

***CASCADE WATER ALLIANCE***

Financial Statements and  
*Government Auditing Standards* Report

For the Years Ended December 31, 2011 and 2010

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***Independent Auditors' Report******Board of Directors  
Cascade Water Alliance  
Bellevue, Washington***Certified Public  
Accountants  
and Consultants

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cascade as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

# CLARK NUBER

Certified Public  
Accountants  
and Consultants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and modified approach for White River/Lake Tapps Reservoir Project Infrastructure Capital Assets on pages 3 through 9 and on pages 30 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Certified Public Accountants  
September 26, 2012

## ***CASCADE WATER ALLIANCE***

### ***Management's Discussion and Analysis***

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Management's Discussion and Analysis presents our review of Cascade's financial position as of December 31, 2011 and 2010, and Cascade's financial performance for the years then ended. These comments should be read in conjunction with Cascade's financial statements, which follow this section.

#### ***Overview of the Financial Statements***

The financial statements include Balance Sheets, Statements of Revenues, Expenses and Changes in Net Assets, Statements of Cash Flows and Notes to Financial Statements.

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

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

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

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

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

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

Major debt financing to date includes:

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

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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

|   | <u>2011</u>                  | <u>2010</u><br><i>Restated</i> |
|---|------------------------------|--------------------------------|
| Current assets                                  | \$ 17,525,964                | \$ 39,996,322                  |
| Net capital assets                              | 154,590,523                  | 156,502,254                    |
| Other assets                                    | 29,109,005                   | 28,116,127                     |
| <b>Total Assets</b>                             | <b><u>\$ 201,225,492</u></b> | <b><u>\$ 224,614,703</u></b>   |
| Current liabilities                             | \$ 18,700,218                | \$ 27,559,578                  |
| Long-term liabilities                           | 123,327,457                  | 127,305,996                    |
| <b>Total Liabilities</b>                        | <b><u>142,027,675</u></b>    | <b><u>154,865,574</u></b>      |
| Invested in capital assets, net of related debt | 52,859,442                   | 52,158,918                     |
| Unrestricted                                    | 6,338,375                    | 17,590,211                     |
| <b>Total Net Assets</b>                         | <b><u>59,197,817</u></b>     | <b><u>69,749,129</u></b>       |
| <b>Total Liabilities and Net Assets</b>         | <b><u>\$ 201,225,492</u></b> | <b><u>\$ 224,614,703</u></b>   |

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

|  | <u>2011</u>                 | <u>2010</u><br><i>Restated</i> |
|--|-----------------------------|--------------------------------|
| Water sales                                | \$ 25,998,670               | \$ 25,799,469                  |
| Administrative dues                        | 1,444,763                   | 1,269,289                      |
| Conservation program                       | 1,282,647                   | 1,049,648                      |
| <b>Total Operating Revenue</b>             | <b><u>28,726,080</u></b>    | <b><u>28,118,406</u></b>       |
| Cost of water sold                         | 19,830,259                  | 20,842,438                     |
| Other operating costs                      | 8,689,842                   | 9,606,049                      |
| <b>Total Operating Expenses</b>            | <b><u>28,520,101</u></b>    | <b><u>30,448,487</u></b>       |
| <b>Operating Income (Loss)</b>             | <b><u>205,979</u></b>       | <b><u>(2,330,081)</u></b>      |
| Nonoperating expenses                      | (3,783,717)                 | (1,075,993)                    |
| Capital (expenses) contributions           | (6,973,574)                 | 3,797,144                      |
| <b>Change in Net Assets</b>                | <b><u>(10,551,312)</u></b>  | <b><u>391,070</u></b>          |
| Net assets, beginning of year              | 69,749,129                  | 69,596,551                     |
| Prior period adjustment (Note 13)          |                             | (238,492)                      |
| Net assets, beginning of year, as restated | 69,749,129                  | 69,358,059                     |
| <b>Net Assets, End of Year</b>             | <b><u>\$ 59,197,817</u></b> | <b><u>\$ 69,749,129</u></b>    |

## **CASCADE WATER ALLIANCE**

### ***Management's Discussion and Analysis***

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#### ***Results of Operations***

