

**BEFORE THE WASHINGTON UTILITIES  
AND TRANSPORTATION COMMISSION**

**UW-\_\_\_\_\_**

**JOINT APPLICATION FOR APPROVAL OF THE SALE AND  
TRANSFER OF ALL ISSUED AND OUTSTANDING MEMBERSHIP  
INTERESTS IN SUNCADIA WATER COMPANY, LLC, AND FOR  
CERTAIN OTHER REQUESTED RELIEF**

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**Exhibit 2**

**Suncadia Water 2018 Annual Report**

**November 15, 2019**

**CLASS A and B - WATER COMPANIES  
2018  
ANNUAL REPORT**

FOR

Registered Name of Business on file with Commission

**SUNCADIA WATER COMPANY, LLC** dba:

Official Mailing Address

**531 ROPE RIDER DRIVE**

City: **CLE ELUM** State: **WA** ZIP Code: **98922**

Official Email Address

[gkittleson@suncadia.com](mailto:gkittleson@suncadia.com)

'X' if any information listed above has been updated

**Report Year Ended: December 31, 2018**

Inquiries concerning this Annual Report should be addressed to:

Name:	GARY KITTLESON		
Title:	VICE PRESIDENT		
Address:	770 SUNCADIA TRAIL		
City:	CLE ELUM		
State:	WA	Zip Code:	98922
Telephone:	509-649-6352		
Email:	<a href="mailto:gkittleson@suncadia.com">gkittleson@suncadia.com</a>		

SUBMIT TO:

<https://www.utc.wa.gov/docs/Pages/ElectronicFiling.aspx>



**REPORT MUST BE RECEIVED NO LATER THAN: May 1, 2019**

**\*\*\*Please refer to the Instructions for Completing the Annual Report on Page 2\*\*\***

**PREPARER INFORMATION**

'X' if Preparer same as Cover:

Person who prepared report: **GARY KITTLESON**  
 Title: **VICE PRESIDENT**

If different; Company Name: \* see attached signature block information  
 Telephone: **509-649-6352**

Principal Business Address: **770 SUNCADIA TRAIL**  
 City: **CLE ELUM** State: **WA** Zip: **98922**

**COMPANY INFORMATION**

Washington Unified Business Identifier (UBI) No.: **602-418-021**  
*(If you do not know your UBI No. please contact Business Licensing Service at 1-800-451-7985 or BLS@dor.wa.gov)*

Business Structure (please enter the appropriate designation): **LLC**  
*Please enter: Individual/Sole Proprietor, Partnership, LP, LLP, LLC, Corporation, or Nonprofit Corporation*

Date First Organized or Regulated: **8/4/2004**

'X' if Address is same as Cover:

Business Physical Address: **770 SUNCADIA TRAIL**  
 City: **CLE ELUM** State: **WA** Zip: **98922**  
 Telephone: **509-649-6352** Fax: **509-649-6251**  
 Business Website: \_\_\_\_\_

**Accounting Records Information**

'X' if Address is same as above:

Location of Books & Records: **770 SUNCADIA TRAIL**  
 City: **CLE ELUM** State: **WA** Zip: **98922**


Method of Accounting: **ACCRUAL** *Please enter: Cash or Accrual*

**CERTIFICATION**

I have examined this report and to the best of my knowledge and belief, all statements of fact are accurate, the financial statements, for the period from January 1, 2018 to December 31, 2018, contained in this report, correctly reflect the business affairs of the respondent.

**(PLEASE VERIFY THAT ALL SCHEDULES ARE ACCURATE AND COMPLETE BEFORE SIGNING)**

You may electronically sign by typing your signature in block.

X 

Date **5/1/2019**

Name	GARY KITTLESON			
Title	VICE PRESIDENT			
Company	*see attached signature block information			
Street Address	770 SUNCADIA TRAIL			
City	CLE ELUM	State	WA	Zip Code 98922
Telephone	509-649-6352			
Email	<a href="mailto:gkittleson@suncadia.com">gkittleson@suncadia.com</a>			

**CLASS A & B – WATER COMPANIES**  
**2018 Annual Report**  
**Additional Information – Signature Block for Suncadia Water Company, LLC**

This is additional information as to the capacity under which the officers have executed this annual report for Suncadia Water Company, LLC.

Suncadia Water Company, LLC is a Washington limited liability company. It is a single member limited liability company and has no officers. The sole member of Suncadia Water Company, LLC is New Suncadia, LLC.

New Suncadia, LLC is a Delaware limited liability company. It has no officers and its day to day operation is delegated to its managing member, Suncadia Operating Member, LLC.

Suncadia Operating Member, LLC, is a Delaware limited liability company. It has no officers and delegates its day to day operation to its manager, LDD Suncadia Manager, Inc.

