

CASCADE WATER ALLIANCE

Financial Statements

For the Years Ended December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 14 and on pages 37 through 43 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
June 18, 2024

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Management's Discussion and Analysis presents our review of Cascade Water Alliance's (Cascade) net position as of December 31, 2023 and 2022, 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);

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

- 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;
- 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 2009B revenue bonds to achieve a debt service savings, In addition to the debt service savings it freed up the 2009B 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

Financial Analysis

Condensed Financial Statements

Statements of Net Position as of December 31, 2023, 2022 and 2021

	2023	2022	As Restated 2021
Current assets	\$ 36,936,453	\$ 31,416,719	\$ 26,865,253
Net capital assets	238,812,750	241,757,370	245,114,710
Other assets	28,513,256	27,830,735	30,043,422
Total Assets	304,262,459	301,004,824	302,023,385
Deferred Outflows of Resources	1,248,830	1,472,889	1,699,259
Current liabilities	22,008,075	15,033,685	17,124,891
Long-term liabilities	131,999,738	150,300,477	164,227,158
Total Liabilities	154,007,813	165,334,162	181,352,049
Deferred Inflows of Resources	28,336	40,930	53,524
Net investment in capital assets	91,065,434	84,940,155	74,892,575
Restricted for-			
Debt service	12,414,284	12,232,965	13,007,070
Unrestricted	47,995,422	39,929,501	34,417,426
Total Net Position	\$151,475,140	\$137,102,621	\$122,317,071

Current assets increased in 2023 by \$6 million compared to 2022 with the majority attributed to an increase in cash and cash equivalents. Net capital assets decreased by \$5.2 million with the increases in capital projects offset by the amortization of the water contracts. Other assets increased by \$2.1 million. Deferred outflows of resources decreased by 15.2% due to the continued amortization of the deferred amount of bond refunding. Current liabilities increased in 2023 by \$4.4 million. Long-term liabilities decreased by \$15.8 million due to payments to Tacoma and bond principal. Invested in capital assets net of related debt increased by \$6.1 million as capital projects increased and related debt decreased. Restricted for debt service decreased by \$0.1 million in 2023. 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 19.3% as overall net position increased by 10.2%.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Financial Analysis (Continued)

Current assets increased in 2022 by \$4.6 million compared to 2021 with the majority attributed to an increase in cash offset by a decrease in accounts receivable. Net capital assets decreased by \$3.4 million with the increases in capital projects offset by the amortization of the water contracts. Other assets decreased by \$2.2 million due to decrease in restricted cash related to payments on current year debt as well as a decrease in long term water rights receivable related to current year payments. Deferred outflows of resources decreased by 13.3% due to the continued amortization of the deferred amount of bond refunding. Current liabilities decreased in 2022 by \$2.1 million appears related to the timing of payments near year end, with more activity in construction near year end last year than this year. Long-term liabilities decreased by \$13.9 million due to payments to Tacoma and bond principal. Invested in capital assets net of related debt increased by \$10.3 million as capital projects increased and related debt decreased. Restricted for debt service decreased by \$0.8 million in 2022. 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 16.0% as overall net position increased by 12.1%.

Results of Operations

Condensed Financial Statements

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2023, 2022 and 2021

	2023	2022	As Restated 2021
Water sales	\$ 40,045,925	\$ 39,192,467	\$ 38,603,204
Administrative dues	3,776,170	3,741,337	3,382,456
Conservation program and other	793,621	744,873	737,121
Total Operating Revenue	44,615,716	43,678,677	42,722,781
Cost of water sold	23,969,284	20,383,649	21,351,878
Other operating costs	13,875,410	12,396,041	12,761,649
Total Operating Expenses	37,844,694	32,779,690	34,113,527
Operating Income	6,771,022	10,898,987	8,609,254
Nonoperating expenses	(328,913)	(3,911,194)	(3,714,865)
Capital contributions	7,930,410	7,797,757	9,597,571
Changes in Net Position	14,372,519	14,785,550	14,491,960
Net position, beginning of year	137,102,621	122,317,071	107,825,111
Net Position, End of Year	\$151,475,140	\$137,102,621	\$122,317,071

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

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 increased in 2023 to \$793,621 from \$744,873 in 2022 and the corresponding conservation budget increased as well. Total operating revenues for 2023 were \$44,615,716 compared to \$43,678,677 for 2022, an increase of 2.0%, attributable primarily to higher demand share charges. The cost of water sold increased by 17.6% in 2023 due to an unfavorable true-up. Total operating expenses increased by 15.5% and operating income decreased by \$4.2 million in 2023. Nonoperating income/expenses increased by \$3.2 million due to an increase in FMV and improved interest income in 2023. Capital contributions increased by \$0.2 million in 2023 over 2022 with growth remaining flat and missing budget expectations in 2023. Overall net assets increased by 10.2% in 2023.