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

#### ***Capital Assets and Long-Term Debt***

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

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

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

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

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

## *CASCADE WATER ALLIANCE*

### *Management's Discussion and Analysis*

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Costs incurred to obtain the Tacoma contract consist of system development charges (\$16,484,000) and capacity reservation fees (\$9,420,442). The system development charges relate to the base amount of water, and capacity reservation fees relate to the additional water to be supplied. The base water supply agreement is considered to have an indefinite term and therefore will be evaluated annually for impairment and not amortized. Through December 31, 2011, Cascade does not believe impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

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

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

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

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

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



## *CASCADE WATER ALLIANCE*

### *Management's Discussion and Analysis*

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#### *Projects in Process*

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

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

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

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

It is likely that capitalized expenditures related to Segment 2 will be expensed in 2012 since it has become less probable that this segment will ultimately be put into service due to its complicated property and routing configuration.

Minor work and expenditures will continue on Segment 3, however, as it is far more likely than Segment 2 to ultimately be put into service. Segment 3 will not be operational until 2024 as the earliest. Starting in 2012, Segment 3 may be placed into "on hold" status until the project is more fully resumed.

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

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

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Invested Funds

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

As of December 31, 2011, Cascade had the following investments:

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

#### Impaired Investments

As of December 31, 2011, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. Cascade's share of the impaired investment pool principal is \$286,785 and Cascade's fair value of these investments is \$125,406.

#### Interest Rate Risk

As of December 31, 2011, the Pool's average duration was 0.72 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life of no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

#### Credit Risk

As of December 31, 2011, Cascade's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositaries, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office.

## **CASCADE WATER ALLIANCE**

### ***Management's Discussion and Analysis***

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#### ***Budget Variances***

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

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

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

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

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

Total Fund expenditures were held within budgeted amounts in 2011. In the Operating Fund, residential and commercial conservation program rebate expenditures were 40.5% lower than budgeted due to a policy change limiting households to only one toilet reimbursement in 2011. Unexpended funds are carried forward in fund balances and are incorporated into Cascade's Rate Model for future year budgeting and planning.

#### **Requests for Information**

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

**CASCADE WATER ALLIANCE**

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

|   | <u>2011</u>                  | <u>2010</u><br><i>(Restated,<br/>Note 13)</i> |
|---|------------------------------|---|
| <b>Assets</b>   |                              |   |
| Cash and cash equivalents   | \$ 15,766,164                | \$ 18,659,511                                 |
| Regional capital facility charges receivable  | 1,053,758                    | 1,663,392                                     |
| Restricted cash and cash equivalents, current portion                                   |                              | 19,200,000                                    |
| Interest rebate receivable  | 428,212                      | 432,237                                       |
| Water rights receivable, current portion  | 200,000                      |   |
| Prepaid expenses  | 77,830                       | 41,182  |
|   | <u>17,525,964</u>            | <u>39,996,322</u>                             |
| <b>Total Current Assets</b>   | <b>17,525,964</b>            | <b>39,996,322</b>                             |
| Capital Assets Net of Accumulated Depreciation:   |                              |   |
| Lake Tapps - infrastructure   | 78,806,742                   | 78,213,463                                    |
| Equipment and furniture   | 1,006,701                    | 825,894                                       |
| Seattle water contract  | 204,216                      | 204,216                                       |
| Tacoma water contract   | 9,420,442                    | 9,420,442                                     |
| Bellevue Issaquah pipeline  | 22,038,921                   | 22,033,919                                    |
|   | <u>111,477,022</u>           | <u>110,697,934</u>                            |
| Less accumulated depreciation and amortization  | <u>(3,381,361)</u>           | <u>(2,609,348)</u>                            |
|   | 108,095,661                  | 108,088,586                                   |
| Capital Assets Not Being Depreciated:   |                              |   |
| Projects in process and assets not yet in service-                                      |                              |   |
| Tacoma water contract   | 13,736,666                   | 16,484,000                                    |
| Tacoma Cascade pipeline   | 32,495,629                   | 31,595,453                                    |
| Eastside reservoir  | 262,567                      | 253,215                                       |
| Other equipment   |                              | 81,000  |
|   | <u>154,590,523</u>           | <u>156,502,254</u>                            |
| <b>Total Capital Assets</b>   | <b>154,590,523</b>           | <b>156,502,254</b>                            |
| Restricted cash and cash equivalents, net of current portion                            | 25,406,445                   | 26,697,529                                    |
| Water rights receivable, net of current portion   | 2,347,334                    |   |
| Bond issuance costs, net of accumulated amortization<br>of \$229,070 (\$165,698 - 2010) | 1,355,226                    | 1,418,598                                     |
|   | <u>29,109,005</u>            | <u>28,116,127</u>                             |
| <b>Total Assets</b>   | <b><u>\$ 201,225,492</u></b> | <b><u>\$ 224,614,703</u></b>                  |

See accompanying notes.

