THREE SISTERS IRRIGATION DISTRICT
DESCHUTES COUNTY, OREGON

Financial Statements

For the Year Ended December 31, 2025

THREE SISTERS IRRIGATION DISTRICT
December 31, 2025

BOARD OF DIRECTORS	TERM EXPIRES
Joe Elwing, President	December 31, 2028
Marc Thalacker, Vice President	December 31, 2026
Mark Koos, Treasurer/Secretary	December 31, 2027

Registered Agent
Emilia Ellington, Manager

PO Box 2230
68000 Highway 20 West
Sisters, Oregon 97759

THREE SISTERS IRRIGATION DISTRICT
Financial Statements
For the year ended December 31, 2025

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Dougall Conradie LLC
Certified Public Accountants

Geoffrey Dougall, CPA
Heather Jackson, CPA
Richard Winkel, CPA
Members of AICPA & OSCPA

Independent Auditors' Report

Board of Directors
Three Sisters Irrigation District
Deschutes County, Oregon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Three Sisters Irrigation District (the District) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Three sisters Irrigation District, as of December 31, 2025, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 opinions. 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 the District'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 the District'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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining financial statements and schedule of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and schedule of

operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated August 11, 2026 on our consideration of Three Sisters Irrigation District's internal control over financial reporting and on our procedures to address its compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is required by Oregon State Regulations.

DOUGALL CONRADIE LLC
Portland, Oregon

August 11, 2026

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Richard Winkel, Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE SISTERS IRRIGATION DISTRICT
Management's Discussion and Analysis
December 31, 2025

Management's discussion and analysis presents the highlights of the financial activities and financial position of the Three sisters Irrigation District (the District) for the fiscal year ended December 31, 2025. Our goal is to assist users of these financial statements in interpreting key data found in the pages that follow and in analyzing the results of this fiscal year. Because the information contained in this discussion is necessarily select in nature, it should be read and interpreted in conjunction with the financial statements.

Financial Highlights

- The District's assets exceed its liabilities by $21,715,918 at December 31, 2025 (net position). Of this amount, the District has $186,985 as unrestricted net position.
- Operating revenues were $525,432 in 2025, an increase of $2,849 from the prior year.
- Operating expenses were $1,212,084 in 2025, a decrease of $99,256 from the prior year.

Overview of the Financial Statements

The District's financial statements consist of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements include the Statement of Net Position, Statement of Activities, Statement of Cash Flows, and the notes to the financial statements.

The basic financial statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The basic financial statements report the District's net position and how they changed. The Statement of Cash Flows presents information showing how the District's cash changed as a result of the current year's operations. The cash flow statement is prepared using the direct method and includes a reconciliation of operating income to net cash provided by operating activities. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

In the basic financial statements the District's activities are shown in one category. The District's basic function is the operation and maintenance of an irrigation facility to provide irrigation water to landowners within the project. These activities are primarily financed through service fees paid by landowners with water rights.

FINANCIAL SUMMARY

SUMMARY STATEMENTS OF NET POSITION AT DECEMBER 31,

	2025	2024
Assets:		
Current assets	$ 89,311	$ 42,003
Capital assets – net of accumulated depreciation	24,187,022	24,752,778
Other assets	119,726	119,726
Total assets	24,396,059	24,914,507
Current liabilities	242,371	279,622
Long-term liabilities	2,437,770	2,658,088
Total liabilities	2,680,141	2,937,710
NET POSITION:		
Net investment in capital assets	21,528,933	21,876,377
Unrestricted	186,985	100,420
Total net position	$ 21,715,918	$ 21,976,797

SUMMARY STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31,

	2025	2024
Operating revenues	$ 525,432	$ 522,583
Operating expenses	1,212,084	1,311,340
Operating income (loss)	(686,652)	(788,757)
Non-operating revenue (expense)	325,773	480,115
Capital grant revenue	100,000	5,439
Change in net position	(260,879)	(303,203)
Net position, beginning of year	21,976,797	22,280,000
Net position, end of year	$ 21,715,918	$ 21,976,797

Statement of Net Position
This statement provides information that includes all assets and liabilities of the District compared to the previous year. In simple terms, this statement presents a snapshot view of the assets the District patrons own, the liabilities they owe and the net difference. The net difference is further separated into amounts restricted for specific purposes and undesignated amounts.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $21,715,918 at December 31, 2025. The largest portion of the District's assets reflects its investment in capital assets (e.g. land, irrigation system buildings and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide irrigation water to its patrons; consequently, these assets are not available for future spending. The remaining assets consist of cash and cash equivalents, investments, receivables, inventory and prepaid expenses, which are used to meet the District's ongoing obligations to its patrons.