Conservation charges increased in 2022 to \$744,873 from \$737,121 in 2021 and the corresponding conservation budget increased as well. Total operating revenues for 2022 were \$43,678,677 compared to \$42,722,781 for 2021, an increase of 2.2%, attributable primarily to higher administrative dues and demand share charges. The cost of water sold decreased by 4.5% in 2022 due to a favorable true-up. Total operating expenses decreased by 3.9% and operating income increased by \$2.3 million in 2022. Nonoperating income/expenses increased 5.3% due to a reduction in interest expense in 2021. Capital contributions decreased by \$1.7 million in 2022 over 2021 with growth exceeding the budget but not at the same level as 2021. Overall net assets increased by 12.1% in 2022.

Capital Assets and Long-Term Debt

The capital assets of Cascade decreased \$5.2 million in 2023 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

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, 2023 and 2022, 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

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.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Projects in Process (Continued)

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.

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 in 2023.

Powerhouse Valve #3 Replacement - An options analysis has been completed for powerhouse valve #3, with the recommended option being a configuration utilizing a new "plunger" valve and installing it in a cast in place of the concrete vault on the south side of the tailrace just outside the powerhouse. If successful, the new valve will dissipate energy, provide more flow capacity, be able to control flow, and have a longer service life. Construction of the Valve #3 replacement was nearly complete at the end of 2016 with testing and calibration to be performed in 2017.

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.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Projects in Process (Continued)

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. Cascade was given an extension on the completion of an updated TSP as negotiations continue for new water contracts in 2023.

Eastside Reservoir - The Eastside Reservoir project was evaluated for eventual integration into a region-wide water delivery resiliency system in 2018 and previously capitalized expenditures were expensed since it had become less probable that the Reservoir would ultimately be put into service.

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.

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, 2021, 2022 and 2023. 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, 2021, 2022 and will continue in 2023, including:

- Network and IT architecture upgrades.
- Supervisory Control and Data Acquisition (SCADA) upgrades, the design was finished and construction began in 2021 and completed in early 2023.
- 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).

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Invested Funds (Continued)

As of December 31, 2023, Cascade had the following investments:

Impaired Investments - As of December 31, 2023, 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 \$20,591 and Cascade's fair value of these investments is \$10,163.

Interest Rate Risk - As of December 31, 2023, the Pool's average duration was .79 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, 2023, 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.

Water Supply Development Fund - In 2021 Cascade established a Water Supply Development Fund to accumulate equity for the future development of the White River/Lake Tapps Reservoir water supply project.

Budget Variances

Capital expenditures in 2023 related to the White River Lake Tapps project improvements, the Tacoma contract, and other major capital expenditures, were held within budget.

RCFC revenue was budgeted to be \$9.6 million in 2023, but actual RCFC revenue was \$7.9 million as construction growth was not as good as anticipated. RCFC revenue is budgeted at \$9.7 million in 2024 as Cascade anticipates construction growth will be closer to historical levels. As part of the 2021-2022 budget process, Cascade's Board directed that going forward RCFC revenue will no longer contribute to debt service and will exclusively fund capital expenditures. The change greatly minimized the rate impact of RCFC revenue variances.

Interest revenue increased in 2023 as interest rates significantly improved in 2023. Cascade's participation in King County's Pool Plus option, which is a pool of longer-term maturities that Cascade invested the Bond reserves also contributed to better interest revenue in 2023.

The administrative and conservation dues were within budget in 2023.

Seattle water costs in 2023 were \$3.6M more than 2022 and due to a \$2.6M favorable true up of 2020 for 2022 payments and an unfavorable true-up of \$500k for 2021 for 2023 payments along with other Seattle cost increases.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis

Budget Variances (Continued)

Salaries and benefit costs increased in 2023 over 2022. The Board approved a temporary additional position for most of the year and a new contract administrator was hired in 2023 and the previous one stayed on to train them. The COLA for 2023 was higher than normal as well.