LDD Suncadia Manager, Inc., is a Delaware corporation. It has officers and it is these officers that sign on behalf of New Suncadia, LLC through the signature block outlined above. At the resort property level, there are 2 officers of LDD Suncadia Manager:

Roger T. Beck, Senior Vice President  
Gary A. Kittleson, Vice President  
Marne' Schwartz, Vice President

**OWNERSHIP**

**Instructions:**

- List the first name (or Company Name), last name (or State of Registration), title, and percentage of all owners **holding directly or indirectly five percent or greater** of voting securities of the Company.
- Group all owners holding less than five percent as 'Other Owners'.
- **Represent Percentage in decimal form (e.g., 80% is entered as 0.8000).**

First Name (or Company)	Last Name (or State Registered)	Title	Ownership
NEW SUNCADIA, LLC	DELAWARE	SOLE MEMBER	1.0000
<b>Other Owner's holding less than 0.0500 (5%) individually</b>			

**Industry Specific Information**

<b>Emergency Contact Information</b>			
<b>REQUIRED: Name, Business Address, and Contact number. Continue filling out in the same format until all personnel are represented.</b>			
Title	Name	Principal Business Address	Phone #
Certified Water Manager	DARIEN OSIADACZ	531 ROPE RIDER DR CLE ELUM, WA 98922	509-649-8948
Emergency Responder	ERIC JENSEN	531 ROPE RIDER DR CLE ELUM, WA 98922	509-304-8471
Emergency Responder	GARY KITTLESON	770 SUNCADIA TRAIL CLE ELUM, WA 98922	509-649-6352

**SCHEDULE 1  
INCOME STATEMENT**

*(For the Calendar Year 2018)*

**Instructions**

- Do NOT leave fields blank. If a field is not applicable, enter zero.
- Misc Revenue Accounts should not include Jobbing & Contract work. Include this revenue under the Other Income section.

Ln.	Account #	Account Name	Water	Other	Total Company
(L)	(a)	(b)	(c)	(d)	(c)+(d) = (e)
<b>Revenues</b>					
1	400	Operating Revenue	\$1,412,350	\$0	\$1,412,350
2	471	Misc. Revenue Accounts (specify in footnote)	\$2,827	\$0	\$2,827
3	474	Other Revenue Accounts (specify in footnote)	\$0	\$0	
4		<i>Utility Operating Revenue (add lines 1 thru 3)</i>	\$1,415,177	\$0	\$1,415,177
<b>Expenses</b>					
5	401	Operating Expense Accounts	\$692,529	\$0	\$692,529
6	403	Depreciation Expense	\$225,170	0	\$225,170
7	406	Amortization Expense	\$0	\$0	\$0
8	408	Other Tax & License	\$63,774	\$0	\$63,774
9	409	Federal Income Taxes	\$0	\$0	\$0
10		<i>Utility Operating Expense (add lines 5 thru 9)</i>	\$981,473	\$0	\$981,473
11		<i>Utility Operating Income (Loss) (line 4 less line 10)</i>	\$433,704	\$0	\$433,704
<b>Other Income and Deductions</b>					
<b>Other Income:</b>					
12	414	Gain (Loss) From Disposition of Plant	\$0	\$0	\$0
13	415	Merchandising, Jobbing and Contract Work	\$0	\$0	\$0
14	419	Interest & Dividend Income	\$0	\$0	\$0
15	421	Nonutility Income	\$0	\$0	\$0
16		<i>Total Other Income (add lines 12 thru 15)</i>	\$0	\$0	\$0
<b>Other Deductions:</b>					
17	416	Merchandising, Jobbing and Contract Work	\$0	\$0	\$0
18	426	Miscellaneous Nonutility Expenses	\$0	\$0	\$0
19	427	Interest Expense	\$87,688	\$0	\$87,688
21		<i>Total Other Deductions (add lines 17 thru 19)</i>	\$87,688	\$0	\$87,688
22		<b>Net Income (Loss) (add lines 11 and 16, subtract line 21)</b>	\$346,016	\$0	\$346,016

**Schedule 1 Footnotes (add lines as needed):**

Misc. Revenue is principally late charges assessed on past due accounts.

