

CASCADE NATURAL GAS CORP  
Form 11-K  
June 29, 2005

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 11-K

### ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Commission File Number 1-7196

#### CASCADE NATURAL GAS CORPORATION EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

(Full Title of the Plan)

222 Fairview Avenue North, Seattle, WA 98109

(Address of the Plan)

### CASCADE NATURAL GAS CORPORATION

222 Fairview Avenue North, Seattle, WA 98109

(Name and Address of the Issuer of Securities Under the Plan)

*Cascade Natural Gas Corporation Employee Retirement Savings Plan and Trust*

*Financial Statements as of and for the Years Ended December 31, 2004 and 2003, Supplemental Schedules as of and for the Year Ended December 31, 2004, and Report of Independent Registered Public Accounting Firm*

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**CASCADE NATURAL GAS CORPORATION**

**EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Pension Committee of

Cascade Natural Gas Corporation

Employee Retirement Savings Plan and Trust

Seattle, WA

We have audited the accompanying statements of net assets available for benefits of Cascade Natural Gas Corporation Employee Retirement Savings Plan and Trust (the Plan) as of December 31, 2004 and 2003, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2004 and 2003, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of assets held for investment as of December 31, 2004, and of reportable transactions for the year then ended are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Department of

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Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2004 financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

June 17, 2005

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**CASCADE NATURAL GAS CORPORATION**

**EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST**

**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**

**YEARS ENDED DECEMBER 31, 2004 AND 2003**

|  | <b>2004</b>          | <b>2003</b>          |
|--|----------------------|----------------------|
| <b>ASSETS:</b>                               |                      |                      |
| Investments at fair value:                   |                      |                      |
| Mutual funds                                 | \$ 23,811,662        | \$ 19,947,305        |
| Cascade Natural Gas Corporation Common Stock | 7,059,346            | 7,056,846            |
|  | 30,871,008           | 27,004,151           |
| <b>RECEIVABLES:</b>                          |                      |                      |
| Participant contributions                    | 35,793               |                      |
| Employer contributions                       | 16,856               |                      |
| Due from broker for securities sold          |                      | 11,157               |
| <b>NET ASSETS AVAILABLE FOR BENEFITS</b>     | <b>\$ 30,923,657</b> | <b>\$ 27,015,308</b> |

See notes to financial statements.

## CASCADE NATURAL GAS CORPORATION

## EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

## YEARS ENDED DECEMBER 31, 2004 AND 2003

|   | 2004             | 2003             |
|---|------------------|------------------|
| <b>ADDITIONS:</b>                                       |                  |                  |
| Contributions:  |                  |                  |
| Employee  | \$ 1,909,902     | \$ 1,718,572     |
| Employer  | 1,707,088        | 994,817          |
| Investment income                                       | 527,570          | 553,568          |
| Net realized and unrealized appreciation of investments | 1,505,921        | 3,352,300        |
|   | 5,650,481        | 6,619,257        |
| <b>DEDUCTIONS:</b>                                      |                  |                  |
| Administrative fees                                     | 45               |                  |
| Benefit distributions                                   | 1,742,087        | 1,520,962        |
| <b>NET ADDITIONS</b>                                    | <b>3,908,349</b> | <b>5,098,295</b> |
| <b>NET ASSETS AVAILABLE FOR BENEFITS:</b>               |                  |                  |
| Beginning of year                                       | 27,015,308       | 21,917,013       |
| End of year   | \$ 30,923,657    | \$ 27,015,308    |

See notes to financial statements.

**CASCADE NATURAL GAS CORPORATION**

**EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST**

**NOTES TO FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**1. DESCRIPTION OF THE PLAN**

The following brief description of the Cascade Natural Gas Corporation Employee Retirement Savings Plan and Trust (the Plan) is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

**General** The Plan was established on January 1, 1991, and is a qualified defined contribution plan. All employees of Cascade Natural Gas Corporation and subsidiaries (the Company) (the Plan Sponsor) are eligible to participate in the Plan after completion of one year of employment in which the employee rendered no less than 1,000 hours of qualified service and was at least 21 years of age. The Plan is administered by the Pension Committee appointed by the Company's Board of Directors. Putnam Fiduciary Trust Company (Putnam) served as the trustee of the Plan through September 30, 2004. On October 1, 2004, Diversified Investment Advisors, Inc. (Diversified) was appointed to take on the responsibilities of the Plan trustee. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

