necessary or desirable by Cascade for the purpose of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the 2009 Bond Resolution; except that, unless approved in writing by each Registered Owner of each Parity Bond at the time outstanding, nothing contained in this Section shall permit, or be construed as permitting:

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

rate of interest thereon or the redemption or tender provisions thereof, or

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

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

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

(3) Within two years after the date of the mailing of that notice, Cascade may adopt that supplemental resolution in substantially the form described in that notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the Registered Owners, and (ii) an opinion of Bond Counsel stating that that supplemental resolution is authorized or permitted by the 2009 Bond Resolution and, upon the execution and delivery thereof, will be valid and binding upon Cascade in accordance with its terms and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2009 Bonds that are Tax-Exempt Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any series of 2009 Bonds sold and issued as Build America Bonds.

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

(d) Upon the execution and delivery of any supplemental resolution pursuant to the provisions of this Section, the 2009 Bond Resolution shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights,

duties and obligations under the 2009 Bond Resolution of Cascade, the Bond Registrar, all Registered Owners shall thereafter be determined, exercised and enforced under the 2009 Bond Resolution subject in all respects to those modifications and amendments.

Section 26. Amendments to Interlocal Contract.

(a) Cascade, from time to time, and at any time, without the consent of or notice to the Registered Owners or Qualified Counterparties, may amend the Interlocal Contract for any purpose except as provided in subsection (b) of this Section. However, before Cascade shall permit the amendment of the Interlocal Contract pursuant to this subsection (a), there shall have been delivered to Cascade and the Bond Registrar an opinion of Bond Counsel, stating that that amendment is authorized or permitted by the 2009 Bond Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2009 Bonds that are Tax-Exempt Bonds or the entitlement to receive from the United States Treasury the applicable federal credit payments in respect of any series of 2009 Bonds sold and issued as Build America Bonds.

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

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

be made under a Payment Agreement other than Payment Agreement Payments, to be payable to Cascade after Members' payments of debt service on their own revenue obligations); or

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

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

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

e. an amendment that eliminates or materially diminishes the obligation of the Members under Section 7.9.2(b) of the Interlocal Contract, i.e., to pay proportionate shares of a defaulting Member's Member Charges; or

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

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

(3) Within two years after the date of the mailing of that notice, Cascade may permit the amendment of the Interlocal Contract in substantially the form described in that notice, but only if there shall have first been delivered to the Bond Registrar (i) the required consents, in writing, of the Registered Owners, and (ii) an opinion of Bond Counsel stating that that amendment is authorized or permitted by the 2009 Bond Resolution and will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2009 Bonds that are Tax-Exempt Bonds or the entitlement to receive from the United States Treasury the applicable federal

credit payments in respect of any series of 2009 Bonds sold and issued as Build America Bonds.

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

Section 27. Defaults and Remedies.

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

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

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

(3) If an "Event of Default" occurs under (and as defined in) any Parity Bond Authorizing Resolution other than the 2009 Bond Resolution.

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

(b) Bond Owners' Trustee. Upon the occurrence and during the continuance of an Event of Default, a trustee (the "Bond Owners' Trustee") (i) may be appointed by the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, notification thereof having been given to Cascade, or (ii) shall be appointed by Cascade at the direction of the Registered Owners of not less than a majority of aggregate Principal amount of the outstanding Parity Bonds, in each case by an instrument or concurrent instruments in writing signed and acknowledged by

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

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

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

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

Nothing contained in this Section shall, in any event or under any circumstance, be deemed to authorize the acceleration of maturity of Principal of

the Parity Bonds, and the remedy of acceleration is expressly denied to the Registered Owners under any circumstances including, without limitation, upon the occurrence and during the continuance of an Event of Default.

Any action, suit or other proceedings instituted by the Bond Owners' Trustee hereunder shall be brought in its name as trustee for the Registered Owners and all such rights of action upon or under any Parity Bond Authorizing Resolution or any of the Parity Bonds may be enforced by the Bond Owners' Trustee without the possession of any of those Parity Bonds and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law. Any such suit, action or proceeding instituted by the Bond Owners' Trustee shall be brought for the ratable benefit of all Registered Owners, subject to the provisions of the Parity Bond Authorizing Resolutions. Upon the appointment of a Bond Owners' Trustee in accordance with the provisions herein, each Registered Owner of a Parity Bond, by taking and holding the same, shall be conclusively deemed irrevocably to have appointed the Bond Owners' Trustee the true and lawful trustee of all Registered Owners, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums becoming distributable on account of those Parity Bonds; to execute any paper or documents for the receipt of money; and to do all acts with respect thereto that the Registered Owner himself or herself might have done in person. Nothing herein shall be deemed to authorize or empower the Bond Owners' Trustee to consent to accept or adopt, on behalf of any Registered Owner, any plan of reorganization or adjustment affecting the Parity Bonds or any right of any Registered Owner thereof, or to authorize or empower the Bond Owners' Trustee to vote the claims of the Registered Owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other similar proceedings to which Cascade is a party.

