

CASCADE WATER ALLIANCE

Financial Statements

For the Years Ended December 31, 2025 and 2024

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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, 2025 and 2024, 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, 2025 and 2024, 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 36 through 43, respectively, 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 GAAS, 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 16, 2026

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

Management's Discussion and Analysis presents our review of Cascade Water Alliance's (Cascade) net position as of December 31, 2025 and 2024, 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:

- Full paid or defeased debt:
 - \$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);
 - 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 For the Years Ended December 31, 2025 and 2024

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. These bonds were partially defeased by the 2020 bond issuance. At December 31, 2024 none of these bonds remain outstanding;
 - 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;
- Outstanding debts:
- Seventeen year \$49,430,000 refunding revenue bonds (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 For the Years Ended December 31, 2025 and 2024

Financial Analysis

Condensed Financial Statements

Statements of Net Position as of December 31, 2025, 2024, and 2023

	2025	2024	2023
Current assets	\$ 50,457,642	\$ 37,385,594	\$ 36,936,453
Net capital assets	271,137,441	235,935,583	238,812,750
Other assets	17,041,983	26,714,100	28,513,256
Total Assets	<u>\$ 338,637,066</u>	<u>\$ 300,035,277</u>	<u>\$ 304,262,459</u>
Deferred Outflows of Resources	<u>\$ 811,058</u>	<u>\$ 1,027,973</u>	<u>\$ 1,248,830</u>
Current liabilities	\$ 16,824,957	\$ 16,526,781	\$ 22,008,075
Long-term liabilities	143,271,550	117,323,045	131,999,738
Total Liabilities	<u>\$ 160,096,507</u>	<u>\$ 133,849,826</u>	<u>\$ 154,007,813</u>
Deferred Inflows of Resources	<u>\$ 3,151</u>	<u>\$ 15,745</u>	<u>\$ 28,336</u>
Net investment in capital assets	\$ 121,038,318	\$ 110,886,716	\$ 91,065,434
Restricted for-			
Debt service	9,328,349	10,561,566	12,414,284
Unrestricted	48,981,799	45,749,397	47,995,422
Total Net Position	<u>\$ 179,348,466</u>	<u>\$ 167,197,679</u>	<u>\$ 151,475,140</u>

Current assets increased in 2025 by \$13.1 million compared to 2024 with the majority attributed to an increase in cash and cash equivalents. Net capital assets increased by \$35.2 million with the increase largely the result of the new Tacoma Contracts. Other assets decreased by \$9.7 million. Deferred outflows of resources decreased by 21.1% due to the continued amortization of the deferred amount of bond refunding. Current liabilities increased in 2025 by \$0.3 million. Long-term liabilities increased by \$25.9 million due to the new Tacoma Contracts. Invested in capital assets net of related debt increased by \$10.2 million as capital projects increased and related debt decreased. Restricted for debt service decreased by \$1.2 million in 2025. 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 7.1% as overall net position increased by 7.3%.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

Financial Analysis (Continued)

Current assets decreased in 2024 by \$0.4 million compared to 2023 with the majority attributed to a decrease in cash and cash equivalents. Net capital assets decreased by \$2.9 million with the increases in capital projects offset by the amortization of the water contracts. Other assets decreased by \$1.8 million with the majority of the decrease attributed to long-term restricted cash. Deferred outflows of resources decreased by 17.7% due to the continued amortization of the deferred amount of bond refunding. Current liabilities decreased in 2024 by \$5.5 million and long-term liabilities decreased by \$14.7 million due to payments to Tacoma, Seattle, and bond principal. Net investment in capital assets increased by \$19.8 million as capital projects increased and related debt decreased. Restricted for debt service decreased by \$1.9 million in 2024. Unrestricted net assets, which consist of accumulated assets that do not meet the definition of net investment in capital assets or restricted decreased by 4.7% as overall net position increased by 10.4%.

Results of Operations

Condensed Financial Statements Statements of Revenues, Expenses and Changes in Net Position For the Years Ended December 31, 2025, 2024, and 2023

	2025	2024	2023
Water sales	\$ 42,123,280	\$ 41,083,289	\$ 40,045,925
Administrative dues	4,241,294	3,706,551	3,776,170
Conservation program and other	826,395	800,515	793,621
Total Operating Revenue	47,190,969	45,590,355	44,615,716
Cost of water sold	24,556,441	24,490,346	23,969,284
Other operating costs	18,414,700	14,735,964	13,875,410
Total Operating Expenses	42,971,141	39,226,310	37,844,694
Operating Income	4,219,828	6,364,045	6,771,022
Nonoperating expenses	(85,486)	(290,709)	(328,913)
Capital contributions	8,016,445	9,649,203	7,930,410
Changes in Net Position	12,150,787	15,722,539	14,372,519
Net position, beginning of year	167,197,679	151,475,140	137,102,621
Net Position, End of Year	<u>\$ 179,348,466</u>	<u>\$ 167,197,679</u>	<u>\$ 151,475,140</u>

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

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 slightly in 2025 to \$826,395 from \$800,515 in 2024 and the corresponding conservation budget increased as well. Total operating revenues for 2025 were \$47,190,969 compared to \$45,590,355 for 2024, an increase of 3.5%, attributable primarily to higher demand share charges. The cost of water sold increased slightly by 0.3% in 2025. Total operating expenses increased by 9.5% and operating income decreased by \$2.1 million in 2025. Nonoperating/operating income/expenses increased by \$0.20 million in 2025. Capital contributions decreased by \$1.6 million in 2025 over 2024 with growth missing budget expectations in 2025. Overall net position increased by 7.3% in 2025.