Operation costs, \$2.6M in 2023 were roughly the same as 2022, \$2.4M and lower than budgeted \$2.8M.

Total fund expenditures were held within budgeted amounts in 2023. Unexpended funds are carried forward in fund balances and are incorporated into Cascade's rate model for future year budgeting and planning.

Requests for Information

This financial report has been prepared to provide readers with a general overview of the Cascade Water Alliance's finances. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Manager of Finance and Administration's Office, Cascade Water Alliance, 11400 SE 8th St., Suite 400, Bellevue, WA 98004.

CASCADE WATER ALLIANCE

**Statements of Net Position
December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 27,045,569	\$ 20,697,018
Regional capital facility charges receivable	2,723,872	3,582,151
Restricted cash and cash equivalents, current portion	6,094,972	6,094,972
Other receivables	31,457	43,677
Water rights receivable, current portion	773,825	749,830
Prepaid expenses	266,758	249,071
	<u>36,936,453</u>	<u>31,416,719</u>
Capital Assets:		
Equipment and furniture	2,286,449	2,102,969
Lease right to use assets	2,441,089	463,646
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	2,943,317	2,943,317
	181,977,298	179,816,375
Less accumulated depreciation and amortization	<u>(62,845,687)</u>	<u>(57,453,789)</u>
	119,131,611	122,362,586
Capital Assets Not Being Depreciated:		
Lake Tapps - infrastructure	103,162,955	102,876,600
Projects in process and assets not yet in service- Tacoma Cascade Pipeline	<u>16,518,184</u>	<u>16,518,184</u>
	<u>238,812,750</u>	<u>241,757,370</u>
	24,256,461	22,800,114
Restricted cash and cash equivalents, net of current portion	4,256,795	5,030,621
Water rights receivable, net of current portion	<u>4,256,795</u>	<u>5,030,621</u>
	<u>\$ 304,262,459</u>	<u>\$ 301,004,824</u>
Deferred Outflows of Resources:		
Advanced refunding of debt	\$ 1,248,830	\$ 1,472,889
	<u>\$ 1,248,830</u>	<u>\$ 1,472,889</u>
Total Deferred Outflows of Resources	<u>\$ 1,248,830</u>	<u>\$ 1,472,889</u>

See accompanying notes.

CASCADE WATER ALLIANCE

**Statements of Net Position (Continued)
December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Liabilities and Net Position		
Payables and accrued liabilities	\$ 1,476,224	\$ 1,364,478
Lease liabilities, current portion	178,328	76,469
Payables related to Tacoma water contract, current portion	6,094,972	6,094,972
Payable related to Seattle water contract, current portion	5,000,000	
Long-term debt payable from unrestricted assets, current portion	<u>39,474</u>	<u>39,474</u>
	12,788,998	7,575,393
Payables From Restricted Assets:		
Accrued interest	1,009,077	1,143,292
Long-term debt payable from restricted assets, current portion	<u>8,210,000</u>	<u>6,315,000</u>
	<u>9,219,077</u>	<u>7,458,292</u>
Total Current Liabilities	22,008,075	15,033,685
Long-Term Debt, Net of Current Portion:		
Long-term lease liabilities	2,323,849	
Long-term debt payable from unrestricted assets	39,474	78,948
Long-term debt payable from restricted assets, net of bond issuance costs	<u>77,585,000</u>	<u>85,795,000</u>
	79,948,323	85,873,948
Other Long-Term Liabilities:		
Payable related to Seattle water contract, net of current portion		5,000,000
Payable related to Tacoma water contract, net of current portion	47,802,138	53,897,110
Bond premium, net of amortization	<u>4,249,277</u>	<u>5,529,419</u>
Total Liabilities	<u>\$ 154,007,813</u>	<u>\$ 165,334,162</u>
Deferred Inflows of Resources:		
Deferred inflows from leases	<u>\$ 28,336</u>	<u>\$ 40,930</u>
Total Deferred Inflows of Resources	<u>\$ 28,336</u>	<u>\$ 40,930</u>
Net Position:		
Net investment in capital assets	\$ 91,065,434	\$ 84,940,155
Restricted for-		
Debt service	12,414,284	12,232,965
Unrestricted	<u>47,995,422</u>	<u>39,929,501</u>
Total Net Position	<u>\$ 151,475,140</u>	<u>\$ 137,102,621</u>