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

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

(2) second, to the payment of all interest on the Parity Bonds and the Payment Agreement Payments then due and payable, in the order in which the same became due and payable,

and, if the amount available shall not be sufficient to make any payment in full, then to the payment, ratably, according to the amounts due with respect to those payments, without discrimination or preference;

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

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

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

(e) Duties and Obligations of Bond Owners' Trustee. The Bond Owners' Trustee shall not be liable except for the performance of such duties as are specifically set forth herein. Upon the occurrence and during the continuance of an Event of Default, the Bond Owners' Trustee shall exercise such of the rights and powers vested in it hereby, and shall use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The Bond Owners' Trustee shall have no liability for any act or omission to act hereunder except for the Bond Owners' Trustee's own negligent action, its own negligent failure to act or its own willful misconduct. The duties and obligations of the Bond Owners' Trustee shall be determined solely by the express provisions of the Parity Bond Authorizing Resolutions, and no implied powers, duties or obligations of the Bond Owners' Trustee shall be read into the 2009 Bond Resolution.

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding any other provision of the 2009 Bond Resolution, each Registered Owner shall have the absolute and unconditional right to receive payment of Principal of and premium, if any, and interest on that Registered Owner's Parity Bonds on and after the due date thereof and to institute suit for the enforcement of any such payment.

(g) Failure to Comply With Undertaking. Notwithstanding anything in this Section to the contrary, the failure of Cascade or any obligated

person to comply with the Undertaking shall not constitute an Event of Default, and the sole remedy of any holder of a 2009 Bond shall be to seek an order of specific performance from an appropriate court to compel Cascade or the obligated person to comply with the Undertaking.

Section 28. Sale of 2009 Bonds. The Chief Executive Officer may provide for the sale of one or more series of the 2009 Bonds by public sale or by a negotiated sale, limited offering or private placement, with the successful underwriter, placement agent or purchaser, as applicable, chosen through a selection process acceptable to the Chief Executive Officer. The terms of that sale, which may include a forward or delayed delivery of the 2009 Bonds, shall be consistent with the 2009 Bond Resolution and shall be confirmed by the 2009 Bond Sale Resolution. The 2009 Bonds will be delivered to the purchaser as provided in the 2009 Bond Sale Resolution, immediately upon payment to Cascade of the purchase price in immediately available federal funds in Seattle, Washington, or at another place upon which the Chief Executive Officer and the purchaser may mutually agree.

CUSIP numbers (if required) will be printed on the 2009 Bonds, but neither failure to print CUSIP numbers on any 2009 Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for the 2009 Bonds in accordance with the purchase offer. All expenses in relation to the printing of CUSIP numbers on the 2009 Bonds shall be paid by Cascade, but the fee of the CUSIP Service Bureau for the assignment of those numbers shall be the responsibility of and shall be paid by the purchaser.

Each series of 2009 Bonds will be printed at Cascade's expense and will be delivered to the purchaser thereof with the approving legal opinion of Foster Pepper PLLC, municipal bond counsel of Seattle, Washington, regarding that series of 2009 Bonds.

Section 29. 2009 Bond Insurer Rights. With respect to each series of 2009 Bonds, except as otherwise provided in the 2009 Bond Sale Resolution, so long as the 2009 Bond Insurer, if any, is not in default in respect of any of its obligations under its Bond Insurance, the following shall apply:

(a) The 2009 Bond Insurer, and not the Registered Owners of the 2009 Bonds, shall be deemed to be the Registered Owner of the 2009 Bonds at all times for the purposes of (i) giving any approval or consent to the effectiveness of any resolution amendatory or supplemental hereto other than a resolution providing for (A) a change in the times, amounts or currency of payment of any outstanding Parity Bond, or a reduction in the

Principal amount of any outstanding Parity Bond or a change in the rate or method of determining the rate of interest thereon or the redemption or tender provisions thereof, or (B) a preference or priority of any Parity Bond over any other Parity Bond, or (C) a reduction in the aggregate Principal amount of Parity Bonds, the consent of the Registered Owners of which is required for any supplemental resolution; (ii) appointing a Bond Owners' Trustee; (iii) giving any approval or consent or exercising any remedies in connection with the occurrence of an Event of Default; and (iv) giving any approval or consent to a supplemental resolution or amendment to the Interlocal Contract requiring the consent of the Registered Owners of the 2009 Bonds.

(b) Any supplemental resolution or amendment to the Interlocal Contract requiring the consent of the Registered Owners of Parity Bonds other than the 2009 Bonds shall also require the prior written consent of the 2009 Bond Insurer if its rights will be materially and adversely affected thereby.

(c) Any supplemental resolution or amendment to the Interlocal Contract not requiring the consent of the Registered Owners shall require prior written notice to the 2009 Bond Insurer.

(d) The 2009 Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as a Registered Owner in accordance with the 2009 Bond Resolution.

