

2026 ANNUAL REPORT TO MEMBERS

Three Lakes Water Association • Fiscal Year 2025–2026

Annual Meeting of the Membership — Tuesday, October 6, 2026

~896	~2,733	8 sq mi	25.25 mi
Metered Service Connections	Residents Served	Service Area, Snohomish Co.	Miles of Water Main

A Message to Our Members

Our priority has been, and remains, the reliable delivery of safe water to your homes and businesses — and we have done so despite a year of real challenges. Since the new Board was seated last October, we have advanced an agenda to modernize Association policies, leverage technology for efficiency, improve financial controls, and repair gaps in the maintenance of our infrastructure. That agenda was tested early: with a week of last year's Annual Meeting and before your elected board was seated, both our Manager and Assistant Manager resigned without notice, cutting our operating staff in half overnight. Your Board of Trustees responded quickly, put interim management in place (Tyler Eschelman, former trustee), and conducted a manager search that brought Steve Butcher on board as General Manager effective January 1, 2026.

Under Mr. Butcher's leadership, and working in close partnership with our dedicated staff and an engaged Board, the Association has been implementing a series of strategic operational enhancements — from shifting member communications toward email and postcard billing, to a comprehensive review of Association policies and procedures, to proactively scheduling valve, hydrant, and broader infrastructure assessments for maintenance — all guided by a shared commitment to fiscal responsibility, operational excellence, and member-centered service. Since then, we have turned a difficult transition into a year of meaningful progress: modernized governance and bylaws, implemented stronger financial controls, a leaner and more efficient operating model, and continued investment in the pipes, pumps, and equipment that keep your water flowing.

In August, members approved our modernized Bylaws at a Special Meeting — bringing them up to date with current law and removing obstacles to efficiencies such as digital communication with members. In the near term, our focus turns to operationalizing many of these new provisions, so we can serve you more efficiently while strengthening the governance guardrails that protect the Association and its members. The sections that follow summarize what your Association accomplished this year, and where we are headed in FY 2026–2027 — our “Year of Stabilizing.”

This report along with the Annual Meeting Presentation materials are provided to the members for their information and reference.

Who We Are

Three Lakes Water Association is a member-owned, nonprofit water utility (a Washington State 501(c)(12) cooperative association) serving a rural residential area approximately five miles east of Snohomish, Washington. Our mission is to deliver safe drinking water, efficiently and reliably, to our members at a reasonable cost.

The Association is governed by a volunteer Board of Trustees elected by the membership and is operated day to day by a small professional staff supported by specialty contractors for engineering, legal, accounting, and emergency repair services.

A Year in Transition: Leadership & Staffing

Welcoming General Manager Steve Butcher
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The Board of Trustees is pleased to have Steve Butcher serving as General Manager since January 1, 2026. Mr. Butcher brings a forward-thinking, efficiency-driven leadership approach aligned with the Association's mission of delivering safe drinking water, efficiently and reliably, at a reasonable cost.

In response to the sudden loss of both managers, the Association shifted from a “heavy” staffing model — four full-time employees including two managers — to a leaner “light” model of one manager plus up to one full-time staff member, supplemented by one to two part-time, seasonal staff for routine maintenance and more focused use of specialty contractors. This restructuring, paired with a new employee handbook and a Simple IRA retirement match has enhanced employee benefits, reduced overhead while preserving service quality, and improved member responsiveness — including a return to live-answered phone calls and a more open, transparent relationship with members.

Keeping the Trust: Water Quality & Infrastructure

Water Quality

- Continuous water quality monitoring with routine laboratory testing
- Maintained full compliance with Washington DOH regulations
- Ongoing Lead Service Line Inventory (LSLI) per EPA/DOH requirements
- Rapid response to main breaks and member service concerns
- Routine preventive maintenance scheduling

Infrastructure & Operations

- Completed 171st St Phase III & 62nd St Extension main replacement
- Responded to 5 main break / service line events (Nov '25–Aug '26)
- Generator replacement to sustain operations during outages
- Frozen/stuck valve repairs, new pump seals, hydrant flushing and maintenance
- SCADA and telecom alarm improvements to target real issues

