

***CASCADE WATER ALLIANCE***

Financial Statements and  
*Government Auditing Standards* Report

For the Years Ended December 31, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2011, 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 on pages 3 through 8 and on pages 28 through 30 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  
July 27, 2011

## **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, 2010 and 2009, 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*

*Condensed Financial Statements  
Balanced Sheets as of December 31, 2010 and 2009*

	<u>2010</u>	<u>2009</u>
Current assets	\$ 39,996,322	\$ 33,303,242
Net capital assets	156,979,238	152,740,663
Other assets	28,116,127	46,784,489
<b>Total Assets</b>	<b><u>\$ 225,091,687</u></b>	<b><u>\$ 232,828,394</u></b>
Current liabilities	\$ 27,559,578	\$ 12,213,679
Long-term liabilities	127,305,996	151,018,164
<b>Total Liabilities</b>	<b><u>\$ 154,865,574</u></b>	<b><u>\$ 163,231,843</u></b>
Invested in capital assets, net of related debt	\$ 52,635,902	\$ 43,635,819
Unrestricted	17,590,211	25,961,232
<b>Total Net Assets</b>	<b><u>\$ 70,226,113</u></b>	<b><u>\$ 69,597,051</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 225,091,687</u></b>	<b><u>\$ 232,828,394</u></b>

*Condensed Financial Statements  
Statement of Revenues, Expenses and Changes in Net Assets  
For the Years Ended December 31, 2010 and 2009*

	<u>2010</u>	<u>2009</u>
Water sales	\$ 25,799,469	\$ 24,083,868
Administrative dues	1,269,289	1,337,898
Conservation program	1,049,648	812,351
<b>Total Operating Revenue</b>	<b><u>\$ 28,118,406</u></b>	<b><u>\$ 26,234,117</u></b>
Cost of water sold	\$ 20,842,438	\$ 20,719,555
Other operating costs	9,367,557	4,832,026
<b>Total Operating Expenses</b>	<b><u>\$ 30,209,995</u></b>	<b><u>\$ 25,551,581</u></b>
<b>Operating (Loss) Income</b>	<b>(2,091,589)</b>	<b>682,536</b>
Non-operating expenses	(1,075,993)	(822,145)
Capital contributions	3,797,144	2,844,401
<b>Increase in Net Assets</b>	<b>629,562</b>	<b>2,704,792</b>
Net Assets, Beginning of Year	69,596,551	67,657,850
Cumulative effective of change in accounting principle (Note 13)		(766,091)
Adjusted net assets, beginning of year	69,596,551	66,891,759
<b>Net Assets, End of Year</b>	<b><u>\$ 70,226,113</u></b>	<b><u>\$ 69,596,551</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 have continued to increase over the last two years due to costs expended to obtain Lake Tapps and the water rights to Lake Tapps. Capital asset expenditures have been funded from capital contributions and the 2006 and 2009 revenue bonds.

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

Capital expenditures in 2010 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 \$4.3 million in 2010, but actual RCFC revenue was \$3.8 million due to continued lower construction growth in Cascade's service area. RCFC revenue was, however, \$1.0 million higher in 2010 than in 2009, possibly signaling modest recovery of growth. For the next several years' financial outlook, growth forecasts have been revised downward, with corresponding increases in contributions from the Operating Fund (water demand rates from Cascade members) to debt service payments.

Interest and miscellaneous revenue in 2010 was 67.0% lower than budgeted due to persisting low interest rates nationally. Lower interest revenue was offset by savings in operational expenditures budget lines.

Revenue from member administrative and conservation charges was \$228,807 (9.0%) less than budgeted due to one-time member charge adjustments granted by the Cascade Board for revised water demand share estimates. These adjustments were accommodated by reserve balances in the Operating Fund and had no impact on 2010 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 2010. In the Operating Fund, residential and commercial conservation program rebates were 40.7% higher than budgeted, but savings in other programs (notably, professional services fees) absorbed the additional rebate activity. Unexpended funds carry forward in fund balances and are incorporated into Cascade's Rate Model for future year budgeting and planning.