(e) The 2009 Bond Insurer shall, to the extent it makes any payment of Principal of or interest on the 2009 Bonds, become subrogated to the rights of the recipients of that payment in accordance with the terms of the Bond Insurance.

(f) The Principal of or interest on the 2009 Bonds paid by the 2009 Bond Insurer under the Bond Insurance shall not be deemed paid for purposes of the 2009 Bond Resolution, and the 2009 Bonds with respect to which those payments were made shall remain outstanding and continue to be due and owing until paid by Cascade in accordance with the 2009 Bond Resolution.

Section 30. General Authorization. The Chair of the Board and the Chief Executive Officer of Cascade and each of the other appropriate officers of Cascade are each authorized and directed to do everything as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, the 2009 Bond Resolution. In particular, and without limitation, the Chief Executive Officer may, in his or her discretion and without further action by the Board, (i) deem final any preliminary official statement or official statement relating to the 2009 Bonds, (ii) authorize

the distribution of any preliminary official statement by the underwriter of the 2009 Bonds, (iii) comply with any continuing disclosure requirements applicable to the 2009 Bonds, (iv) change the Bond Registrar or any securities depository appointed for the 2009 Bonds, (v) provide information to Rating Agencies, prospective providers of Bond Insurance and Reserve Insurance and other participants in the issuance of the 2009 Bonds and (vi) request proposals from prospective providers of Bond Insurance and Reserve Insurance for the 2009 Bonds.

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

Section 32. Ratification of Prior Acts. Any action taken consistent with the authority but prior to the effective date of this resolution, including, if applicable, but not limited to giving notices of the sale of 2009 Bonds, adopting the 2009 Bond Sale Resolution, executing contracts, making fund transfers and paying warrants, is ratified, approved and confirmed.

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

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

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**APPENDIX C
AMENDED AND RESTATED INTERLOCAL CONTRACT**

**CASCADE WATER ALLIANCE
INTERLOCAL CONTRACT**

Amended and Restated
December 15, 2004

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**CASCADE WATER ALLIANCE
INTERLOCAL CONTRACT**

Recitals

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

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

NOW, THEREFORE, it is agreed as follows:

ARTICLE 1. Agreement

The Cascade Interlocal Contract, effective April 1, 1999, and entered into under authority of the Interlocal

Cooperation Act, Chapter 39.34 RCW is amended and re-stated as provided herein.

ARTICLE 2. Definitions

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

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

“Board” means the Board of Directors of Cascade.

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

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

“Cascade” means the Cascade Water Alliance.

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

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

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

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

“Contract” means this Cascade Water Alliance Interlocal Contract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

adopted by the Board in accordance with Section 7.5.

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

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

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

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

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

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

“**Interruptible Supply Commitment**” means a supply of all or part of a Member’s water needs from

the Supply System on an as-available basis on a lower priority than any Full Supply Commitment.

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

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

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

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

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

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

ARTICLE 3. Formation of Entity; Purpose and Powers

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

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

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

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

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

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

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

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

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

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

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

and to carry out this task in a coordinated, cost-effective, and environmentally sensitive manner;

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

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

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

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

ARTICLE 4. Organization Structure; Board

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

The Board shall adopt ByLaws consistent with this Interlocal Contract that specify, among other matters, the month of Cascade’s Annual Meeting, Board powers and duties and those of the Executive Committee, Standing Committees, Officers and employees.

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

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

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

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

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

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

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

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

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

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

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

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

Section 4.6 Staff, Consultants and Contractors.

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

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

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

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

ARTICLE 5. Asset Development and Supply Commitment

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

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

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

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

Section 5.2 Supply Commitment

Section 5.2.1 Commitment to Members.

Beginning on the Cascade Supply Date, Cascade shall provide a Full Supply Commitment to each Founding Member. Thereafter, Cascade shall provide a Full Supply Commitment to meet all current and future water supply needs of a Member that joins with Water Supply Assets sufficient to provide for its needs during

the following fifteen (15) years (whether or not those Water Supply Assets are transferred to Cascade or retained as Independent Supply) commencing on the Member's Cascade Supply Date. When a supply contract is negotiated with Seattle, any Member that is a Seattle Contract Purveyor shall relinquish its rights under its Seattle Water Purveyor Contract to Cascade and execute such documents as may be necessary to transfer those rights to Cascade. Cascade shall accept those rights and a corresponding obligation to provide a Full Supply Commitment (net of Independent Supply). The approval of a contract with the City of Seattle providing for the initial acquisition of rights to substantial Water Supply Assets, and any material amendment to that contract, shall be effective upon a 65% Dual Majority Vote.

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

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

shall be shared by all Members in accordance with Cascade's shortage management plan.

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

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

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

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

requirements; (f) changes in operation needed to benefit stream flow and fish; (g) rates and charges; and (h) such other conditions as the Board and the Member or public water supplier agree upon. The agreement may or may not provide for adjustments to a Member's RCFC payments or credits and whether or not the source exchange is a loss of a Member's Independent Supply that would be subject to the provisions of Section 5.2.2.