Capital Investment

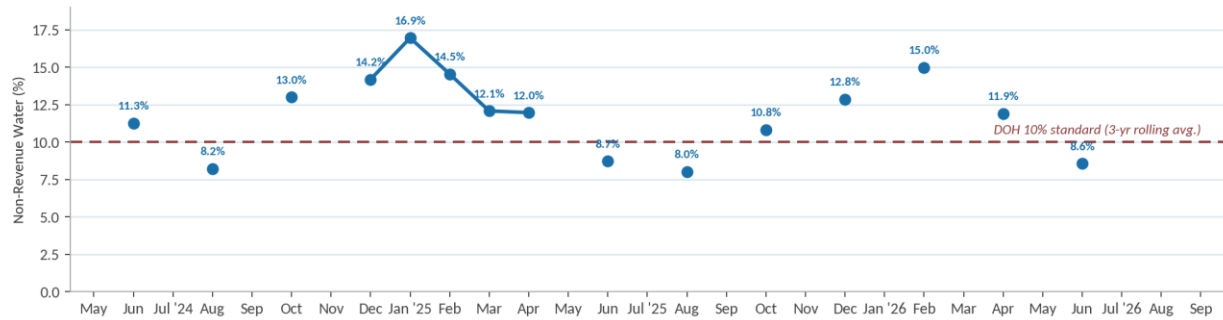
Of our approximately 25 miles of water main, roughly 56% has been converted from aging asbestos-cement (AC) pipe to modern ductile iron, with 44% (58,343 of 133,335 linear feet or 11 miles) remaining as AC — at an approximate replacement cost of \$800,000- \$1.1M per mile. Completing the 171st Street corridor and 62nd St extension was a major milestone this past fiscal year ending multiple years of substantial capital investment, funded through low-interest Washington State Drinking Water State Revolving Fund loans.

Capital dollars were also directed toward the technology and equipment that keep the system running reliably between main replacements: a replacement backup generator to sustain operations during power outages, upgrades to the Association's SCADA (Supervisory Control and Data Acquisition) telemetry system and its supporting computing and telecom equipment, and new radio antennas to reach previously hard-to-read meters. Reconfiguring SCADA and telecom alarms to flag real problems — rather than false alarms that drove heavy overtime costs in the past — has already reduced unnecessary after-hours callouts and overtime costs while improving staff's real-time visibility into pump and system conditions.

Non-Revenue Water

Non-revenue water (unbilled/unmetered use, meter inaccuracy, and distribution system leakage) is tracked bi-monthly. Months without a logged reading are shown as gaps, not zeros. Washington DOH requires a rolling three-year average at or below 10%; several months above that line reflect the system's aging AC main and reinforce the case for the ongoing replacement program described above. Note that some non-revenue is always expected and is normal as hydrant flushing, water aging management on dead end lines, water main break repairs and their recovery are normal parts of water distribution management.

Non-Revenue Water — Monthly, May 2024–Sept 2026



Monthly Non-Revenue Water, May 2024–September 2026. Source: Manager’s rolling monthly metrics log. "NA" months (no reading logged) are shown as gaps.

Modernizing: Efficiency Through Policy & Technology

Member Communications & Billing

- Enhanced, lower-cost website redesigned for member communication
- Email billing/notifications for members with email on file
- Postcard billing and bulk-mail registration to cut postage costs
- Expanded autopay and new credit card payment option
- Route efficiency improvements reducing meter-read exceptions

Cash & Financial Efficiency

- Shifted to ACH payments, sharply reducing manual check volume
- Consolidated banking relationships for simpler and more effective cash management
- Moved idle cash into interest-bearing investment accounts driving real interest returns
- Sold an underused Association vehicle
- Adopted a new annual budgeting model and process

Governance

This was a foundational year for Association governance. The Board established Trustee Conduct Standards, a new standing-committee structure, and a Governance Operating Model that extends beyond baseline Washington nonprofit law (RCW 24.03A). Following a comprehensive review, modernized Bylaws were approved by members at a Special Meeting in August 2026, alongside this year were three new policy manuals covering Finance & Administration, Member Relations & Communications, and Employees. Some highlights of the 2026 Bylaws include:

- Allows more efficient electronic means of working with members: noticing members, electronic signatures on documents, use digital member certificates, digital signatures, and conducting meetings with remote member attendance, allows remote attendees to vote remotely at annual meetings instead of proxy voting.
- Modifies various dates and deadlines for member communications by ensuring more notice to members on events.
- Enables trustee nominations to be made in advance.
- Clarifies trustee and management conflict of interest requirements, trustee qualifications, trustee duties, and officer duties. This also included provisions on how to address emergency situations.
- Addresses data privacy and technology concerns such as confidentiality, cyber-security.
- Enables compensation to trustees in addition to officers [officers were already included in 2014 bylaws] if it is needed in the future.

Members can obtain an electronic copy of the full bylaws by emailing the office. The website contains the contact information.

Financial Stewardship

On the financial side, staff and the Treasurer reconciled several balance sheet accounts (resulting in adjustments to prior-year earnings) that will be reflected in the final financial statements to be submitted in November. More will follow when the full set of adjustments are completed for the FY 25-26 Fiscal Year and we complete the reporting of Form 990 filings. The board adopted new purchasing and accounting, capital project justification, budgeting policies and instituted periodic direct Treasurer review of detailed expenditures. A full financial audit is planned to begin in January 2027.

FY 2026–2027 Budget Highlights

\$1.30M	\$1.26M	~6.5%	\$852K
Budgeted Gross Revenue ⁱ	Budgeted Operating Expenses ⁱⁱ	Water Rate Increase (eff. 7/1/26)	Capital Reserve Balance

The Board-approved FY 2026–27 budget reflects a modest, data-driven rate adjustment following a formal rate study, continued funding of capital reserves, and ongoing debt service on four low-interest DOH infrastructure loans. A CPA-prepared financial compilation is available to all members upon request. Highlights of the budget include:

- Lower total labor costs despite adding Simple IRA benefits. Less overtime expected due to improvements in alarm and messaging tools.
- More funds directed toward water systems maintenance and repair.
- Reflects higher cost of purchased water from Everett. Note that this is our sole source of water for the Association and we have no control over rates charged.
- More funding for legal and general professional fees as a contingency.
- More funding for Office Technology.