#### ***Additional Comments***

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

## **CASCADE WATER ALLIANCE**

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

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In 2009, Cascade issued revenue bonds in the amount of \$80,095,000. The proceeds of this obligation are being used in 2009 and 2010 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 \$5,978 and \$5,978 for the years ended December 31, 2010 and 2009, respectively. At the end of the contract term, Cascade may continue to purchase up to 5.3 million gallons per day for Members that cannot be economically served by any other means. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

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

Costs incurred to obtain the Tacoma contract consist of system development charges (\$16,484,000) and capacity reservation fees (\$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, 2008, management does not believe impairment has occurred. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

Lake Tapps Purchase Agreement - Cascade has completed its purchase agreement with Puget Sound Energy (PSE) for the purchase of the White River/Lake Tapps Reservoir Project (Lake Tapps Project). 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 Project 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 has commissioned assessments of facilities in the Lake Tapps Project and its subsystems. These assessments have included recommended categories of improvements (ICU-Initial Capital Upgrade; STI-Short-Term Investment; LTI-Long-Term Investment; M-Maintenance). The adopted 2011 and 2012 Operating budgets and Capital Improvement Program (CIP) budgets include funds to address recommendations from the assessments. Cascade will conduct ongoing maintenance of the system based on current condition assessments and operating requirements. For more information about the Lake Tapps Project, see the "Modified Approach Disclosure" contained in the footnotes to the Financial Statements.

## **CASCADE WATER ALLIANCE**

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

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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, 2010 and 2009, was \$5,380,673 and \$3,459,746, respectively. Interest capitalized in 2010 and 2009 was \$3,587,011 and \$3,095,170, respectively.

### ***Projects in Process***

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 and Puyallup Tribe of Indians regarding Lake Tapps Reservoir water rights. The White River Management Agreement establishes an Agreed Flow Regime that limits diversions to maintain in-stream flows in the White River, and contains other provisions with respect to the operation and maintenance of the Lake Tapps Reservoir that address the concerns of the Tribes. In accordance with the Agreement, \$13 million is due to the Tribes within 45 days of issuance of the municipal water rights. As of April 25, 2011, Cascade has indicated its readiness to make immediate payment to the Tribes and awaits payment receipt instructions.

Pipeline Routing: Tacoma Cascade Pipeline and Burlington Northern Right-of-Way - The Tacoma Cascade Pipeline (TCP) is an eighteen-mile pipeline extending from the Tacoma water supply 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, and construction has been completed for a 1.1-mile segment at the north end of the route. Major work and expenditures on this project are on hold pending the outcome of the 2010 Transmission & Supply Plan update. Cascade is also negotiating with the Port of Seattle, King County, Puget Sound Energy, and other jurisdictions for a potential pipeline easement along a discontinued Burlington Northern rail corridor as a route to bring water from Lake Tapps to Cascade's service area.

2010 Transmission & Supply Plan Update - Cascade initiated its 2010 Transmission & Supply Plan (TSP) update in 2009, to be completed in 2011. 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 2010 TSP update includes analyses of regional growth and water demand. These analyses have demonstrated a need for less water than was anticipated in the 2004 TSP. The outcome of the 2010 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 Statement No. 51, which took effect in 2010, Cascade determined that the 2010 TSP update does not meet the criteria for being a capitalizable intangible asset. 2010 TSP expenditures have therefore been expensed in 2010, and the beginning net assets have been revised due to a change in accounting principle.

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 2010.

## 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 the 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, 2010, Cascade had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 64,613,719	0.71 years

#### Impaired Investments

As of December 31, 2010, 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 \$358,963 and Cascade's fair value of these investments is \$164,561.

#### Interest Rate Risk

As of December 31, 2010, the Pool's average duration was 0.71 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

#### Credit Risk

As of December 31, 2010, the district'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.

#### 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, 11400 SE 8<sup>th</sup> Street, Suite 440, Bellevue, WA 98004.