**CASCADE WATER ALLIANCE**

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

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

See accompanying notes.

**CASCADE WATER ALLIANCE**

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

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

See accompanying notes.

**CASCADE WATER ALLIANCE**

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

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

See accompanying notes.

(Continued)

**CASCADE WATER ALLIANCE**

**Statements of Cash Flows (Continued)**

**For the Years Ended December 31, 2011 and 2010**

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

See accompanying notes.



## **CASCADE WATER ALLIANCE**

### ***Notes to Financial Statements***

***For the Years Ended December 31, 2011 and 2010***

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

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

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

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

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

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

As of December 31, 2007, the King County Investment Pool (the Pool) which holds Cascade investments was rated 'AAA' by Standard & Poor's Rating Services. Standard & Poor's is a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A\_1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office. In January 2008, the rating of the King County Investment Pool was temporarily suspended by Standard & Poor's pending further information being available on the outcome of restructuring proposals associated with each impaired investment. The rating had not been restored as of December 31, 2011.

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

## CASCADE WATER ALLIANCE

### Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

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#### Note 1 - Continued

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

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

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

**Long-Term Debt** - Long-term debt is reported net of discounts, premiums and issue costs. Discounts, premiums and issue costs incurred on issuance of long-term debt are amortized by the interest method over the period the related debt is outstanding. A portion of the long-term debt is funded by Build America Bonds and is eligible for an annual interest rebate of up to 35%.

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

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

**Regional Capital Facilities Charges (RCFC)** - RCFCs are paid to Cascade by each member for each new equivalent residential unit connected to its water distribution system, and are intended to allocate growth costs to those members that require capacity increases due to growth in customer demand. The RCFC for both 2011 and 2010 is \$6,005 per new Cascade Equivalent Residential Unit (CERU). During 2011, four Cascade Members participated in the RCFC Credit Purchase Program allowing Cascade to purchase RCFC credits at \$2,500 per CERU.

## CASCADE WATER ALLIANCE

### Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

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#### Note 1 - Continued

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

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

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

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

#### Note 2 - Capitalizable Contracts

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

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

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

At the end of the contract term, Cascade may continue to purchase up to 5.3 million gallons per day (MGD) for members that cannot be economically served by any other means.

**CASCADE WATER ALLIANCE**

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

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**Note 2 - Continued**

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

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

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

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

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

| <i>Year</i> | <i>Average Daily Demand<br/>(million gallons per day-mgd)</i> |
|-------------|---|
| 2026        | 6.0   |
| 2027        | 4.0   |
| 2028        | 3.0   |
| 2029        | 2.0   |
| 2030        | 1.0   |

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

## CASCADE WATER ALLIANCE

### Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

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#### Note 2 - Continued

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

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

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

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

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

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

#### Project in Process -

Tacoma Cascade Pipeline - A pipeline extending from the Tacoma Water supply pipelines was under development to connect to the Bellevue Issaquah pipeline and deliver the Tacoma water supply to Cascade Members. During the year ended December 31, 2009, management opted to defer completion of this project. Timing of the completion of this project depends on the 2011 Transmission and Supply Plan update and on negotiations currently underway with Tacoma Public Utilities.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

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**Note 3 - Cash and Cash Equivalents**

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

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

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

**Note 4 - Restricted Cash and Cash Equivalents**

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

Restricted cash and cash equivalents are presented in the Balance Sheets as of December 31 are as follows:

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

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

**Note 4 - Continued**

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

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

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

**Note 5 - Capital Assets**

The following summarizes the changes in fixed assets of Cascade:

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

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

**Note 5 - Continued**

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



**CASCADE WATER ALLIANCE**

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

**Note 6 - Long-Term Debt - Unrestricted**

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

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

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

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

**CASCADE WATER ALLIANCE**

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

**Note 6 - Continued**

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

|                         | <u>Balance<br/>12/31/2010</u> | <u>Proceeds</u>    | <u>Repayments</u>         | <u>Balance<br/>12/31/2011</u> |
|-------------------------|-------------------------------|--------------------|---------------------------|-------------------------------|
| 2011-                   |                               |                    |                           |                               |
| Loan #PW-05-691-PWP-205 | \$ 20,000                     | \$ -               | \$ (20,000)               | \$ -                          |
| Loan #PW-05-691-PRE-142 | 592,106                       |                    | (28,178)                  | 563,928                       |
|                         | <b><u>\$ 612,106</u></b>      | <b><u>\$ -</u></b> | <b><u>\$ (48,178)</u></b> | <b><u>\$ 563,928</u></b>      |
|                         |                               |                    |                           |                               |
|                         | <u>Balance<br/>12/31/2009</u> | <u>Proceeds</u>    | <u>Repayments</u>         | <u>Balance<br/>12/31/2010</u> |
| 2010-                   |                               |                    |                           |                               |
| Loan #PW-05-691-PWP-205 | \$ 40,000                     | \$ -               | \$ (20,000)               | \$ 20,000                     |
| Loan #PW-05-691-PRE-142 | 631,580                       |                    | (39,474)                  | 592,106                       |
|                         | <b><u>\$ 671,580</u></b>      | <b><u>\$ -</u></b> | <b><u>\$ (59,474)</u></b> | <b><u>\$ 612,106</u></b>      |

**Note 7 - Long-Term Debt - Restricted**

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

|  | <u>2011</u>  | <u>2010</u>  |
|--|--------------|--------------|
| <u>Revenue Bonds:</u>  |              |              |
| \$80,095,000 issued October 15, 2009 for supporting capital program, providing for a debt service reserve and cost of issuing the bonds. The bonds are payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund. |              |              |
| - \$4,940,000 term bonds due September 1, 2016, interest payable semi-annually 3.61 annual percentage rate.  | \$ 4,940,000 | \$ 4,940,000 |
| - \$75,155,000 due serially through September 1, 2034, with interest payable semi-annually 3.61 annual percentage rate.  | 70,910,000   | 73,175,000   |

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

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**Note 7 - Continued**

|   | <u>2011</u>                  | <u>2010</u>                  |
|---|------------------------------|------------------------------|
| \$55,230,000 issued May 10, 2006 for supporting capital program, payment for Sammamish Plateau Water and Sewer District Loan and cost of issuing the Bonds. The bonds are payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund. |                              |                              |
| - \$29,490,000 due serially through the year 2023, interest payable semi-annually 4.50 to 5.00 annual percentage rate.  | 23,015,000                   | 24,425,000                   |
| - \$8,880,000 term bonds due September 1, 2026, with interest payable semi-annually at 4.75 annual percentage rate.   | 8,880,000                    | 8,880,000                    |
| - \$16,860,000 term bonds due September 1, 2031, with interest payable semi-annually at 5.00 annual percentage rate.  | <u>16,860,000</u>            | <u>16,860,000</u>            |
| Total long-term debt  | 124,605,000                  | 128,280,000                  |
| Less current portion  | <u>(3,770,000)</u>           | <u>(3,675,000)</u>           |
| <b>Long-Term Portion</b>  | <b><u>\$ 120,835,000</u></b> | <b><u>\$ 124,605,000</u></b> |

The 2009 bonds were issued at a premium of \$761,955 which is being amortized over the life of the bonds. Amortization expense for the years ending December 31, 2011 and 2010, was \$105,877 and \$103,212, respectively.

The 2006 bonds were issued at a premium of \$1,857,106 which is being amortized over the life of the bonds. Amortization expense was \$74,284 for both years ending December 31, 2011 and 2010.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

**Note 7 - Continued**

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

| <i>For the Year Ending December 31,</i> | <u>Principal</u>             | <u>Interest</u>             |
|---|------------------------------|-----------------------------|
| 2012                                    | \$ 3,770,000                 | \$ 6,332,942                |
| 2013                                    | 3,875,000                    | 6,210,325                   |
| 2014                                    | 3,990,000                    | 6,072,255                   |
| 2015                                    | 4,120,000                    | 5,918,162                   |
| 2016                                    | 4,330,000                    | 5,712,162                   |
| 2017 - 2021                             | 24,490,000                   | 25,279,326                  |
| 2022 - 2026                             | 29,775,000                   | 18,687,148                  |
| 2027 - 2031                             | 36,555,000                   | 10,177,101                  |
| 2032 - 2034                             | 13,700,000                   | 1,638,897                   |
|   | <u><b>\$ 124,605,000</b></u> | <u><b>\$ 86,028,318</b></u> |