**SCHEDULE 2  
 BALANCE SHEET - TOTAL COMPANY**

(For the Year Ended December 31, 2018)

**Instructions**  
 - Do NOT leave fields blank. If a field is not applicable, enter zero.  
 - Line 15 must equal Line 32

Line	Account #	Account Name	Current Year
(L)	(a)	(b)	(c)
<b>Assets</b>			
1	101	Utility Plant	\$24,210,638
2	104	Utility Plant Purchased or Sold	\$0
3	108	Less: Accumulated Depreciation	(\$4,758,818)
4	114	Utility Plant Acquisition Adjustment	\$0
5	110	Less: Accumulated Amortization of Plant Acquisition Adjustment	\$0
6		<i>Net Utility Plant (add lines 1, 2, and 4, subtract lines 3 and 5)</i>	\$19,451,820
7	124	Utility Investments	\$0
8	127	Special Funds (Surcharges, Facility Charges)	\$0
9	131	Cash	\$111,437
10	141	Customer Accounts Receivable	\$93,626
11	151	Plant Materials and Supplies	\$0
12	162	Prepayments	\$5,993
13	186	Other Deferred Debits (specify in footnote)	\$0
14		Other Assets (specify in footnote)	\$0
15		<b>Total Assets (add lines 6 thru 14)</b>	\$19,662,876
<b>Ownership Equity</b>			
16	201-204	Capital Stock Issued	\$0
17	211	Other Paid In Capital (specify in footnote)	\$8,343,730
18	214-215	Retained Earnings	-\$2,648,291
19	218	Proprietary Capital	\$0
20		<i>Total Ownership Equity (add lines 16 thru 19)</i>	\$5,695,439
<b>Liabilities</b>			
21	224	Long-Term Debt	\$1,000,000
22	231	Accounts Payable	\$26,287
23	232	Notes Payable	\$0
24	235	Customer Deposits	\$0
25	236	Accrued Taxes	\$0
26	253	Other Deferred Credits (specify in footnote)	\$0
27	265	Miscellaneous Operating Reserves	\$0
28	271	Contributions in Aid of Construction (CIAC)	\$13,740,788
29	272	Less: Accumulated Amortization of CIAC	-\$905,820
30		Other Liabilities (specify in footnote)	\$106,182
31		<i>Total Liabilities (add lines 21 thru 29)</i>	\$13,967,437
32		<b>Total Equity, Capital and Liabilities (add line 20 and 31)</b>	\$19,662,876

Schedule 2 Footnotes (add lines as needed):	
Other liabilities = Amount owed to related parties	\$ 78,014
Accrued payroll	9,325
Accrued PTO	10,582
Accrued Workers Comp	1,312
Accrued 401k match	4,408
Washington excise tax pay.	2,541

**SCHEDULE 3  
 WATER UTILITY PLANT (Account 101)**

**Instructions**

Report plant and equipment asset account additions and retirements that occurred during the year.  
 If a field is not applicable, enter zero.

Line No. (L)	Acct No. (a)	Account Name (b)	Balance Beginning of Year (c)	Additions (d)	Retirements (e)	Balance End of Year (f)
1	301	Organization	\$0	\$0	\$0	\$0
2	302	Franchises	\$0	\$0	\$0	\$0
3	303	Land and Water Rights	\$9,563,607	\$0	\$0	\$9,563,607
4	304	Structures & Improvements	\$753,721	\$0	\$0	\$753,721
5	305	Collecting & Impounding Reservoirs	\$0	\$0	\$0	\$0
6	306	Lake, River, and other intakes	\$0	\$0	\$0	\$0
7	307	Wells and Springs	\$0	\$0	\$0	\$0
8	309	Supply Mains	\$0	\$0	\$0	\$0
9	310	Power Generation Equipment	\$166,232	\$0	\$0	\$166,232
10	311	Pumping Equipment	\$1,226,882	\$0	\$0	\$1,226,882
11	320	Water Treatment Equipment	\$0	\$0	\$0	\$0
12	330	Distribution Reservoirs & Tanks	\$1,648,200	\$0	\$0	\$1,648,200
13	331	Transmission & Distribution Mains	\$9,708,585	\$462,266	\$0	\$10,170,851
14	333	Service Connections	\$0	\$0	\$0	\$0
15	334	Meters and Meter Installation	\$316,127	\$67,842	\$0	\$383,969
16	335	Hydrants	\$0	\$0	\$0	\$0
17	339	Other Plant & Misc. Equipment	\$0	\$0	\$0	\$0
18	340	Office Furniture & Equipment	\$49,437	\$0	\$0	\$49,437
19	341	Transportation Equipment	\$46,988	\$0	\$0	\$46,988
20	343	Tools, Shop and Garage Equipment	\$65,954	\$0	\$0	\$65,954
21	345	Power Operated Equipment	\$0	\$0	\$0	\$0
22	346	Communication Equipment	\$134,797	\$0	\$0	\$134,797
23	348	Other Tangible Plant	\$0	\$0	\$0	\$0
25	101	<b>Utility Plant Total (add lines 1 thru 23)</b>	<b>\$23,680,530</b>	<b>\$530,108</b>		<b>\$24,210,638</b>

**SOURCES OF CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**

**Instructions**

Report all plant, equipment, and monies received during the year, as a gift.  
 - Tariff Based (e.g., connection charges, facilities charges, and surcharges)  
 - Non-Tariff Based (e.g., developer donated line extension).  
 - If a field is not applicable, enter zero.