***FINANCIAL STATEMENTS***

**CASCADE WATER ALLIANCE**

**Balance Sheets - Assets  
December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 18,659,511	\$ 27,102,109
Regional capital facility charges receivable	1,663,392	879,166
Restricted cash and cash equivalents, current portion	19,200,000	5,000,000
Interest rebate receivable	432,237	286,122
Prepaid expenses	41,182	35,845
<b>Total Current Assets</b>	<b>39,996,322</b>	<b>33,303,242</b>
Capital Assets Net of Accumulated Depreciation:		
Lake Tapps - infrastructure	78,213,463	
Equipment and furniture	825,894	89,385
Seattle water contract	204,216	204,216
Bellevue Issaquah pipeline	22,033,919	22,026,671
	<u>101,277,492</u>	<u>22,320,272</u>
Less accumulated depreciation and amortization	<u>(2,132,364)</u>	<u>(1,629,618)</u>
	99,145,128	20,690,654
Capital Assets Not Being Depreciated:		
Projects in process and assets not yet in service-		
Lake Tapps		75,673,195
Tacoma water contract	25,904,442	25,904,442
Tacoma Cascade pipeline	31,595,453	30,193,803
Eastside reservoir	253,215	243,974
Other equipment	81,000	34,595
		<u>75,673,195</u>
Total Capital Assets	156,979,238	152,740,663
Restricted cash and cash equivalents, net of current portion	26,697,529	45,302,491
Other long-term assets	1,418,598	1,481,998
	<u>28,116,127</u>	<u>46,784,489</u>
<b>Total Assets</b>	<b>\$ 225,091,687</b>	<b>\$ 232,828,394</b>

See accompanying notes.

**CASCADE WATER ALLIANCE**

**Balance Sheets - Liabilities and Net Assets**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Liabilities and Net Assets</b>		
Payables and accrued liabilities from current assets	\$ 1,462,429	\$ 1,252,097
Payables related to IRS Social Security refund	294,017	
Retroactive water credit	722,284	1,063,478
Payables related to water rights acquisition	19,200,000	5,000,000
Long-term debt, current portion	59,869	59,671
	<u>21,738,599</u>	<u>7,375,246</u>
Payables from restricted assets:		
Accrued interest	2,145,979	1,508,433
Long-term debt, current portion	3,675,000	3,330,000
	<u>5,820,979</u>	<u>4,838,433</u>
<b>Total Current Liabilities</b>	<b>27,559,578</b>	<b>12,213,679</b>
Long-term debt, net of current portion:		
Long-term debt payable from unrestricted assets	552,237	611,909
Long-term debt payable from restricted assets	124,605,000	128,280,000
	<u>125,157,237</u>	<u>128,891,909</u>
Other long-term liabilities:		
Payables related to water rights acquisition		19,800,000
Bond premium, net of amortization	2,148,759	2,326,255
	<u>2,148,759</u>	<u>2,326,255</u>
<b>Total Liabilities</b>	<b>154,865,574</b>	<b>163,231,843</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	33,435,902	38,635,319
Unrestricted	36,790,211	30,961,232
	<u>70,226,113</u>	<u>69,596,551</u>
<b>Total Net Assets</b>	<b>70,226,113</b>	<b>69,596,551</b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 225,091,687</u></b>	<b><u>\$ 232,828,394</u></b>

See accompanying notes.

**CASCADE WATER ALLIANCE**

**Statements of Revenues, Expenses and Changes in Net Assets  
For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenue:</b>		
Water sales	\$ 25,799,469	\$ 24,083,868
Administrative dues	1,269,289	1,337,898
Conservation program	1,049,648	812,351
<b>Total Operating Revenue</b>	<b>28,118,406</b>	<b>26,234,117</b>
<b>Operating Expenses:</b>		
Cost of water sold	20,842,438	20,719,555
Salaries and benefits	1,410,517	1,001,430
Professional services	2,098,831	2,075,975
Conservation rebate program	1,116,130	716,319
Depreciation and amortization	396,573	399,380
Communication and public information	191,082	120,446
Office expenses	128,849	76,546
Bank charges	964	776
Rent	116,089	125,820
Maintenance	1,746,703	106,429
Operations	1,852,014	43,352
Insurance	72,775	68,198
Dues and subscriptions	37,557	9,459
Miscellaneous	199,473	87,896
<b>Total Operating Expenses</b>	<b>30,209,995</b>	<b>25,551,581</b>
<b>Operating (Loss) Income</b>	<b>(2,091,589)</b>	<b>682,536</b>
<b>Non-Operating Revenue (Expenses)</b>		
Interest income	720,827	806,911
Interest expense, net of amount capitalized	(1,796,820)	(1,629,056)
<b>Total Non-Operating Revenue (Expenses)</b>	<b>(1,075,993)</b>	<b>(822,145)</b>
<b>Capital Contributions</b>		
Regional capital facilities charges	3,797,144	2,844,401
<b>Total Change in Net Assets</b>	<b>629,562</b>	<b>2,704,792</b>
Net assets, beginning of year	69,596,551	67,657,850
Cumulative effect of change in accounting principle (Note 13)		(766,091)
Adjusted net assets, beginning of year	69,596,551	66,891,759
<b>Net Assets, End of Year</b>	<b>\$ 70,226,113</b>	<b>\$ 69,596,551</b>

See accompanying notes.

