

**CASCADE WATER ALLIANCE**

Financial Statements

For the Years Ended December 31, 2021 and 2020

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## Independent Auditor's Report

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

### Opinion

We have audited the financial statements of Cascade Water Alliance (Cascade), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cascade as of December 31, 2021 and 2020, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cascade and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cascade's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Cascade's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cascade's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and modified approach for Infrastructure Capital Assets on pages 4 through 13 and on pages 36 through 42 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 operational, 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.

*Clark Nuber P.S.*

Certified Public Accountants  
April 19, 2022

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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Management's Discussion and Analysis presents our review of Cascade Water Alliance's (Cascade) net position as of December 31, 2021 and 2020, 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 the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows and Notes to Financial Statements.

The Statements of Net Position provide a record, or snapshot, of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position 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 Position 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 report cash receipts, cash payments and net changes in cash resulting from operating, capital and related financing and investing activities over the course of the year. The statements present 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.

Depreciable 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 (refunded by 2014 revenue bonds);
- 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. These bonds were refunded during the year ended December 31, 2019;

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Overview of the Financial Statements (Continued)

- Twenty-five year \$42,695,000 revenue bond proceeds (2012 revenue bonds) to acquire independent supply production capacity, to restructure the Tacoma Water Contract, to extend the Seattle Water Contract, and to fund Lake Tapps capital improvements;
- Fifteen year \$29,220,000 refunding revenue bonds (2014 revenue bonds) to pay a portion of the cost of refunding the callable portion of the outstanding 2006 Bonds. The net proceeds were placed in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of the 2006 bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$2,692,477. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The government advance refunded the 2006 revenue bonds to reduce its total debt service payments over fourteen years by \$6,270,530 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$5,462,625. At December 31, 2016, none of the defeased bonds remain outstanding;
- Seventeen year \$49,430,000 refunding revenue bond (2019 revenue bonds) to refund the outstanding 2009 revenue bonds to achieve a debt service savings, In addition to the debt service savings it freed up the 2009 bond reserve of \$4,924,951. However, due to limitations on the uses of the bond reserve, the reserve was used to pay down the issuance and Cascade borrowed an additional \$5 million for construction projects; and
- Seventeen year \$30,005,000 refunding revenue bonds (2020 revenue bonds) to pay the cost of refunding the callable portion of the outstanding 2012 Bonds. The net proceeds were placed in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, a portion of the 2012 bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$798,695. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The government advance refunded the 2012 revenue bonds to reduce its total debt service payments over 17 years by \$8,645,088 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6,313,985.

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Financial Analysis

##### Condensed Financial Statements

##### Statements of Net Position as of December 31, 2021, 2020 and 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current assets	\$ 26,810,355	\$ 24,384,221	\$ 22,321,130
Net capital assets	244,892,033	249,412,616	254,170,546
Other assets	<u>30,043,422</u>	<u>26,816,579</u>	<u>28,954,842</u>
<b>Total Assets</b>	<b><u>301,745,810</u></b>	<b><u>300,613,416</u></b>	<b><u>305,446,518</u></b>
<b>Deferred Outflows of Resources</b>	<b>1,699,259</b>	<b>2,032,711</b>	<b>1,441,330</b>
Current liabilities	16,943,026	16,559,207	16,835,945
Long-term liabilities	<u>164,150,689</u>	<u>178,261,809</u>	<u>192,606,691</u>
<b>Total Liabilities</b>	<b>181,093,715</b>	<b>194,821,016</b>	<b>209,442,636</b>
Net investment in capital assets	74,669,898	66,614,167	62,145,537
Restricted for-			
Debt service	13,007,070	13,381,158	15,514,470
Unrestricted	<u>34,674,386</u>	<u>27,829,786</u>	<u>19,785,205</u>
<b>Total Net Position</b>	<b><u>\$ 122,351,354</u></b>	<b><u>\$ 107,825,111</u></b>	<b><u>\$ 97,445,212</u></b>

Current assets increased in 2021 by over \$2.3 million compared to 2020 with the majority attributed to an increase in accounts receivable. Net capital assets decreased by \$4.6 million or 1.8% with the increases in capital projects offset by the amortization of the water contracts. Other assets increased by \$3.4 million because of an increase in restricted cash. Deferred outflows of resources decreased by 16.4% due to the continued amortization of the deferred amount of bond refunding. Current liabilities increased slightly in 2021 by \$0.4 million with slight increases in accounts payable \$0.1 million, current bonds payable \$0.13 million and the Tacoma water contract payment \$0.1 million. Long-term liabilities decreased by \$14.1 million due to payments to Tacoma and bond principal. Investment in capital assets net of related debt increased by \$8.1 million as capital projects increased and related debt decreased. Net position restricted for debt service decreased by \$0.4 million in 2021. Unrestricted net position which consist of accumulated assets that do not meet the definition of invested in capital assets, net of related debt or restricted increased by 13.5% as overall net position increased by 13.5%.



## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Financial Analysis (Continued)

Current assets increased in 2020 by over \$2.1 million compared to 2019 with the majority attributed to an increase in accounts receivable. Net capital assets decreased by \$4.8 million or 1.9% with the increases in capital projects offset by the amortization of the water contracts. Other assets decreased by \$2.1 million primarily because of a decrease in bond reserves and Pool Plus investments. Deferred outflows of resources increased by 41.0% with the advance refunding of the 2012 bonds in 2020. Current liabilities decreased slightly in 2020 by \$0.3 million. Long-term liabilities decreased by \$14.3 million due to payments to Tacoma and bond principal and a bond refunding that reduced long-term liabilities. Investment in capital assets net of related debt increased by \$3.5 million as capital projects increased and related debt decreased. Net position restricted for debt service decreased by \$2.1 million in 2020 as the bond refunding in 2020 resulted in a release of the bond reserves that were associated with the 2012 bond issuance. Unrestricted net assets which consist of accumulated assets that do not meet the definition of invested in capital assets, net of related debt or restricted increased by 40.1% as overall net position increased by 10.7%.

#### Results of Operations

##### Condensed Financial Statements Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2021, 2020 and 2019

	2021	2020	2019
Water sales	\$ 38,603,204	\$ 37,567,001	\$ 36,412,424
Administrative dues	3,382,456	3,339,859	3,286,899
Conservation program and other	737,121	829,230	821,152
<b>Total Operating Revenue</b>	<b>42,722,781</b>	<b>41,736,090</b>	<b>40,520,475</b>
Cost of water sold	21,351,878	22,920,840	24,087,405
Other operating costs	12,745,963	12,756,852	12,605,692
<b>Total Operating Expenses</b>	<b>34,097,841</b>	<b>35,677,692</b>	<b>36,693,097</b>
<b>Operating Income</b>	<b>8,624,940</b>	<b>6,058,398</b>	<b>3,827,378</b>
Nonoperating expenses	(3,696,268)	(2,292,108)	(3,467,561)
Capital contributions	9,597,571	6,613,609	5,870,640
<b>Changes in Net Position</b>	<b>14,526,243</b>	<b>10,379,899</b>	<b>6,230,457</b>
Net position, beginning of year	107,825,111	97,445,212	91,214,755
<b>Net Position, End of Year</b>	<b>\$ 122,351,354</b>	<b>\$ 107,825,111</b>	<b>\$ 97,445,212</b>

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Results of Operations (Continued)

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.

Conservation charges decreased in 2021 at \$737,121 from \$829,230 in 2020 and the corresponding conservation budget decreased as well. Total operating revenues for 2021 were \$42,654,281 compared to \$41,736,090 for 2020, an increase of 2.2%, attributable to higher demand share charges. The cost of water sold decreased by 6.8% in 2021 due to a favorable true-up. Total operating expenses decreased by 4.4% and operating income increased by \$2.5 million in 2021. Nonoperating income/expenses decreased 61.3% due to a reduction in interest expense in 2021. Capital contributions increased by \$3.1 million in 2021 over 2020 with growth returning to historical levels. Overall net position increased by 13.5% in 2021.