The District's largest liability is for the repayment of notes payable. Current liabilities of the District consist largely of accounts payable and the current portion of the notes payable that is due in the next year.

Statement of Activities
This statement presents the operations of the District and information showing how the District's net position changed over the most recent calendar year by tracking revenues and expenses. District activities decreased net position in the current year by $260,879.

Capital Assets
The District's investment in capital assets includes land and improvements, buildings/housing and improvements, the irrigation system (including dams, canals, pumping plant, pipelines, etc.), vehicles, construction equipment, engineering and office equipment. As of December 31, 2025, the District has invested $24,187,022 in capital assets, net of depreciation.

Debt Outstanding
The District has debt outstanding of $2,658,089 at December 31, 2025.

Budgetary Highlights
The District prepares a budget for its general operation and maintenance fund for management purposes only. State Statutes require that a budget be prepared for this purpose, but no other provisions of the Local Budget Law apply to the District. Therefore, there are no variations between the original and final budget amounts.

Economic Factors and Next Year's Budget
The District's Budget Committee considered many factors when preparing the District's budget for the fiscal year ending December 31, 2026. These factors included estimating the amount of service fees and operating expenses. Both revenues and operating expenses are expected to be stable.

Requests for Information

This financial report is designed to provide a general overview of the District's financial statements. Questions about this report or requests for additional financial information should be directed to Three sisters Irrigation District, PO Box 2230, Sisters, OR 97759 or by phone at (541) 903-4050.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

Three Sisters Irrigation District
Statement of Net Position
December 31, 2025

ASSETS	
Current assets:	
Cash and investments	$ 46,187
Accounts receivable, net of allowance	42,417
Prepaid expenses	707
Total current assets	89,311
Noncurrent assets:	
Capital assets not being depreciated	76,781
Capital assets being depreciated	32,513,570
Accumulated depreciation	(8,403,329)
Total capital assets	24,187,022
Restricted cash	119,726
Total assets	24,396,059
LIABILITIES	
Current liabilities:	
Accounts payable	16,349
Accrued payroll	5,703
Current portion of long-term debt	220,319
Total current liabilities	242,371
Noncurrent liabilities:	
Long-term debt, net of current portion	2,437,770
Total liabilities	2,680,141
NET POSITION	
Net investment in capital assets	21,528,933
Unrestricted	186,985
Total net position	$ 21,715,918

The accompanying notes are an integral part of these financial statements

Three Sisters Irrigation District
Statement of Activities
For the Year Ended December 31, 2025

Operating revenues:	
Water delivery	$ 232,448
Hydro revenues	142,348
Capital charges	102,543
Fees and other	48,093
Total operating revenues	525,432
Operating expenses:	
Water delivery	32,095
Personnel expenses	332,377
Administration and office	159,115
Power generation	47,915
Depreciation	640,582
Total operating expenses	1,212,084
Operating income (loss)	(686,652)
Non-operating revenue (expense):	
Reimbursements for project costs	472,448
Project expenses	(35,068)
Bad debt	(64,434)
Interest expense	(47,173)
Total non-operating income	325,773
Net operating and non-operating income	(360,879)
Capital grants	100,000
Change in net position	(260,879)
Net position - beginning of year	21,976,797
Net position - end of year	$ 21,715,918

The accompanying notes are an integral part of these financial statements

Three Sisters Irrigation District
Statement of Cash Flows
For the Year Ended December 31, 2025