**CASCADE WATER ALLIANCE**

**Statement of Cash Flows**

**For the Years Ended December 31, 2010 and 2009**

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<b>Cash Flows from Operating Activities:</b>		
Cash received from members	\$ 28,118,406	\$ 26,234,117
Cash paid to suppliers	(27,904,316)	(22,208,684)
Cash paid to and for employees	(1,113,742)	(986,661)
	<u>(899,652)</u>	<u>3,038,772</u>
<b>Net Cash (Used in) Provided by Operating Activities</b>		
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Regional capital facilities charges	2,949,560	3,170,916
Proceeds from long-term debt		79,947,576
Payments on long-term debt	(3,389,474)	(1,354,473)
Acquisition of capital assets	(7,695,167)	(42,564,855)
Interest paid on bonds and other term debt	(4,597,012)	(4,223,525)
	<u>(12,732,093)</u>	<u>34,975,639</u>
<b>Net Cash (Used in) Provided by Capital and Related Financing Activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Interest received	784,185	806,911
	<u>784,185</u>	<u>806,911</u>
<b>Net Cash Provided by Investing Activities</b>		
<b>Net Change in Cash and Cash Equivalents</b>	<b>(12,847,560)</b>	<b>38,821,322</b>
Cash and cash equivalents, beginning of year	77,404,600	38,583,278
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 64,557,040</b>	<b>\$ 77,404,600</b>
<b>Cash and Cash Equivalents Balance is Composed of the Following at December 31:</b>		
Cash and cash equivalents	\$ 18,659,511	\$ 27,102,109
Restricted cash and cash equivalents	45,897,529	50,302,491
	<u>\$ 64,557,040</u>	<u>\$ 77,404,600</u>
<b>Supplemental Disclosure:</b>		
Fixed assets acquired through accounts payable	\$ 218,583	\$ 24,513,878

See accompanying notes.

(Continued)

**CASCADE WATER ALLIANCE**

**Statement of Cash Flows (Continued)**  
**For the Years Ended December 31, 2010 and 2009**

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**Reconciliation of Operating Income to Net Cash From**

**Operating Activities:**

Net operating income	\$ (2,091,589)	\$ 682,536
Adjustments to reconcile change in operating income to net cash provided by operating activities-		
Depreciation and amortization	396,573	399,380
Changes in operating assets and liabilities-		
Accounts receivable:		
Prepaid expenses	(5,337)	(24,991)
Payables related to water rights acquisition	847,878	1,421,757
Payables related to IRS Social Security refund	294,017	
Retroactive water credit	(341,194)	560,090

**Net Cash (Used) Provided by Operating Activities**

**\$ (899,652)      \$ 3,038,772**

***NOTES TO FINANCIAL STATEMENTS***

## **CASCADE WATER ALLIANCE**

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

***For the Years Ended December 31, 2010 and 2009***

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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 Nonprofit Miscellaneous and Mutual Corporations Act (Chapter 24.06) as a public governmental body and an instrumentality of its Members, exercising essential governmental functions by providing wholesale water to meet the current and future water supply needs of its Members in a cost-effective and environmentally responsible manner.

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

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

**Cash Equivalents** - For purposes of the statements of cash flows, Cascade considers all highly liquid instruments purchased with 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, 2010.

**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 unrestricted net assets and a credit to accounts receivable.

## CASCADE WATER ALLIANCE

### Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

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

**Regional Capital Facility Charges** - RCFCs are paid to Cascade Water Alliance by each member for each new equivalent residential unit connected to its water distribution system, and are intended to allocate growth costs to those members that require capacity increases due to growth in customer demand. The RCFC for 2010 is \$6,005 per new Cascade Equivalent Residential Unit (CERU).

## CASCADE WATER ALLIANCE

### Notes to Financial Statements

For the Years Ended December 31, 2010 and 2009

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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 nonprofit corporation pursuant to Washington State's Interlocal Cooperation Act (Chapter 39.34 RCW). As a governmental entity formed by political subdivisions of the State of Washington, it is exempt from federal income taxation under Section 115 of the Internal Revenue Code. As an instrumentality of its members, Cascade may issue obligations the interest of which is exempt from federal income taxation under Section 103 of the Code.

