

Annual Meeting Letter (by the President)

Good evening -

As you were informed in the letter we sent to our members in January, the Board has been working toward planning and the eventually construction of another tank for water reserves as well as an additional pump station. In order to get these projects moving, an in-depth review of the financial history of the Association was undertaken by the Board. During this in-depth review, it came to our attention that while the Association has been able to keep rates low, more than adequately cover costs and continue to save money for projects such as the tank and pump station; serious questions arose regarding use of the Association's financial resources by our longtime manager.

The Board has been unable to reconcile many of the discrepancies we found and now have serious questions and concerns. We have very busy over the last few months in further investigation and fact finding to try and discover what caused these inconsistencies.

We have hired a lawyer and are working with them to ensure this matter is handled correctly and that all avenues of legal recourse remain open to us. We have a criminal case assigned to us by the Snohomish County Sheriff which is case number 12-21632.

We also hired an auditor and they are advising us on what we need to do to prepare for the audit and for any follow-on judicial actions that we could be involved in. The audit should be complete in a couple of months. The reason that this will take several months is that our treasurer needs to complete our own analysis which nearly done; and, that the auditor is also quite busy this time of year due to tax season.

We have also hired a bookkeeper to do all financial tracking in quick books and to do the payroll. She will answer directly to the trustee's and treasurer.

I would provide more detail about the overall investigation, but it is premature. Since the board has initiated legal action, we are bound to a level of confidentiality until a formal judgment is made. However, I can assure you that our financial situation is sound and our treasurer will brief you on this shortly.

We do have a provision in our insurance policy for loss up to \$100K due to criminal misconduct. We have already notified them and did so as soon as we thought we had a problem. Both the insurance company and the Sheriff's department gave us the time needed to complete our initial fact finding and we now have enough hard evidence to pursue both a legal and an insurance policy claim. Again, the board is closely following the advice of our lawyer and the other professionals to ensure we have the best case going forward.

Additionally, I can tell you that the board did terminate our long-time manager Jesse Rowe on January 8th 2013. We promoted our assistant manager Janelle MacDicken to be our Manager/Secretary and are also securing some part time help for her until we can complete the proper hiring of a permanent replacement of an assistant manager. Janelle is very capable and ready for the manager role as we have been grooming her since 2006 as part of the succession plan for Jesse. Janelle has also been studying and taking the necessary tests and now has completed all requirements needed for the manager position.

The board has also taken the necessary steps to ensure that any financial discrepancies do not occur again and that complete transparency is maintained. We have already put in place new accounting and payment procedures so that there is complete accountability of all transactions with the board. These new procedures were established with advice from our new auditor.

We are also updating our overall governance policies and these should be complete in a month or so. The board assigned Mike K Carlson, a trustee, to oversee this update and to report back to the board.

I will now give you an update on our planned tank and pump station:

As you may know, we are required by the State of Washington to have a larger storage unit for water to ensure we have the minimum 3-day supply in the event of an emergency. This requires the addition of a million gallon tank and associated pump station to ensure the required water is available without relying on the storage in the primary line as we have done so far. The primary line is one of the big main water lines that come down from Spada Lake and it is how the water gets to the our system.

The cost of the tank, pump station, engineering and all the required permits and reports has been projected to be about two million dollars. So far, our engineering and a good majority of the reports have been completed. We have paid about \$400K of the \$2M and by the time we start building the tank next spring, we should have enough monies in the bank to secure the approximately ~\$1M remaining as a loan to begin construction.

We can get low interest loans from either the State of Washington or the Federal Government. We have met with both and they are very interested in loaning us the money. They feel we are in a good financial situation and that our planning is ahead of others wanting to do the same and who are also looking for a loan.

As our treasurer will detail next, our monthly and yearly balance sheet fully support making the necessary loan payments and still maintain a very sound financial position.

In summary:

We, as both members of the board and your neighbors, are quite upset with the financial transgressions that appear to have taken place. As we continue to work towards our goals of providing affordable and reliable water services and want to stress that we are doing everything in our power to investigate and rectify any wrongdoing that has occurred. We will certainly keep all our members informed as soon we can release any information, and what the final outcome is.

Our water system is one of the best systems in Western Washington and we will continue to make sure that remains true in the future.

If you have any other questions please do not hesitate to contact myself, the manager or any board member.

Thank you. John Olsen