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

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

Members serving as Authorized Issuers may conduct the financing through "separate systems" permitted by their applicable bond resolutions, or in some other appropriate manner, and Cascade may compensate those Members for all costs associated with the financing. Bond-related documents of Authorized Issuers other than Cascade must expressly permit the Bonds to be refunded or prepaid without penalty prior to their stated maturity, on and after such dates as are approved by the Authorized Issuer and the Board, to allow for a transfer of the obligation to Cascade or to Cascade's successor entity, including without limitation a joint operating agency or similar entity, as may be permitted by law.

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

principal of and interest on the Bonds), together with amounts sufficient to satisfy all debt service reserve requirements, debt service coverage requirements, and other covenants with respect to the Bonds.

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

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

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

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

Member agree to make an appropriate written undertaking, respectively, for the benefit of holders of the Bonds consistent with the requirements of the Rule.

Section 5.3.4 Preservation of Tax Exemption for Interest on the Bonds. Each Member covenants that it will take all actions necessary to prevent interest on tax-exempt Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of tax-exempt Bonds or other funds treated as proceeds of those Bonds at any time during the term of those Bonds that will cause interest on those Bonds to be included in gross income for federal income tax purposes.

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

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

Section 5.5 Regional Capital Facilities Charges. To allocate growth costs to those Members that require capacity increases, each Member shall pay to Cascade an RCFC for each new CERU connected to its water distribution system. Growth in water usage by existing CERUs is not subject to RCFCs unless that

growth constitutes a CERU increase as provided in the RCFC Methodology. Members with a supply deficit must pay an RCFC commensurate with that deficit. To the extent that a Member transfers to Cascade or retains as Independent Supply water supply in excess of its needs, it receives a corresponding credit against future RCFCs.

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

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

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

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

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

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

A Member that accepts ownership of a Satellite System that Cascade agrees to serve shall pay an RCFC

for the amount of supply needed to serve that system in excess of its rated capacity.

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

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

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

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

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

ARTICLE 6. New Independent Supply

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

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

ARTICLE 7. Asset Management

Section 7.1 Supply System Management.

Cascade is responsible for managing, on behalf of all Members, the Supply System. Cascade is not responsible for managing Independent Supply unless it has expressly agreed to do so. Supply System management responsibilities shall be governed by Cascade's system management plan adopted by the Board. Cascade's system management plan concerns, without limitation, matters such as daily system operations and maintenance, interface with other supply providers, contractual obligations, water quality, billing, management and administration. Cascade may delegate and/or contract out its Supply System responsibilities.

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

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

Section 7.3 Shortages and Emergency.

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

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

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

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

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

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

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

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

adequate water supply quality is provided by Cascade at the point of delivery from Cascade.

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

Section 7.5 Water Supply Rates and Charges. The Board shall set Rates and Charges according to a Rate Calculation Methodology adopted from time to time by the Board. The Rate Calculation Methodology for Members' Supply Commitment shall provide for the definition and calculation of Demand Shares and for a uniform pricing structure with a commodity charge and fixed charges allocated by Demand Share.

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

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

The Board must set Member Charges at levels it determines to be sufficient, together with other available revenue sources, to provide adequately for Operation and Maintenance Costs, Bond debt service,

coverage and other covenants, replacement and renewal of facilities, reserves and other costs that the Board deems appropriate. The Board may provide that a Member's failure to participate in the planning process may result in penalty charges.

A Member that has transferred Water Supply Assets shall receive a credit, determined when those assets are audited and transferred, based on the useful life of those facilities and on the Member's use of the water produced by those assets or an amount of water equivalent to the amount of supply from them.

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

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

Section 7.6 New Water Surcharge.

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

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

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

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

Section 7.9.1 Invoice and Payment.

(a) Cascade shall provide each Member with periodic invoices showing the Member Charges payable by that Member for the billing period and the due date.

Invoices shall be provided monthly or on other such periodic schedule as determined by the Board, but no more frequently than monthly nor less frequently than once every six months. The Board will determine a due date for all invoices.

(b) Payment of any and all invoices shall be due and payable on or before the due date, and shall be made by wire transfer or such other means as are agreed to by Cascade and the Member. If a treasurer, trustee, fiscal agent or escrow agent is appointed in connection with the issuance of Bonds, Cascade may require, and specify on the invoice, that certain amounts be provided directly to that person or entity, and the Member shall pay those amounts in the manner and to the person so specified.

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

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

Section 7.9.2 Default and Step-Up.

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

(b) Upon an event of default as described in

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

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

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

ARTICLE 8. Planning

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

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

Section 8.2 Watershed Management Plan. Cascade may adopt Watershed Management Plans, as appropriate, for the watersheds within its service area provided that a Watershed Management Plan may take

the place of, or may be incorporated into a Cascade Water Supply Plan. In fulfilling its responsibilities for watershed management, Cascade may enter into interlocal agreements with Non-Member municipalities to engage in watershed management, including development of Watershed Management Plans and the implementation and financing of such plans.