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenue:		
Water sales	\$ 40,045,925	\$ 39,192,467
Administrative dues	3,776,170	3,741,337
Conservation program and other	793,621	744,873
Total Operating Revenue	44,615,716	43,678,677
Operating Expenses:		
Cost of water sold	23,969,284	20,383,649
Depreciation and amortization	4,562,860	3,993,581
Operations	2,974,360	2,714,760
Salaries and benefits	2,845,369	2,287,102
Professional services	1,659,287	1,622,426
Maintenance	490,514	713,239
Communication and public information	533,869	520,743
Rent	86,037	1,547
Insurance	167,182	148,889
Office expenses	181,751	157,820
Miscellaneous	298,641	156,332
Conservation rebate program	53,312	57,663
Dues and subscriptions	22,228	21,939
Total Operating Expenses	37,844,694	32,779,690
Operating Income	6,771,022	10,898,987
Nonoperating (Expenses) Revenue:		
Investment income (loss)	2,723,983	(617,191)
Interest expense	(3,052,896)	(3,317,671)
Gain on impairment of water rights		23,668
Total Nonoperating Expenses	(328,913)	(3,911,194)
Capital Contributions:		
Regional capital facilities charges	7,930,410	7,797,757
Total Capital Contributions	7,930,410	7,797,757
Total Change in Net Position	14,372,519	14,785,550
Net position, beginning of year	137,102,621	122,317,071
Net Position, End of Year	\$151,475,140	\$137,102,621

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows For the Years Ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities:		
Cash received from members	\$ 44,603,496	\$ 43,717,456
Cash paid to suppliers	(28,524,427)	(26,662,020)
Cash paid to and for employees	(4,573,504)	(3,990,874)
Net Cash Provided by Operating Activities	11,505,565	13,064,562
Cash Flows From Capital and Related Financing Activities:		
Proceeds from regional capital facilities charges	8,788,689	10,908,894
Proceeds from water rights receivable	749,831	726,580
Proceeds from lease receivable	12,220	11,221
Payment on Tacoma water contract payable	(6,094,972)	(5,975,463)
Payments on lease payables	(76,840)	(131,013)
Payments on long-term debt	(6,354,474)	(6,597,388)
Acquisition of capital assets	(420,037)	(2,070,518)
Proceeds from disposition of capital assets		25,000
Interest paid on bonds, leases and other long-term debt	(3,029,067)	(3,209,050)
Net Cash Used in Capital and Related Financing Activities	(6,424,650)	(6,311,737)
Cash Flows From Investing Activities:		
Gain (loss) on investments	2,610,782	(868,122)
Interest received	113,201	250,931
Net Cash Provided by (Used in) Investing Activities	2,723,983	(617,191)
Net Change in Cash and Cash Equivalents	7,804,898	6,135,634
Cash and cash equivalents, beginning of year	49,592,104	43,456,470
Cash and Cash Equivalents, End of Year	\$ 57,397,002	\$ 49,592,104
Cash and Cash Equivalents Balance is Composed of the Following at December 31:		
Cash and cash equivalents	\$ 27,045,569	\$ 20,697,018
Restricted cash and cash equivalents	30,351,433	28,895,086
	\$ 57,397,002	\$ 49,592,104

See accompanying notes.

CASCADE WATER ALLIANCE

**Statements of Cash Flows (Continued)
For the Years Ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:		
Net operating income	\$ 6,771,022	\$ 10,898,987
Adjustments to reconcile net operating income to net cash provided by operating activities-		
Depreciation and amortization	4,786,919	3,993,581
Changes in operating assets and liabilities:		
Prepaid expenses	(17,687)	(52,083)
Proceeds from lease receivable	(12,220)	(11,221)
Payables and accrued liabilities	(22,469)	(1,764,702)
	<u>\$ 11,505,565</u>	<u>\$ 13,064,562</u>
Net Cash Provided by Operating Activities		
	<u>\$ 11,505,565</u>	<u>\$ 13,064,562</u>
Supplementary Cash Flow Disclosure:		
Noncash purchases of capital assets through accounts payable	\$ 37,256	\$ 32,458
Noncash change in advanced refunding of debt	\$ 224,059	\$ 226,370

See accompanying notes.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

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, 2023 and 2022, 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 depositaries, 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, 2023 and 2022

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/Inflows 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.