**Contributions** Under the provisions of the Plan, participants may contribute up to the maximum annual amounts allowable by the Internal Revenue Service (IRS). For eligible union employees, the Company's matching contribution equals 75 percent of the employee's contribution, up to a maximum of 6 percent of eligible compensation. Of the total amount matched, one-third is matched in the form of Cascade Natural Gas Corporation stock. The remaining two-thirds is invested in any of the fund options at the direction of the participant. For eligible non-union employees, a 4 percent of eligible compensation, non-elective Company contribution began October 1, 2003; a transition contribution of 1 percent to 4 percent based on age and service commenced October 1, 2003, which will terminate on September 30, 2008; a profit sharing component based on fiscal year Company profits was added to the Plan October 1, 2003; and the match was reduced from 75 percent to 50 percent of eligible contributions, up to 6 percent of eligible pay, with no Company stock match, effective July 1, 2003. As the Cascade Natural Gas Stock Fund includes both participant-directed and nonparticipant-directed contributions, and the amounts are not separable, the disclosures in Note 6 include the entire balance of that fund.

**Participant Accounts** Each participant's account is credited with the participant's contribution and allocations of (a) the Company's contribution and (b) Plan earnings and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the



benefit that can be provided from the participant's account. Participants' voluntary contributions and employer matching contributions are 100 percent vested at all times.

*Loans* The Plan does not allow for participants to make loans from their contributions, unless they are qualifying hardship withdrawals.

*Investment Funds* A participant may direct the investment of his or her account balance and contributions to any one or more of the available investment funds as well as Company stock, except for

the nonparticipant-directed portion of the Company match for the hourly union employees, which is directly invested in Company stock.

**Benefit Distributions** On termination of service due to death, disability, or retirement, a participant will receive a lump-sum amount equal to the value of the participant's account. Participants who terminate employment prior to reaching age 70 ½ may defer receipt of the distribution until age 70 ½ if the account balance has ever exceeded \$5,000. Account balances that have never exceeded \$5,000 will be distributed as soon as practicable after employment terminates. To the extent any account under the Plan is invested in Company stock, it will be distributed in whole shares of such stock and cash for fractional shares. To the extent any account under the Plan is invested in mutual funds, it will be distributed to the participant or surviving spouse in cash or rolled in-kind if so requested to another plan; distribution of such accounts to other death beneficiaries shall be in cash only. Participants' voluntary contributions may be withdrawn earlier, subject to certain hardship withdrawal provisions of the Plan.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** The accounts of the Plan are maintained on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

**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 net assets available for benefits and changes therein. Actual results could differ from those estimates.

**Investment Valuation and Income Recognition** Investments, except for the Putnam S&P 500 Index Fund, are recorded at quoted market prices. There is no active market for the Putnam S&P 500 Index Fund. The Putnam S&P 500 Index Fund is recorded at estimated fair value based on the net asset value of the units of the fund. During 2004, the Plan disposed of all assets within the Putnam S&P 500 Index Fund. Purchases and sales of securities are recorded on a trade-date basis. Dividends and interest income from investments are recorded as earned on an accrual basis and allocated to participants based upon participants' proportionate investment in each fund. The Plan presents in the statements of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation or depreciation of those investments, from the beginning of the Plan year or the date of purchase, whichever is later. Management fees and operating expenses charged to the Plan for investments in the mutual funds are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

**Administrative Expenses** Costs of administering the Plan are paid by the Company.

*Payment of Benefits* Benefits are recorded when paid.

