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To the Board of Commissioners
Highland Water District
Monroe, Washington

Management is responsible for the accompanying financial statements of Highland Water District, which comprise the statement of net position as of December 31, 2025 and the related statement of revenues, expenses and changes in fund net position and statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any assurance on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 and the pension plan information on Schedule I be presented to supplement the basic financial statements. Such information is presented for purposes of additional analysis and, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic or historical context. Such information is the responsibility of management. The required supplementary information was subject to our compilation engagement. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

C.P. McAuliffe, C.P.A.

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Certified Public Accountants

May 28, 2026

Highland Water District
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Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2025. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snapshot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Condensed Comparative Statement of Net Position

The following condensed statements of net position present an overview of the District's financial position as of December 31, 2025 and 2024.

	2025	2024
Assets		
Current Assets	$ 3,470,249	$ 2,837,975
Noncurrent Assets:		
Capital Assets - Net	7,928,223	8,134,633
Other	209,658	223,668
Total Assets	$ 11,608,130	$ 11,196,276

Liabilities		
Current Liabilities	$ 202,779	$ 196,763
Noncurrent Liabilities:		
Long-Term Debt	2,355,200	2,442,641
Other	-	-
Total Liabilities	$ 2,557,979	$ 2,639,404
Net Position		
Net Investment in Capital Assets	$ 5,485,584	$ 5,608,213
Restricted for Debt Service	182,590	170,581
Restricted for Capital Projects	-	-
Unrestricted	3,381,977	2,778,078
Total Net Position	$ 9,050,151	$ 8,556,872

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets include cash and cash equivalents held in the general and construction funds which are unrestricted and can be used for day-to-day operations. The balance held in these funds increased by $631,752 in 2025. Current assets also include cash and cash equivalents held in restricted accounts, which include the USDA reserve funds and ULID accounts. Combined, these accounts increased by $9,679 in 2025. The remainder of the current assets include accounts receivable, other receivables, prepaid expenses, inventories, and the current portion of the Friar Creek assessments receivable. Together these accounts decreased by $9,157 in 2025.

Noncurrent Assets include assessments receivable for Friar Creek, net of the current portion. Assessments receivable decreased by $14,010 due to the principal collections received in 2025. Noncurrent assets also include capital assets net of accumulated depreciation. These accounts decreased by $206,410 mainly due to depreciation expense.

Liabilities

Current liabilities consist of accounts payable, accrued wages, accrued interest payable on debt, the current portion of compensated absences, and the current portion of long-term debt. Current liabilities increased by $6,016 in 2025 mainly due to small increases in each. General and capital improvement accounts payable vary from year to year based on the timing of invoices received from vendors and on the capital projects underway at the time.

Noncurrent Liabilities consist of long-term debt. The noncurrent portion of long-term debt decreased by $87,441 in 2025. This decrease was due to payments of principal during the year. The District did not incur any additional long-term debt during the year.

Net Position consists of assets minus liabilities. The increase in net position for 2025 corresponds to the change in net position from the statement of revenues, expenses, and changes in fund net position. Over time, increases or decreases in the District's net position indicate the District's overall financial growth. The increase in net position is a positive sign of the District's financial strength.

Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

The following statements of revenues, expenses and changes in fund net position present the annual surplus or deficiency of revenues over expenses (the change in net position):

	2025	2024
Revenues		
Water Operating Revenue	$ 1,637,187	$ 1,494,325
Nonoperating Revenues	113,217	117,031
Total Revenues	$ 1,750,404	$ 1,611,356
Expenses		
Operating Expenses	$ 1,175,734	$ 1,114,778
Nonoperating Expenses	104,491	109,746
Total Expenses	$ 1,280,225	$ 1,224,524
Change in Net Position before Capital Contributions	$ 470,179	$ 386,832
Capital Contributions	23,100	16,650
Change in Net Position	$ 493,279	$ 403,482
Total Net Position, January 1	8,556,872	8,153,390
Total Net Position, December 31	$ 9,050,151	$ 8,556,872