Line No. (L)	Description of Charges (a)	# of Connections (b)	Cost or Charge per Connection (c)	CIAC Amount Received (d)
26	Tariff Based CIAC	0	\$0	\$0
27	Non-Tariff Based CIAC	79	\$1,080	\$85,320
28	<b>CIAC Collected (add lines 26 and 27)</b>	<b>79</b>		<b>\$85,320</b>



<b>SCHEDULE 3</b>			
<b>CUSTOMER COUNT SUMMARY</b>			
<b>REQUIRED: List the number of customer accounts in each category. If not applicable, enter zero.</b>			
Description	Number at Beginning of Year	New Services	Number at End of Year
(a)	(b)	(c)	(d)
Total Unmetered	0	0	0
Total Metered	702	122	824
Master Meter - Single Customer Billed	0	0	0
Master Meter - Multiple Customers Billed	0	0	0
Other Services (Ready to Serve, etc.)	589	(14)	575
<b>Total Customers</b>	<b>1,291</b>	<b>108</b>	<b>1,399</b>

<b>WATER CATEGORY SUMMARY</b>					
<b>REQUIRED: Report quantity of water, in cubic feet, that entered system from all sources, and disposition of water. Total Loss/Wastage plus Water Sold to Customers should equal Source Water.</b>					
Month	Purchased or Surface Water	Ground Water (Wells)	Total from All Categories	Loss or Wastage	Water sold to Customers
(a)	(b)	(c)	(b) + (c) = (d)	(e) enter as "+"	(d) - (e) = (f)
January	599,517	0	599,517	274,374	325,143
February	553,103	0	553,103	262,751	290,352
March	482,186	0	482,186	179,542	302,644
April	614,128	0	614,128	(771,163)	1,385,291
May	1,797,469	0	1,797,469	15,973	1,781,496
June	2,328,582	0	2,328,582	87,604	2,240,978
July	2,948,057	0	2,948,057	(100,073)	3,048,130
August	3,270,628	0	3,270,628	(65,550)	3,336,178
September	2,215,622	0	2,215,622	57,150	2,158,472
October	873,335	0	873,335	104,571	768,764
November	519,483	0	519,483	366,115	153,368
December	607,845	0	607,845	399,448	208,397
<b>Total (Add lines 7 thru 18)</b>	<b>16,809,955</b>	<b>0</b>	<b>16,809,955</b>	<b>810,741</b>	<b>15,999,214</b>

- (d) - Category Master Meters Records
- (e) - Category Leakage or Wastage of Water
- (f) - Individual Customer Meter Records

<sup>1</sup>CONVERSION: 1 cubic foot = 7.48 gallons



**Typical Average Service Lives  
 Salvage Rates, and Depreciation Rates  
 Water Utilities**

NARUC (1996) Account Numbers Class A B C	Class of Plant  Source of Supply Plant	Average Service Lives Years **	Net Salvage Percent %	Depreciation Rate Range	
				Short	Long
				301	Organization
302	Franchises	XXX		XXX	XXX
303	Land and Water Rights	XXX		XXX	XXX
304	Structures and Improvements	35-40		2.86%	2.50%
305	Collect. and Impounding Res.	50-75		2.00%	1.33%
306	Lake, River and Other Intakes	35-45		2.76%	2.22%
307	Wells and Springs	25-35		4.00%	2.86%
308	Infiltration Galleries and Tunnels	25-50		4.00%	2.00%
309	Supply Mains	50-75		2.00%	1.33%
310	Power Generation Equipment	10-15		10.00%	6.67%
<b>Pumping Plant</b>					
304	Structures and Improvements	35-40		2.86%	2.50%
311	Pumping Equipment	20			5.00%
311	Other Pumping Plant	25			4.00%
<b>Water Treatment Plant</b>					
304	Structures and Improvements	35-40		2.86%	2.50%
320	Water Treatment Equipment	20-35		5.00%	2.86%
<b>Transmission and Distribution Plant</b>					
304	Structures and Improvements	35-40		2.86%	2.50%
330	Distribution Reservoirs and Tanks	30-60		3.33%	1.67%
331	Trans. and Dist. Mains	50-75		2.00%	1.33%
331	Fire Mains	50-75		2.00%	1.33%
333	Service Connections	30-50		3.33%	2.00%
334	Meters	20-25	10	5.00%	4.00%
334	Meter Installations	40-60		2.50%	1.67%
335	Hydrants	40-60	5	2.50%	1.67%
<b>General Plant</b>					
304	Structures and Improvements	35-40		2.86%	2.50%
339	Other Plant	40-60		2.50%	1.67%
340	Office Furniture and Equipment	20-25	5	5.00%	4.00%
341	Transportation Equipment	7	10		14.30%
342	Stores and Equipment	20			5.00%
343	Tools, Shop and Garage Equip.	15-20	5	6.67%	5.00%
344	Laboratory Equipment	15-20		6.67%	5.00%
345	Power Operated Equipment	10-15	10	10.00%	6.67%
346	Communication Equipment	10	10		10.00%
347	Miscellaneous Equipment	10	10		10.00%
348	Other Plant Assets	10	10		10.00%
348	Water System Plan	6	10		16.67%

\*\* These lives are intended as a guide; longer or shorter lives should be used if experience shows it is warranted.