Deferred inflow of resources is the acquisition of net position that applies to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. Cascade reports deferred inflows related to noncancelable lease revenues to be recognized in future periods.

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 2023 and 2022 is \$7,201 and \$6,807, respectively per new Cascade Equivalent Residential Unit (CERU).

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 1 - Continued

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.

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, 2023 financial statements for subsequent events through June 18, 2024, 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, 2023 and 2022, 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, 2023 and 2022.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 2 - Continued

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.

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 \$4,256,795 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, 2023 and 2022, the water rights receivable was \$5,030,620 and \$5,780,451, 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, 2023 and 2022, the net asset value at fair value price per share was \$0.9969 and \$0.9736, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 3 - Continued

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

	<u>2023</u>	<u>2022</u>
Unrestricted cash and equivalents	\$ 27,246,482	\$ 21,189,935
Restricted cash and equivalents	<u>30,876,454</u>	<u>29,978,243</u>
	58,122,936	51,168,178
Add fair value adjustment	(575,478)	(1,445,846)
Less checks in excess of cash	<u>(150,456)</u>	<u>(130,228)</u>
Total Cash and Cash Equivalents	<u>\$ 57,397,002</u>	<u>\$ 49,592,104</u>

Impaired Investments - As of both December 31, 2023 and 2022, 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, 2023 and 2022, Cascade's share of the impaired investment pool principal was \$20,591 and \$24,636, respectively, and Cascade's fair value of these investments was \$10,163 and \$13,820, respectively.

Interest Rate Risk - As of December 31, 2023 and 2022, the Pool's average duration was 0.79 and 0.99 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, 2023 and 2022, 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 depositaries, 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, 2023 and 2022

Note 4 - Continued

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

	<u>2023</u>	<u>2022</u>
Restricted cash and cash equivalents, current portion	\$ 6,094,972	\$ 6,094,972
Restricted cash and cash equivalents, long-term	<u>24,256,461</u>	<u>22,800,114</u>
	<u>\$ 30,351,433</u>	<u>\$ 28,895,086</u>

Changes in restricted assets for the year ended December 31, 2023, are as follows:

	<u>Balance 12/31/2022</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Net Return</u>	<u>Balance 12/31/2023</u>
Revenue bond funds	\$ 12,223,259	\$ 9,273,375	\$ (8,950,077)	\$ (141,980)	\$ 12,404,577
Construction funds	<u>16,671,827</u>	<u>10,546,242</u>	<u>(9,570,731)</u>	<u>299,518</u>	<u>17,946,856</u>
	<u>\$28,895,086</u>	<u>\$19,819,617</u>	<u>\$(18,520,808)</u>	<u>\$ 157,538</u>	<u>\$ 30,351,433</u>

For the year ended December 31, 2023, changes in restricted assets included interest earnings of \$291,141 and unrealized loss of \$433,120 for the revenue bond funds and interest earnings of \$355,627 and unrealized loss of \$56,109 for the construction funds.

Changes in restricted assets for the year ended December 31, 2022 are as follows:

	<u>Balance 12/31/2021</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Net Return</u>	<u>Balance 12/31/2022</u>
Revenue bond funds	\$ 12,997,363	\$ 9,833,011	\$ (10,276,459)	\$ (330,656)	\$ 12,223,259
Construction funds	<u>17,241,071</u>	<u>7,894,793</u>	<u>(8,173,906)</u>	<u>(290,131)</u>	<u>16,671,827</u>
	<u>\$30,238,434</u>	<u>\$17,727,804</u>	<u>\$(18,450,365)</u>	<u>\$ (620,787)</u>	<u>\$ 28,895,086</u>

For the year ended December 31, 2022, changes in restricted assets included interest earnings of \$210,528 and unrealized gains of \$541,184 for the revenue bond funds and interest earnings of \$164,868 and unrealized gains of \$454,999 for the construction funds.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 5 - Capital Assets

The following summarizes the changes in capital assets of Cascade:

	Balance 12/31/2022	Additions	Transfers	Deletions	Balance 12/31/2023
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 2,102,969	\$ 183,480	\$ -	\$ -	\$ 2,286,449
Lease right to use assets	463,646	2,441,089		(463,646)	2,441,089
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	2,943,317				2,943,317
Total Capital Assets					
Being Depreciated	179,816,375	2,624,569		(463,646)	181,977,298
Less accumulated depreciation and amortization	(57,453,789)	(5,855,544)		463,646	(62,845,687)
Depreciable Capital Assets, Net	122,362,586	(3,230,975)			119,131,611
Capital Assets Not					
Being Depreciated:					
Lake Tapps - infrastructure	102,876,600	286,355			103,162,955
Tacoma Cascade Pipeline	16,518,184				16,518,184
Total Capital Assets Not					
Being Depreciated	119,394,784	286,355			119,681,139
Total Capital Assets	\$241,757,370	\$ (2,944,620)	\$ -	\$ -	\$238,812,750

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022**

Note 5 - Continued

	Balance 12/31/2021	Additions	Transfers	Deletions	Balance 12/31/2022
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 2,031,654	\$ 71,315	\$ -	\$ -	\$ 2,102,969
Lease right to use assets	463,646				463,646
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	2,648,820	294,497			2,943,317
Total Capital Assets Being Depreciated	179,450,563	365,812			179,816,375
Less accumulated depreciation and amortization	(52,083,531)	(5,370,258)			(57,453,789)
Depreciable Capital Assets, Net	127,367,032	(5,004,446)			122,362,586
Capital Assets Not Being Depreciated:					
Lake Tapps - infrastructure	101,229,494	1,672,106		(25,000)	102,876,600
Tacoma Cascade Pipeline	16,518,184				16,518,184
Total Capital Assets Not Being Depreciated	117,747,678	1,672,106		(25,000)	119,394,784
Total Capital Assets	\$245,114,710	\$ (3,332,340)	\$ -	\$ (25,000)	\$241,757,370

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022**

Note 6 - Long-Term Debt - Unrestricted

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

	<u>2023</u>	<u>2022</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.	\$ 78,948	\$ 118,422
Less current portion	<u>(39,474)</u>	<u>(39,474)</u>
Long-Term Portion	<u>\$ 39,474</u>	<u>\$ 78,948</u>

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>
2024	\$ 39,474	\$ 395
2025	<u>39,474</u>	<u>197</u>
	<u>\$ 78,948</u>	<u>\$ 592</u>

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

	Balance <u>12/31/2022</u>	Proceeds	Repayments	Balance <u>12/31/2023</u>
Loan #PW-05-691-PRE-142	\$ 118,422	\$ -	\$ (39,474)	\$ 78,948
	<u>\$ 118,422</u>	<u>\$ -</u>	<u>\$ (39,474)</u>	<u>\$ 78,948</u>

	Balance <u>12/31/2021</u>	Proceeds	Repayments	Balance <u>12/31/2022</u>
Loan #PW-05-691-PRE-142	\$ 157,896	\$ -	\$ (39,474)	\$ 118,422
	<u>\$ 157,896</u>	<u>\$ -</u>	<u>\$ (39,474)</u>	<u>\$ 118,422</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 7 - Long-Term Debt - Restricted

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

	<u>2023</u>	<u>2022</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.	\$ 15,775,000	\$ 17,995,000
\$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.	28,175,000	28,365,000
\$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.	40,305,000	42,740,000
\$42,695,000 issued on December 27, 2012 for restructuring the Tacoma water contract in 2012, extending the Seattle water contract, acquiring independent supply production capacity, funding Lake Tapps capital improvements and cost of issuing the bond. 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 2038, interest payable semi-annually at 3.31 annual percentage rate.	<u>1,540,000</u>	<u>3,010,000</u>
	85,795,000	92,110,000
Less current portion	<u>(8,210,000)</u>	<u>(6,315,000)</u>
Total Long-Term Portion	<u>\$ 77,585,000</u>	<u>\$ 85,795,000</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

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, 2023 and 2022 was \$107,450 and \$108,924, 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, 2023 and 2022 was \$674,998 and \$726,129, 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, 2023 and 2022 was \$268,982 and \$318,717, 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, 2023 and 2022 was \$228,712 and \$246,997, 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 \$715,588 and \$862,804 as of December 31, 2023 and 2022, 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 \$533,241 and \$580,085 as of December 31, 2023 and 2022, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

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>
2024	\$ 8,210,000	\$ 2,584,166
2025	6,945,000	2,278,091
2026	7,240,000	1,982,041
2027	7,535,000	1,686,141
2028	7,825,000	1,390,741
2029 - 2033	30,515,000	3,682,888
2034 - 2037	17,525,000	784,756
	<u>\$ 85,795,000</u>	<u>\$ 14,388,824</u>