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

Revenues

Water operating revenue increased by $142,862 in 2025 due to rate increases of $1.25 for the base rate and $0.04 for the usage rate in January of 2025. There was also a rate increase of $0.21 in July of 2025 to cover an Everett Utilities rate increase. Nonoperating revenue is made up of interest income and gains and losses on the disposal of assets. Interest income from investments decreased by $3,814. Interest income varies from year to year depending on the average balances being invested, changes in interest rates, and changes in the fair market value of the District's investments.

Expenses

Operating expenses increased by $60,956 in 2025. Water purchases increased by $46,682 due to an increase in consumption, as well as a rate increase by Everett Utilities. The increase in consumption was caused by multiple new service connections, as well as several main break repairs. System maintenance and supplies increased by $9,833 mainly due to an increase in repairs, and general and administrative expenses increased by $15,292 mainly due to increases in building maintenance and engineering, offset by a decrease in computer software expense .

Nonoperating expenses consist of interest expense on long-term debt. The interest on long-term debt decreased by $5,255 in 2025 due to decreasing outstanding loan balances through 2025 as the District paid down its debt. No new borrowings occurred in 2025.

Capital Contributions did not change significantly in 2025, as compared to 2024.

Change in Net Position
The District recorded growth in their net position in 2025, reflecting the fact that total revenues exceeded expenses.

Analysis of Overall Financial Condition

The District's financial condition improved in 2025 with adequate liquid assets and positive operating cash flow.

Capital Assets

Capital assets consist of land, utility plant and equipment. Over the next five years it is anticipated that capital spending will be in the range of $1,917,000. The areas of major emphasis in the capital budget are the Woods Lake Road replacement project, as well as replacing old lines, telemetry, and meters.

Capital assets activity for the year ended December 31, 2025 was as follows:

	Balance 12/31/25	Balance 12/31/24	Change
Land	$ 99,147	$ 99,147	$ -
Utility Plant	12,569,914	12,573,614	(3,700)
Equipment	142,039	142,039	-
Intangibles	46,313	46,313	-
Accumulated Depreciation	(4,929,190)	(4,726,480)	(202,710)
Total Capital Assets, Net	$ 7,928,223	$ 8,134,633	$ (206,410)

See Note 3 for more information regarding capital assets.

Long-Term Debt

At December 31, 2025, the District had total United States Department of Agriculture loans outstanding of $2,369,206. The total long-term debt of the District decreased by $83,781 during 2025 due to principal payments made on the loans. See Note 5 for more information regarding long-term debt.

Highland Water District
Statement of Net Position
December 31, 2025

	2025
ASSETS	
Current Assets	
Cash & Cash Equivalents	$ 3,058,632
Assessments Receivable - Friar Creek (Current Portion)	14,010
Receivables (Net):	
Customer Accounts Receivable	113,328
Restricted Assets:	
Cash & Cash Equivalents	235,099
Inventories	25,282
Prepayments	23,898
Total Current Assets	$ 3,470,249
Noncurrent Assets	
Assessments Receivable - Friar Creek (Less Current Portion)	$ 209,658
Capital Assets Not Being Depreciated	
Land and Land Rights	99,147
Capital Assets Being Depreciated	
Plant	12,569,914
Equipment	142,039
Intangibles	46,313
Less Accumulated Depreciation	(4,929,190)
Total Noncurrent Assets	$ 8,137,881
Total Assets	$ 11,608,130

See accompanying notes and accountant’s report.