Conservation charges increased slightly in 2020 at \$829,230 from \$821,152 in 2019 and the corresponding conservation budget increased slightly as well. Total operating revenues for 2020 were \$41,736,090 compared to \$40,520,475 for 2019, an increase of 3.0%, attributable to higher demand share charges. The cost of water sold decreased by 4.8% in 2020 due to a favorable true-up. Total operating expenses decreased by 2.8% and operating income increased by \$2.2 million in 2020. Nonoperating income/expenses decreased 33.9% due to a reduction in interest expense in 2020. Capital contributions increased slightly by \$0.7 million in 2020 over 2019. Overall net position increased by 6.8% in 2020.

#### Capital Assets and Long-Term Debt

The capital assets of Cascade decreased \$4.5 million in 2021 with the amortization of the water contracts greater than expenditures related to ongoing capital projects. Capital asset expenditures have been funded from capital contributions and the 2006, 2009, and 2012 revenue bonds.

In 2012, Cascade issued revenue bonds in the amount of \$42,695,000. The proceeds of this obligation were used in 2012 and 2013 to acquire independent supply production capacity (by purchasing RCFC credits from Cascade members), to restructure the Tacoma Water Contract, to extend the Seattle Water Contract, and to fund Lake Tapps capital improvements.

In 2014, Cascade issued revenue bonds in the amount of \$29,220,000. The proceeds of this obligation were used to advance refund the 2006 bonds.

In 2019, Cascade issued revenue bonds in the amount of \$49,430,000. The proceeds of this obligation were used to refund the 2009 bonds.

In 2020, Cascade issued revenue bonds in the amount of \$30,005,000. The proceeds of this obligation were used to advance refund the 2012 bonds.

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Capital Assets and Long-Term Debt (Continued)

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. 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. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

In 2013, the negotiations were finalized that extend the contract with Seattle by 10 years, to 2063. The new contract extends current capacity of 30.3 mgd through 2039 and then ramps down throughout the remaining years. Under the contract extension, Cascade makes three scheduled capacity reservation payments to Seattle; the first payment was \$5 million in 2013 using bond proceeds, the second payment of \$12 million was made in 2018 and a final payment is due 2024. Ratification of the contract occurred in July 2013.

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 \$561,775 for the years ended December 31, 2021 and 2020, respectively.

Tacoma Water Contract - In December 2012, a new contract was signed with Tacoma. The new contract restructures the prior Tacoma supply contract, and it clarifies Cascade's rights and responsibilities for the previously purchased capacity to enable and transfer to specific third parties through a joint offering. Under the new contract, minimum water purchase volumes have been replaced by a structured capacity reservation schedule and a new capacity commitment of 8.0 mgd provided to Cascade through 2042. The 2012 bond proceeds are funding initial payments to Tacoma of \$20 million, which started with a payment of \$10 million in January 2013.

Prior costs incurred to obtain the 2005 Tacoma water contract consist of system development charges of \$16,484,000 and capacity reservation fees of \$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. As part of the agreement with Tacoma, Cascade and Tacoma jointly offered the 2005 contract water supply to four cities (City of Bonney Lake, City of Auburn, City of Buckley, and City of Sumner) in 2013. In 2013, the City of Auburn agreed to purchase 2.5 mgd of the system development charges for \$7,893,300 and have an option to purchase all the capacity reservation fee portion of the 2005 Tacoma contract for \$1,427,864 with the option extending through June 2017. In 2017 the City of Auburn decided not to exercise their option and Cascade wrote off the remaining 2005 contract and the corresponding amortization.

In 2011, the City of Bonney Lake agreed to purchase \$2,747,334 as a base amount of 2005 Tacoma water contract from Cascade for the system development charge that Cascade had paid to Tacoma. In 2013, the City of Bonney Lake agreed to purchase an additional portion of the 2005 Tacoma water contract for \$391,222.

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Capital Assets and Long-Term Debt (Continued)

Barrier Apron Improvement - In 2015, in coordination with the United States Army Corps of Engineers (USACE) and other interested parties (Tribes, State and Federal fishery agencies) Cascade replaced the severely damaged downstream apron on the Barrier Structure with a newly designed and improved apron. The USACE Mud Mountain Dam Fish Passage Barrier Structure Apron Repair project (the Apron Repair Project) was a requirement of Reasonable and Prudent Alternative (RPA) action item under the Mud Mountain Biological Opinion and Conference Opinion issued to the USACE by the National Marine Fisheries Service in October 2014 (Bi-Op). Cascade performed the apron replacement on behalf of the USACE under the 2010 Cooperative Agreement. As with other Barrier Structure activities, the USACE was responsible for environmental and regulatory coordination, and obtaining all applicable environmental authorizations necessary to carry out the work.

In 2018, the Board authorized conveyance of Project property and facilities (primarily the Barrier Structure) considered surplus (not required for providing public utility services) to the USACE, conditioned upon obtaining acceptable construction and operations agreements from the USACE (Board Resolution 2018-04).

Cascade received "full value" in the following manner: Cascade entered into construction and operating agreements with the USACE that will ensure that facilities will be built and operated in a manner that preserves Cascade's Water Rights and the means for Cascade to exercise those rights. In addition, the replacement of the existing deteriorating Barrier Structure dating from 1911 and the USACE assumption of the operations and maintenance of the replacement facility will provide economic benefits to Cascade that exceed the appraised value of the property to be conveyed. In addition, as part of the USACE construction project, improvements will be made to Cascade's intake facilities that will improve operational efficiency and reduce long-term maintenance costs.

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

#### Projects in Process

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

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

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

Previously capitalized expenditures related to Segment 2 were expensed in 2012 since it had become less probable that this segment would ultimately be put into service due to its complicated property and routing configuration.

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Projects in Process (Continued)

Minor work and expenditures will continue on Segment 3, however, as it is far more likely than Segment 2 to ultimately be put into service. Segment 3 will not be operational until 2024 at the earliest. Starting in 2012, Segment 3 has been placed into "on hold" status until the project is more fully resumed. All or portions of the TCP is being evaluated for eventual integration into a region-wide water delivery resiliency system and will be held as an asset by Cascade until the evaluation is completed.

Lake Tapps Milfoil Control - Due to a delayed refilling of the Lake Tapps Reservoir in 2015, Cascade conducted only minimal milfoil control efforts in 2015. Annual inspections and maintenance will continue as necessary to control the invasive weed.

White River System Operator - Veolia Water started working on January 1, 2012, under contract by Cascade, to operate and maintain the White River - Lake Tapps Reservoir Project. For 2019, the fixed fee budget was \$1.9 million and a variable budget of \$.2 million. A Project Operations and Maintenance Manual was completed in 2012.

Security Improvements - After a security strategic plan was performed by Carollo Engineers in 2015, a study was conducted to look at each Cascade asset and evaluate them to determine the potential range of threats, liability, and impacts on operation in the event of a loss. Each asset was prioritized using a pairwise comparison, then prioritizations were refined based on operational importance, public safety, and economic value. Each asset was prioritized high, medium, or low. Phase 1 construction was completed in 2018. Phase 2 is currently under construction with an anticipated completion of late 2022 or early 2023.

Bellevue Issaquah Pipeline (BIP) - A Memorandum of Understanding was signed in 2013 between Cascade and the City of Bellevue to operate and maintain the BIP. A project to install meters along the BIP began in 2014 and was completed in 2018.