**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.

#### Note 2 - Capitalizable Contracts

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

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

Amortization of the Seattle Water Contract cost is based on the ratio of water to be supplied in that calendar year to total water to be supplied during the contract. Amortization expense for this contract was \$5,978 for both of the years ended December 31, 2010 and 2009, 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, 2010 and 2009**

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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 January 1</i>	<i>Year Ending December 31</i>	<i>Average Daily Demand (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 January 1</i>	<i>Year Ending December 31</i>	<i>Average Daily Demand (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 (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, 2010 and 2009**

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**Note 2 - Continued**

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

System development charges	\$ 16,484,000
Capacity reservation fees	<u>9,420,442</u>
	<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, 2010 and 2009, 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.

**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 Codification.

Total interest incurred on bonds for the years ended December 31, 2010 and 2009, was \$6,632,181 and \$3,414,444, respectively. Interest capitalized in 2010 and 2009 was \$3,587,011 and \$1,511,541, respectively. The interest rebate related to the Build America Bonds was \$1,248,350 and \$273,847 for the years ended December 31, 2010 and 2009, and is included as an offset to interest expense in the statement of revenues, expenses and changes in net assets.

**Projects 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 2010 Transmission & Supply Plan update and on negotiations currently underway with Tacoma Public Utilities.

**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.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2010 and 2009**

**Note 3 - Continued**

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

	<u>2010</u>	<u>2009</u>
Unrestricted cash and equivalents	\$ 18,871,456	\$ 27,063,037
Restricted cash and equivalents	<u>45,764,757</u>	<u>50,121,825</u>
<b>Total</b>	<b>\$ 64,636,213</b>	<b>\$ 77,184,862</b>
Add fair value adjustment	187,481	278,163
Less checks in excess of cash	<u>(266,654)</u>	<u>(58,425)</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 64,557,040</u></b>	<b><u>\$ 77,404,600</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 Sheet as of December 31 are as follows:

	<u>Balance 12/31/2010</u>	<u>Balance 12/31/2009</u>
Restricted cash and cash equivalents, current portion	\$ 19,200,000	\$ 5,000,000
Restricted cash and cash equivalents, long-term	<u>26,697,529</u>	<u>45,302,491</u>
	<b><u>\$ 45,897,529</u></b>	<b><u>\$ 50,302,491</u></b>

Changes in restricted assets for the year ended December 31, 2010, are as follows:

	<u>Balance 12/31/2009</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Interest/ Unrealized Gain</u>	<u>Balance 12/31/2010</u>
Revenue bond funds	\$ 18,110,655	\$ 17,003,553	\$(16,029,292)	\$ 191,422	\$ 19,276,338
Construction funds	<u>32,191,836</u>	<u>2,086,235</u>	<u>(8,014,895)</u>	<u>358,015</u>	<u>26,621,191</u>
	<b><u>\$ 50,302,491</u></b>	<b><u>\$ 19,089,788</u></b>	<b><u>\$(24,044,187)</u></b>	<b><u>\$ 549,437</u></b>	<b><u>\$ 45,897,529</u></b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2010 and 2009**

**Note 4 - Continued**

Included in this schedule are interest earnings of \$135,667 and unrealized gains of \$55,755 for the revenue bonds funds, and interest earnings of \$280,998 and unrealized gains of \$77,017 for the construction funds.

**Note 5 - Capital Assets**

The following summarizes the changes in fixed assets of Cascade:

	<i>Balance</i> <i>12/31/2009</i>	<i>Additions</i>	<i>Transfers</i>	<i>Deletions</i>	<i>Balance</i> <i>12/31/2010</i>
<b>Capital Assets 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
Bellevue Issaquah pipeline	22,026,671	7,248			22,033,919
Less accumulated depreciation and amortization	(1,629,618)	(510,731)		7,985	(2,132,364)
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 20,690,654</b>	<b>\$ (480,584)</b>	<b>\$ 78,935,058</b>	<b>\$ -</b>	<b>\$ 99,145,128</b>
	<i>Balance</i> <i>12/31/2009</i>	<i>Additions</i>	<i>Transfers</i>	<i>Deletions</i>	<i>Balance</i> <i>12/31/2010</i>
<b>Capital Assets Not Being Depreciated:</b>					
Lake Tapps	75,673,195	3,543,948	(79,213,463)	(3,680)	-
Tacoma water district	25,904,442				25,904,442
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 in Process Not Being Depreciated</b>	<b>\$ 132,050,009</b>	<b>\$ 4,968,002</b>	<b>\$ (79,167,058)</b>	<b>\$ (16,843)</b>	<b>\$ 57,834,110</b>
<b>Total Capital Assets</b>	<b>\$ 152,740,663</b>	<b>\$ 4,487,418</b>	<b>\$ (232,000)</b>	<b>\$ (16,843)</b>	<b>\$ 156,979,238</b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2010 and 2009**