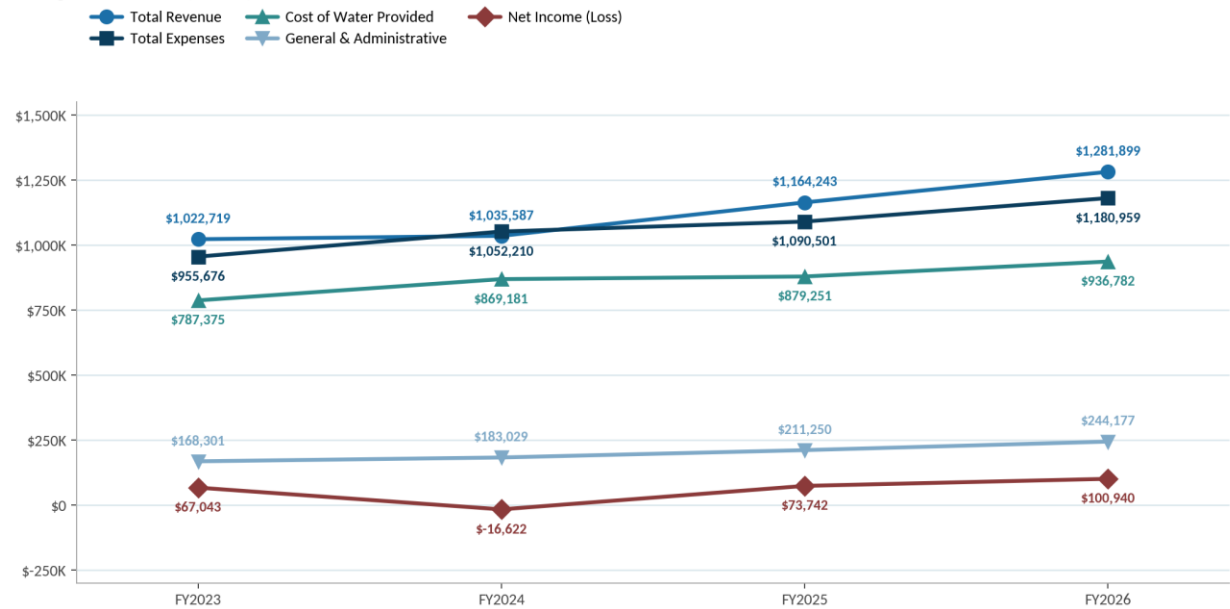
Four-Year Financial Summary

The exhibits below summarize the Association's financial statements for the four most recently completed fiscal years (FY2023–FY2025), the newly available FY2026 actual results — the year covered by this report — and the draft financials for FY 2026–27. FY2026 figures are prepared, but not audited or reviewed, by Bellingham CPA Taxes & Accounting, LLC as per historical service relationship with that firm. Specific financial statements are available to members as requested and completed for the FY2026 and prior years.

Exhibit A — Revenues & Expenses

Four-Year Summary of Revenues & Expenses

Fiscal years ended June 30, as reported in the accountant-prepared Statements of Revenues and Expenses. FY2026 figures are actual results (unaudited).



Total Revenue, Cost of Water Provided, General & Administrative, and Net Income are the figures printed in the accountant-prepared Statements of Revenues and Expenses for FY2023–FY2026 (Bellingham CPA Taxes & Accounting, LLC; the FY2026 statements are prepared, without audit or review, under AICPA preparation standards); Total Expenses is their sum (Cost of Water Provided + General & Administrative). These exclude the small net interest income/expense reported separately as "Other Revenue (Expense)" in those statements (a further +/- \$9,000–\$24,000 per year, including FY2026's net interest expense of \$24,362 as debt service ramps up on the Association's increased DWSRF borrowing).

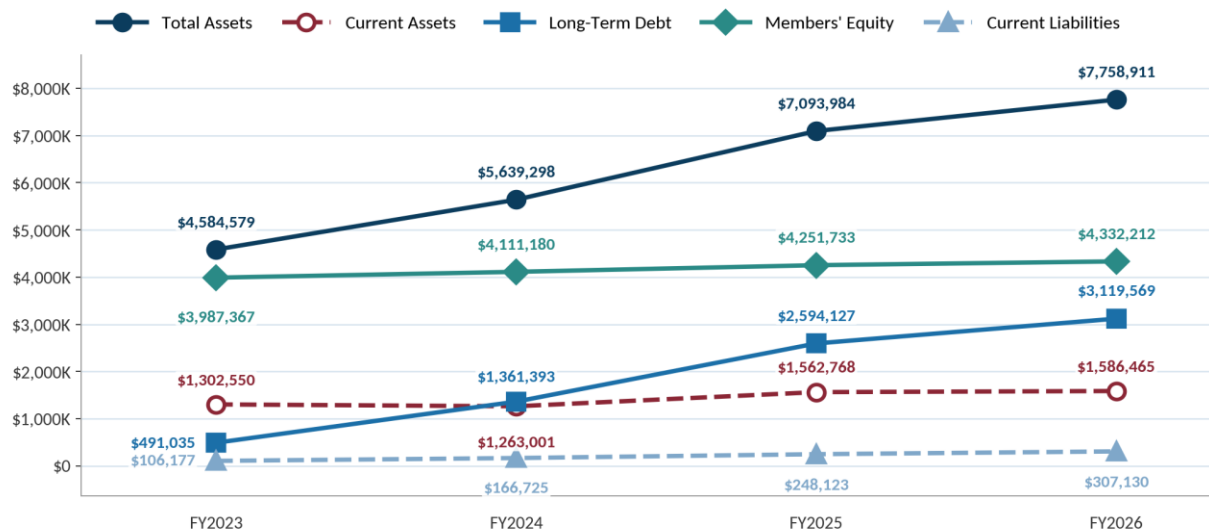
(\$)	FY2023	FY2024	FY2025	FY2026 (Actual)
Total Revenue	1,022,719	1,035,587	1,164,243	1,281,899
Cost of Water Provided	787,375	869,181	879,251	936,782
General & Administrative	168,301	183,029	211,250	244,177
Total Expenses	955,676	1,052,210	1,090,501	1,180,959
Net Income (Loss)	67,043	(16,622)	73,742	100,940

FY2026 actual results (on draft basis) came in well ahead of expectations despite the significant financial challenges during the year: \$100,940 of net income on this comparable basis (the smaller net interest expense of \$24,362 brings it to \$76,579 on a full-statement basis), as revenue growth outpaced cost growth and the full depreciation impact of the 171st Street project had not yet reached the year's books.