2012 Transmission and Supply Plan Update - The Cascade Water Alliance Board of Directors adopted the 2012 Transmission and Supply Plan (the 2012 TSP) in July 2012. This 2012 TSP fulfills Cascade's responsibility to submit a water system plan to the Washington State Department of Health. In addition, it supplements information on regional supply provided by each of its members in their respective individual water system plans. Cascade updates its TSP every six years. The TSP update includes analysis of regional growth and water demand. These have demonstrated that Cascade members will need less water than was anticipated in the 2004 TSP. The outcome of the TSP update determines 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, Cascade determined that expenditure for TSP updates do not meet the criteria for being a capitalizable intangible asset, so expenditures for TSP update expenditures have been expensed accordingly. In 2018, the 2012 TSP was extended through 2022.

Electronic Document Management System - Cascade began implementing an electronic document management system (EDMS) at its main office in Bellevue and at the White River Lake Tapps facilities in 2013. Implementation continued through 2017 in a phased-in approach. The EDMS will improve document storage, access, security, and retrieval.

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### Projects in Process (Continued)

Barrier Dam Intake Design Modifications - Cascade is working with the USACE to replace the 100 plus year old barrier dam with a more effective dam hired an engineer to initially review the USACE's plans and then later to design the appropriate modifications. In 2017 the design of the modifications were completed and went out to bid as part of the USACE bid package. In 2018, Cascade and the USACE finalized four easements and a number of agreements moving the work forward. Additionally, USACE has awarded a bid for the construction of the project. Additional legal and design work was performed in 2018, 2019, 2020 and 2021. The overall project was scheduled to be completed in 2022 but was delayed due to circumstances outside of Cascade's control.

Other White River Lake Tapps Projects - Several repair and upgrade projects, as described more fully in Cascade's Capital Improvement Program, were advanced in 2020 and 2021 and will continue in 2022, including:

- Network and IT architecture upgrades.
- Supervisory Control and Data Acquisition (SCADA) upgrades, the design was finished and construction began in 2021 but due to supply chain issues the project was delayed.
- Valve house controls upgrade.

#### Invested Funds

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

As of December 31, 2021, Cascade had the following investments:

Impaired Investments - As of December 31, 2021, 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. The Impaired Pool also held the residual investments in one 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 \$28,825 and Cascade's fair value of these investments is \$18,236.

Interest Rate Risk - As of December 31, 2021, the Pool's average duration was 1.24 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life of no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk - As of December 31, 2021, Cascade's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, corporate note (rated at least "A"), 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.

## CASCADE WATER ALLIANCE

### Management's Discussion and Analysis

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#### 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 Manager of Finance and Administration's Office, 520 112<sup>th</sup> Avenue NE, Suite 400, Bellevue, WA 98004.

**CASCADE WATER ALLIANCE**

**Statements of Net Position  
December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 13,218,036	\$ 13,648,941
Regional capital facility charges receivable	6,693,288	3,990,066
Restricted cash and cash equivalents, current portion	5,975,463	5,858,297
Water rights receivable, current portion	726,580	704,050
Prepaid expenses	196,988	182,867
<b>Total Current Assets</b>	<b>26,810,355</b>	<b>24,384,221</b>
<b>Capital Assets:</b>		
Equipment and furniture	2,081,756	2,018,476
Seattle water contract	22,267,611	22,267,611
Tacoma water contract	119,740,687	119,740,687
SR900 pipeline	10,021,201	10,021,201
Bellevue Issaquah pipeline	22,276,944	22,276,944
Lake Tapps buildings	2,648,820	2,644,405
	179,037,019	178,969,324
Less accumulated depreciation and amortization	<u>(51,892,664)</u>	<u>(46,477,524)</u>
	127,144,355	132,491,800
<b>Capital Assets Not Being Depreciated:</b>		
Lake Tapps - infrastructure	101,229,494	100,402,632
Projects in process and assets not yet in service- Tacoma Cascade Pipeline	<u>16,518,184</u>	<u>16,518,184</u>
<b>Total Capital Assets</b>	<b>244,892,033</b>	<b>249,412,616</b>
Restricted cash and cash equivalents, net of current portion	24,262,971	20,309,548
Water rights receivable, net of current portion	<u>5,780,451</u>	<u>6,507,031</u>
<b>Total Assets</b>	<b><u>\$ 301,745,810</u></b>	<b><u>\$ 300,613,416</u></b>
<b>Deferred Outflows of Resources:</b>		
Advanced refunding of debt	<u>\$ 1,699,259</u>	<u>\$ 2,032,711</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 1,699,259</u></b>	<b><u>\$ 2,032,711</u></b>

See accompanying notes.



CASCADE WATER ALLIANCE

Statements of Net Position (Continued)  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Liabilities and Net Position</b>		
Payables and accrued liabilities	\$ 3,073,215	\$ 2,971,825
Payables related to Tacoma water contract, current portion	5,975,463	5,858,297
Long-term debt payable from unrestricted assets, current portion	<u>39,474</u>	<u>39,474</u>
	9,088,152	8,869,596
<b>Payables From Restricted Assets:</b>		
Accrued interest	1,274,874	1,234,611
Long-term debt payable from restricted assets, current portion	<u>6,580,000</u>	<u>6,455,000</u>
	<u>7,854,874</u>	<u>7,689,611</u>
<b>Total Current Liabilities</b>	<b>16,943,026</b>	<b>16,559,207</b>
<b>Long-Term Debt, Net of Current Portion:</b>		
Long-term debt payable from unrestricted assets	118,422	157,895
Long-term debt payable from restricted assets, net of bond issuance costs	<u>92,110,000</u>	<u>98,690,000</u>
	92,228,422	98,847,895
<b>Other Long-Term Liabilities:</b>		
Payable related to Seattle water contract, net of current portion	5,000,000	5,000,000
Payable related to Tacoma water contract, net of current portion	59,992,082	65,967,545
Bond premium, net of amortization	<u>6,930,185</u>	<u>8,446,369</u>
<b>Total Liabilities</b>	<b><u>\$ 181,093,715</u></b>	<b><u>\$ 194,821,016</u></b>
<b>Deferred Inflows of Resources</b>		
<b>Net Position:</b>		
Net investment in capital assets	\$ 74,669,898	\$ 66,614,167
Restricted for-		
Debt service	13,007,070	13,381,158
Unrestricted	<u>34,674,386</u>	<u>27,829,786</u>
<b>Total Net Position</b>	<b><u>\$ 122,351,354</u></b>	<b><u>\$ 107,825,111</u></b>

See accompanying notes.

**CASCADE WATER ALLIANCE**

**Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Operating Revenue:</b>		
Water sales	\$ 38,603,204	\$ 37,567,001
Administrative dues	3,382,456	3,339,859
Conservation program and other	737,121	829,230
<b>Total Operating Revenue</b>	<b>42,722,781</b>	<b>41,736,090</b>
<b>Operating Expenses:</b>		
Cost of water sold	21,351,878	22,920,840
Depreciation and amortization	3,907,459	3,936,403
Operations	2,706,925	2,551,934
Salaries and benefits	2,124,714	2,160,222
Professional services	1,852,279	2,671,560
Maintenance	1,053,010	354,711
Communication and public information	396,253	424,337
Rent	225,469	225,469
Insurance	136,852	120,283
Office expenses	130,452	102,110
Miscellaneous	115,035	132,882
Conservation rebate program	70,253	27,269
Dues and subscriptions	27,262	49,672
<b>Total Operating Expenses</b>	<b>34,097,841</b>	<b>35,677,692</b>
<b>Operating Income</b>	<b>8,624,940</b>	<b>6,058,398</b>
<b>Nonoperating (Expenses) Revenue:</b>		
Interest income	17,645	1,681,763
Interest expense	(3,713,913)	(3,973,871)
<b>Total Nonoperating Expenses</b>	<b>(3,696,268)</b>	<b>(2,292,108)</b>
<b>Capital Contributions:</b>		
Regional capital facilities charges	9,597,571	6,613,609
<b>Total Capital Contributions</b>	<b>9,597,571</b>	<b>6,613,609</b>
<b>Total Change in Net Position</b>	<b>14,526,243</b>	<b>10,379,899</b>
Net position, beginning of year	107,825,111	97,445,212
<b>Net Position, End of Year</b>	<b>\$ 122,351,354</b>	<b>\$ 107,825,111</b>