Highland Water District
Statement of Net Position
December 31, 2025

		2025
LIABILITIES		
Current Liabilities		
Accounts Payable - General	$	34,999
Accounts Payable - Capital Improvements		3,414
Accrued Wages		10,412
Current Portion of Long-Term Debt		87,439
Compensated Absences (Current Portion)		14,006
Payables from Restricted Assets:		
Accrued Interest Payable - USDA Loans		52,509
Total Current Liabilities	$	202,779
Noncurrent Liabilities		
Department of Agriculture Loans	$	2,355,200
Total Noncurrent Liabilities	$	2,355,200
Total Liabilities	$	2,557,979
NET POSITION		
Net Investment in Capital Assets	$	5,485,584
Restricted for Debt Service		182,590
Unrestricted		3,381,977
Total Net Position	$	9,050,151

See accompanying notes and accountant's report.

Highland Water District
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2025

		2025
Operating Revenues		
Water Sales	$	1,607,824
Local Facility Charges		17,198
Penalties		8,870
Miscellaneous Revenue		3,295
Total Operating Revenues	$	1,637,187
Operating Expenses		
Water Purchases	$	357,852
Labor Costs		217,902
Payroll Taxes & Benefits		68,876
System Maintenance and Supplies		59,898
Other Operating Expenses		19,078
Depreciation Expense		206,410
Business Taxes		83,618
General & Administrative Expenses		162,100
Total Operating Expenses	$	1,175,734
Operating Income (Loss)	$	461,453
Nonoperating Revenues (Expenses)		
Interest on Investments	$	113,217
Interest Expense		(104,491)
Total Nonoperating Revenues (Expenses)	$	8,726
Income Before Contributions	$	470,179
Capital Contributions		23,100
Change in Net Position	$	493,279
Total Net Position, January 1		8,556,872
Total Net Position, December 31	$	9,050,151

See accompanying notes and accountant’s report.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2025

	2025
Cash Flows From Operating Activities	
Cash Received From Customers	$ 1,639,909
Cash Paid to Suppliers	(696,041)
Cash Paid to Employees	(268,388)
Net Cash Provided by Operating Activities	$ 675,480
Cash Flows From Capital & Related Financing Activities	
Principal Payments on Dept. of Agriculture Loans	$ (83,781)
Interest Paid on Long-Term Debt	(107,631)
Capital Contributions	36,401
Net Cash (Used) by Capital & Related Financing Activities	$ (155,011)
Cash Flows From Investing Activities	
Interest Received on Investments	$ 120,962
Net Cash Provided by Investing Activities	$ 120,962
Net Increase (Decrease) in Cash & Cash Equivalents	$ 641,431
Cash & Cash Equivalents at Beginning of Year	2,652,300
Cash & Cash Equivalents at End of Year	$ 3,293,731
Noncash Investing, Capital and Financing Activities	
Contributions of Capital Assets from Developers	$ -
Book Value of Plant Removals	$ -

See accompanying notes and accountant’s report.

Highland Water District
Statement of Cash Flows
Year Ended December 31, 2025

		2025
Reconciliation of Net Operating Income to Net Cash Provided by Operating Activities		
Net Operating Income (Loss)	$	461,453
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities		
Depreciation	$	206,410
Change in Assets & Liabilities:		
(Increase) Decrease in Customer Accounts Receivable		2,722
(Increase) Decrease in Prepayments		(879)
(Increase) Decrease in Inventories		278
Increase (Decrease) in Accounts Payable - General		2,079
Increase (Decrease) in Accounts Payable - Capital Improvements		146
Increase (Decrease) in Accrued Wages Payable		738
Increase (Decrease) in Compensated Absences		2,533
Total Adjustments	$	214,027
Net Cash Provided by Operating Activities	$	675,480

See accompanying notes and accountant's report.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