Section 8.3 System Reliability Methodology. Cascade shall develop and adopt a system reliability methodology for planning, operation and management purposes. Adoption and amendments to the system reliability methodology shall require a 65% Dual Majority Vote.

ARTICLE 9. Filings

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

ARTICLE 10. Duration and Dissolution; Withdrawal

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

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

“fixed operating costs” shall be determined in the year of withdrawal, and the Member’s obligation with respect to such costs shall be limited only to that amount required to pay for supply abandoned by the Member and not otherwise used by Cascade.

The allocable share of cost or obligations shall be determined by the Board, taking into consideration as deemed applicable by the Board: (a) the ratio of the Member’s Demand Share to total Member demand; (b) the ratio of the Member’s contribution to Cascade revenue to total Cascade revenue including RCFCs; (c) the cost or a portion of the cost of capital projects or facilities specially benefiting the Member; and (d) and any other factor the Board deems appropriate to consider. The Member’s withdrawal shall be effective on payment of such allocable share or provision for arrangements to pay such allocable share that are satisfactory to the Board. Until the effective date of withdrawal, the Member shall continue to comply with all applicable provisions of this Interlocal Contract.

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

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

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

Section 10.3 Dissolution. Cascade may be dissolved by a 65% Dual Majority Vote. Upon dissolution, except as provided in an Asset Transfer Agreement, Cascade’s assets initially shall be held by its then current Members as tenants in common. Each Member’s ownership interest must be based on that Member’s Demand Share as of the time of the dissolution. Cascade’s liabilities (including Bonds and other contractual obligations) initially shall be distributed based on Members Demand Shares as of the time of the dissolution. Assets and liabilities must be distributed in accordance with agreement or contract,

under a voluntary mediation process, or by a court of law. A court may appoint an arbitrator or special master. Distribution shall be based on the best interests of efficient and economic water supply in the entire area served by the Members, subject to a rebuttable presumption that Water Supply Assets will be returned to the Member that originally transferred them to Cascade. That presumption may be overcome by a showing that another asset distribution is in the best interests of efficient and economic water supply. The proceeds of any sale of assets must be distributed among the then current Members based on the Demand Shares at the time of dissolution.

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

ARTICLE 11. Amendments.

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

ARTICLE 12. Applicable Law and Venue.

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

ARTICLE 13. No Third Party Beneficiaries.

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

ARTICLE 14. Severability.

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

found to seriously affect the consideration, and is inseparably connected to the remainder of the contract, the entire Contract is deemed void.

ARTICLE 15. Entire Agreement.

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

ARTICLE 16. Execution.

This Contract may be executed in one or more counterparts.

Signatory Agency

By: _____

Title: _____ Date: _____

Attest: _____

Title: _____ Date: _____

Authorized by: _____
(Resolution or Ordinance)

Date: _____

Cascade Water Alliance:

By: _____

Title: _____ Chair _____ Date: _____

Attest: _____

Title: _____ General Manager _____ Date: _____

Authorized by: _____ Resolution No. _____

Date: _____

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APPENDIX D
BOOK-ENTRY SYSTEM

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

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

Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

6. Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Bond Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the [District] or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the [District] and the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.
10. Issuer may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.
11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

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APPENDIX E

[FORM OF APPROVING OPINION]

Cascade Water Alliance
Bellevue, Washington

Re: Cascade Water Alliance

\$4,940,000 Water System Revenue Bonds, 2009A (the “2009A Bonds”)
\$75,155,000 Water System Revenue Bonds, 2009B
(Taxable Build America Bonds – Direct Payment) (the “2009B Bonds”)

We have served as bond counsel to Cascade Water Alliance (“Cascade”) in connection with the issuance of the above-referenced 2009A Bonds and 2009B Bonds (collectively, the “2009 Bonds”), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The 2009 Bonds are issued by Cascade pursuant to Resolution No. 2009-11 and Resolution No. 2009-12 (collectively, the “2009 Bond Resolution”) to provide funds with which to pay the cost of carrying out a portion of the 2009 Watershed Management Plan, to provide for a debt service reserve for the 2009 Bonds and to pay the costs of issuing the 2009 Bonds, all as set forth in the 2009 Bond Resolution.

The 2009 Bonds are payable solely out of Cascade’s Water System Revenue Bond Fund (the “Bond Fund”), including the 2009 Reserve Account therein, into which fund Cascade irrevocably has pledged and bound itself to set aside and pay out of the Net Revenue certain fixed amounts without regard to any proportion, namely, amounts sufficient to pay the principal of and interest on the 2009 Bonds as they respectively become due and to satisfy the 2009 Reserve Requirement, all at the times and in the manner set forth in the 2009 Bond Resolution. Cascade has no taxing power. The 2009 Bonds are not general obligations of Cascade or any Member of Cascade.