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows  
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities:</b>		
Cash received from members	\$ 42,722,781	\$ 41,736,090
Cash paid to suppliers	(26,167,325)	(29,236,985)
Cash paid to and for employees	(3,895,525)	(3,943,434)
	<u>12,659,931</u>	<u>8,555,671</u>
<b>Net Cash Provided by Operating Activities</b>	<b>12,659,931</b>	<b>8,555,671</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Regional capital facilities charges	6,894,349	3,936,650
Water rights receivable	704,050	682,219
Tacoma water contract payable	(5,858,297)	(5,743,428)
Proceeds from issuing long-term debt		30,982,800
Payments on long-term debt	(6,160,299)	(36,617,093)
Acquisition of capital assets	(944,045)	(792,990)
Interest paid on bonds and other long-term debt	(3,673,650)	(3,902,103)
	<u>(9,037,892)</u>	<u>(11,453,945)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(9,037,892)</b>	<b>(11,453,945)</b>
<b>Cash Flows From Investing Activities:</b>		
Interest received	17,645	1,681,763
	<u>17,645</u>	<u>1,681,763</u>
<b>Net Cash Provided by Investing Activities</b>	<b>17,645</b>	<b>1,681,763</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>3,639,684</b>	<b>(1,216,511)</b>
Cash and cash equivalents, beginning of year	39,816,786	41,033,297
	<u>39,816,786</u>	<u>41,033,297</u>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 43,456,470</b>	<b>\$ 39,816,786</b>
	<u>\$ 43,456,470</u>	<u>\$ 39,816,786</u>
<b>Cash and Cash Equivalents Balance is Composed of the Following at December 31:</b>		
Cash and cash equivalents	\$ 13,218,036	\$ 13,648,941
Restricted cash and cash equivalents	30,238,434	26,167,845
	<u>30,238,434</u>	<u>26,167,845</u>
	<u>\$ 43,456,470</u>	<u>\$ 39,816,786</u>

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows (Continued)  
For the Years Ended December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>Reconciliation of Operating Income to Net Cash From Operating Activities:</b>		
Net operating income	\$ 8,624,940	\$ 6,058,398
Adjustments to reconcile net operating income to net cash provided by operating activities-		
Depreciation and amortization	3,907,459	3,936,403
Changes in operating assets and liabilities-		
Prepaid expenses	(14,121)	(16,780)
Payables and accrued liabilities	<u>141,653</u>	<u>(1,422,350)</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 12,659,931</u></b>	<b><u>\$ 8,555,671</u></b>
<b>Supplementary Cash Flow Disclosure:</b>		
Noncash purchases of capital assets through accounts payable	\$ 58,412	\$ 99,257
Noncash change in advanced refunding of debt	\$ 333,452	\$ 207,314

See accompanying notes.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020**

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

Cascade Water Alliance (Cascade), established on April 1, 1999, converted from a Washington State nonprofit corporation to a Washington State joint municipal utility service corporation on July 12, 2012, in accordance with the Interlocal Cooperation Act (Chapter 39.34) and the Non-Profit Miscellaneous and Mutual Corporations Act (Chapter 24.06) as a public governmental body and an instrumentality of its members. Cascade exercises 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 Sammamish Plateau Water and Sewer District and the Skyway Water and Sewer District.

**Basis of Accounting** - Cascade uses the accrual basis of accounting and the total economic resources measurement focus. Expenses are recorded at the time liabilities are incurred, and revenues are recorded when earned.

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

As of December 31, 2021 and 2020, the King County Investment Pool (the Pool) which holds Cascade investments 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 deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer’s office.

**Concentration of Credit Risk** - Cascade maintains cash balances at financial institutions that at times exceed federally insured limits.

**Capital Assets** - Capital assets purchased at more than \$5,000, 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
Tractors and heavy machinery	10 - 20 years
Pipelines	50 years

Cascade has elected to use the modified approach of accounting for the infrastructure capital assets. 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 infrastructure capital assets are capitalized.

## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

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#### Note 1 - Continued

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

**Deferred Outflow of Resources** - Deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred outflow of resources involves no consumption of resources that results in either a net decrease in assets or a net increase in liabilities. Deferred outflows of resources presented in this manner on the accompanying financial statements are related to the advanced refunding of bonds.

**Long-Term Debt** - Long-term debt is reported net of discounts, premiums and issuance costs. Discounts, premiums and issuance costs incurred on issuance of long-term debt are amortized by the interest method over the period the related debt is outstanding.

**Net Position** - Net position is classified in the following three components: 1) Invested in capital assets, net of related debt - This component of net position 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 position component as the unspent proceeds. 2) Restricted - This component of net position consists of restrictions placed on net asset use by external creditors (such as through debt covenants), grantors or contributors. 3) Unrestricted net position - This component of net position consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

**Regional Capital Facilities Charges** - RCFCs are paid to Cascade by each member for each new equivalent residential unit connected to its water distribution system and are intended to allocate growth costs to those members that require capacity increases due to growth in customer demand. The RCFC for 2021 and 2020 is \$6,807 and \$6,607, respectively per new Cascade Equivalent Residential Unit (CERU).

**Federal Tax Status** - Cascade Water Alliance is an authority and instrumentality of its governmental members, organized as a joint municipal utility service 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 (the Code). As an instrumentality of its members, Cascade may issue obligations, the interest of which is exempt from federal income taxation under Section 103 of the Code.

## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

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#### Note 1 - Continued

**Use of Estimates** - The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

**Subsequent Events** - Cascade evaluated its December 31, 2021 financial statements for subsequent events through April 19, 2022, which is the date the consolidated financial statements were available to be issued.

#### 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 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. 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. In December 2008, this agreement was amended to entitle Cascade to a supplemental block of additional water through December 31, 2023.

In July 2013, a new contract was signed between the City of Seattle and Cascade which extends the contract by ten years, to 2063. The contract extends the current capacity of 30.3 mgd through 2039 and then ramps down through the remaining years. Under the contract extension, Cascade would make three scheduled capacity reservation payments to Seattle; the first payment of \$5 million was made in July 2013, with subsequent payments of \$12 million and \$5 million due in December 2018 and December 2024, respectively.

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 \$561,775 for both years ended December 31, 2021 and 2020, respectively.

**The Tacoma Water Contract** - In December 2012, a water contract was signed between City of Tacoma and Cascade which superseded the Tacoma Water Contract signed in 2005. Under the water contract, minimum water purchase volumes have been replaced by a structured capacity reservation schedule, and a capacity commitment of 8.0 mgd is provided to Cascade through 2042. Cascade is required to make an annual installment payment in a range of \$1 million to \$6.8 million through 2042. The 2012 Tacoma Water Contract cost is amortized over the life of the contract which is 30 years. Amortization expense for this contract was \$3,991,356 for both years ended December 31, 2021 and 2020.

The system development charges relate to the base amount of water and the capacity reservation fees relate to the additional water to be supplied under the 2005 Tacoma Water Contract. The additional water supply will be amortized based on the ratio of the additional water to be supplied in that calendar year to total additional water to be supplied during the contract.

## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

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#### Note 2 - Continued

During 2013, the City of Auburn entered into an agreement with Cascade for water rights purchase of the 2005 Tacoma Water Contract for a total of \$5,780,451 plus an annual interest at 3.20% starting in 2016 that expires 2029, with annual interest payments of \$252,586 from 2016 to 2019 and with annual principal and interest payments of \$934,805 thereafter. City of Auburn had an option to purchase all of the capacity reservation fees of the 2015 Tacoma Water Contract for a total price of \$1,427,864 with the option expiring June 2017. In 2017, Cascade was informed by the City of Auburn that they would not exercise their option to purchase 2.763 mgd worth of system development charge credits of the 6 mgd capacity reservation fee in Cascade's 2005 contract with Tacoma. With Auburn electing not to purchase the credits the remaining \$1,427,864 of the 2005 Tacoma Contract was written down in 2017, resulting in a loss on impairment of water rights of \$354,649. At December 31, 2021 and 2020, the water rights receivable was \$6,507,031 and \$7,211,081, respectively, and is included in the statements of net position.