Conservation charges increased slightly in 2024 to \$800,515 from \$793,621 in 2023 and the corresponding conservation budget increased as well. Total operating revenues for 2024 were \$45,590,355 compared to \$44,615,716 for 2023, an increase of 2.2%, attributable primarily to higher demand share charges. The cost of water sold increased by 2.2% in 2024 due to higher block cost and an unfavorable true-up. Total operating expenses increased by 3.7% and operating income decreased by \$0.8 million in 2024. Nonoperating income/expenses increased by \$0.04 million in 2024. Capital contributions increased by \$1.8 million in 2024 over 2023 with growth meeting budget expectations in 2024. Overall net position increased by 10.4% in 2024.

Capital Assets and Long-Term Debt

The capital assets of Cascade increased \$35.2 million in 2025 with the addition a two new Tacoma Contracts and decreased \$2.9 million in 2024 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 For the Years Ended December 31, 2025 and 2024

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 the final payment of \$5 million was made in 2024.

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, 2025 and 2024, respectively.

Tacoma Water Contract - 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.

The 2012 contract restructured the prior Tacoma supply contract, and it clarified 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 were 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 funded initial payments to Tacoma of \$20 million, which started with a payment of \$10 million in January 2013.

In March 2025, two new contracts were signed with Tacoma. The contracts replaced the 2012 contract. The two separate agreements are an agreement for the sale of wholesale water for a permanent supply of up to 15 mgd peak day supply and an agreement for the sale of market-priced wholesale water for temporary supply of up to 17.5 mgd peak day supply through 2062. The agreements restructured the 2012 contract including the 2012 payment schedule and included new charges for System Development Charges and Capacity Reservation fees. The Capacity Reservation fee payments shall be credited toward future payments due from Cascade to Tacoma.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

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: Cascade Supply Program - The Cascade Supply Program (CSP), formerly the Tacoma Cascade Pipeline (TCP), is an approximately eighteen-mile pipeline extending from the Tacoma Second Supply Pipeline to the Bellevue Issaquah pipeline. The (CSP) will deliver Tacoma water supply to Cascade members. Cascade has acquired property and easements for the 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 CSP 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 (similar to Seattle Public Utilities).

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

Projects in Process (Continued)

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

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

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 2040. In 2012, Segment 3 was placed into "on hold" status until the project is more fully resumed. In 2025 as a result of the signing of the two new Tacoma Contracts, Cascade hired additional staff to resume planning, design, and construction of a pipeline between Tacoma and the Bellevue Issaquah Pipeline. Starting in 2026 through the completion of the pipeline in 2040, the Cascade Supply Project will be Cascade's largest ongoing construction project.

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 2025, the fixed fee budget was \$2.3 million and a variable budget of \$0.3 million. The Project Operations and Maintenance Manual was completed in 2012 and updated annually. In March 2026, Cascade issued a Request for Proposals for a new system operator starting in 2027. Cascade is budgeting for overlapping operators in 2027.

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 was completed in 2024.

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. In 2025, Cascade began a project with Washington State Department of Transportation to relocate a portion of the pipeline at Lewis Creek.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

Projects in Process (Continued)

2025 Water System Plan - The Cascade Water Alliance Board of Directors adopted the 2025 Water System Plan (WSP), formerly referred to as the Transmission Supply Plan. This 2025 WSP 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 WSP every six years. The WSP 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 WSP. The outcome of the WSP 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 WSP updates do not meet the criteria for being a capitalizable intangible asset, so expenditures for WSP update expenditures have been expensed accordingly. In 2018, the 2012 WSP was extended through 2022. Cascade was given an extension on the completion of an updated WSP as negotiations continued on new water contracts that were executed in 2025. An update to the WSP was made in 2025.

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 through 2024. The overall project was scheduled to be completed in 2022 but was delayed due to circumstances outside of Cascade's control. Final completions occurred in early 2026.

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 For the Years Ended December 31, 2025 and 2024

Invested Funds (Continued)

As of December 31, 2025, Cascade had the following investments:

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 2025 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 \$9.9 million in 2025, but actual RCFC revenue was \$8.0 million as construction growth was lower than anticipated. RCFC revenue is budgeted at \$10.2 million in 2026 as adopted RCFC rates per CERU have increased and Cascade anticipates slightly lower construction growth going forward. 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 2025 as interest rates improved in 2025. 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 2025.

The administrative and conservation dues were within budget in 2025.

Seattle water costs in 2025 were \$0.1M more than 2024 and due to a favorable true-up of \$321 thousand for 2023 for 2025 payments offset by other Seattle cost increases.

Salaries and benefit costs increased in 2025 over 2024 with the addition of staff for the CSP and a COLA increase in 2025 and overlap of a new Operations Director hired in 2025 as the previous Operations Director stayed on to train them.

Operation costs, \$2.7M in 2025 were lower than 2024, \$3.0M. In 2024 there were additional projects performed due to the opportunity provided by the dewatering of the flowline because of the USACE project.