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

|                    | <u>Balance</u><br><u>12/31/2010</u> | <u>Proceeds</u>    | <u>Repayments</u>            | <u>Balance</u><br><u>12/31/2011</u> |
|--------------------|-------------------------------------|--------------------|------------------------------|-------------------------------------|
| 2011 Revenue Bonds | <u><b>\$ 128,280,000</b></u>        | <u><b>\$ -</b></u> | <u><b>\$ (3,675,000)</b></u> | <u><b>\$ 124,605,000</b></u>        |
|                    | <u>Balance</u><br><u>12/31/2009</u> | <u>Proceeds</u>    | <u>Repayments</u>            | <u>Balance</u><br><u>12/31/2010</u> |
| 2010 Revenue Bonds | <u><b>\$ 131,610,000</b></u>        | <u><b>\$ -</b></u> | <u><b>\$ (3,330,000)</b></u> | <u><b>\$ 128,280,000</b></u>        |

## CASCADE WATER ALLIANCE

### Notes to Financial Statements

For the Years Ended December 31, 2011 and 2010

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#### Note 8 - Commitments

**Lease Commitments** - Cascade leases office space under a noncancelable lease agreement expiring in February 2012. The lease calls for payments of \$9,679 per month with annual stepped increases.

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

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

*For the Year Ending December 31,*

|                                      |                          |
|--------------------------------------|--------------------------|
| 2012                                 | \$ 95,325                |
| 2013                                 | 175,220                  |
| 2014                                 | 176,870                  |
| 2015                                 | 181,716                  |
| 2016                                 | 186,561                  |
| 2017                                 | <u>111,318</u>           |
| <b>Total Minimum Rental Payments</b> | <b><u>\$ 927,010</u></b> |

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

**Contracts** - Cascade has entered into contracts with various vendors in relation to ongoing consulting services, construction services and financial services that extend beyond December 31, 2011.

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

|                                  |                            |
|----------------------------------|----------------------------|
| Construction and design services | \$ 899,585                 |
| Consulting contracted services   | <u>1,318,629</u>           |
|                                  | <b><u>\$ 2,218,214</u></b> |

#### Note 9 - Retirement Benefits

Cascade provides a Section 401(a) defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute 4% of their annual salary. Cascade contributes 7% of an employee's salary. In addition, as a replacement of the contribution to the Social Security beginning in January 2011, employees contribute an additional 6.2% of their annual salary. Cascade contributes an additional 6.2% up to the IRS limit (\$6,622 in 2011). Employee and employer contributions were \$123,816 and \$155,675, respectively, for the year ended December 31, 2011 and \$46,032 and \$80,974, respectively, for the year ended December 31, 2010.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

**Note 9 - Continued**

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

**Note 10 - Concentrations**

All water purchases by Cascade were from the City of Seattle. Water sales, conservation revenues, administration dues, regional capital facilities charges and contributions for member cities in 2011 and 2010 are as follows:

**2011 Member Charges-**

| <u>Members</u> | <u>Water Sales</u>   | <u>Water Usage<br/>Adjustment</u> | <u>Conservation<br/>Revenues</u> | <u>Administration<br/>Dues</u> | <u>Regional<br/>Capital<br/>Facilities<br/>Charges</u> | <u>Total</u>         |
|----------------|----------------------|-----------------------------------|----------------------------------|--------------------------------|--|----------------------|
| Bellevue       | \$ 14,464,877        | \$ (789,528)                      | \$ 482,150                       | \$ 539,117                     | \$ 966,805   | \$ 15,663,421        |
| Covington      |                      |                                   | 116,578                          | 140,921                        |  | 257,499              |
| Issaquah       | 882,306              | (65,345)                          | 81,011                           | 90,583                         | 411,344  | 1,399,899            |
| Kirkland       | 4,034,665            | (170,582)                         | 131,304                          | 146,818                        | 318,265  | 4,460,470            |
| Redmond        | 5,438,284            | (305,705)                         | 224,870                          | 251,439                        | 842,200  | 6,451,088            |
| Sammamish      | 291,019              | 47,403                            | 156,545                          | 175,041                        | 623,019  | 1,293,027            |
| Skyway         | 293,634              |                                   | 27,679                           | 30,949                         | 33,028   | 385,290              |
| Tukwila        | 1,877,642            |                                   | 62,510                           | 69,895                         | 18,015   | 2,028,062            |
| <b>Total</b>   | <b>\$ 27,282,427</b> | <b>\$ (1,283,757)</b>             | <b>\$ 1,282,647</b>              | <b>\$ 1,444,763</b>            | <b>\$ 3,212,676</b>                                    | <b>\$ 31,938,756</b> |