Debt payable from restricted assets, activity was as follows:

	<u>Balance 12/31/2022</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2023</u>
Revenue bonds	\$ 85,795,000	\$ -	\$ (8,210,000)	\$ 77,585,000

	<u>Balance 12/31/2021</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2022</u>
Revenue bonds	\$ 92,110,000	\$ -	\$ (6,315,000)	\$ 85,795,000

Note 8 - Commitments

Lease Commitments - Cascade, as a lessor, leases land under a long-term agreement. Future minimum lease receipts as of December 31 under noncancelable leases are as follows:

For the Year Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 13,282	\$ 1,274	\$ 14,556
2025	14,411	584	14,995
2026	3,764	31	3,795
Total Minimum Rental Receipts	<u>\$ 31,457</u>	<u>\$ 1,889</u>	<u>\$ 33,346</u>

Rent revenue recognized on noncancelable leases recognized totaled \$12,594 for the years ended December 31, 2023 and 2022.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 8 - Continued

Cascade, as a lessee, leases office space under a noncancelable lease agreement expiring in January 2034. The lease calls for payments of \$23,190 per month through May 2024, with additional annual stepped increases thereafter.

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

For the Year Ending December 31,	Principal	Interest	Total
2024	\$ 178,328	\$ 84,691	\$ 263,019
2025	256,572	117,755	374,327
2026	209,167	107,442	316,609
2027	227,529	97,275	324,804
2028	265,161	85,538	350,699
2029 to 2033	1,334,384	215,244	1,549,628
2034 to 2038	31,036	129	31,165
Total Minimum Rental Payments	<u>\$ 2,502,177</u>	<u>\$ 708,074</u>	<u>\$ 3,210,251</u>

Amortization expense on noncancelable leases totaled \$253,7612 and \$225,469 for the years ended December 31, 2023 and 2022.

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, 2023.

Contracted services agreed to and expected to be expended in 2023 include the following:

Construction and design services	\$ 1,281,220
Consulting contracted services	<u>5,459,679</u>
	<u>\$ 6,740,900</u>

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 (\$9,932 and \$9,114 in 2023 and 2022, respectively) established by the Internal Revenue Service. Employees are immediately vested upon enrollment and, therefore, have no forfeitures.

Employee and employer contributions were \$236,930 and \$286,933, respectively, for the year ended December 31, 2023 and \$183,789 and \$222,120, respectively, for the year ended December 31, 2022. As of December 31, 2023 and 2022, accrued expenses under the Plan totaled \$0.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 9 - Continued

Cascade also provides a Section 457 retirement plan available to certain employees who make salary deferral contributions up to the maximum allowed by law. No employer contributions were made to the Section 457 retirement plan. Employee salary deferrals were \$279,147 and \$223,720 for the years ended December 31, 2023 and 2022, respectively.

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, 2023 and 2022 are as follows:

2023 Member Charges-					Regional Capital Facilities Charges	Total
Members	Water Sales	Conservation Revenues	Administrative Dues			
Bellevue	\$ 21,288,537	\$ 315,132	\$ 1,499,443	\$ 1,472,605	\$ 24,575,717	
Issaquah	1,852,533	70,684	336,325	460,861	2,720,403	
Kirkland	5,964,815	91,631	435,995	1,742,642	8,235,083	
Redmond	5,279,502	130,544	621,148	3,312,460	9,343,654	
Redmond-Novelty	1,236,736	20,084	95,563	18,003	1,370,386	
Sammamish	1,437,886	110,036	523,569	653,801	2,725,292	
Skyway	441,392	17,526	83,392	108,015	650,325	
Tukwila	2,544,524	37,984	180,735	162,023	2,925,266	
	<u>\$ 40,045,925</u>	<u>\$ 793,621</u>	<u>\$ 3,776,170</u>	<u>\$ 7,930,410</u>	<u>\$ 52,546,126</u>	