Total fund expenditures were held within budgeted amounts in 2025. Unexpended funds are carried forward in fund balances and are incorporated into Cascade's rate model for future year budgeting and planning.

Economic Outlook

Cascade management expects the utilities' financial position to remain stable as it continues to provide high quality water to its members. In Washington State the regional economic outlook has remained relatively stable although higher interest costs and inflationary pressures continue to affect operating and capital costs.

CASCADE WATER ALLIANCE

Management's Discussion and Analysis For the Years Ended December 31, 2025 and 2024

Economic Outlook (Continued)

Cascade's revenue is primarily received from its members with member charges and rates adopted each biennium for the next two years. The certainty of Cascade's revenue, the predictability of Cascade's expenditures, budgeted risk reserves, and the financial strength of our members serve to insulate Cascade from financial pressures and ensure the long-term viability of Cascade. Management believes that existing cash reserves, operating revenues, and anticipated bond issuances will be sufficient to meet operating requirements, debt service, and planned capital expenditures. Cascade continues to evaluate financial policies and rate adequacy to ensure long-term financial integrity and continued compliance with bond covenants.

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 Finance Director's Office, Cascade Water Alliance, 11400 SE 8th St., Suite 400, Bellevue, WA 98004.

CASCADE WATER ALLIANCE

**Statements of Net Position
December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ 34,071,880	\$ 26,646,837
Regional capital facility charges receivable	4,870,427	3,273,774
Restricted cash and cash equivalents, current portion	10,424,748	6,341,209
Other receivables	3,764	18,174
Water rights receivable, current portion	824,142	798,587
Prepaid expenses	<u>262,681</u>	<u>307,013</u>
Total Current Assets	50,457,642	37,385,594
Capital Assets:		
Equipment and furniture	2,404,762	2,386,410
Lease right to use assets - office	2,364,376	2,364,376
Lease right to use assets - other equipment	127,110	127,110
Seattle water contract	22,267,611	22,267,611
Tacoma water contract	159,762,485	119,740,687
SR900 pipeline	10,021,201	10,021,201
Bellevue Issaquah pipeline	22,306,355	22,276,944
Lake Tapps buildings	<u>2,943,317</u>	<u>2,943,317</u>
	222,197,217	182,127,656
Less accumulated depreciation and amortization	<u>(76,262,226)</u>	<u>(68,509,943)</u>
	145,934,991	113,617,713
Capital Assets Not Being Depreciated:		
Lake Tapps - infrastructure	108,684,266	105,799,686
Projects in process and assets not yet in service- Tacoma Cascade Pipeline	<u>16,518,184</u>	<u>16,518,184</u>
Total Capital Assets	271,137,441	235,935,583
Restricted cash and cash equivalents, net of current portion	14,407,917	23,255,892
Water rights receivable, net of current portion	<u>2,634,066</u>	<u>3,458,208</u>
Total Assets	<u>\$338,637,066</u>	<u>\$300,035,277</u>
Deferred Outflows of Resources:		
Advanced refunding of debt	<u>\$ 811,058</u>	<u>\$ 1,027,973</u>
Total Deferred Outflows of Resources	<u>\$ 811,058</u>	<u>\$ 1,027,973</u>

See accompanying notes.

CASCADE WATER ALLIANCE

**Statements of Net Position (Continued)
December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Liabilities and Net Position		
Payables and accrued liabilities	\$ 1,877,551	\$ 2,122,863
Lease liabilities, current portion	211,616	193,638
Subscription based IT arrangements, current portion	12,152	11,560
Payables related to Tacoma water contract, current portion		6,341,209
Long-term debt payable related to Tacoma water contracts, current portion	4,298,890	
Long-term debt payable from unrestricted assets, current portion		39,474
	<u>6,400,209</u>	<u>8,708,744</u>
Payables From Restricted Assets:		
Accrued interest	3,184,748	873,037
Long-term debt payable from restricted assets, current portion	7,240,000	6,945,000
	<u>10,424,748</u>	<u>7,818,037</u>
Total Current Liabilities	16,824,957	16,526,781
Long-Term Debt, Net of Current Portion:		
Long-term lease liabilities	2,037,915	2,261,093
Long-term subscription based IT arrangements		592
Long-term debt payable related to Tacoma water contracts, net of current portion	75,539,514	
Long-term debt payable from restricted assets, net of bond issuance costs	63,400,000	70,640,000
	<u>140,977,429</u>	<u>72,901,685</u>
Other Long-Term Liabilities:		
Payable related to Tacoma water contract, net of current portion		41,339,029
Bond premium, net of amortization	2,294,121	3,082,331
Total Liabilities	<u>\$160,096,507</u>	<u>\$133,849,826</u>
Deferred Inflows of Resources:		
Deferred inflows from leases	\$ 3,151	\$ 15,745
Total Deferred Inflows of Resources	<u>\$ 3,151</u>	<u>\$ 15,745</u>
Net Position:		
Net investment in capital assets	\$ 121,038,318	\$ 110,886,716
Restricted for-		
Debt service	9,328,349	10,561,566
Unrestricted	48,981,799	45,749,397
Total Net Position	<u>\$179,348,466</u>	<u>\$167,197,679</u>