#### Project in Process -

Tacoma Cascade Pipeline - A pipeline extending from the Tacoma Water supply pipelines is 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. The Transmission and Supply Plan was adopted by Cascade in July 2012 (and approved by King County in February 2013 and by the State Department of Health in March 2013) and projects 2034 as the estimated in-service date for this pipeline.

Eastside Reservoir - The Eastside Reservoir is a concrete reservoir and booster pump station constructed and owned by the City of Seattle to serve Cascade's members. The purchase of the Eastside Reservoir by Cascade was considered probable when the Tacoma Cascade Pipeline was moving forward and the project designs were capitalized. When the completion of the Tacoma Cascade Pipeline was deferred on December 31, 2009, plans to purchase the reservoir were deferred as well. In addition to its use as a potential storage facility for Tacoma water, Cascade is currently evaluating the purchase of the Eastside Reservoir as a method of providing earthquake resiliency to its members.

#### Note 3 - Cash and Cash Equivalents

In accordance with state investment laws, Cascade's governing body has entered into a formal interlocal agreement with Cascade's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool). Investments in the King County Investment Pool are measured at the net asset value per share of the pool shares held by Cascade. As of December 31, 2021 and 2020, the net asset value at fair value price per share was \$0.9978 and \$1.0080, respectively.



## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

#### Note 3 - Continued

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

	<u>2021</u>	<u>2020</u>
Unrestricted cash and equivalents	\$ 13,662,969	\$ 13,899,160
Restricted cash and equivalents	<u>29,980,437</u>	<u>25,373,505</u>
	43,643,406	39,272,665
Add fair value adjustment	239,726	902,939
Less checks in excess of cash	<u>(426,662)</u>	<u>(358,818)</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 43,456,470</u></b>	<b><u>\$ 39,816,786</u></b>

**Impaired Investments** - As of both December 31, 2021 and 2020, all impaired commercial paper investments had 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. Additionally, the Impaired Pool accepted the cash out option for the residual investments in four commercial paper assets that were part of completed enforcement events. At December 31, 2021 and 2020, Cascade's share of the impaired investment pool principal was \$28,825 and \$34,017, respectively, and Cascade's fair value of these investments was \$18,236 and \$21,214, respectively.

**Interest Rate Risk** - As of December 31, 2021 and 2020, the Pool's average duration was 1.24 and 1.20 years, respectively. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity or weighted average life of no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

**Credit Risk** - As of both December 31, 2021 and 2020, Cascade's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's Office.

#### 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.

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020

Note 4 - Continued

Restricted cash and cash equivalents are presented in the statements of net position as of December 31 as follows:

	<u>2021</u>	<u>2020</u>
Restricted cash and cash equivalents, current portion	\$ 5,975,463	\$ 5,858,297
Restricted cash and cash equivalents, long-term	<u>24,262,971</u>	<u>20,309,548</u>
	<b><u>\$ 30,238,434</u></b>	<b><u>\$ 26,167,845</u></b>

Changes in restricted assets for the year ended December 31, 2021, are as follows:

	Balance <u>12/31/2020</u>	Additions	Disbursements	Net Return	Balance <u>12/31/2021</u>
Revenue bond funds	\$ 13,371,451	\$ 9,471,805	\$ (10,377,293)	\$ 531,400	\$ 12,997,363
Construction funds	<u>12,796,394</u>	<u>11,108,206</u>	<u>(6,672,382)</u>	<u>8,853</u>	<u>17,241,071</u>
	<b><u>\$ 26,167,845</u></b>	<b><u>\$ 20,580,011</u></b>	<b><u>\$ (17,049,675)</u></b>	<b><u>\$ 540,253</u></b>	<b><u>\$ 30,238,434</u></b>

For the year ended December 31, 2021, changes in restricted assets included interest earnings of \$224,503 and unrealized gains of \$306,897 for the revenue bond funds and interest earnings of \$46,753 and unrealized loss of \$37,899 for the construction funds.

Changes in restricted assets for the year ended are as follows:

	Balance <u>12/31/2019</u>	Additions	Disbursements	Net Return	Balance <u>12/31/2020</u>
Revenue bond funds	\$ 15,487,153	\$ 9,073,454	\$ (12,126,831)	\$ 937,675	\$ 13,371,451
Construction funds	<u>12,000,036</u>	<u>7,155,765</u>	<u>(6,551,205)</u>	<u>191,798</u>	<u>12,796,394</u>
	<b><u>\$ 27,487,189</u></b>	<b><u>\$ 16,229,219</u></b>	<b><u>\$ (18,678,036)</u></b>	<b><u>\$ 1,129,473</u></b>	<b><u>\$ 26,167,845</u></b>

For the year ended December 31, 2020, changes in restricted assets included interest earnings of \$90,387 and unrealized gains of \$101,411 for the revenue bond funds and interest earnings of \$24,746 and unrealized gains of \$692,929 for the construction funds.

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020

**Note 5 - Capital Assets**

The following summarizes the changes in capital assets of Cascade:

	Balance 12/31/2020	Additions	Transfers	Deletions	Balance 12/31/2021
<b>Capital Assets</b>					
<b>Being Depreciated:</b>					
Equipment and furniture	\$ 2,018,476	\$ 71,921	\$ -	\$ (8,641)	\$ 2,081,756
Seattle water contract	22,267,611				22,267,611
Tacoma water 2012 contract	119,740,687				119,740,687
SR900 pipeline	10,021,201				10,021,201
Bellevue Issaquah pipeline	22,276,944				22,276,944
Lake Tapps buildings	2,644,405	4,415			2,648,820
<b>Total Capital Assets</b>					
<b>Being Depreciated</b>	<b>178,969,324</b>	<b>76,336</b>		<b>(8,641)</b>	<b>179,037,019</b>
Less accumulated depreciation and amortization	(46,477,524)	(5,423,781)		8,641	(51,892,664)
<b>Depreciable Capital Assets, Net</b>	<b>132,491,800</b>	<b>(5,347,445)</b>			<b>127,144,355</b>
<b>Capital Assets Not</b>					
<b>Being Depreciated:</b>					
Lake Tapps - infrastructure	100,402,632	826,862			101,229,494
Tacoma Cascade Pipeline	16,518,184				16,518,184
<b>Total Capital Assets Not</b>					
<b>Being Depreciated</b>	<b>116,920,816</b>	<b>826,862</b>			<b>117,747,678</b>
<b>Total Capital Assets</b>	<b>\$ 249,412,616</b>	<b>\$ (4,520,583)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 244,892,033</b>

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020

Note 5 - Continued

	Balance 12/31/2019	Additions	Transfers	Deletions	Balance 12/31/2020
<b>Capital Assets</b>					
<b>Being Depreciated:</b>					
Equipment and furniture	\$ 1,984,332	\$ 34,144	\$ -	\$ -	\$ 2,018,476
Seattle water contract	22,267,611				22,267,611
Tacoma water 2012 contract	119,740,687				119,740,687
SR900 pipeline	10,021,201				10,021,201
Bellevue Issaquah pipeline	22,276,944				22,276,944
Lake Tapps buildings	2,644,405				2,644,405
<b>Total Capital Assets</b>					
<b>Being Depreciated</b>	<b>178,935,180</b>	<b>34,144</b>			<b>178,969,324</b>
Less accumulated depreciation and amortization	(41,026,143)	(5,451,381)			(46,477,524)
<b>Depreciable Capital Assets, Net</b>	<b>137,909,037</b>	<b>(5,417,237)</b>			<b>132,491,800</b>
<b>Capital Assets Not</b>					
<b>Being Depreciated:</b>					
Lake Tapps - infrastructure	99,743,325	659,307			100,402,632
Tacoma Cascade Pipeline	16,518,184				16,518,184
<b>Total Capital Assets Not</b>					
<b>Being Depreciated</b>	<b>116,261,509</b>	<b>659,307</b>			<b>116,920,816</b>
<b>Total Capital Assets</b>	<b>\$ 254,170,546</b>	<b>\$ (4,757,930)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 249,412,616</b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020**