**Note 5 - Continued**

	<i>Balance 12/31/2008</i>	<i>Additions</i>	<i>Transfers</i>	<i>Deletions</i>	<i>Balance 12/31/2009</i>
<b>Capital Assets Being Depreciated:</b>					
Equipment and furniture	\$ 84,101	\$ 7,946	\$ -	\$ (2,662)	\$ 89,385
Seattle water contract	204,216				204,216
Comprehensive plan	766,091	695,963		(1,462,054)	
Bellevue Issaquah pipeline	21,998,155	28,516			22,026,671
Less accumulated depreciation and amortization	(1,171,768)	(460,512)		2,662	(1,629,618)
<b>Total Capital Assets Being Depreciated</b>	<b>\$ 21,880,795</b>	<b>\$ 271,913</b>	<b>\$ -</b>	<b>\$ (1,462,054)</b>	<b>\$ 20,690,654</b>
	<i>Balance 12/31/2008</i>	<i>Additions</i>	<i>Transfers</i>	<i>Deletions</i>	<i>Balance 12/31/2009</i>
<b>Capital Assets in Process Not Being Depreciated:</b>					
Lake Tapps	13,627,107	62,046,088			75,673,195
Tacoma water district	25,904,442				25,904,442
Tacoma Cascade pipeline	22,751,612	7,442,191			30,193,803
Other equipment		34,595			34,595
Eastside reservoir	128,135	115,839			243,974
<b>Total Capital Assets in Process Not Being Depreciated</b>	<b>\$ 62,411,296</b>	<b>\$ 69,638,713</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 132,050,009</b>
<b>Total Capital Assets</b>	<b>\$ 84,292,091</b>	<b>\$ 69,910,626</b>	<b>\$ -</b>	<b>\$ (1,462,054)</b>	<b>\$ 152,740,663</b>

Effective September 31, 2010, Cascade adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Asset*, for the comprehensive plan that was recognized as construction in progress in prior years. See Note 13 for further discussion.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2010 and 2009**

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

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

	<u>2010</u>	<u>2009</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	\$ 40,000
\$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>592,106</u>	<u>631,580</u>
Total long-term debt	612,106	671,580
Less current portion	<u>(59,869)</u>	<u>(59,671)</u>
<b>Long-Term Portion</b>	<b><u><u>\$ 552,237</u></u></b>	<b><u><u>\$ 611,909</u></u></b>

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

<i>For the Years Ending December 31,</i>	<u>Principal</u>	<u>Interest</u>
2011	\$ 59,869	\$ 2,960
2012	40,069	2,760
2013	40,269	2,560
2014	40,471	2,359
2015	40,673	2,156
2016 - 2020	206,435	7,710
2021 - 2025	<u>184,320</u>	<u>2,498</u>
	<b><u><u>\$ 612,106</u></u></b>	<b><u><u>\$ 23,003</u></u></b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2010 and 2009**

**Note 6 - Continued**

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

	<u>Balance</u> <u>12/31/2009</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/2010</u>
<u>2010:</u>				
Loan #PW-05-691-PWP-205	\$ 40,000	\$ -	\$ (20,000)	\$ 20,000
Loan #PW-05-691-PRE-142	631,580		(39,474)	592,106
	<u>\$ 671,580</u>	<u>\$ -</u>	<u>\$ (59,474)</u>	<u>\$ 612,106</u>
	<u>Balance</u> <u>12/31/2008</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance</u> <u>12/31/2009</u>
<u>2009:</u>				
Loan #PW-05-691-PWP-205	\$ 60,000	\$ -	\$ (20,000)	\$ 40,000
Loan #PW-05-691-PRE-142	671,053		(39,473)	631,580
	<u>\$ 731,053</u>	<u>\$ -</u>	<u>\$ (59,473)</u>	<u>\$ 671,580</u>

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

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

	<u>2010</u>	<u>2009</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.	73,175,000	75,155,000

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2010 and 2009**

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

\$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.