Highland Water District is a municipal water district governed by an elected 3 member board. The District operates principally as a purveyor of water in Snohomish County, Washington. The District was formed effective April 1, 1998 under the authority of Highland Water District Resolution No. 98-001, after the Snohomish County Canvassing Board certified that the special election held March 10, 1998 overwhelmingly voted for the formation of Highland Water District. The District merged with the Friar Creek Water Users Association on January 9, 2003. As part of the merger agreement, the properties in the Friar Creek Water Users Association will bear the total expense for, and repayment of, the U.S. Department of Agriculture Rural Development loan to Highland Water District for the new system and additional fire protection. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District’s financial statements are prepared using the economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Capital asset purchases are capitalized and long-term liabilities are accounted for in the appropriate funds. Unbilled utility service receivables are recorded at year end. All activities of the District are accounted for within a single proprietary (enterprise) fund.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services and include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Capital assets placed in service are recorded at cost. The District uses a capitalization threshold of $1,000. The provision for depreciation is computed on the straight-line method with the following useful lives: Equipment, 3-10 years; Plant, 5-75 years; Intangibles, 5-10 years. Donations by developers are recorded at the contract price. The assets and liabilities of the Highland Water Association were transferred to the District on April 1, 1998. The costs associated with the formation of the District have been capitalized.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are held pending construction of the facility. Costs relating to projects that are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Restricted Funds

In accordance with bond resolutions and loan agreements, separate restricted funds are required to be established. The assets held in these funds are restricted for specific uses, including debt service requirements.

f. Receivables

Receivables consist primarily of amounts due from water customers. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

g. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis and a physical inventory is taken at the end of each calendar year.

h. Investments

Investments are recorded at fair market value. See Note 2.

NOTE 1 - DESCRIPTION OF BUSINESS, NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred.

j. Subsequent Events

Management has evaluated subsequent events through May 28, 2026.

NOTE 2 - DEPOSITS & INVESTMENTS

The District's deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are under the management of the Snohomish County Treasurer. As required by state law, all investments of the District's funds are obligations of the U.S. Government, U.S. agency issues, obligations of the state of Washington, general obligations of Washington State municipalities, the State Treasurer's Investment Pool, or certificates of deposit with Washington State banks and savings and loan institutions.

The District's cash and investment balances at year end are shown below. Carrying amount and market value are the same.

	12/31/25
Petty Cash Fund	$ 758
Bank Deposit Accounts - FDIC Insured	481,384
Cash on Deposit with Snohomish County Treasurer	300,104
Investment in Snohomish County Investment Pool (SCIP)	2,511,485
Total Cash & Investments	$ 3,293,731

Credit risk - As of December 31, 2025, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO).

Interest rate risk - Interest rate risk is the risk the District may face should interest rate variances affect the fair value of the investments. The District does not have a formal policy that addresses interest rate risk.

5% - 10% of the SCIP Pool portfolio is comprised of overnight funds. 20% of the Pool consists of investments maturing within one year. Remaining funds may be invested in securities not to exceed five years in maturity.

NOTE 2 - DEPOSITS & INVESTMENTS (Continued)

Investments in Snohomish County Investment Pool (SCIP)

The District is a participant in the Snohomish County Investment Pool, an external investment pool operated by the Snohomish County Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the Snohomish County Finance Committee in accordance with RCW 36.29.020. Investments in the SCIP are reported at fair market value. Participants have the flexibility to invest or withdraw funds daily. The SCIP ensures daily liquidity for participants, eliminating the need for advance notice. While recurring transactions or large payroll withdrawals can proceed without prior notification, participants must provide notice for significant one-time withdrawals or for substantial capital project outflow.

Investments Measured at Fair Value

The District measures and reports investments at fair market value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 2025, the District had the following investments measured at fair value:

- Investments in Snohomish County Investment Pool are valued using quoted market prices.
  (Level 1 inputs)

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2025 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 99,147	$ -	$ -	$ 99,147
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	99,147	-	-	99,147
Capital assets being depreciated:				
Plant	12,573,614	-	(3,700)	12,569,914
Equipment	142,039	-	-	142,039
Intangibles	46,313	-	-	46,313
Total capital assets being depreciated	12,761,966	-	(3,700)	12,758,266
Less accumulated depreciation for:				
Plant	4,575,319	197,697	(3,700)	4,769,316
Equipment	104,848	8,713	-	113,561
Intangibles	46,313	-	-	46,313
Total accumulated depreciation	4,726,480	206,410	(3,700)	4,929,190
Total capital assets being depreciated, net	8,035,486	(206,410)	-	7,829,076
TOTAL CAPITAL ASSETS, NET	$ 8,134,633	$ (206,410)	$ -	$ 7,928,223

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on authorized projects whose authorizations total $1,917,197. Of the committed balance of $1,917,197, the District anticipates raising $1,887,197 by future DWSRF loans.