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

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

	<u>2021</u>	<u>2020</u>
<u>Public Works Trust Fund Loans (PWTF)</u>		
\$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 net revenues.	\$ 157,896	\$ 197,369
Less current portion	<u>(39,474)</u>	<u>(39,474)</u>
<b>Long-Term Portion</b>	<b><u>\$ 118,422</u></b>	<b><u>\$ 157,895</u></b>

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

For the Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2022	\$ 39,474	\$ 789
2023	39,474	592
2024	39,474	395
2025	<u>39,474</u>	<u>197</u>
	<b><u>\$ 157,896</u></b>	<b><u>\$ 1,973</u></b>

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

	<u>Balance 12/31/2020</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2021</u>
Loan #PW-05-691-PRE-142	\$ 197,369	\$ -	\$ (39,473)	\$ 157,896
	<b><u>\$ 197,369</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (39,473)</u></b>	<b><u>\$ 157,896</u></b>
	<u>Balance 12/31/2019</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2020</u>
Loan #PW-05-691-PRE-142	\$ 236,843	\$ -	\$ (39,474)	\$ 197,369
	<b><u>\$ 236,843</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (39,474)</u></b>	<b><u>\$ 197,369</u></b>

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020**

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

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

	<u>2021</u>	<u>2020</u>
<u>Revenue Bonds</u>		
\$29,220,000 issued on August 5, 2014 for advanced refunding of the 2006 bonds and to pay the costs of issuing and selling the bonds. The bond is payable from and secured by a pledge of net revenues and assets held in the bond fund and construction fund; principal due serially through the year 2029, interest payable semi-annually at 4.00 annual percentage rate.	\$ 20,105,000	\$ 22,115,000
\$30,005,000 issued on December 23, 2020 for advance refunding of the 2012 bonds and to pay the costs of issuing and selling the bonds. The bond is payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund; principal due serially through the year 2037, interest payable semi-annually at 1.30 to 2.00 annual percentage rate.	29,110,000	30,005,000
\$49,430,000 issued on September 1, 2019 for refunding of the 2009 bonds and to pay for capital projects related to the Transmission and Supple Plan. The bond is payable from and secured by a pledge of net revenues and investments held in the bond fund and construction fund; September 1, 2036, interest payable semi-annually 5.0 annual percentage rate.	45,065,000	47,285,000
\$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. Outstanding from this issuance are \$75,155,000 due serially through September 1, 2034, with interest payable semi-annually 3.61 annual percentage rate.	<u>4,410,000</u>	<u>5,740,000</u>
Less current portion	<u>(6,580,000)</u>	<u>(6,455,000)</u>
<b>Total Long-Term Portion</b>	<b><u><u>\$ 92,110,000</u></u></b>	<b><u><u>\$ 98,690,000</u></u></b>

## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

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#### Note 7 - Continued

The 2020 bonds were issued at a premium of \$2,279,932 which is being amortized over the life of the bonds. Amortization expense for the year ended December 31, 2021 and 2020 was \$114,384 and \$2,832, respectively.

The 2019 bonds were issued at a premium of \$6,248,566 which is being amortized over the life of the bonds. Amortization expense for the year ended December 31, 2021 and 2020 was \$773,853 and \$827,353, respectively.

The 2014 bonds were issued at a premium of \$4,396,430 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2021 and 2020 was \$364,457 and \$406,572, respectively.

The 2012 bonds were issued at a premium of \$5,764,037 which is being amortized over the life of the bonds. Amortization expense for the years ended December 31, 2021 and 2020 was \$263,490 and \$278,222, respectively.

On September 4, 2019, Cascade issued \$49,430,000 of System Improvement and Water System Refunding Revenue Bonds. The net proceeds of \$50,133,836 (after issuance costs of \$181,692 and bond reserves applied of \$5,324,459) were used to advance refund a portion of the 2009 Series Revenue Bonds and fund \$5,181,693 in future Capital Improvement Plan projects. These bonds were not advance refunded.

On September 3, 2014, Cascade issued \$29,220,000 of Water System Refunding Revenue Bonds. The net proceeds of \$44,363,880 (after issuance costs of \$130,224) were used to advance refund a portion of the 2006 Series Revenue Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from Cascade's liabilities. This advanced refunding was undertaken to reduce total debt service payments over the next 15 years by \$17,630,530 and resulted in an economic gain of \$5,462,625. The net deferred amount of the advanced refunding was \$1,073,361 and \$1,256,452 as of December 31, 2021 and 2020, respectively.

On December 23, 2020, Cascade issued \$30,005,000 of Water System Refunding Revenue Bonds. The net proceeds of \$32,744,917 (after issuance costs of \$486,290) were used to advance refund a portion of the 2012 Series Revenue Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from Cascade's liabilities. This advanced refunding was undertaken to reduce total debt service payments over the next 17 years by \$8,645,088 and resulted in an economic gain of \$6,613,985. The net deferred amount of the advanced refunding was \$625,898 and \$776,258 as of December 31, 2021 and 2020, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020

Note 7 - Continued

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

For the Year Ending December 31,	<u>Principal</u>	<u>Interest</u>
2022	\$ 6,580,000	\$ 3,194,591
2023	6,315,000	2,883,441
2024	8,210,000	2,584,166
2025	6,945,000	2,278,091
2026	7,240,000	1,982,041
2027 - 2031	34,445,000	5,705,131
2032 - 2036	26,715,000	1,797,955
2037 - 2038	<u>2,240,000</u>	<u>41,440</u>
	<b><u>\$ 98,690,000</u></b>	<b><u>\$ 20,466,856</u></b>

Debt payable from restricted assets, activity was as follows:

	<u>Balance 12/31/2020</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2021</u>
Revenue bonds	\$ 98,690,000	\$ -	\$ (6,580,000)	\$ 92,110,000

  

	<u>Balance 12/31/2019</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2020</u>
Revenue bonds	\$ 104,320,000	\$ 30,005,000	\$ (35,635,000)	\$ 98,690,000



## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

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#### Note 8 - Commitments

**Lease Commitments** - Cascade leases office space under a noncancelable lease agreement expiring in July 2023. The lease calls for payments of \$17,768 per month through July 2018, increasing to \$18,306 per month in August 2018, with additional annual stepped increases after the first year.

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

For the Year Ending December 31,

2022	\$ 241,749
2023	<u>143,219</u>
<b>Total Minimum Rental Payments</b>	<b><u>\$ 384,968</u></b>

Rent expense for operating leases totaled \$225,469 for the years ended December 31, 2021 and 2020.

**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, 2021.

Contracted services agreed to and expected to be expended in 2021 include the following:

Construction and design services	\$ 1,809,687
Consulting contracted services	<u>4,471,254</u>
	<b><u>\$ 6,280,941</u></b>

#### Note 9 - Retirement Benefits

Cascade provides a Section 401(a) defined contribution retirement plan (the Plan) to all full-time and certain part-time employees. Employees contribute 4% of their annual salary. Cascade contributes 7% of an employee's salary. In addition, as a replacement of the contribution to Social Security, employees contribute an additional 6.2% of their annual salary. Cascade contributes an additional 6.2% up to the limit (\$8,854 and \$8,240 in 2021 and 2020, respectively) established by the Internal Revenue Service. Employees are immediately vested upon enrollment and, therefore, have no forfeitures.