24,425,000                      25,775,000

\$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 5.0 annual percentage rate.

16,860,000                      16,860,000

Total long-term debt

128,280,000                      131,610,000

Less current portion

(3,675,000)                      (3,330,000)

**Long-Term Portion**

**\$ 124,605,000                      \$ 128,280,000**

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, 2010 and 2009, was \$103,212 and \$21,457, 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, 2010 and 2009.

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

*For the Years Ending December 31,*

	<u>Principal</u>	<u>Interest</u>
2011	\$ 3,675,000	\$ 6,437,938
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 - 2020	23,545,000	26,402,833
2021 - 2025	28,605,000	20,150,592
2026 - 2030	<u>56,700,000</u>	<u>14,941,209</u>
	<b><u>\$ 128,280,000</u></b>	<b><u>\$ 92,466,256</u></b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2010 and 2009**

**Note 7 - Continued**

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

	<i>Balance</i> <i>12/31/2009</i>	<i>Proceeds</i>	<i>Repayments</i>	<i>Balance</i> <i>12/31/2010</i>
<u>2010:</u>				
Revenue Bonds	<u>\$ 131,610,000</u>	<u>\$ -</u>	<u>\$ (3,330,000)</u>	<u>\$ 128,280,000</u>
	<i>Balance</i> <i>12/31/2008</i>	<i>Proceeds</i>	<i>Repayments</i>	<i>Balance</i> <i>12/31/2009</i>
<u>2009:</u>				
Revenue Bonds	<u>\$ 52,810,000</u>	<u>\$ 80,095,000</u>	<u>\$ (1,295,000)</u>	<u>\$ 131,610,000</u>

**Note 8 - Commitments**

**Lease Commitments** - Cascade leases office space under a non-cancelable lease agreement expiring in December 2012. The lease calls for payments of \$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 non-cancelable operating leases are as follows:

*For the Years Ending December 31,*

2011	\$ 127,347
2012	25,337
2013	<u>3,200</u>
<b>Total Minimum Rental Payments</b>	<u><b>\$ 155,884</b></u>

Rent expense for operating leases totaled \$116,089 and \$118,436 for the years ended December 31, 2010 and 2009, 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, 2010.

Contracted services agreed to and expected to be received in 2010 include the following:

Construction and design services	\$ 2,236,540
Consulting contracted services	<u>3,500,828</u>
	<u><b>\$ 5,737,368</b></u>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements**

**For the Years Ended December 31, 2010 and 2009**

**Note 9 - Retirement Benefits**

Cascade provides a Section 401(a) defined contribution retirement plan to all full-time and certain part-time employees. Employees contribute 4% of their annual salary. Cascade contributes 7% of employee's salary. Employee and employer contributions were \$46,032 and \$80,974, respectively, for the year ended December 31, 2010 and \$35,059 and \$67,762, respectively, for the year ended December 31, 2009.

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 67% and 100% by Cascade during the years ended December 31, 2010 and 2009, respectively. Employee salary deferrals and Cascade matching contributions were \$106,528 and \$7,332, respectively, for the year ended December 31, 2010 and \$22,342 and \$28,436, respectively, for the year ended December 31, 2009. Cascade will phase out this plan with contributions matched at 33% and 0% for the years ended December 31, 2010 and 2011.

**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 2010 and 2009 are as follows:

2010 Member Charges

	<u>Water Sales</u>	<u>Water Usage Adjustment</u>	<u>Conservation Revenues</u>	<u>Administration Dues</u>	<u>Regional CF 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)	298,669
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>\$ 31,946,259</b>

2009 Member Charges

	<u>Water Sales</u>	<u>Water Usage Adjustment</u>	<u>Conservation Revenues</u>	<u>Administration Dues</u>	<u>Regional CF Charges</u>	<u>Total</u>
Members:						
Bellevue	\$ 13,207,684	\$ (39,304)	\$ 313,807	\$ 505,908	\$ 612,196	\$ 14,600,291
Covington			60,367	125,576		185,943
Issaquah	498,901	(113,304)	54,773	88,303	(78,065)	450,608
Kirkland	3,457,544	(58,977)	83,601	134,779	147,123	3,764,070
Redmond	5,007,911	(207,546)	142,305	229,419	1,369,140	6,541,229
Sammamish	551,504	(167,734)	98,004	157,999	828,690	1,468,463
Skyway	284,289		17,797	28,692	(75,063)	286,424
Tukwila	1,662,900		41,697	67,222	40,380	1,812,199
<b>Total</b>	<b>\$ 24,670,733</b>	<b>\$ (586,865)</b>	<b>\$ 812,351</b>	<b>\$ 1,337,898</b>	<b>\$ 2,844,401</b>	<b>\$ 29,109,227</b>