**3. FEDERAL INCOME TAXES**

The IRS has determined and informed the Company by a letter dated January 26, 1996, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code ( IRC ). In the years subsequent to the Plan origination, there have been several amendments to the Plan. The Plan requested a new determination letter in conjunction with these amendments. The new determination letter was received by the Plan on July 7, 2004. In this letter, the IRS has confirmed that the Plan has

maintained its safe-harbor status. The Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

#### 4. INVESTMENTS

The Plan's investments that represent 5 percent or more of the Plan's assets available for benefits as of December 31, 2004 and 2003 are as follows:

|  | 2004          | 2003          |
|--|---------------|---------------|
| Cascade Natural Gas Corporation Common Stock | \$ 7,059,346  | \$ 7,056,846  |
| Mutual Funds:                                |               |               |
| Putnam Fund for Growth and Income*           |               | 2,692,056     |
| Putnam Voyager Fund*                         |               | 5,307,239     |
| PIMCO Total Return                           |               | 2,800,082     |
| Putnam Money Market Fund*                    |               | 2,110,627     |
| Putnam International Equity Fund*            |               | 2,562,043     |
| Growth Fund of America                       |               | 1,439,146     |
| Diversified Money Market Fund*               | 2,713,916     |               |
| Diversified International Equity Fund*       | 3,301,199     |               |
| Diversified Value and Income Fund*           | 3,846,851     |               |
| Diversified Core Bond Fund*                  | 3,096,376     |               |
| Transamerica Premium Core Equity Fund        | 6,828,076     |               |
| Total  | \$ 26,845,764 | \$ 23,968,039 |

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\* Party-in-interest

During the Plan year ended December 31, 2004, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$1,505,921 as follows:

|   | 2004         | 2003         |
|---|--------------|--------------|
| Investments at fair value as determined by quoted market price: |              |              |
| Cascade Natural Gas Corporation common stock fund               | \$ 70,494    | \$ 362,709   |
| Mutual funds  | 1,429,356    | 2,879,599    |
| Investments at estimated fair value Putnam S&P 500 Index Fund*  | 6,071        | 109,992      |
| Total   | \$ 1,505,921 | \$ 3,352,300 |

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\*Party-in-interest



## 5. NONPARTICIPANT-DIRECTED INVESTMENTS

Information about the assets and the changes in net assets related to the Cascade Natural Gas Stock Fund, which includes both participant-directed and nonparticipant-directed contributions, is as follows:

|   | 2004         | 2003         |
|---|--------------|--------------|
| Assets available for benefits January 1                 | \$ 7,056,846 | \$ 7,009,486 |
| Employee contributions                                  | 152,645      | 168,299      |
| Employer contributions                                  | 299,603      | 290,929      |
| Investment income                                       | 310,612      | 328,948      |
| Net realized and unrealized appreciation of investments | 70,494       | 362,709      |
| Benefit distributions                                   | (337,476)    | (338,855)    |
| Transfers   | (493,378)    | (764,670)    |
| Assets available for benefits December 31               | \$ 7,059,346 | \$ 7,056,846 |

## 6. RELATED PARTY TRANSACTIONS

Certain Plan investments are shares of mutual funds managed by Diversified Investment Advisors, Inc., the parent company of Diversified. Diversified is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions. In the prior year and through September 30, 2004, certain Plan investments were shares of mutual funds managed by Putnam Investments, Inc., the parent company of Putnam. Putnam was the trustee as defined by the Plan and, therefore, these transactions qualified as party-in-interest transactions. Additionally, as the Plan holds investments in common stock of the Plan Sponsor, these transactions qualify as party-in-interest transactions. All administrative fees paid to Putnam and Diversified were paid by the Company.

## 7. PLAN TERMINATION

The Company reserves the right to discontinue contributions or terminate the Plan at any time. In the event of any total or partial termination or discontinuance, the accounts of all affected participants shall remain fully vested and nonforfeitable. Upon termination of the Plan, the Company may either liquidate the trust or continue it to pay benefits as they mature. If the trust is liquidated, the net assets, after payment of expenses, will be allocated among participants and beneficiaries in proportion to their interests.