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Revenues, Expenses, and Changes in Net Position For the Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenue:		
Water sales	\$ 42,123,280	\$ 41,083,289
Administrative dues	4,241,294	3,706,551
Conservation program and other	826,395	800,515
Total Operating Revenue	47,190,969	45,590,355
Operating Expenses:		
Cost of water sold	24,556,441	24,490,346
Depreciation and amortization	6,964,073	4,506,506
Operations	3,005,823	3,395,152
Salaries and benefits	3,956,855	3,061,829
Professional services	2,549,759	1,769,520
Maintenance	412,282	599,664
Communication and public information	597,010	550,364
Rent	130,495	96,322
Insurance	166,050	193,992
Office expenses	215,803	180,061
Miscellaneous	265,286	220,695
Conservation rebate program	120,428	132,589
Dues and subscriptions	30,836	29,270
Total Operating Expenses	42,971,141	39,226,310
Operating Income	4,219,828	6,364,045
Nonoperating Revenue (Expenses):		
Investment income	3,315,812	2,503,370
Gain on Tacoma water contract	1,522,423	
Interest expense	(4,923,721)	(2,794,079)
Total Nonoperating Expenses	(85,486)	(290,709)
Capital Contributions:		
Regional capital facilities charges	8,016,445	9,649,203
Total Capital Contributions	8,016,445	9,649,203
Total Change in Net Position	12,150,787	15,722,539
Net position, beginning of year	167,197,679	151,475,140
Net Position, End of Year	\$179,348,466	\$167,197,679

See accompanying notes.

CASCADE WATER ALLIANCE

**Statements of Cash Flows
For the Years Ended December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities:		
Cash received from members	\$ 47,190,969	\$ 45,577,072
Cash paid to suppliers	(32,306,333)	(34,569,672)
Cash paid to and for employees	(3,984,975)	(4,458,931)
Net Cash Provided by Operating Activities	10,899,661	6,548,469
Cash Flows From Capital and Related Financing Activities:		
Proceeds from regional capital facilities charges	6,419,792	9,099,301
Proceeds from water rights receivable	798,587	773,825
Proceeds from lease receivable	14,410	13,283
Payment on Tacoma water contracts, long-term debt, and payables	(6,341,209)	(6,216,872)
Payments on lease payables	(205,200)	(77,621)
Payments on long-term debt	(6,984,474)	(8,249,474)
Acquisition of capital assets	(2,849,194)	(2,777,982)
Interest paid on bonds, leases, and other long-term debt	(2,395,095)	(2,769,363)
Net Cash Used in Capital and Related Financing Activities	(11,542,383)	(10,204,903)
Cash Flows From Investing Activities:		
Gain on investments	750,606	5,432
Interest received	2,552,723	2,497,938
Net Cash Provided by Investing Activities	3,303,329	2,503,370
Net Change in Cash and Cash Equivalents	2,660,607	(1,153,064)
Cash and cash equivalents, beginning of year	56,243,938	57,397,002
Cash and Cash Equivalents, End of Year	\$ 58,904,545	\$ 56,243,938
Cash and Cash Equivalents Balance is Composed of the Following at December 31:		
Cash and cash equivalents	\$ 34,071,880	\$ 26,646,837
Restricted cash and cash equivalents	24,832,665	29,597,101
Total Cash and Cash Equivalents	\$ 58,904,545	\$ 56,243,938

See accompanying notes.

CASCADE WATER ALLIANCE

Statements of Cash Flows (Continued) For the Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Reconciliation of Operating Income to Net Cash From Operating Activities:		
Net operating income	\$ 4,219,828	\$ 6,364,045
Adjustments to reconcile net operating income to net cash provided by operating activities-		
Depreciation and amortization	6,964,073	4,506,506
Changes in operating assets and liabilities:		
Prepaid expenses	44,332	(40,255)
Payables and accrued liabilities	<u>(328,572)</u>	<u>(4,281,827)</u>
Net Cash Provided by Operating Activities	<u>\$ 10,899,661</u>	<u>\$ 6,548,469</u>
Supplementary Cash Flow Disclosure:		
Noncash purchases of capital assets through accounts payable	\$ -	\$ 83,149
Noncash change in advanced refunding of debt	\$ 216,915	\$ 220,857
Noncash addition of intangible capital asset	\$ 40,021,798	\$ -

See accompanying notes.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

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, 2025 and 2024, the King County Investment Pool (the Pool) which holds Cascade investments was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

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

Capital Assets - Capital assets purchased at more than \$5,000 are recorded at cost. Water systems conveyed to Cascade by bill of sale are recorded at the contributing party's cost, contract price, or appraised value. Major expenses for capital assets, including capital leases and major repairs that increase useful lives, are capitalized. Maintenance, repairs, and minor renewals are expensed when incurred. Leases and subscription based IT arrangements (SBITAs) that confirm the intangible right to use assets or software with contract terms greater than 12 months and that have total cash payments over the life of the contract greater than 12 months are capitalized. Estimated useful lives for capital assets are as follows:

Computer equipment	5 years
Equipment and furniture	3 - 7 years
Tractors and heavy machinery	10 - 20 years
Buildings	20 - 50 years
Pipelines	50 years

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 1 - Continued

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.

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) Net investment in capital assets - 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 "net investment in capital assets."