**2010 Member Charges-**

| <u>Members</u> | <u>Water Sales</u>   | <u>Water Usage<br/>Adjustment</u> | <u>Conservation<br/>Revenues</u> | <u>Administration<br/>Dues</u> | <u>Regional<br/>Capital<br/>Facilities<br/>Charges</u> | <u>Total</u>         |
|----------------|----------------------|-----------------------------------|----------------------------------|--------------------------------|--|----------------------|
| Members:       |                      |                                   |                                  |                                |  |                      |
| Bellevue       | \$ 14,266,464        | \$ (200,084)                      | \$ 422,853                       | \$ 540,267                     | \$ 777,648   | \$ 15,807,148        |
| Covington      |                      |                                   | 94,220                           | 141,627                        |  | 235,847              |
| Issaquah       | 809,346              | 66,895                            | 71,496                           | 91,345                         | 887,062  | 1,926,144            |
| Kirkland       | 3,628,396            | (3,552)                           | 113,254                          | 144,729                        | 246,205  | 4,129,032            |
| Redmond        | 5,258,899            | (59,294)                          | 194,847                          | 248,924                        | 1,035,864  | 6,679,240            |
| Sammamish      | 239,885              | (213,854)                         | 72,838                           |                                | 855,713  | 954,582              |
| Skyway         | 272,609              |                                   | 24,035                           | 30,709                         | (59,393)   | 267,960              |
| Tukwila        | 1,733,759            |                                   | 56,105                           | 71,688                         | 54,045   | 1,915,597            |
| <b>Total</b>   | <b>\$ 26,209,358</b> | <b>\$ (409,889)</b>               | <b>\$ 1,049,648</b>              | <b>\$ 1,269,289</b>            | <b>\$ 3,797,144</b>                                    | <b>\$ 31,915,550</b> |

## **CASCADE WATER ALLIANCE**

### ***Notes to Financial Statements***

***For the Years Ended December 31, 2011 and 2010***

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#### ***Note 11 - Outstanding Contingency***

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

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

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

#### ***Note 13 - Prior Period Adjustment***

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

#### ***Note 14 - Subsequent Event***

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

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

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

***REQUIRED SUPPLEMENTARY INFORMATION***



## **CASCADE WATER ALLIANCE**

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

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

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

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

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

#### **Capital Assets Assessment Prior to Cascade Ownership**

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

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

*See independent auditors' report.*

## ***CASCADE WATER ALLIANCE***

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

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

#### Upper Conveyance System

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

#### Lower Conveyance System

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

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

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

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

## ***CASCADE WATER ALLIANCE***

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

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#### Capital Assets Assessment Since Cascade Ownership

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

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

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

Cascade also selected Veolia Water North America (Veolia) as its long-term contract operator for the Project. Veolia entered into the Transition Phase of the contract in January 2012 (observing PSE operation and training staff) and assumed all operation and maintenance responsibilities on April 16, 2012. During the Transition Phase, Veolia will, in addition to performing all necessary operation and maintenance activities:

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

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

**CASCADE WATER ALLIANCE**

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

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Capital Assets Funding

Based on the condition assessment work completed to date, Cascade has included funding for ongoing maintenance and repair of Lake Tapps Project Capital Assets in its annual Operating Budget as well as funding for upgrading and replacement of Lake Tapps Project Capital Assets in its Capital Improvement Plan (CIP). The Operation and Maintenance Budget and CIP for Cascade's 2011-2012 Biennium are summarized below:

Lake Tapps Project Operation and Maintenance Budget:

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

Lake Tapps Project CIP Budget:

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

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

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

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

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

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

***Internal Control Over Financial Reporting***

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

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

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

# CLARK NUBER

## Compliance and Other Matters

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

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



Certified Public Accountants  
September 26, 2012

**CASCADE WATER ALLIANCE**

***Schedule of Findings and Responses  
For the Year Ended December 31, 2011***

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No matters were reported.