## **CASCADE WATER ALLIANCE**

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

***For the Years Ended December 31, 2010 and 2009***

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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 Tribes. Cascade made a payment of \$1,500,000 to the Puyallup Tribe of Indians on September 4, 2008, and \$600,000 to Muckleshoot Indian Tribe on January 8, 2010. Pending compensation to the Tribes is included in the Balance Sheet as long-term payables related to water rights acquisition, as follows:

Muckleshoot Agreement:

Additional \$6,200,000 to the Tribe after receiving the water rights to the White River and Lake Tapps Reservoir for municipal water supply purposes. Cascade has determined the likelihood of receiving the water rights is probable, and so has recorded the amount as a liability in the payables related to water rights acquisition at December 31, 2009. The water rights were received in December 2010.

Puyallup Agreement:

Payment of \$6,000,000 to the Tribe for capital projects to restore, protect and enhance fishery resources, to be paid after receiving the water rights to the White River and Lake Tapps Reservoir for municipal water supply purposes. Cascade has determined the likelihood of receiving the water rights is probable, and so has recorded the amount as a liability in the payables related to water rights acquisition at December 31, 2009. The water rights were received in December 2010.

Operations Payment of \$7,000,000 to the Tribe for work conducted by employees of the Tribe for monitoring, maintenance, research, restoration and enhancement of fish and fish habitat in the White River and Lake Tapps Reservoir, to be paid after receiving the water rights to the White River and Lake Tapps Reservoir for municipal water supply purposes. Cascade has determined the likelihood of receiving the water rights is probable, and so has recorded the amount as a liability in the payables related to water rights acquisition at December 31, 2010 and 2009.

#### ***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 - Change in Accounting Principle***

Effective December 31, 2010, Cascade has adopted the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, for the comprehensive plan that was recognized as construction in progress in prior years. This change is reported as a cumulative effect of a change in accounting principle in the amount of \$776,091 and is reflected as a restatement of beginning net assets invested in capital assets and a decrease in capital assets on the balance sheets.

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

Subsequent to year-end, Cascade has entered into two 60-month copier lease agreements that expire March 2016 with a monthly payment of \$669.

***REQUIRED SUPPLEMENTARY INFORMATION***

## **CASCADE WATER ALLIANCE**

### ***Required Supplementary Information For the Years Ended December 31, 2010 and 2009***

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

In accordance with GASB Statement No. 34, the Cascade Water Alliance (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 these 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.

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

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

## **CASCADE WATER ALLIANCE**

### ***Required Supplementary Information For the Years Ended December 31, 2010 and 2009***

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The following is a listing of the major Lake Tapps Project facilities, by main subsystem, with the category of facility improvement recommended by CH2MHill:

#### 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:

#### Reservoir and Embankments

- Refinements are necessary to the monitoring routines for Dikes 9,10 and 12;
- Dike 13 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, 2010 and 2009***

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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;
- Performing repairs and inspection of the Barrier Dam;
- Repairing the ecology block wall on Dike 13; and
- Performing routine maintenance and repairs on roads.

These activities expanded upon assessment and implemented some of the recommendations from CH2MHill.

Cascade is currently developing a process for selecting a new long-term operator for the Project. Included in the scope of services for the new operator will be:

- Development of Operation and Maintenance Manuals for all Project facilities; and
- Selection and implementation of a Maintenance Management System (MMS).

It is expected that the new operator will be selected in late 2011.

Based on the condition assessment work completed to date, Cascade has included funding for ongoing maintenance and repair of Lake Tapps Project Facilities in its annual Operating Budget as well as funding for upgrading and replacement of Lake Tapps Project facilities in its Capital Improvement Plan (CIP), as summarized in the tables 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

***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, 2010, and have issued our report thereon dated July 27, 2011. 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***

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.

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## 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  
July 27, 2011

***CASCADE WATER ALLIANCE***

***Schedule of Findings and Responses  
For the Year Ended December 31, 2010***

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No matters were reported.