Exhibit B — Balance Sheet

Four-Year Balance Sheet Summary

As of June 30 each year, as reported in the accountant-prepared Balance Sheets (FY2026 unaudited).



Every figure below is a line item printed directly in the accountant-prepared Balance Sheets as of June 30 of each year: Total Current Assets, Total Assets, Total Current Liabilities, Long-term debt (net of current maturities), and Members' Equity. (Note: the statements also print a combined "Total Liabilities and Members' Equity" line, which by definition always equals Total Assets — that is not a Total Liabilities figure on its own, which is why liabilities are broken out here into its two components instead.).

(\$)	FY2023	FY2024	FY2025	FY2026
Current Assets	1,302,550	1,263,001	1,562,768	1,586,465
Total Assets	4,584,579	5,639,298	7,093,984	7,758,911
Current Liabilities	106,177	166,725	248,123	307,130
Long-Term Debt	491,035	1,361,393	2,594,127	3,119,569
Members' Equity	3,987,367	4,111,180	4,251,733	4,332,212

Total Assets equal the sum of the three components below it (Current Liabilities + Long-Term Debt + Members' Equity), consistent with the accounting identity Assets = Liabilities + Equity. The growth in both assets and long-term debt over this

period reflects the Association's continued investment in aging water main replacement — principally the 171st Street corridor — financed largely through low-interest Washington State Drinking Water State Revolving Fund (DWSRF) loans. Members' equity has continued to grow steadily each year even as the Association has taken on additional debt to fund this infrastructure work. Note that as a private, member-owned water corporation, there is no access to federal or state grants to help fund our water infrastructure replacement needs over the next 15 years.

Exhibit C — Cash & Reserve Fund Summary

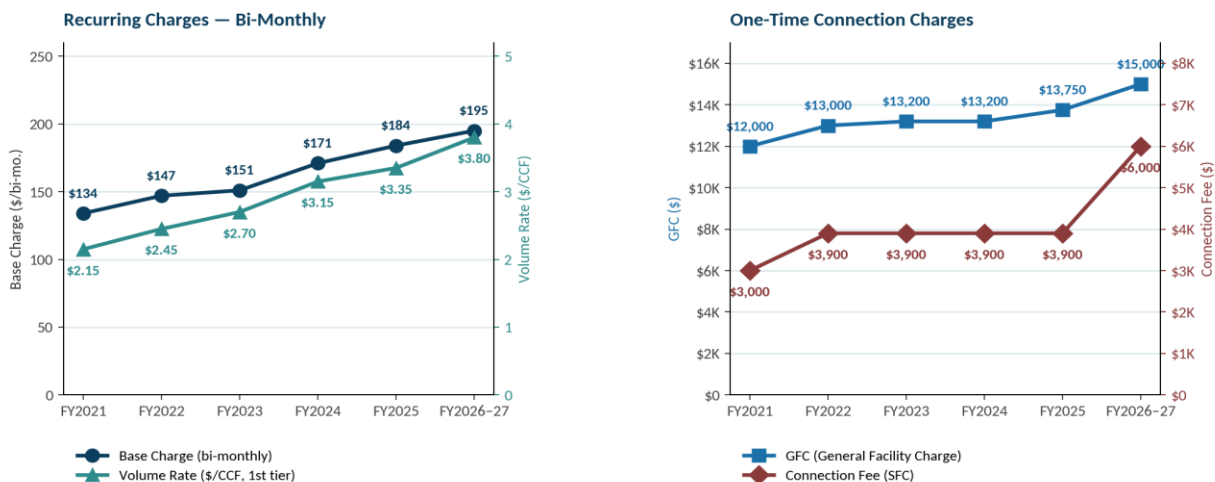
Total cash across all Association accounts stands at \$1,482,866 as of August 31, 2026, delivering an estimated forward annual interest income of \$40K. The Capital Fund — which holds two certificates of deposit at 3.85% and 4.15% alongside a high-yield money market account — earns the highest return of the three, consistent with the Board's efficiency initiative to move idle cash into interest-bearing accounts. The Debt Reserve Fund (\$292,340, yielding 2.21%) pre-funds upcoming DOH loan payments 30 days in advance of each due date; this is distinct from the interest the Association pays on its four DOH loans themselves, which carry a much lower balance-weighted average cost of 1.84%. Operating Fund cash, held mainly for day-to-day liquidity in checking accounts, still earns a modest yield of .32%.