Suncadia Water Company, LLC  
Affiliated Interest Transactions  
January 1, 2018 through December 31, 2018

1. Listed below is the affiliated interest disclosures made by Suncadia Water Company, LLC (“Suncadia Water”) in its previous rate case. Prior to 2012, the parent company was Suncadia, LLC. Subsequent to June 18, 2012, New Suncadia, LLC acquired substantially all of the assets of Suncadia, LLC, including Suncadia, LLC’s membership interest in Suncadia Water Company, LLC. New Suncadia, LLC is the sole owner of Suncadia Water Company, LLC, and is providing identical services to Suncadia Water Company, LLC as Suncadia, LLC previously did.

Intercompany Debt

*The parent company originally provided a \$3,000,000 intercompany note as debt financing to Suncadia Water. The interest rate on the note was initially set equal to the rate for the parent company’s own cost of debt, at 7.81%.*

*Subsequently, a total of \$650,000 in principal payments have been made, reducing the outstanding balance on the note to \$2,350,000. The interest rate was also reduced to 5.25%. Additionally, during 2015, Suncadia Water made additional principal payment of \$450,000, reducing the outstanding balance of the note at 12/31/2015 to \$1,900,000. During 2016, Suncadia Water paid \$375,000 on the Note, reducing the principal balance to \$1,525,000 at December 31, 2016. The interest rate increased to 5.75%. During 2017, Suncadia Water paid \$250,000 on the Note, reducing the principal balance to \$1,275,000 at December 29, 2017. The interest rate remained at 5.75%. During 2018, Suncadia Water paid \$275,000 on the Note, reducing the principal balance to \$1,000,000 at December 31, 2018. The interest rate was increased to 6.50% effective January 1, 2019.*

*Interest is payable monthly.*

Lease of Office and Shop Space

*Suncadia Water will pay Suncadia LLC \$1,000 per month for lease of approximately 1,350 square feet of office and shop space. The lease is a full service lease and includes utilities, property taxes, insurance and office cleaning services.*

Reimbursement of Operating Costs pursuant to a Management Agreement

*The Reimbursement of Operating Costs, as defined in the Management Agreement, is the amount that Suncadia Water pays the parent company for the*

*accounting and management services provided for in the Management Agreement plus the reimbursement of any out-of-pocket costs that parent company incurs on behalf of Suncadia Water in performing its duties under the Management Agreement. Suncadia Water pays a Management Agreement Fee for the accounting and management services provided by the parent company. This Management Agreement Fee is equal to \$37,500 per year, payable in equal monthly installments.*

*The accounting and management services provided by the parent company are set forth in the Management Agreement and include preparation of annual budget, preparation of forecasts, cash management services, maintenance of general ledger and preparation of financial statements, maintenance of payroll records and filing of required governmental employment reports, providing assistance to auditors examining the books and records, preparation of reporting required by the Washington Utilities and Transportation Commission, providing access to computer servers, networks, and telephone systems, management oversight of Suncadia Water, preparation and filing of tax returns, and maintenance of accounts payable and accounts receivable systems.*

2. Costing method is described in (1) above.

Amounts charged in 2018:

Intercompany Debt

Interest expense - \$87,688

Rent

Rental of Building/Real Property - \$12,000

Accounting and Management Services

Contractual Accounting - \$37,500

3. For description of terms of loan, see (1) above
4. No obligations or liability assumed by Suncadia Water Company, LLC for affiliated interest.
5. New Suncadia, LLC - is engaged in developing a master-planned community, Suncadia Resort and operation of hospitality services provided at Suncadia Resort.
6. Common officers between Suncadia Water Company, LLC and New Suncadia, LLC

New Suncadia, LLC is the sole member of Suncadia Water Company, LLC. There are no individual officers of Suncadia Water Company; all documents are signed by New Suncadia, LLC as sole member.

New Suncadia, LLC has no officers. All of New Suncadia's agreements are signed by Suncadia Operating Member, LLC, who is New Suncadia's managing member. Suncadia Operating Member in turn has no officers. LDD Suncadia Manager, Inc. is the manager of Suncadia Operating Member, does have officers, and signs on behalf of Suncadia Operating Member.