	Project Authorization	Expended to 12/31/25	Committed	Required Future Financing
Telemetry & Security	$ 150,000	$ -	$ 150,000	$ 150,000
Woods Lake Rd project	1,767,197	-	1,767,197	1,737,197
	$ 1,917,197	$ -	$ 1,917,197	$ 1,887,197

See accountant's report.

NOTE 5 - LONG-TERM DEBT

a. Notes from Direct Borrowings

The District has entered into agreements with the United States Department of Agriculture to receive the following loans:

	2025
2003 loan - payable at $29,858 annually (including interest at 4.625% per annum) through the year 2027 Original debt: $471,530 for main replacement.	$ 42,052
2009 loan - payable at $161,551 annually (including interest at 4.25% per annum) through the year 2049 Original debt: $3,051,000 for main replacement.	2,400,587
	$ 2,442,639

The annual requirements to amortize all notes from direct borrowings outstanding as of December 31, 2025, including interest, are as follows:

	Principal	Interest	Total
2026	$ 87,439	$ 103,970	$ 191,409
2027	76,195	100,149	176,344
2028	64,693	96,858	161,551
2029	67,443	94,108	161,551
2030	70,309	91,242	161,551
2031 - 2035	398,989	408,766	807,755
2036 - 2040	491,294	316,461	807,755
2041 - 2045	604,954	202,801	807,755
2046 - 2049	581,323	62,930	644,253
	$ 2,442,639	$ 1,477,285	$ 3,919,924

NOTE 5 - LONG-TERM DEBT (Continued)

b. Changes in Long-Term Liabilities

During the year ended December 31, 2025, the following changes occurred in long-term liabilities:

	Balance 1/1/25	Additions	Reductions	Balance 12/31/25	Due Within One Year
Notes from Direct Borrowings	$ 2,526,420	$ -	$ (83,781)	$ 2,442,639	$ 87,439
Total Long-Term Liabilities	$ 2,526,420	$ -	$ (83,781)	$ 2,442,639	$ 87,439

NOTE 6 - PENSION PLAN

All District employees covered by a collective bargaining agreement are members of the Western Conference of Teamsters Pension Trust fund, a cost-sharing multiple employer union pension plan. The plan provides for retirement, death and/or termination benefits for eligible employees, based on specific eligibility/participation requirements, vesting periods and benefit formulas. The risks of participating in this multiemployer plan are different from a single-employer plan in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If the District chooses to stop participating in the plan, the District may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.

Additional information can be obtained by writing to Western Conference of Teamster Pension Plan, 2323 Eastlake Avenue East, Seattle, WA 98102.

NOTE 6 - PENSION PLAN (Continued)

Effective January 1, 2025, the District made pension contributions to the Pension Trust fund, a defined benefit pension plan, on behalf of all four covered employees at the rate of $2.00 per hour for the first 2,080 hours. In addition to the $2.00 per hour contributed by the District, the covered employees contributed $2.00 per hour on a pre-tax basis from their pay. The District's total contributions to the Trust Fund were $11,153 in 2025, $10,735 in 2024, and $9,242 in 2023. The District contributed 100% of the required amount in each of these years. There is no unfunded liability on the District's part. The collective bargaining agreement covers the period of January 1, 2024 through December 31, 2026.