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**SUPPLEMENTAL SCHEDULES**

## CASCADE NATURAL GAS CORPORATION

## EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

## SCHEDULE OF ASSETS HELD FOR INVESTMENT

DECEMBER 31, 2004

| Issuer                           | Description   | Shares  | Fair Value    |
|----------------------------------|---|---------|---------------|
| Cascade Natural Gas Corporation* | Common Stock  | 332,988 | \$ 7,059,346  |
| Diversified*                     | High Yield Bond Fund                                | 10,882  | 104,580       |
| Diversified*                     | Stock Index Fund                                    | 102,294 | 827,559       |
| Diversified*                     | Money Market Fund                                   | 270,278 | 2,713,916     |
| Diversified*                     | Short Horizon Strategic Allocation Fund             | 16      | 167           |
| Diversified*                     | International Equity Fund                           | 391,137 | 3,301,199     |
| Diversified*                     | Long Horizon Strategic Allocation Fund              | 11,528  | 99,716        |
| Diversified*                     | Value and Income Fund                               | 333,638 | 3,846,851     |
| Diversified*                     | Intermediate/Long Horizon Strategic Allocation Fund | 16,676  | 153,756       |
| Diversified*                     | Core Bond Fund                                      | 294,053 | 3,096,376     |
| Diversified*                     | Intermediate Horizon Strategic Allocation Fund      | 14,026  | 134,932       |
| Diversified*                     | Small Cap Growth Fund                               | 1,270   | 16,315        |
| Davis                            | New York Venture Fund A                             | 35,337  | 1,084,502     |
| Fidelity                         | Advanced Mid Cap A Fund                             | 1,018   | 25,511        |
| Goldman Sachs                    | Small Cap Value A Fund                              | 32,881  | 1,381,691     |
| Hotchkis & Wiley                 | Mid Cap Value Fund A                                | 7,227   | 196,514       |
| Transamerica                     | Premium Core Equity Fund                            | 537,644 | 6,828,077     |
|                                  |   |         | \$ 30,871,008 |

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\* Party-in-interest



## CASCADE NATURAL GAS CORPORATION

## EMPLOYEE RETIREMENT SAVINGS PLAN AND TRUST

SCHEDULE OF REPORTABLE TRANSACTIONS  
YEAR ENDED DECEMBER 31, 2004

|  | Number of<br>Transactions | Purchase<br>Price | Selling<br>Price | Cost of<br>Assets | Net<br>Gain (Loss) |
|--|---------------------------|-------------------|------------------|-------------------|--------------------|
| SERIES OF TRANSACTIONS:                          |                           |                   |                  |                   |                    |
| Diversified Investors Money Market Fund *        | 1                         | \$ 3,115,533      | \$               | \$                | \$                 |
| Diversified Investors International Equity Fund* | 1                         | 2,822,433         |                  |                   |                    |
| Diversified Investors Value and Income Fund*     | 1                         | 3,372,471         |                  |                   |                    |
| Diversified Investors Core Bond Fund*            | 1                         | 3,051,524         |                  |                   |                    |
| Transamerica Premium Core Equity Fund            | 1                         | 6,291,325         |                  |                   |                    |
| Cascade Natural Gas Stock*                       | 1                         | 6,938,426         |                  |                   |                    |
| Growth Fund of America*                          | 1                         |                   | 1,540,568        | 1,382,706         | 157,862            |
| PIMCO Total Return*                              | 1                         |                   | 3,051,812        | 2,979,028         | 72,784             |
| Putnam Fund for Growth and Income*               | 1                         |                   | 2,692,389        | 2,678,214         | 14,175             |
| Putnam Voyager Fund*                             | 1                         |                   | 4,750,757        | 5,589,284         | (838,527)          |
| Putnam International Equity Fund*                | 1                         |                   | 2,554,235        | 2,126,154         | 428,081            |
| Cascade Natural Gas Stock*                       | 1                         |                   | 6,938,426        | 5,740,425         | 1,198,001          |
| Putnam Money Market Fund*                        | 1                         |                   | 3,115,532        | 3,115,532         |                    |

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\* Party-in-interest

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustee (or other persons who administer the employee benefit plan) has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**CASCADE NATURAL GAS CORPORATION  
EMPLOYEE RETIREMENT SAVINGS  
PLAN AND TRUST**

DATE: June 28, 2005

/s/ Larry C. Rosok

Larry C. Rosok, Vice President  
Human Resources and Corporate Secretary

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