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 2025 and 2024 is \$8,579 and \$7,454, respectively, per new Cascade Equivalent Residential Unit (CERU).

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 1 - Continued

Federal Income 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 - Employees accrued sick and vacation leave based on hours worked throughout the year. At termination of employment, employees may receive cash payments for accumulated vacation leave, based on current wages at termination. Outstanding vacation and sick leave are accrued at the amount more likely than not to be settled for cash or used for paid leave.

Reclassification - Certain reclassifications have been made to prior year accounts to conform to the presentation of the current year's financial statements. These reclassifications have no effect on the previously reported change in net position or net position balances.

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, 2025 and 2024, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 2 - Continued

The Tacoma Water Contract - In March 2025, two new contracts were signed with Tacoma. The contracts replaced the 2012 contract. The two separate agreements are an agreement for the sale of wholesale water for a permanent supply of up to 15 mgd peak day supply and an agreement for the sale of market-priced wholesale water for temporary supply of up to 17.5 mgd peak day supply through 2062. The agreements restructured the 2012 contract including the 2012 payment schedule and included new charges for System Development Charges and Capacity Reservation fees. The Capacity Reservation fee payments shall be credited toward future payments due from Cascade to Tacoma.

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 these contracts were \$4,915,199 and \$3,991,356 for the years ended December 31, 2025 and 2024, respectively.

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 \$2,634,066 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, 2025 and 2024, the water rights receivable was \$3,458,208 and \$4,256,795, 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 updated by Cascade (and approved by State Department of Health in February 2026) and projects 2041 as the estimated in-service date for this pipeline.

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

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, 2025 and 2024, the net asset value at fair value price per share was \$1.0077 and \$1.0010, respectively.

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

	2025	2024
Unrestricted cash and equivalents	\$ 34,056,087	\$ 27,244,593
Restricted cash and equivalents	24,790,399	29,872,911
	58,846,486	57,117,504
Fair value adjustment	180,448	(570,047)
Less checks in excess of cash	(122,389)	(303,519)
Total Cash and Cash Equivalents	\$ 58,904,545	\$ 56,243,938

Impaired Investments - As of both December 31, 2025 and 2024, 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, 2025 and 2024, Cascade’s share of the impaired investment pool principal was \$11,946 and \$18,318, respectively, and Cascade’s fair value of these investments was \$5,366 and \$9,912, respectively.

Interest Rate Risk - As of December 31, 2025 and 2024, the Pool’s average duration was 0.92 and 1.21 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, 2025 and 2024, 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.

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 4 - Restricted Cash and Cash Equivalents

In accordance with the bond agreements, separate restricted accounts are required to be established. The assets held in these accounts are restricted for specific uses, including construction, debt service, and other special reserve requirements. Current year disbursements from the restricted asset accounts are included in total expenditures in the financial statements.

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

	<u>2025</u>	<u>2024</u>
Restricted cash and cash equivalents, current portion	\$ 10,424,748	\$ 6,341,209
Restricted cash and cash equivalents, long-term	<u>14,407,917</u>	<u>23,255,892</u>
	<u>\$ 24,832,665</u>	<u>\$ 29,597,101</u>

Changes in restricted assets for the year ended December 31, 2025 were as follows:

	<u>Balance 12/31/2024</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Net Return</u>	<u>Balance 12/31/2025</u>
Revenue bond funds	\$ 10,605,596	\$ 7,459,525	\$ (8,992,104)	\$ 245,624	\$ 9,318,641
Construction funds	<u>18,991,505</u>	<u>10,869,154</u>	<u>(14,881,907)</u>	<u>535,272</u>	<u>15,514,024</u>
	<u>\$29,597,101</u>	<u>\$18,328,679</u>	<u>\$ (23,874,011)</u>	<u>\$ 780,896</u>	<u>\$24,832,665</u>

For the year ended December 31, 2025, changes in restricted assets included interest earnings of \$342,897 and unrealized losses of \$97,273 for the revenue bond funds and interest earnings of \$416,515 and unrealized gains of \$118,757 for the construction funds.

Changes in restricted assets for the year ended December 31 were as follows:

	<u>Balance 12/31/2023</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Net Return</u>	<u>Balance 12/31/2024</u>
Revenue bond funds	\$ 12,404,577	\$ 8,951,896	\$ (10,803,144)	\$ 52,267	\$ 10,605,596
Construction funds	<u>17,946,856</u>	<u>9,307,109</u>	<u>(8,867,948)</u>	<u>605,488</u>	<u>18,991,505</u>
	<u>\$30,351,433</u>	<u>\$18,259,005</u>	<u>\$ (19,671,092)</u>	<u>\$ 657,755</u>	<u>\$29,597,101</u>

For the year ended December 31, 2024, changes in restricted assets included interest earnings of \$347,178 and unrealized losses of \$294,910 for the revenue bond funds and interest earnings of \$586,387 and unrealized gains of \$19,101 for the construction funds.