As of August 31, 2026, per the Association's Cash Inventory & Banking Strategy summary (prepared by General Manager Steve Butcher). Balances are grouped by the three fund categories the Association uses to segregate cash by purpose; the interest rate shown for each fund is its balance-weighted average yield across the individual bank and investment accounts within that fund.

Fund	Balance (\$)	Interest Rate
Operating Fund	332,075	0.32%
Capital Fund	858,451	3.79%
Debt Reserve Fund	292,340	2.21%
Total — All Funds	1,482,866	2.70%

Exhibit D — Water Rate History (5/8" Meter – Most Common in Member Base)

Water Rate History — 5/8" Meter (Schedule 1), FY2021–FY2026–27



Every figure is printed in the Association's Revenue Policy — each version for FY2021–FY2025 effective July 1 of the stated fiscal year, and the FY2026–27 version effective August 15, 2026 — for Schedule 1 (1 ERU, 5/8" Meter), the Association's most common connection type. Base Charge and Volume Rate are from the Bi-Monthly Water Service Charges Rate Schedule (the Volume Rate shown is the first usage tier, \$ per 100 C.F. immediately above the 600 C.F. included in the Base Charge). GFC (General Facility Charge) and Connection Fee are from the Membership and Connection Charges section; "Connection Fee" is the Association's Site Facilities Charge (SFC), described in that policy as "the cost of installation of a water service and meter assembly from the existing main to the point of service ... and the cost of administration thereof." The FY2026–27 rates reflect the Revenue Policy adopted by the Board on May 12, 2026 and effective August 15, 2026.

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026–27
Base Charge (bi-monthly)	\$134.00	\$147.00	\$151.00	\$171.00	\$184.00	\$195.00
Volume Rate (\$/CCF, 1st tier)	\$2.15	\$2.45	\$2.70	\$3.15	\$3.35	\$3.80
GFC	\$12,000	\$13,000	\$13,200	\$13,200	\$13,750	\$15,000
Connection Fee (SFC)	\$3,000	\$3,900	\$3,900	\$3,900	\$3,900	\$6,000

The GFC (General Facility Charge), which reflects a members pro-rata share in the value of the existing systems, has risen roughly 25% since FY2021, reflecting periodic updates to the Association's system-value study by David Evans and Associates, Inc., most recently in February 2025. Further, the Board decided to raise fees for certain other major charges based on fees charged in nearby areas. The Connection Fee (SFC), which reflects the current cost of installation of meter and connection, held steady at \$3,900 from FY2022 through FY2025, then rose to \$6,000 for FY2026–27 following the updated site-facilities/connection-charge review. Bi-monthly rates — the Base Charge and Volume Rate — have increased each year, consistent with the Board-adopted rate study supporting the Association's long-term water main replacement program.

When comparing Association water rates to other, similar entities, our water rates are in the top quartile of rates and hence the board's focus this past year to focus on efficiencies and financial control, and ensure existing assets are well-maintained so their life can be potentially extended. There are many factors considered in determining rates including our existing and forecasted costs, our capital needs for replacing infrastructure, and the growth of members within our service territory. Keep in mind, rates include capital charges for past and future replacement infrastructure which we hold as an investment until needed, the debt service of past commitments, as well as the base costs for water distribution. Past and current policy has been to ensure new development pays for a share of existing infrastructure, and that new connections are related to the more current rising costs we face. This means new members through development or residential turnover are charged a fee that is more in line with current costs and needs than existing members with the same connection over the years.