2022 Member Charges-					Regional Capital Facilities Charges	Total
Members	Water Sales	Conservation Revenues	Administrative Dues			
Bellevue	\$ 20,580,180	\$ 295,312	\$ 1,483,288	\$ 2,536,750	\$ 24,895,530	
Issaquah	1,824,960	65,704	330,018	597,700	2,818,382	
Kirkland	5,478,039	86,292	433,427	854,850	6,852,608	
Redmond	6,932,311	141,298	709,707	2,773,050	10,556,366	
Sammamish	1,362,345	103,790	521,316	646,350	2,633,801	
Skyway	425,914	16,612	83,438	55,457	581,421	
Tukwila	2,588,718	35,865	180,143	333,600	3,138,326	
	<u>\$ 39,192,467</u>	<u>\$ 744,873</u>	<u>\$ 3,741,337</u>	<u>\$ 7,797,757</u>	<u>\$ 51,476,434</u>	

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022**

Note 10 - Continued

Of the total operating revenue balance as of December 31, 2023 and 2022, 83% and 82% was from three members, respectively.

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.

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 1st through October 31st.

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
Property Loss:			
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)

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2023 and 2022**

Note 12 - Continued

Type of Coverage	Member Deductible	Self-Insured Retention/Group	Excess limits
Property Loss:			
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	
Liability:			
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
Other:			
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, 2022, written notice must be in possession of the Pool by April 30, 2022). 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.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2023 and 2022

Note 12 - Continued

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.

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 (2023, 2022 and 2021), 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, 2023 and 2022

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, 2023 and 2022

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 Trap" 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, 2023 and 2022

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.

DSO also conducted a five-year Dam Safety Inspection in June 2022. Overall, the condition of the dikes was considered Satisfactory, with no existing or potential safety deficiencies identified.

Capital Assets Assessment Since Cascade Ownership - The Lake Tapps Project has 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;

See independent auditor's report.

CASCADE WATER ALLIANCE

Required Supplementary Information For the Years Ended December 31, 2023 and 2022

Modified Approach for Infrastructure Capital Assets (Continued)

- 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;
- 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 nonessential 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;

See independent auditor’s report.

CASCADE WATER ALLIANCE

Required Supplementary Information For the Years Ended December 31, 2023 and 2022

Modified Approach for Infrastructure Capital Assets (Continued)

- 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;
- 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, 2023 and 2022

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;
- Replaced headgate control system;
- Replaced retaining wall at the south end of the plunge pool;
- Repaired landslide and improved road drainage on the road near USACE Bridge around Headworks;
- Implemented SCADA and Security Master Plan and replaced existing and installed new SCADA and Security Equipment;
- 2023 Maintenance Activities;
- Performed toe repairs on Dike No.11;
- Repaired sink holes on Dikes 18 and 19;
- Contracted with Geo Engineers to design seismic upgrades to Dikes 9 and 10;
- Replaced Headworks gate 1 automatic actuator;
- Removed hazardous trees along Dingle Basin drainage ditch;
- Contracted for replacement of automatic valve actuators at Dingle Basin;
- Contracted for and initiated repairs for Fish Screen gantry crane;
- Conducted condition assessment for valve 1 at the Valve House;
- Installed auxiliary HPU at the Valve House;
- Contracted for HPU and controls improvements for the Valve House;
- Contracted to replace charging systems at the Pipeline Intake and Valve House;
- Replaced UPS and operational batteries at the Valve House and Pipeline Intake;
- Made Repairs to the Headworks Relief House septic system;
- Completed Value Engineering / Value Assessment for Tunnel Intake Gate Replacement;
- Removed lube oil for Turbines 1, 2, 3, and 4 and cleaned lube oil system at the Powerhouse; and
- Removed lead paint, painted the interior, and installed windows at the Powerhouse.

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

See independent auditor's report.

CASCADE WATER ALLIANCE

**Required Supplementary Information
For the Years Ended December 31, 2023 and 2022**

Modified Approach for Infrastructure Capital Assets (Continued)

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 2023 - 2024 Biennium are summarized below:

Lake Tapps Project Operation and Maintenance Budget:	
2024	\$ 4,801,541
2025	5,119,340
Lake Tapps Project CIP Budget:	
2024	\$ 1,475,000
2025	2,550,000
2026	4,250,000
2027 - 2028	4,900,000

The Operation and Maintenance Budget and CIP for Cascade's 2023 - 2024 Biennium were adopted by the Board in September 2022.

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>
2019	\$ 3,535,650	\$ 3,671,895
2020	3,615,764	3,783,178
2021	3,873,258	3,759,935
2022	3,724,320	3,427,999
2023	3,954,132	3,464,874