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 5 - Capital Assets

The following summarizes the changes in capital assets of Cascade:

	Balance 12/31/2024	Additions	Transfers	Deletions	Balance 12/31/2025
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 2,386,410	\$ 18,352	\$ -	\$ -	\$ 2,404,762
Lease right to use assets - office	2,364,376				2,364,376
Lease right to use assets - other equipment	127,110				127,110
Seattle water contract	22,267,611				22,267,611
Tacoma water contracts	119,740,687	40,021,798			159,762,485
SR900 pipeline	10,021,201				10,021,201
Bellevue Issaquah pipeline	22,276,944	29,411			22,306,355
Lake Tapps buildings	2,943,317				2,943,317
Total Capital Assets					
Being Depreciated	182,127,656	40,069,561			222,197,217
Less accumulated depreciation and amortization	(68,509,943)	(7,752,283)			(76,262,226)
Depreciable Capital Assets, Net	113,617,713	32,317,278			145,934,991
Capital Assets Not					
Being Depreciated:					
Lake Tapps - infrastructure	105,799,686	2,884,580			108,684,266
Tacoma Cascade Pipeline	16,518,184				16,518,184
Total Capital Assets Not					
Being Depreciated	122,317,870	2,884,580			125,202,450
Total Capital Assets	\$ 235,935,583	\$ 35,201,858	\$ -	\$ -	\$ 271,137,441

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 5 - Continued

	Balance 12/31/2023	Additions	Transfers	Deletions	Balance 12/31/2024
Capital Assets					
Being Depreciated:					
Equipment and furniture	\$ 2,286,449	\$ 99,961	\$ -	\$ -	\$ 2,386,410
Lease right to use assets - office	2,364,376				2,364,376
Lease right to use assets - other equipment	76,713	58,767		(8,370)	127,110
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	181,977,298	158,728		(8,370)	182,127,656
Less accumulated depreciation and amortization	(62,845,687)	(5,669,418)		5,162	(68,509,943)
Depreciable Capital Assets, Net	119,131,611	(5,510,690)		(3,208)	113,617,713
Capital Assets Not					
Being Depreciated:					
Lake Tapps - infrastructure	103,162,955	2,636,731			105,799,686
Tacoma Cascade Pipeline	16,518,184				16,518,184
Total Capital Assets Not					
Being Depreciated	119,681,139	2,636,731			122,317,870
Total Capital Assets	\$ 238,812,750	\$ (2,873,959)	\$ -	\$ (3,208)	\$ 235,935,583

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 6 - Long-Term Debt - Restricted

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

	<u>2025</u>	<u>2024</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.	\$ 10,990,000	\$ 13,440,000
\$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.	24,580,000	26,395,000
\$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.	<u>35,070,000</u>	<u>37,750,000</u>
	70,640,000	77,585,000
Less current portion	<u>(7,240,000)</u>	<u>(6,945,000)</u>
Total Long-Term Portion	<u><u>\$ 63,400,000</u></u>	<u><u>\$ 70,640,000</u></u>

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, 2025 and 2024 was \$92,376 and \$102,508, 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, 2025 and 2024 was \$539,052 and \$609,565, 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, 2025 and 2024 was \$156,782 and \$215,035, respectively.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 6 - Continued

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 year ended December 31, 2024 was \$239,838. There was no amortization expense in the year ended December 31, 2025.

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 \$374,896 and \$542,624 as of December 31, 2025 and 2024, 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 \$436,161 and \$485,349 as of December 31, 2025 and 2024, respectively.

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

For the Year Ending December 31,	Principal	Interest	Total
2026	\$ 7,240,000	\$ 1,982,041	\$ 9,222,041
2027	7,535,000	1,686,141	9,221,141
2028	7,825,000	1,390,741	9,215,741
2029	8,110,000	1,097,966	9,207,966
2030	5,400,000	853,091	6,253,091
2031 - 2035	27,535,000	2,331,330	29,866,330
2036 - 2037	6,995,000	185,255	7,180,255
	<u>\$ 70,640,000</u>	<u>\$ 9,526,565</u>	<u>\$ 80,166,565</u>

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 6 - Continued

Debt payable from restricted assets activity was as follows:

	<u>Balance 12/31/2024</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2025</u>
Revenue bonds	\$ 77,585,000	\$ -	\$ (7,240,000)	\$ 70,640,000
	<u>Balance 12/31/2023</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2024</u>
Revenue bonds	\$ 85,795,000	\$ -	\$ (8,210,000)	\$ 77,585,000

Note 7 - Long-Term Debt - Unrestricted

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

	<u>2025</u>	<u>2024</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.	\$ -	\$ 39,474
<u>Tacoma Water Contracts</u>		
Contract for wholesale water rights and related development of the water system. Annual payments of \$3,386,282 due through 2040. Advance payment is permitted. Imputed interest rate is 2.9%.	37,650,000	
2012 Contract restructured payments. Annual payments of interest and principle are required. Advance payment is persisted after 2029. Imputed interest on this agreement is 2.2%	39,816,606	
Capacity reservation fees from the market-priced agreement. 50% of these fees are recoverable as advance payments of future water purchases. Imputed interest rate is 2.2%	<u>2,371,798</u>	
Total long-term debt	79,838,404	39,474
Less current portion	<u>(4,298,890)</u>	<u>(39,474)</u>
Total Long-Term Portion	<u>\$ 75,539,514</u>	<u>\$ -</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 7 - Continued

On March 20, 2025, Cascade Water Alliance and Tacoma Water, a division of Tacoma Public Utilities, signed agreements for Tacoma to supply water to Cascade starting in 2041. The contracts, which replace the 2012 contract, provide temporary water rights through 2060 and permanent water rights thereafter. These contracts include fixed payments related to the establishment of the infrastructure to connect the systems and temporary water rights through 2042. See Note 2 for the assets resulting from the Tacoma Water Contracts.