The Net Revenue and all money and investments held in the Debt Service Account and 2009 Reserve Account within the Bond Fund and in the Rate Stabilization Fund, the RCFC Fund and the Construction Fund (except money and investments held in a separate fund or account created for the purpose of compliance with rebate requirements under the Code) have been

pledged to the payment of the 2009 Bonds. That pledge of Net Revenue constitutes a lien and charge upon such Net Revenue prior and superior to any other liens and charges whatsoever.

Reference is made to the 2009 Bonds and the 2009 Bond Resolution for the definitions of capitalized terms used and not otherwise defined herein.

We express no opinion herein concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the 2009 Bonds or otherwise used in connection with the 2009 Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), Cascade is required to comply with certain requirements after the date of issuance of the 2009 Bonds in order to maintain the exclusion of the interest on the 2009A Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of 2009A Bond proceeds and the facilities financed or refinanced with 2009A Bond proceeds, limitations on investing gross proceeds of the 2009A Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the 2009A Bonds. Cascade has covenanted in the 2009 Bond Resolution to comply with those requirements, but if Cascade fails to comply with those requirements, interest on the 2009A Bonds could become taxable retroactive to the date of issuance of the 2009A Bonds. We have not undertaken and do not undertake to monitor Cascade's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the 2009 Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. Cascade is a duly organized and legally existing Washington nonprofit corporation under chapter 24.06 RCW composed of municipal corporations, which is organized under authority of the Interlocal Cooperation Act (chapter 39.34 RCW);
2. The 2009 Bonds have been duly authorized and executed by Cascade and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the resolutions of Cascade relating thereto;
3. The 2009 Bonds constitute valid and binding obligations of Cascade payable solely out of Net Revenue and certain other amounts to be paid into the Bond Fund, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases;
4. Assuming compliance by Cascade after the date of issuance of the 2009 Bonds with applicable requirements of the Code, the interest on the 2009A Bonds is excluded from gross income for federal income tax purposes and is not subject to the alternative minimum tax; however, interest on the 2009A Bonds received by certain S corporations may be subject to tax, and interest on the 2009A Bonds received by foreign corporations with United States branches

may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the 2009A Bonds; and

5. Interest on the 2009B Bonds is not excludable from gross income for federal tax purposes.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

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APPENDIX F

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by Cascade Water Alliance (“Cascade”) in connection with the issuance by Cascade of \$4,940,000 aggregate principal amount of its Water System Revenue Bonds, 2009A (the “2009A Bonds”), and \$75,155,000 aggregate principal amount of its Water System Revenue Bonds, 2009B (Taxable Build America Bonds – Direct Payment) (the “2009B Bonds” and, together with the 2009A Bonds, the “Bonds”). The Bonds have been issued pursuant to Resolution No. 2009-11, adopted by the Board of Directors of Cascade (the “Board”) on August 26, 2009, as supplemented by Resolution No. 2009-12, adopted by the Board on September 23, 2009 (together, the “Resolution”). Cascade covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by Cascade for the benefit of the holders and Beneficial Owners of the Bonds and to assist the Participating Underwriter in complying with the Rule (defined herein).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution or in the Official Statement dated September 23, 2009 (the “Official Statement”), which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means the Annual Report required to be provided by Cascade pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

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

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

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

“MSRB” means the Municipal Securities Rulemaking Board.

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

“Required Member” means for any fiscal year of Cascade any Member obligated in that fiscal year to pay Member Charges (as defined in the Resolution) in an amount equal to 10 percent or more of the sum of the Member Charges required to be paid by all of the Members in such fiscal year.

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

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

“State” means the State of Washington.

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

SECTION 3. Provision of Annual Reports.

(a) Cascade shall, or shall cause the Dissemination Agent to, not later than each Submission Deadline, commencing with the Submission Deadline for the fiscal year ending December 31, 2009, provide to the MSRB, in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may be incorporated by specific reference to documents available to the public on the Internet website of the MSRB or filed with the SEC. If Cascade’s or any Required Member’s fiscal year changes, Cascade shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than 15 Business Days prior to each Submission Deadline, Cascade shall provide the Annual Report to the Dissemination Agent (if other than Cascade). If Cascade is unable to provide to the MSRB an Annual Report by the Submission Deadline, Cascade shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Dissemination Agent is other than Cascade, the Dissemination Agent shall file a report with Cascade certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. Cascade’s Annual Report shall contain or include by reference (without duplication) the following:

1. (a) The audited financial statements of Cascade for the applicable fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law. If Cascade’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) or (b), the Annual Report shall contain unaudited financial statements in a format similar to Cascade’s audited financial

statements, and Cascade's audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The audited financial statements of each Required Member for the applicable fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to such Required Member (except as otherwise noted therein), as such principles may be changed from time to time and as permitted by State law. If a Required Member's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) or (b), the Annual Report shall contain unaudited financial statements in a format similar to the format of the Required Member's audited financial statements, and such Required Member's audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Other historical financial and operating information (which may be included in the audited financial statements) of the type shown in the Official Statement, including:

(a) Historical financial information and operating data of the type shown in the Official Statement in the tables entitled "CERUs, Demand Share and Member Charges for Each Member for 2009," "Scheduled Debt Service Requirements," "Amount of Water to be Supplied to Cascade from Seattle," "Cascade Water Alliance Statement of Financial Activities (Fiscal Year Ended December 31)," "Cascade Water Alliance Statement of Financial Position (Fiscal Year Ended December 31)," "Member Demand Shares for 2005 through 2009," "Each Member Percentage of Total Demand Shares for 2005 through 2009," "Member CERUs for 2005 through 2009 by Member," "Each Member's Percentage of Member CERUs for 2005 through 2009," and "Member Charges for 2005 through 2009 by Member."