The on-site officers for LDD Suncadia Manager, Inc., who in turn sign documents on behalf of both New Suncadia, LLC and Suncadia Water Company, LLC, are:

Roger T. Beck, Senior Vice President

Gary A. Kittleson, Vice President

Marne' Schwartz, Vice President

Accompanying this Affiliated Interest Transactions report are true copies of the promissory note and the management agreement referred to in (1) above.

## PROMISSORY NOTE

\$1,000,000.00

December 31, 2018  
Cle Elum, Washington

FOR VALUE RECEIVED, Suncadia Water Company, LLC, a Washington limited liability company ("Borrower"), promises to pay to the order of New Suncadia, LLC, a Delaware limited liability company ("Lender"), the principal sum of One Million and no/100ths Dollars (\$1,000,000.00), with interest thereon as provided below. Interest on the outstanding principal balance shall accrue from the date of this Note forward at the rate of 6.50% per annum. Principal and interest shall be payable in lawful money of the United States, at such place as Lender may designate.

Borrower shall pay all accrued interest on the first day of each month during the term of this Note. The entire outstanding balance of principal and interest of this Note shall be due and payable on December 31, 2019.

Borrower shall have the right, upon payment of all accrued interest to the date of payment, to prepay at any time in advance of maturity, without premium or penalty, all or any part of the principal amount of this Note.

If Borrower fails to pay any installment of principal or interest hereunder within 30 days after notice from Lender that such payment is past due, the loan evidenced by this Note may be accelerated and the outstanding principal balance and all accrued interest shall become immediately due and payable, at Lender's option and without further notice to Borrower, and the outstanding principal shall bear interest at the rate of 12% per annum from the date of default until paid in full. Further, Lender shall be entitled to pursue any and all rights and remedies available to it under law.

Borrower waives diligence, presentment, demand, protest, and notice of any kind whatsoever. The nonexercise by Lender of any of its rights hereunder in any instance shall not constitute a waiver thereof in that or any subsequent instance.

If this Note is placed in the hands of an attorney for collection after any default, Borrower promises to pay all costs of collection and a reasonable sum as attorneys' fees, whether suit is brought or not.

This Note is to be construed in all respects and enforced according to the laws of the State of Washington.

**BORROWER ACKNOWLEDGES THAT ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM**

ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER  
WASHINGTON LAW.


**BORROWER:**


SUNCADIA WATER COMPANY, LLC,  
a Washington limited liability company

By: New Suncadia, LLC,  
a Delaware limited liability company,  
its sole Member

By: Suncadia Operating Member, LLC,  
a Delaware limited liability company,  
its Managing Member

By: LDD Suncadia Manager, Inc.,  
a Delaware corporation,  
its Manager

By:   
Name: GARY A KETTLEISON  
Its: VICE PRESIDENT

By:   
Name: MARVE SCHWARTZ  
Its: VICE PRESIDENT



## Management Agreement

This Management Agreement (Agreement) is made this eighteenth day of June, 2012, by and between New Suncadia LLC, a Delaware limited liability company, (Manager), and Suncadia Water Company, LLC, a Washington limited liability company (Company), and shall upon execution hereof by the parties constitute the sole agreement between the parties with respect to the management of the Company located in Cle Elum, Washington.

### Agreements:

- I. New Suncadia LLC Designated Managing Agent for the Company.
  - a. The Manager is hereby designated as "Managing Agent" for the Company and shall exercise such authority and assume such responsibility as is required under this Agreement. The specific duties of the Manager, in addition to those required by law, are as set forth in this Agreement and in Exhibit A.
  
- II. Duties of New Suncadia LLC.
  - a. The duties of the Manager shall include the following:
    1. Manager shall provide financial management and control of all funds of the Company, shall take custody of all monies, and shall accurately account therefore to the Company.
    2. Manager shall maintain all bank accounts for the Company.
    3. Manager shall prepare interim Financial Statements for each month of the year for the Company and annual Financial Statements as required.
    4. Manager shall prepare budgets for the Company which will be presented for approval to the owners of the Company.
    5. Manager shall supervise those persons engaged in the day-to-day operations of the Company.
    6. A more detailed list of financial related duties and other duties to be performed by the Manager is set forth in Exhibit A attached to this Agreement and made a part hereof by reference.
  
- III. Employment Management.
  - a. The Manager will advise the Company with regard to hiring and personnel matters and procedures for compliance with legal requirements regarding personnel, and shall perform such duties in connection with personnel

matters as shall be requested from time to time by the Company. The Manager will maintain employee records, submit payroll reports, and process payroll for the Company.