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from users	$ 446,209
Cash paid for goods and services	(280,899)
Cash paid to employees	(329,130)
Net cash used in operating activities	(163,820)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of capital assets	(74,826)
Receipt of capital grants	100,000
Principal payments on long term debt	(218,312)
Project reimbursements net of expenses	437,380
Interest paid on long term debt	(47,173)
Net cash provided by capital and related financing activities	197,069
Net change in cash and cash equivalents	33,249
Cash and cash equivalents, beginning of year	132,664
Cash and cash equivalents, end of year	$ 165,913
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities	
Operating income (loss)	$ (686,652)
Noncash items included in income:	
Depreciation expense	640,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Accounts receivable	(79,223)
Prepaid expenses	730
Accounts payable	(42,504)
Accrued payroll	3,247
Net cash used in operating activities	$ (163,820)
Composition of cash:	
Cash in banks	$ 46,187
Restricted cash	119,726
	$ 165,913

The accompanying notes are an integral part of these financial statements

1. Summary of Significant Accounting Policies

Reporting Entity

Three Sisters Irrigation District (the "District") is an Oregon municipal corporation organized in 1917 to deliver irrigation water to users.

The District was organized and operates under the Irrigation District Laws of Oregon, as defined in ORS 545. The District is governed by a board of three officials elected by water users in the area and a manager who is employed by the Board of Directors to administer the affairs of the District.

The District is a primary government. As required by generally accepted accounting principles, the reporting entity consists of the primary government, any organization for which the primary government is financially accountable, and any other organizations that, because of the nature and significance of their relationship with the primary government, may not be excluded from the financial reporting entity.

The District is financially independent of other state and local governmental units. Based on these criteria, the District is not a component unit of another entity, nor is any other entity required to be included in the financial statements of the District.

Basis of Presentation

The District is considered to be a single enterprise similar to a commercial entity for financial reporting purposes. The District's financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish between operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for water. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial transactions of the District are reported in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balance, revenues and expenditures. The District operates using one enterprise fund that accounts for all administrative and operational activities of the District. The principal source of revenue is water use fees. Expenditures are for payroll related costs, materials and services.

Cash and Cash Equivalents

The District has defined cash and cash equivalents to include cash on hand, demand deposits and short term investments with original maturities of three months or less for purposes of the statement of cash flows. The carrying amount of the cash and cash equivalents approximate fair value due to the short term maturities of these instruments.

1. Summary of Significant Accounting Policies (continued)

Assessments Receivable

Assessed and uncollected receivables are for water service to customer property. The District evaluates past due assessments and files liens on the property when collectability becomes doubtful. Assessments received in advance of the period for which they are assessed are reported as liabilities.

Capital Assets

Capital assets, which include property, buildings and improvements and equipment and are stated at historical cost. The District defines capital assets as assets with an estimated useful life in excess of one year and an initial, individual cost of $5,000 or more. Additions or improvements that significantly extend the useful life of an asset, or that significantly increase the capacity of an assets are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized. Contributions of capital assets are reported as revenues and capital assets at fair value.

Depreciation of capital assets has been recognized and reflected in the basic financial statements. Depreciation is not budgeted under the provisions of local budget law. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 to 50 years
Plants and systems	10 to 50 years
Dams	10 to 50 years
Equipment	5 to 40 years
Vehicles	5 to 15 years

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense). Actual results could differ from those estimates.

Budget Policy

The District is organized under the provision of Oregon Revised Statute 545, and is exempt from Local Budget Law, ORS 294.305 to 294.530 as provided in ORS 294.316 (4). However, the District does adopt a budget for management purposes and to determine the annual operation and maintenance charges necessary to operate the District.

2. Cash and Cash Equivalents

Cash and investments of the District consisted of the following at December 31, 2025:

Cash on deposit with financial institutions	$	60,349
Local Government Investment Pool		105,564
Less amount restricted		(119,726)
Total	$	46,187

As of December 31, 2025, the District has $119,726 of restricted cash on the Statement of Net Position. This cash is restricted for loan reserves on the DEQ loans. These reserve requirements end when the loans mature at various dates from March 2031 through September 2040.