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

(c) For each Required Member, historical financial information of the type shown in the Official Statement in the table entitled "Member and Other Regional Water Rates - 2009."

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

SECTION 5. Reporting of Material Events.

(a) Pursuant to the provisions of this Section 5, Cascade shall give, or cause to be given, to the MSRB timely notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;
3. unscheduled draws on the debt service reserves reflecting financial difficulties;
4. unscheduled draws on the credit enhancements reflecting financial difficulties;
5. adverse tax opinions or events affecting the tax-exempt status of the 2009A Bonds;
6. substitution of the credit or liquidity providers, or their failure to perform;
7. modifications to rights of Bondholders;
8. optional, contingent or unscheduled bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds; and
11. rating changes.

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

(c) If Cascade determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, Cascade shall file in a timely manner a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. Cascade's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, Cascade shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. Cascade may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than Cascade) shall not be responsible in any manner for the content of any notice or report prepared by Cascade pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, Cascade may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of holders (other than for amendments to the Resolution requiring the consent of all holders) or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, Cascade shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by Cascade or by a Required Member. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c) and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent Cascade or any Member from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If Cascade or any Member chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, neither Cascade nor any Member shall have any obligation under this Certificate to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of Cascade to comply with any provision of this Disclosure Certificate any holder or Beneficial Owner of the Bonds may take

such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause Cascade to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of Cascade to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of Cascade, the Dissemination Agent, the Participating Underwriter and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2009

CASCADE WATER ALLIANCE

By _____
Chief Executive Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Cascade Water Alliance

Name of Bond Issue: Cascade Water Alliance Water System Revenue Bonds, 2009, Series 2009A and Series 2009B (Taxable Build America Bonds – Direct Payment)

Date of Execution and Delivery: _____, 20__

NOTICE IS HEREBY GIVEN that Cascade has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated _____, 2009. [Cascade anticipates that the Annual Report will be filed by _____.]

CASCADE WATER ALLIANCE

By _____

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APPENDIX G
AUDITED FINANCIAL STATEMENTS OF CASCADE - 2008 FISCAL YEAR

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CASCADE WATER ALLIANCE

Financial Statements with
Independent Auditors' Report
December 31, 2008 and 2007

10900 NE 4th Street
Suite 1700
Bellevue WA 98004
tel. 425.454.4919
fax. 425.454.4620
800.504.8747
clarknumber.com

CLARK NUMBER

Independent Auditors' Report

Board of Directors Cascade Water Alliance Bellevue, Washington


Certified Public
Accountants
and Consultants

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cascade as of December 31, 2008 and 2007, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Clark Number P.S.
Certified Public Accountants
Bellevue, Washington
June 11, 2009

CASCADE WATER ALLIANCE

Management Discussion and Analysis

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

Overview of the Financial Statements

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

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

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

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

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

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

Major debt financing to date includes:

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

CASCADE WATER ALLIANCE
Management Discussion and Analysis

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

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

CASCADE WATER ALLIANCE
Management Discussion and Analysis

Results of Operations

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

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

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

Capital Assets and Long-Term Debt

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

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

Budget Variances

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

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

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

CASCADE WATER ALLIANCE

Management Discussion and Analysis

Additional Comments

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

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

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

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

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

CASCADE WATER ALLIANCE

Management Discussion and Analysis

Projects in Process:

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

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

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

Invested funds:

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

As of December 31, 2008, the King County investment pool held four commercial paper assets that are impaired and part of enforcement events where a trustee/receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio. The four impaired investments represent \$207 million or 5 percent of the pool's total assets. Cascade's share of the unrealized loss on these impaired investments is \$399,571 as of December 31, 2008. The maximum risk of loss to Cascade is \$473,365.