- b. The Company agrees to reimburse the Manager for all the actual costs of the wages and benefits (including holiday pay, sick pay, vacation pay, insurance costs, worker's compensation insurance and other employee benefits) provided by the Manager to its employees necessary to perform the duties required to operate the Company. The Management Agreement Fee (Section VII c.), as adjusted from time to time, will be deemed to be the reimbursement for these actual costs. Additionally, the Manager shall be reimbursed by the Company for any actual out-of-pocket costs that the Manager incurs on behalf of the Company. Collectively, the Management Agreement Fee and reimbursement of Manager's out-of-pocket costs shall be referred to as the "Reimbursement of Operating Costs."

#### IV. Meetings and Minutes

- a. The Manager will provide assistance to the Company in preparation for any required meetings of the Company. Manager will assist in preparation of the meeting notice, agenda, and other proper requirements for conduct of the meeting. Manager shall maintain minutes and other records for the Company.

#### V. Contracting and Insurance.

- a. The Manager shall be authorized to sign contracts on behalf of the Company.
- b. Manager will be specifically named as an additional insured on the Company's insurance policies. In the event of cancellation or termination or modification or non-renewal of the aforementioned insurance, notification of such cancellation will be provided to the Manager and the Company at least thirty (30) days prior to its cancellation. The Company shall obtain, at Company's expense, a fidelity bond covering Manager's employees responsible for handling the Company's funds.

#### VI. Indemnification

- a. Where the Manager has acted in its capacity as consultant or agent of the Company in any of the Company's business, and has thereby become subjected to claims or liabilities related to the conduct of the Company's business, the Company shall hold the Manager harmless and defend and indemnify the Manager against any and all such claims including reasonable attorney's fees so incurred by the Manager, provided, however, that no such saving harmless or indemnity shall extend to any such claim from which it has been determined by a court of competent

jurisdiction that the claim has arisen from a reckless or negligent or willful breach of this Agreement by the Manager (or any officer, employee, or agent of the Manager) or from reckless or negligent or willful failure by the Manager (or any officer, employee or agent of Manager) to carry out the business of the Company in a prudent, faithful and diligent manner.

VII. Term of Agreement; Fees

- a. The initial term of this agreement shall be from January 1, 2009 to December 31, 2014, and shall automatically renew for successive five-year periods after December 31, 2014. This Agreement can be terminated by either party by providing written notice of such termination to the other party. The termination notice shall specify the date upon which the Agreement terminates (Termination Date), provided the Termination Date must be at least thirty (30) days after the date of the written termination notice.
- b. The Company shall pay the Manager fees for the Manager's costs incurred in performing the work as set forth in this Agreement (Management Agreement Fee). The Management Agreement Fee is payable in equal monthly installments on or before the tenth (10<sup>th</sup>) day of each calendar month.
- c. The Management Agreement Fee is set forth in Exhibit B, as is amended from time to time, in writing, signed by both parties.

VIII. Termination for Cause.

- a. If the Manager shall materially breach this Agreement or materially breach its fiduciary duty as an agent under this Agreement, the Company shall have the right to terminate this Agreement by providing written notice to Manager of such breach, subject to Manager's rights to cure as set forth below, and, in the event of an uncured material breach, to order all funds of the Company to be turned over by the Manager to the Company's own officers; provided that the Manager shall be indemnified by the Company for any loss caused by the Company related to or resulting from such termination. In exercising the power to terminate under this Agreement, the Company shall state the exact nature of the Manager's material breach of this Agreement or of Manager's fiduciary duty as an agent under this Agreement in a written notice provided to Manager, and Manager shall have sixty (60) days after receipt of such notice to cure the breach. If the material breach is of such a nature that it cannot be completely cured within the 60 day period, this Agreement shall not be subject to termination so long as the Manager commences the cure of the breach within the 60 day period and thereafter proceeds diligently and in good faith to effect the cure as soon as practicable. In the event of a valid termination of this Agreement, the Company shall pay to Manager all of the Management Fee that is due and owing through the effective date of

such termination.

IX. Disclosure of Financial Interest

- a. New Suncadia LLC owns 100% of the equity interest of Suncadia Water Company, LLC.