Deposits

The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Federal Deposit Insurance Corporation (FDIC) insurance of $250,000 applies to total deposits at each financial institution. When balances exceed $250,000, Oregon Revised Statutes (ORS) 295.002 requires the bank depository to enter into an agreement described in ORS 295.008(2)(b) and to deposit securities pursuant to ORS 295.015(1). The Oregon State Treasurer's Office facilitates these agreements and maintains a list of qualified depositories. Well capitalized depository banks must pledge securities with a value of at least 10 percent of their quarter-end public fund deposits, unless otherwise directed by the Oregon State Treasurer. Adequately capitalized or undercapitalized bank depositories are required to pledge collateral valued at 110 percent of their uninsured public fund deposits. The securities are held by a custodian for the benefit of the State of Oregon. Any balances in excess of the FDIC insurance plus 10 percent are considered exposed to custodial credit risk. Custodial credit risk for deposits in the risk that, in the event of bank failure, the District will be unable to recover deposits or collateral securities in the hands of an outside party. At December 31, 2025, deposits per the bank statements were federally insured.

Investments

ORS 294.035 authorizes the District to invest in general obligations of the U.S. government and its agencies, bankers' acceptances, commercial paper rated A-2 or better by Standard & Poor's Corporation or P-2 by Moody's Investors Service, and the state of Oregon Local Government Investment Pool (LGIP), among others.

The only investments held by the District at December 31, 2025 were amounts deposited with the state of Oregon LGIP. The District's investment in the LGIP is carried at cost, which approximates fair value. The state of Oregon's investment policies used in administering the LGIP are governed by statute and the Oregon Investment Council (the Council). The State Treasurer is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. The State Treasury's investments in short-term securities are limited by the portfolio rules established by the Oregon Short-term Fund Board and the Council. In accordance with Oregon statutes, the investment funds are invested and the investments are those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. The LGIP is not registered with the SEC as an investment company and is unrated.

2. Cash and Cash Equivalents (continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the risk that its fair value will decline if interest rates rise. The District does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Investments in the LGIP are not required to be rated for credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The LGIP's portfolio rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third-party custodian which holds the securities in the state of Oregon's name.

3. Accounts Receivable

The District has the following accounts receivable at December 31, 2025:

Assessments receivable	$	353,022
Less allowance for doubtful accounts		(310,605)
Accounts receivable, net	$	42,417

The District evaluates past due accounts and has filed liens against certain past due customers' property.

4. Capital Assets

The following is a summary of changes in capital assets during the fiscal year:

	Balance January 1, 2025	Additions	Disposals	Balance December 31, 2025
Land	$ 75,294	$ -	$ -	$ 75,294
Construction in process	-	1,487	-	1,487
Total assets not being depreciated	75,294	1,487	-	76,781
Capital assets being depreciated:				
Buildings	123,321	-	-	123,321
Plant and systems	30,809,597	73,339	-	30,882,936
Dams	289,396	-	-	289,396
Vehicles	72,028	-	-	72,028
Equipment	1,145,889	-	-	1,145,889
Total depreciable capital assets	32,440,231	73,339	-	32,513,570
Accumulated depreciation				
Buildings	(102,134)	(3,013)	-	(105,147)
Plant and systems	(6,246,638)	(618,917)	-	(6,865,555)
Dams	(251,725)	(3,328)	-	(255,053)
Equipment	(1,090,224)	(15,324)	-	(1,105,548)
Vehicles	(72,026)	-	-	(72,026)
Total accumulated depreciation	(7,762,747)	(640,582)	-	(8,403,329)
Net depreciable capital assets	24,677,484	(567,243)	-	24,110,241
Net capital assets	$ 24,752,778	$ (565,756)	$ -	$ 24,187,022

Depreciation expense of $640,582 is recorded as an operating expense in the accompanying Statement of Activities for the year ended December 31, 2025.

5. Long-Term Debt

The District has the following long-term debt:

Oregon Department of Environmental Quality

The District has drawn under the following Oregon Department of Environmental Quality (DEQ) notes for piping improvement projects:

(DEQ note R6914 is payable in semi-annual installments of $1,744 over 20 years with zero percent interest and matures in September 2030. An annual loan fee of 0.05% is payable on the outstanding balance. The balance owed at December 31, 2025 is $16,209.

6. Long-Term Debt (continued)

DEQ note R91410 is payable in semi-annual installments of $50,000 over 20 years with zero percent interest and matures in September 2033. An annual loan fee of 0.05% is payable on the outstanding balance. The balance owed at December 31, 2025 is $850,000.