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>	<u>Total</u>
2026	\$ 3,426,985	\$ 2,429,843	\$ 5,856,828
2027	3,634,868	2,320,762	5,955,630
2028	3,849,721	2,205,767	6,055,488
2029	4,071,732	2,084,651	6,156,383
2030	4,987,668	1,957,202	6,944,870
2031 - 2035	27,543,043	7,442,307	34,985,350
2036 - 2040	32,324,387	30,089,637	62,414,024
	<u>\$ 79,838,404</u>	<u>\$ 48,530,169</u>	<u>\$ 128,368,573</u>

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

	<u>Balance 12/31/2024</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2025</u>
Loan #PW-05-691-PRE-142	\$ 39,474	\$ -	\$ (39,474)	\$ -
Tacoma water contracts	<u> </u>	<u>86,179,613</u>	<u>(6,341,209)</u>	<u>79,838,404</u>
	<u>\$ 39,474</u>	<u>\$ 86,179,613</u>	<u>\$ (6,380,683)</u>	<u>\$ 79,838,404</u>

	<u>Balance 12/31/2023</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Balance 12/31/2024</u>
Loan #PW-05-691-PRE-142	\$ 78,948	\$ -	\$ (39,474)	\$ 39,474
	<u>\$ 78,948</u>	<u>\$ -</u>	<u>\$ (39,474)</u>	<u>\$ 39,474</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 8 - Commitments

Lease and SBITA 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>
2026	\$ 3,764	\$ 31	\$ 3,794
Total Minimum Rental Receipts	<u>\$ 3,764</u>	<u>\$ 31</u>	<u>\$ 3,794</u>

Rent revenue recognized on noncancelable leases recognized totaled \$12,594 and \$12,591 for the years ended December 31, 2025 and 2024, respectively.

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. Additionally, Cascade has leases for office equipment and SBITAs.

Future minimum rentals 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>
2026	\$ 223,768	\$ 107,564	\$ 331,332
2027	230,816	97,397	328,213
2028	246,698	85,660	332,358
2029	259,337	72,291	331,628
2030	279,256	58,841	338,097
2031 to 2034	<u>1,021,808</u>	<u>84,365</u>	<u>1,106,173</u>
Total Minimum Lease and SBITA Payments	<u>\$ 2,261,683</u>	<u>\$ 506,118</u>	<u>\$ 2,767,801</u>

Amortization expense on noncancelable leases totaled \$252,725 and \$243,004 for the years ended December 31, 2025 and 2024.

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, 2025.

Contracted services agreed to and expected to be expended in 2026 include the following:

Construction and design services	\$ 1,865,567
Consulting contracted services	<u>7,168,207</u>
Total Contracted Services	<u>\$ 9,033,774</u>

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

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 (\$10,918 and \$9,418 in 2025 and 2024, respectively) established by the Internal Revenue Service. Employees are immediately vested upon enrollment and, therefore, have no forfeitures.

Employee and employer contributions were \$331,147 and \$413,936, respectively, for the year ended December 31, 2025 and \$254,236 and \$311,618, respectively, for the year ended December 31, 2024. As of December 31, 2025 and 2024, there were no accrued expenses under the Plan.

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 \$297,592 and \$246,524 for the years ended December 31, 2025 and 2024, respectively.

Note 10 - Concentrations

All water purchases by Cascade were from the City of Seattle as further described in Note 2.

Cascade dam operations are performed by a single vendor, who's contract ends in 2027. Subsequent to year end, a request for proposals was issued and responses were received. As of June 16, 2026, negotiations for a new dam operations contract were in process.

CASCADE WATER ALLIANCE

**Notes to Financial Statements
For the Years Ended December 31, 2025 and 2024**

Note 10 - Continued

Water sales, conservation revenues, administrative dues, regional capital facilities charges, and contributions for member cities for the years ended December 31, 2025 and 2024 were as follows:

2025 Member Charges-

<u>Members</u>	<u>Water Sales</u>	<u>Conservation Revenues</u>	<u>Administrative Dues</u>	<u>Regional Capital Facilities Charges</u>	<u>Total</u>
Bellevue	\$ 21,481,920	\$ 329,416	\$ 1,690,655	\$ 1,305,696	\$ 24,807,687
Issaquah	2,108,533	67,818	348,063	561,925	3,086,339
Kirkland	6,145,226	96,707	496,329	2,316,330	9,054,592
Redmond	6,513,904	138,787	712,293	1,765,939	9,130,923
Redmond-Novelty	1,345,433	20,860	107,059		1,473,352
Sammamish	1,468,349	114,885	589,620	1,488,456	3,661,310
Skyway	412,004	18,289	93,867	157,728	681,888
Tukwila	2,647,911	39,633	203,408	420,371	3,311,323
	<u>\$42,123,280</u>	<u>\$ 826,395</u>	<u>\$ 4,241,294</u>	<u>\$ 8,016,445</u>	<u>\$55,207,414</u>