X. Miscellaneous

- a. This Agreement shall be governed by and construed under the laws of the State of Washington.
- b. Notices given by the Manager to the Company pursuant to this Agreement shall be delivered in person or by certified mail by the Manager to any officer of the Company to 4244 Bullfrog Road, Cle Elum, WA, 90922, and by Company to the Manager shall be delivered in person or by certified mail to 4244 Bullfrog Road, Cle Elum, WA, 90922.
- c. Neither party shall assign its rights under this Agreement without the other's prior written consent. The provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto, and their respective successors and permitted assigns, if any.
- d. Manager and Company are the only parties to this Agreement and are the only parties entitled to enforce its terms. Nothing in this Agreement gives, is intended to give, or shall be construed to give or produce, any benefit or right, directly or otherwise, to third persons unless such third persons are individually identified by name herein and expressly described as intended beneficiaries of the terms of the Agreement.
- e. If any term or provision of this Agreement is declared by a court of competent jurisdiction to be illegal or in conflict with any law, the validity of the remaining terms and provisions shall not be affected and the rights and obligations of the parties shall be construed and enforced as if the Agreement did not contain the particular provision held to be invalid.
- f. No modification or waiver of any of the provisions, or any future representation, promise, or addition, shall be binding upon the parties unless made in writing and signed by the parties. The terms of this Agreement shall not be waived, altered, modified, supplemented or amended in any manner whatsoever, without the written agreement of the parties.
- g. The relationship between the parties contemplated by this Agreement is that of independent entities. Nothing stated in this Agreement shall be construed as creating a partnership or joint venture between Manager and Company or creating the relationship of employer and employee. Manager is an independent contractor of the Company.
- h. This Agreement, including the exhibits, constitutes the entire agreement between the parties. There are no understandings, agreements, or

representations, oral or written, not specified herein regarding this Agreement.

- i. All provisions of this Agreement, the full performance of which is not required prior to termination (including, without limitation, Article VI), and all dispute resolution provisions shall survive termination and be fully enforceable thereafter.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

**New Suncadia, LLC:**

By: Suncadia Operating Member, a Delaware limited liability company, its managing member

By: LDD Suncadia Manager, Inc., a Delaware corporation, its manager



By: PAUL J EISENBERG

Its: SENIOR VICE PRESIDENT



By: Gary A Kittleson

Its: Vice President

**Suncadia Water Co, LLC:**

By: New Suncadia, LLC, a Delaware limited liability company, its sole member

By: Suncadia Operating Member, LLC, a Delaware limited liability company, its managing member

By: LDD Suncadia Manager, Inc., a Delaware corporation, its manager



By: PAUL J EISENBERG

Its: SENIOR VICE PRESIDENT



By: Gary A Kittleson

Its: Vice President

## Management Agreement

### Exhibit A

1. Prepare annual budgets.
2. Prepare monthly forecasts as required.
3. Provide cash management of funds of the Company.
  - a. Maintain bank accounts.
  - b. Monitor bank account balances.
  - c. Administer financing as required.
  - d. Manage debt repayment and compliance with banking institutions as required.
4. Maintain general ledger and prepare financial reports for the Company monthly.
5. Maintain employee payroll records and prepare all government reports.
  - a. Calculate and pay all payroll and payroll-related taxes and benefits.
  - b. Produce and submit all Federal, State, and local government reporting of employee status.
  - c. Maintain permanent records of all employees and employee related taxes and benefits.
6. Assist Company's auditors in conducting the annual outside audit by providing:
  - a. Confirmation of bank accounts.
  - b. Schedules of prepayments, delinquencies, and reconciliations.
  - c. Listing of all capital expenditures.
  - d. Provide such other accounting records as the auditor may require.
7. Prepare all financial reports required by the Washington Utilities and Transportation Commission (WUTC).
  - a. Prepare periodic reports as required by the WUTC.
  - b. Manage and provide supporting documentation for rate application process.
8. Provide access to information systems and telecommunications services.
  - a. Maintain systems required for operations of the Company.
  - b. Install new systems as required.

9. Provide management oversight for onsite accounting and clerical staff.
  - a. Review of work product.
  - b. Evaluate existing staff.
  - c. Evaluate new staff requirements as appropriate.
10. Provide management oversight for Director Of Utilities and Company staff.
11. Direct long range planning for the Company.
12. Tax Returns
  - a. Cause Company Federal Income Tax Return to be filed, or ensure Company is included in a consolidated federal income tax return of the owners.
  - b. File and ensure payment of Company's Washington Department of Revenue Excise Tax Returns.
  - c. Complete Company's tax reporting obligations including Form 1099 reporting.
13. Accounts Payable.
  - a. Maintain accounts payable system
  - b. Make timely payments to vendors and reconcile vendor accounts.
14. Accounts Receivable.
  - a. Assist Company personnel with maintaining accounts receivable system and customer collections.
15. Maintain fixed assets system and calculation of depreciation.

## Management Agreement

### Exhibit B

#### Management Agreement Fee

The Company shall pay the Manager an annual Management Agreement Fee for performing the services described in this Agreement equal to Thirty-Seven Thousand Five Hundred Dollars (\$37,500.00) in equal monthly installments of Three Thousand One Hundred Twenty-Five Dollars (\$3,125.00).

Additionally, the Company agrees to reimburse the Manager for any out-of-pocket costs that the Manager incurs in the Company's behalf.

The Management Agreement Fee and the reimbursement of any of Manager's out-of-pocket costs shall collectively be called the "Reimbursement of Operating Costs."