Employee and employer contributions were \$166,667 and \$202,276, respectively, for the year ended December 31, 2021 and \$187,556 and \$210,522, respectively, for the year ended December 31, 2020. As of December 31, 2021 and 2020, accrued expenses under the Plan totaled \$0 and \$8,161, respectively.

Cascade also provides a Section 457 retirement plan available to certain employees who make salary deferral contributions up to the maximum allowed by law. No employer contributions were made to the Section 457 retirement plan. Employee salary deferrals were \$216,081 and \$262,131 for the years ended December 31, 2021 and 2020, respectively.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020**

**Note 10 - Concentrations**

All water purchases by Cascade were from the City of Seattle as further described in Note 2. Water sales, conservation revenues, administrative dues, regional capital facilities charges and contributions for member cities for the years ended December 31, 2021 and 2020 are as follows:

**2021 Member Charges-**

<u>Members</u>	<u>Water Sales</u>	<u>Conservation Revenues</u>	<u>Administrative Dues</u>	<u>Regional Capital Facilities Charges</u>	<u>Total</u>
Bellevue	\$ 20,367,860	\$ 292,651	\$ 1,342,900	\$ 4,751,286	\$ 26,754,697
Issaquah	1,681,516	64,726	297,008	1,967,223	4,010,473
Kirkland	5,250,028	85,193	390,929	745,367	6,471,517
Redmond	6,880,002	140,217	643,418	1,004,033	8,667,670
Sammamish	1,532,229	102,249	469,195	990,419	3,094,092
Skyway	410,343	16,493	75,684	20,420	522,940
Tukwila	2,481,226	35,592	163,322	118,823	2,798,963
	<u><b>\$ 38,603,204</b></u>	<u><b>\$ 737,121</b></u>	<u><b>\$ 3,382,456</b></u>	<u><b>\$ 9,597,571</b></u>	<u><b>\$ 52,320,352</b></u>

**2020 Member Charges-**

<u>Members</u>	<u>Water Sales</u>	<u>Conservation Revenues</u>	<u>Administrative Dues</u>	<u>Regional Capital Facilities Charges</u>	<u>Total</u>
Bellevue	\$ 19,751,277	\$ 322,734	\$ 1,299,865	\$ 2,289,326	\$ 23,663,202
Issaquah	1,860,105	73,151	294,627	987,746	3,215,629
Kirkland	5,291,538	95,300	383,836	1,060,424	6,831,098
Redmond	6,579,129	160,695	647,226	845,696	8,232,746
Sammamish	1,137,858	117,840	474,619	1,232,205	2,962,522
Skyway	398,709	18,802	75,729	6,609	499,849
Tukwila	2,548,385	40,708	163,957	191,603	2,944,653
	<u><b>\$ 37,567,001</b></u>	<u><b>\$ 829,230</b></u>	<u><b>\$ 3,339,859</b></u>	<u><b>\$ 6,613,609</b></u>	<u><b>\$ 48,349,699</b></u>

Of the total operating revenue balance as of December 31, 2021 and 2020, 80% was from three members.

**Note 11 - 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.

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020**

**Note 12 - Risk Management**

Cascade Water Alliance is a member of the Water and Sewer Risk Management Pool (the Risk Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Risk Pool was formed on November 1987 when water and sewer districts in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Risk Pool currently has 61 members and a fiscal year of November 1<sup>st</sup> through October 31<sup>st</sup>.

The Risk Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Risk Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an “occurrence” basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

Type of Coverage	Member Deductible	Self-Insured Retention/Group	Excess limits
<b>Property Loss:</b>			
Buildings and Contents	\$1,000 - \$25,000 and See (C) below	\$25,000	\$275,000,000
Flood	See (A) below	See (A) below	\$25,000,000
Earthquake	See (B) below	See (B) below	\$110,000,000 (\$75,000,000 shared by all members, \$25,000,000 dedicated to Alderwood, and \$10,000,000 dedicated to Sammamish Plateau)
Terrorism	\$1,000 - \$25,000	\$25,000 Primary layer	\$700,000,000 Primary layer
Boiler and Machinery	\$1,000 - \$350,000 depending on object	\$25,000 - \$350,000 depending on object	\$100,000,000
Auto - Physical Damage	\$1,000 - \$25,000	\$25,000	

**CASCADE WATER ALLIANCE**

**Notes to Financial Statements  
For the Years Ended December 31, 2021 and 2020**

**Note 12 - Continued**

Type of Coverage	Member Deductible	Self-Insured Retention/Group	Excess limits
<b>Liability:</b>			
Commercial General Liability	\$1,000 - \$25,000	\$500,000	\$10,000,000
Auto Liability	\$1,000 - \$25,000	Same as above	\$10,000,000
Public Officials Errors and Omissions	\$1,000 - \$25,000	Same as above	\$10,000,000
Employment Practices	\$1,000 - \$25,000	Same as above	\$10,000,000
<b>Other:</b>			
Cyber Liability	\$50,000	N/A	\$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	\$1,000 - \$25,000	\$25,000	\$2,000,000
Identity Fraud	\$0	\$0	\$25,000
A. \$100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; \$250,000 member deductible per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to \$100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is \$50,000 and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above except where noted as follows. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims). Each member is also responsible for the full deductible applicable to the Cyber Liability, and that part of a Boiler & Machinery deductible, which exceeds \$25,000.

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2018, written notice must be in possession of the Pool by April 30, 2018). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services and Adjusters Northwest.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

## CASCADE WATER ALLIANCE

### Notes to Financial Statements For the Years Ended December 31, 2021 and 2020

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#### Note 12 - Continued

The Risk Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Risk Pool and providing policy direction to the Risk Pool's Executive Director.

In the past three years (2021, 2020 and 2019), there have been no claim settlements, per occurrence or in aggregate, that have exceeded the coverage provided by excess/reinsurance contracts.

**REQUIRED SUPPLEMENTARY INFORMATION**

## CASCADE WATER ALLIANCE

### Required Supplementary Information For the Years Ended December 31, 2021 and 2020

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#### Modified Approach for Infrastructure Capital Assets

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

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

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

Capital Assets Assessment Prior to Cascade Ownership - In September 2006, prior to entering into the Asset Purchase Agreement with 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).
- Maintenance (M): Projects typically included in annual maintenance programs.

See independent auditor’s report.

**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2021 and 2020**

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**Modified Approach for Infrastructure Capital Assets (Continued)**

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

**Upper Conveyance System:**

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

**Lower Conveyance System:**

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

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

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

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

In 2012, DSO conducted the Second Periodic Dam Safety Inspection. Cascade addressed the issues raised by DSO.

See independent auditor’s report.



## CASCADE WATER ALLIANCE

### Required Supplementary Information For the Years Ended December 31, 2021 and 2020

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#### Modified Approach for Infrastructure Capital Assets (Continued)

DSO conducted a Dam Safety Inspection in February and July 2017. Overall, the condition of the dikes was considered Satisfactory, with no existing or potential safety deficiencies identified. Minor issues to be corrected to improve the maintenance and operation of the dikes were identified. Cascade addressed these issues in 2018.

Capital Assets Assessment Since Cascade Ownership - The Lake Tapps Project was been operated by PSE, under contract to Cascade, from when Cascade acquired the Project from PSE in 2009. Cascade selected Veolia Water North America (Veolia) as its long-term contract operator for the project in January 2011. Veolia entered into the Transition Phase of the contract in January 2012 (observing PSE operation and training staff) and assumed all operation and maintenance responsibilities on April 16, 2012. During the Transition Phase (April through December 2012), Veolia, in addition to performing all necessary operation and maintenance activities:

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

The Manuals and 2013 budget were approved by Cascade and were the basis for Veolia's performance during 2013. The initial contract term was through 2016. Cascade extended the contract term for one additional five year period (through 2021) and may extend for one more additional period of up to five years. Annual revisions to the Manuals and Budget for 2014 through 2021 were negotiated and agreed upon and are the basis for Veolia's performance during these years.