As of January 1, 2025, the actuarial value of the assets in the Pension Trust fund was $57,376,818,000, the value of the liabilities was $60,021,816,000 and the funded percentage was 96%. The market value of the fund on December 31, 2025 was $59,090,881,745. As of December 31, 2025, the allocation of the fund's assets was as follow: 8.7% Public equity, 10.0% Private equity, 56.8% Investment grade debt and interest rate hedging assets, 7.8% High-yield debt , 14.1% Real assets, 2.4% Cash or cash equivalents, 0.2% Other.

NOTE 7 - RISK MANAGEMENT

Water and Sewer Risk Management Pool

The District 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 7 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; and bonds of various types. Most coverages are on an "occurrence" basis.

NOTE 7 - RISK MANAGEMENT (Continued)

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

TYPE OF COVERAGE	MEMBER DEDUCTIBLE	SELF-INSURED RETENTION/GROUP	EXCESS LIMITS
Property Loss:			
Buildings and Contents	$1,000 - $25,000 and See (C) below	$25,000	$200,000,000
Flood	See (A) below	See (A) below	$20,000,000
Earthquake	See (B) below	See (B) below	$80,000,000 ($50,000,000 shared by all members, $30,000,000 dedicated to Alderwood)
Terrorism	$1,000 - $25,000	$25,000 Primary layer	$700,000,000 Primary layer
Boiler & Machinery	$1,000 - $350,000 depending on object	$25,000 - $350,000 depending on object	$100,000,000
Auto - Physical Damage	$1,000 - $25,000	$25,000	
Liability:			
Commercial General Liability	$1,000 - $25,000	$500,000	$10,000,000
Auto Liability	$1,000 - $25,000	Same as above	$10,000,000
Public Officials Errors and Omissions	$1,000 - $25,000	Same as above	$10,000,000
Employment Practices	$1,000 - $25,000	Same as above	$10,000,000
Other:			
Cyber Liability	$10,000	N/A	$2,000,000
Public Officials Bonds	Various	N/A	Various
Crime	$1,000 - $25,000	$20,000	$2,000,000
Identity Fraud	$0	$0	$25,000
A. $100,000 member deductibles, per occurrence, in Flood zones except Zones A&V; $250,000 member deductible, per occurrence, in Flood Zones A&V.			
B. Member deductible for earthquakes is 5% subject to $100,000 minimum Earthquake Shock. The deductible will apply per occurrence on a per unit basis, as defined in the policy form, subject to the stated minimum.			
C. Member deductible for Cyber liability is $10,000 (25K for members with more than $200M TIV) and where applicable the dollar amount of the business interruption loss during the policy's required 8 hour waiting period.			
D. WSRMP liability SIR is $500K with an additional one-time $500K corridor deductible.			

NOTE 7 - RISK MANAGEMENT (Continued)

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 the 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.

For years ending December 31, 2023, 2024, and 2025, the District had no claims in excess of its insurance coverage.

NOTE 8 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
Schedule I

Highland Water District
Schedule of Employer Contributions
Western Conference of Teamsters Pension Trust Fund
As of December 31, 2025
Last 10 Fiscal Years

		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Statutorily or contractually required contributions	$	4,680	4,215	6,240	6,240	6,240	8,580	10,746	9,242	10,735	11,153
Contributions in relation to the statutorily or contractually required contributions	$	4,680	4,215	6,240	6,240	6,240	8,580	10,746	9,242	10,735	11,153
Contribution deficiency (excess)	$	-	-	-	-	-	-	-	-	-	-
Covered payroll	$	153,754	146,604	168,043	174,096	178,090	199,930	212,041	189,409	195,996	206,503
Percentage of covered employee payroll		3.0438%	2.8751%	3.7133%	3.5842%	3.5038%	4.2915%	5.0679%	4.8794%	5.4772%	5.4009%

Notes to Supplementary Schedule I

Note 1
There were no changes of benefit terms for the pension plan.

See accompanying notes and accountant's report.