Our **strategic challenge** is to meet our needs to replace aging infrastructure, control costs that are largely fixed, rising, and outside our control in a service territory that is not growing in members. This means the members will bear all costs over time and with no growth, the costs allocate across the membership. This situation will persist into the foreseeable future and put pressure on water rates and charges. While it is possible zoning or the housing development market may change, it would take years for development to result in actual connection increases and growth.

The board and management are focused on ensuring costs are well-managed and controlled, our assets are maintained, and that strategies to replace infrastructure result in the lowest reasonable costs per mile of replacement.

Looking Ahead: FY 2026–2027, Our Year of Stabilizing

Having navigated a year of transition, the Association's focus for FY 2026–2027 shifts to stabilizing on the new foundation we've built:

- Operationalize the newly approved Bylaws and policy manuals to serve members more efficiently with stronger governance guardrails
- Operationalize the decentralized governance model (officers, standing committees, delegated authority)
- Pursue long-term cost-structure efficiencies and operational excellence
- Invest in technology to support operations (SCADA/telemetry, metering, office systems)
- Deepen long-term strategic insight into system needs — sustainable capital replacement pace, financing, and risk mitigation

Board of Trustees & Staff

The Association is governed by a seven-member volunteer Board of Trustees, elected by the membership for providing oversight and governance of the Association on their behalf. Day to day operations are managed by the General Manager who is a certified Water Distribution Manager and manages all other employees and contractors who also have various certifications.

The board and staff work collaboratively to create and operate the capabilities that ensures that water flows to meet the needs of the members.

Current Board of Trustees

- Steve Lefebure — President
- Joey Martin — Vice President
- Marek Jedrzejewicz — Secretary
- Steve Campbell — Treasurer
- John Mannix — Trustee
- Steve Heise — Trustee
- Heidi Mann — Trustee

Association Staff

- Steven Butcher — General Manager (WDM2)
- Seth Way — Field Technician (WDM1)
- Jaeger Coryell — Part-Time Staff

Primary Contractors

- D&G Backhoe, Inc. — Water Main Work
- David Evans and Associates, Inc. — Engineering
- Bellingham CPA Taxes and Accounting, LLC — Accounting
- Systems Interface — Software

FY 2025–2026: Year at a Glance

Quarter	Milestones
Q3 2025 (Jul–Sep)	Completed installation of 171st St Phase III and 62nd St Extension capital improvement projects.
Q4 2025 (Oct–Dec)	Annual Meeting elects 4 new Trustees; Manager and Assistant Manager resign without notice; Board establishes Conduct Standards, standing committees, and a Governance Operating Model; major water main break on 181st Street SE.
Q1 2026 (Jan–Mar)	General Manager Steve Butcher onboarded; rate study initiated; infrastructure risk assessment completed; SCADA/telecom alarms brought under control; new employee handbook adopted.
Q2 2026 (Apr–Jun)	New budgeting model established with FY 2026–27 budget; 2026 Bylaws drafted; new Finance/Administration Policy Manual adopted.
Q3 2026 (Jul–Sep)	Special Member Meeting held for 2026 Bylaw approval; new Member Relations & Communications Policy Manual adopted; part-time staffing model implemented.

Thank You — and Join Us

None of this progress would be possible without the volunteer service of our Trustees/Members and the dedication of our small staff. We are grateful for your continued trust and patience through a year of real and positive change.

We invite all members to attend the 2026 Annual Meeting on Tuesday, October 6, 2026 7pm at the Association Office at 17503 58th St SE, Snohomish, WA. Two Trustee positions will be open for nomination and election as well as an amendment to the recently passed bylaws. If you are interested in serving as a Trustee or in a Committee or have questions, please contact us at president@3lwa.org.

ⁱ Budgeted Gross Revenue of \$1.3M includes \$1.2M of Program Revenue, and \$100K of Other revenue including various fees, charges, cell lease income, capital revenue. See the draft financial statements for more information.

ⁱⁱ Budgeted Operating Costs of \$1.261M includes Cost of Goods Sold of \$933K which includes \$252.5K of Depreciation and Amortization; \$328K of General and Administrative costs. See the draft financial statements for more information.