Since 2009, Cascade has conducted additional work including:

#### Facility Conditions Assessments:

- Contracted with AECOM to perform a condition assessment of certain Project facilities;
- Contracted with GeoEngineers to assess the condition of the dikes;
- Contracted with Carollo to develop security master plan; and
- Contracted with Carollo Engineers to perform condition assessment on Lower Conveyance System.

#### Repair/Maintenance/Upgrade Activities:

- Contracted with NAES to repair and upgrade the Fish Screen Facility;
- Performed inspections and effected repairs to the Timber Flume and Twin Pipelines;
- Performed removal of sediment from settling basins during the 2010/2011, 2014/2015 outages and 2017 outages;
- Implemented DSO recommended monitoring routines on Dikes 9,10 and 12;
- Implemented DSO recommendations on Dike 8 and Dike 10;
- Implemented seismic remediation project on Dike 3 in 2014/2015;
- Installed and upgraded piezometers in all Dikes and installed remote read capability on Dike 11;
- Installed test wells for movement along Dike 17;
- Demonstrated available discharge capacity;

See independent auditor's report.

## CASCADE WATER ALLIANCE

### Required Supplementary Information For the Years Ended December 31, 2021 and 2020

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#### Modified Approach for Infrastructure Capital Assets (Continued)

- Completed PMP/PMF study;
- Performed repairs and inspection of the Barrier Structure in 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018;
- Repaired the ecology block wall on Dike 13 in 2013;
- Repaired Tailrace “wingwall” adjacent to railroad crossing in 2011;
- Performed repairs on Dikes 2B, 3 and 11 in 2012;
- Performed repairs on Dikes 1, 3, 4 and 12 in 2013;
- Improved and upgraded Project security (fences, gates, locks, cameras, lighting, etc.);
- Inspected and repaired fencing, gates, alarms and cameras;
- Improved and upgraded gaging stations;
- Repaired pipeline and valve leaks;
- Implemented plan for Powerhouse roof replacement;
- Replaced roofs on Headworks area buildings;
- Removed Gatekeeper residence and related outbuildings;
- Repaired pipeline and valve leaks;
- Implemented plan for Powerhouse roof replacement;
- Replaced roofs on Headworks area buildings;
- Removed Gatekeeper residence and related outbuildings;
- Upgraded SCADA system;
- Developed plan to comply with L&I/DOSH recommendations; implementation is ongoing;
- Removed hazardous wastes from Powerhouse;
- Removed lead paint in Powerhouse;
- Installed electric meters and disconnected power to non-essential equipment;
- Removed and salvaged unnecessary or retired/obsolete equipment;
- Purchased new forklift;
- Upgraded and replaced culverts at headworks and valve house;
- Stockpiled sand for emergencies at strategic locations;
- Replaced telephone system;
- Performed HPA required plantings along Tailrace and on Dike 11;
- Conducted inspections of all cranes and performed necessary maintenance and repairs;
- Headworks trolley removed as part of Mud Mountain Dam Fish Passage Project;
- Implemented Lower Conveyance System repairs/improvements recommended by Carollo, including replacement of Tunnel Intake Trash Racks and Stop Logs, concrete repairs, maintenance of Tunnel Intake slide gate and replacement of fill gate; maintenance of Forebay slide gates, relief valve repairs and flow tube repairs;
- Contracted with HDR Engineering to design Timber Flume replacement and Headgate improvements;
- Completed replacement of the Timber Flume, including repairs to an existing section of concrete flume;

See independent auditor’s report.

## CASCADE WATER ALLIANCE

### Required Supplementary Information For the Years Ended December 31, 2021 and 2020

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#### Modified Approach for Infrastructure Capital Assets (Continued)

- Completed implemented Headgate Improvement Project;
- Repaired floor of concrete flume at Headgates;
- Performed repairs to slide gates at 6 foot valve in Dingle Basin;
- Inspected and performed repairs to ten 10 foot tunnels;
- Performed maintenance on Fish Screens;
- Installed new LED lighting in Powerhouse;
- Performed lead abatement measures, painting and repairs at Headworks structures;
- Installed new Valve No.3;
- Repaired Relief Valve No. 1;
- Repaired leak in Penstock No. 1 and 3;
- Replace barrier boom at Tunnel Intake Cove;
- Performed routine maintenance and repairs on vehicles, pumps, valves and generators;
- Performed routine maintenance and repairs on roads;
- Performed routine vegetation removal;
- Completed SCADA Master Plan;
- Contracted with RH2 for design of SCADA and Phase 2 of Security Improvements;
- Designed and advertised a construction project to raise Dike 12 by 2 feet;
- Repaired 66" cone valve at the Valve House;
- Contracted with Parametrix for On-Call Civil, Mechanical and Structural Engineering Services;
- Utilized new chemical treatment for milfoil control of Lake Tapps Reservoir;
- Performed minor repair on Dike 13 to minimize;
- Replaced roof and gutters on Relief House;
- Replaced Gate House windows;
- Removed trees in settling basins;
- Removed trees in twin 10' tunnel corridors;
- Identified and fixed leak in twin 10' tunnels;
- Conducted condition assessment and repaired valves in Valve House;
- Cleared storm drains in Tailrace;
- Replaced two debris booms in Dingle basin east and west and installed two new anchors;
- Repaired soffit on the powerhouse;
- Replaced cables on the backflow preventer;
- Replaced Penstock 3 vault steel shield;
- Purchased new right-of-way gates in various locations;
- Cascade transferred ownership of the Barrier Structure to Army Corp of Engineers;

See independent auditor's report.

**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2021 and 2020**

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**Modified Approach for Infrastructure Capital Assets (Continued)**

- Performed cone valve assessment on the Valve House;
- Performed pothole replacement in the parking lot at the Powerhouse;
- Performed electrical and SCADA equipment upgrade at the communication room at headworks;
- Performed major inspections on the gantry crane;
- Repaired headworks southwest access road failure due to a landslide;
- Installed new conduits and wirings for the new SCADA and Security Improvements;
- Installed two new debris booms at Dingle Basin and one at the Twin Pipeline Intake;
- Performed various system improvements during the upper flowline outage in 2021 that include: Sediment removal in the upper settling basins, six-foot valve gate repair, fishscreen facility sediment removal and fishscreen cleaning and repair, inspected and grout repaired joints at the twin-10' pipeline, repaired upper flowline concrete channel joint cracks; and
- Replaced headgate control system.

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

Capital Assets Funding - Based on the condition assessment work completed to date, Cascade has included funding for ongoing maintenance and repair of Lake Tapps Project Capital Assets in its annual operating budget as well as funding for upgrading and replacement of Lake Tapps Project Capital Assets in its Capital Improvement Plan (CIP). The Operation and Maintenance Budget and CIP for Cascade's 2022 - 2023 Biennium are summarized below:

**Lake Tapps Project Operation and Maintenance Budget:**

2022	\$ 4,484,420
2023	4,189,920

**Lake Tapps Project CIP Budget:**

2022	\$ 2,475,000
2023	2,525,000
2024	2,170,000
2025-2026	5,900,000

The Operation and Maintenance Budget and CIP for Cascade's 2021 - 2022 Biennium were adopted by the Board in September 2020 and amended in November 2021.

See independent auditor's report.

**CASCADE WATER ALLIANCE**

**Required Supplementary Information  
For the Years Ended December 31, 2021 and 2020**

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**Modified Approach for Infrastructure Capital Assets (Continued)**

The estimated and actual annual amount to maintain the infrastructure assets is summarized below:

For the Year Ending December 31,	<u>Estimate</u>	<u>Actual</u>
2017	\$ 3,144,200	\$ 2,787,424
2018	3,245,700	3,523,118
2019	3,535,650	3,671,895
2020	3,615,764	3,783,178
2021	3,873,258	3,759,935