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

CASCADE WATER ALLIANCE

Statements of Net Assets
December 31, 2008 and 2007

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

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

CASCADE WATER ALLIANCE

Statements of Net Assets
December 31, 2008 and 2007

	2008	2007
Liabilities and Net Assets		
Payables and accrued liabilities from current assets		
Retroactive water credit	\$ 659,235	\$ 2,092,655
Long term debt, current portion	59,474	640,415
	1,222,097	42,500
Payables from restricted assets		2,775,570
Accrued interest	679,538	679,538
Long-term debt current portion	1,295,000	1,235,000
	1,974,538	1,914,538
Total Current Liabilities	3,196,635	4,690,108
Long-term debt, net of current portion		748,027
Long-term debt payable from unrestricted assets	671,579	52,810,000
Long-term debt payable from restricted assets	52,186,579	53,588,027
Other long-term liabilities		
Bond premium, net of amortization	1,660,041	1,734,325
Total Liabilities	57,043,255	59,982,460
Net Assets		
Invested in capital assets, net of related debt	30,751,038	17,450,837
Restricted for debt service	12,310,206	21,618,078
Unrestricted	24,596,606	15,240,909
Total Net Assets	67,657,850	54,309,824
Total Liabilities and Net Assets	\$ 124,701,105	\$ 114,292,284

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

CASCADE WATER ALLIANCE

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

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

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

CASCADE WATER ALLIANCE

Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

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

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

CASCADE WATER ALLIANCE

Statements of Cash Flows
For the Years Ended December 31, 2008 and 2007

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 1 - Continued

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

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

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

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 1 - Continued

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

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

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

Note 2 - Capitalizable Contracts

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

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

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 2 - Continued

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

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

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

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

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 2 - Continued

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

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

Projects in Process:

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

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

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

Note 3 - Cash and Cash Equivalents

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 4 - Restricted Assets

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

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

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

Included in this schedule are interest earnings of \$266,984 and unrealized gain of \$61,702 for the revenue bonds funds, and interest earnings of \$268,232 netted against unrealized losses of \$369,199 for the construction funds.

Note 5 - Capital Assets

The following summarizes the changes in fixed assets of Cascade:

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 5 - Continued

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

Note 6 - Long-Term Debt - Unrestricted

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 6 - Continued

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 7 - Long-Term Debt - Restricted

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

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 7 - Continued

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

	Balance 12/31/2007	Proceeds	Repayments	Balance 12/31/2008
2008 Revenue Bonds	\$ 54,045,000	\$ -	\$ (1,235,000)	\$ 52,810,000
2007 Revenue Bonds	\$ 55,230,000	\$ -	\$ (1,185,000)	\$ 54,045,000

Note 8 - Commitments

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

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

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

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

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

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 8 - Continued

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

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

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

Note 9 - Retirement Benefits

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

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

Note 10 - Concentrations

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

2008 Member Charges	Water Sales		Water Usage		Conservation		Administration		Regional		Total
	Adjustment	Revenues	Dues	CF	Revenues	Dues	CF	Charges			
Members:											
Bellevue	\$ 11,757,750	\$ (195,182)	\$ 286,801	\$ 474,580	\$ 1,749,487	\$ 14,073,436					
Covington	1,088,348	(109,582)	48,542	114,750	80,645	163,292					
Issaquah	3,057,542	(60,230)	76,437	126,482	786,415	1,904,562					
Kirkland	4,669,605	(248,923)	128,319	212,334	550,378	3,750,609					
Redmond	386,661	369,477	89,567	148,209	1,449,142	2,443,056					
Sammamish	258,941		16,352	27,059	87,947	390,299					
Skyway	1,481,378		38,332	63,429	147,900	1,731,039					
Total	\$ 22,710,225	\$ (244,440)	\$ 733,086	\$ 1,247,488	\$ 8,544,479	\$ 32,990,838					

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 10 - Continued

2007 Member Charges

Members:	Water Sales	Water Usage Adjustment	Conservation Revenues	Administration Dues, CF Charges	Regional CF Charges	Total
Belleuve	\$ 10,492,981	\$ 308,300	\$ 277,151	\$ 434,521	\$ 2,976,981	\$ 14,489,934
Covington			46,482	104,108		150,590
Issaquah	435,504	12,796	45,220	70,897	2,088,368	2,652,785
Kirkland	2,726,863	80,119	73,723	115,563	818,387	3,814,675
Redmond	4,260,501	125,180	124,141	194,630	2,251,228	6,955,680
Sammamish	236,207	6,940	87,057	136,489	491,580	958,273
Skyway	240,259	7,059	15,923	24,964	42,376	330,581
Tukwila	1,327,051	38,991	37,035	58,065	190,434	1,651,576
Total	\$ 19,719,366	\$ 579,385	\$ 706,732	\$ 1,139,257	\$ 8,859,354	\$ 31,004,094

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

Note 11 - Puget Sound Energy Memorandum of Understanding

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

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

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

Lump sum payments		2008	2007
Process costs (at 50% - Cascade share)	\$	-	\$ 225,000
Other		438,622	3,268,807
	\$	438,622	3,493,807

CASCADE WATER ALLIANCE

Notes to Financial Statements

Note 12 - Outstanding Contingency

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

Pending Compensation to the Tribes is as follows:

Muckleshoot Agreement:

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

Puyallup Agreement:

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

Note 13 - Stewardship, Compliance, and Accountability

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

Note 14 - Subsequent Events

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