2024 Member Charges-

<u>Members</u>	<u>Water Sales</u>	<u>Conservation Revenues</u>	<u>Administrative Dues</u>	<u>Regional Capital Facilities Charges</u>	<u>Total</u>
Bellevue	\$ 21,853,866	\$ 317,204	\$ 1,468,720	\$ 1,542,978	\$ 25,182,768
Issaquah	1,990,145	71,619	331,609	436,059	2,829,432
Kirkland	6,114,043	92,628	428,889	2,340,556	8,976,116
Redmond	5,330,137	131,748	610,021	3,849,991	9,921,897
Redmond-Novelty	1,271,526	20,189	93,481		1,385,196
Sammamish	1,526,105	111,360	515,619	1,114,373	3,267,457
Skyway	444,055	17,601	81,497	227,347	770,500
Tukwila	2,553,412	38,166	176,715	137,899	2,906,192
	<u>\$41,083,289</u>	<u>\$ 800,515</u>	<u>\$ 3,706,551</u>	<u>\$ 9,649,203</u>	<u>\$55,239,558</u>

Note 11 - Stewardship, Compliance, and Accountability

There have been no material violations of finance-related legal or contractual provisions, and there have been no expenditures exceeding legal appropriations.

CASCADE WATER ALLIANCE

Notes to Financial Statements For the Years Ended December 31, 2025 and 2024

Note 12 - Risk Management

Cascade Water Alliance is a member of the Water and Sewer Risk Management Pool (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-insurance, 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 Pool was formed in 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 Pool currently has 78 members. The Pool's fiscal year is November 1st through October 31st.

The 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 Pool provides the following forms of group purchased insurance coverage for its members: All-Risk Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability, Crime; Public Officials Liability; Employment Practices Liability, Cyber Liability, Identity Fraud Reimbursement Program; Deadly Weapon/Active Shooter Response Program; and bonds of various types. Most coverages are on an "occurrence" basis.

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, 2025, written notice must be in possession of the Pool by April 30, 2025). 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 various independent public adjusters.

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.

In the past three years (2025, 2024, and 2023), 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, 2025 and 2024

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, 2025 and 2024

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, 2025 and 2024

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, 2025 and 2024

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, 2025 and 2024

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 10 ten 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 feet tunnel corridors;
- Identified and fixed leak in twin 10 feet 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, 2025 and 2024

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, 6 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.
- 2024 - Maintenance Activities:
 - Contracted with Geo Engineers to design seismic upgrades to Dikes 9 and 10;
 - Removed hazardous trees along Dingle Basin drainage ditch;
 - Contracted for replacement of automatic valve actuators at Dingle Basin;

See independent auditor's report.

CASCADE WATER ALLIANCE

Required Supplementary Information For the Years Ended December 31, 2025 and 2024

Modified Approach for Infrastructure Capital Assets (Continued)

- Contracted for and Finished repairs for Fish Screen gantry crane;
- Installed auxiliary HPU at the Valve House;
- Contracted for HPU and controls improvements for the Valve House, work completed;
- Contracted to replace charging systems at the Pipeline Intake and Valve House;
- Removed lead paint, painted the interior PH Hazardous Material Removal and Disposal.
- Inspected and repair Valve House valve no. 1;
- Repaired Dike 11 toe;
- Maintained gravel access road by grading and placing additional materials for the road;
- Pipeline intake gate lift and maintenance, battery load test;
- Fish Return Road Repair;
- 6-foot valve motor starter contact replacement;
- Install new valve house stairs; and
- Upper flowline vegetation management.
- 2025 - Maintenance Activities:
 - Upgraded SCADA infrastructure to provide increased security and remote access/controls of the system;
 - Replaced all locks throughout the system and upgraded to cyber controlled access where warranted;
 - Placed additional rocks to armor Dike 2A and 2B;
 - Replaced 840-ft of ecology block wall on Dike 11 for increased toe/slope resiliency;
 - Performed annual Dike inspection and repairs;
 - Replacing the aging steal access doors to Valve House and making modifications to the hydraulic power unit that controls the 66 inch cone valve for improved system operations;
 - Performed roof repairs to the Powerhouse and Admin building as well as the fish screens soffits and gutters; and
 - Perform a diver condition assessment for Tunnel Intake infrastructure that was used to aid in the Parametrix design of the facility improvements.

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

CASCADE WATER ALLIANCE

**Required Supplementary Information
For the Years Ended December 31, 2025 and 2024**

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 2025 - 2026 Biennium are summarized below:

Lake Tapps Project Operation and Maintenance Budget:	
2026	\$ 5,838,348
2027	\$ 7,130,265
Lake Tapps Project CIP Budget:	
2026	\$ 3,110,000
2027	\$ 1,400,000
2028	\$ 2,760,000
2029 - 2030	\$ 6,370,000

The Operation and Maintenance Budget and CIP for Cascade's 2025 - 2026 Biennium were adopted by the Board in September 2024.

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

For the Year Ending December 31,	<u>Estimate</u>	<u>Actual</u>
2021	\$ 3,873,258	\$ 3,759,935
2022	\$ 3,724,320	\$ 3,427,999
2023	\$ 3,954,132	\$ 3,464,874
2024	\$ 4,041,191	\$ 3,994,816
2025	\$ 4,118,178	\$ 3,418,105

See independent auditor's report.