DEQ note R91411 is payable in semi-annual installments of $10,152 over 20 years including interest at 2.77% and matures in March 2031. An annual loan fee of 0.05% is payable on the outstanding balance. The balance owed at December 31, 2025 is $111,512

DEQ note R91412 is payable in semi-annual installments of $9,954 over 20 years including interest at 2.71% and matures in September 2033. An annual loan fee of 0.05% is payable on the outstanding balance. The balance owed at December 31, 2025 is $150,233.

DEQ note R91413 is payable in semi-annual installments of $24,124 over 20 years including interest at 2.05% and matures in February 2045. An annual loan fee of 0.05% is payable on the outstanding balance. The balance owed at December 31, 2025 is $772,304.

DEQ note R91414 is payable in semi-annual installments over 20 years including interest at 1.94%. An annual loan fee of 0.05% will also be payable on the outstanding balance. The balance owed at December 31, 2025 is $257,551.

DEQ note R91415 is payable in semi-annual installments of $22,979 over 20 years including interest at 1.16% and matures in March 2042. An annual loan fee of 0.05% is payable on the outstanding balance. The balance owed at December 31, 2025 is $362,759.

Bonneville Environmental Foundation Loan

The District entered into a project funding loan with the Bonneville Environmental Foundation for the development of the Watson Net Metering Micro-Hydro Demonstration Project. The loan is repaid in annual installments of $19,671 with zero percent interest beginning in 2021 and matures in June 2032. The balance owed at December 31, 2025 is $137,521.

6. Long-Term Debt (continued)

During the year ended December 31, 2025, long-term liability activity was as follows:

	Balance January 1, 2025	Additions	Principal Payments	Balance December 31, 2025	Due in One Year
DEQ R06914	$ 19,697	$ -	$ (3,488)	$ 16,209	$ 3,488
DEQ R91410	950,000	-	(100,000)	850,000	100,000
DEQ R91411	128,376	-	(16,864)	111,512	17,334
DEQ R91412	165,753	-	(15,520)	150,233	15,944
DEQ R91413	804,228	-	(31,924)	772,304	32,582
DEQ R91414	269,802	-	(12,251)	257,551	12,490
DEQ R91415	381,353	-	(18,594)	362,759	18,810
BEF	157,192	-	(19,671)	137,521	19,671
	$ 2,876,401	$ -	$ (218,312)	$ 2,658,089	$ 220,319

Future payment obligations on the long-term debt as of December 31, 2025 are as follows.

Year ending December 31,	Principal	Interest	Total
2026	220,319	31,690	252,009
2027	222,371	29,638	252,009
2028	224,470	28,014	252,484
2029	226,616	25,393	252,009
2030	246,847	23,611	270,458
2031-2035	816,708	85,318	902,026
2036-2040	395,001	48,189	443,190
2041-2046	305,757	12,946	318,703
	$ 2,658,089	$ 284,799	$ 2,942,888

The DEQ loans have loan reserve amounts that mature when the debt is fully repaid. These required loan reserve amounts are shown as restricted cash and are $119,726 at December 31, 2025.

7. Risk Management and Contingent Liabilities

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. No losses were incurred during the prior three years ended December 31, 2025 that exceeded the District's insurance coverage.

8. Jointly Governed Organization

The District is a member of the Deschutes Basin Board of Control (DBBC), a jointly governed organization. The DBBC is a separate legal entity and the District has no equity interest in it. The DBBC manages joint projects for the benefit of the eight irrigation district members and the Manager of each member district serves as a member of the DBBC board of directors. Costs incurred for services and expenses on these projects are allocated among the member irrigation districts and they pay their share to the DBBC. The District paid $45,177 to the DBBC during the year ended December 31, 2025. The balance owed to DBBC at December 31, 2025 was $1,480.

9. Related Party Transactions

The District purchases materials from a company owned by a board member. Purchases during 2025 from this company were $1,667.

10. Subsequent Events

The District has evaluated for subsequent events through August 11, 2026, which is the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements for the year ended December 31, 2025.

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Dougall Conradie LLC
Certified Public Accountants

Geoffrey Dougall, CPA
Heather Jackson, CPA
Richard Winkel, CPA
Members of AICPA & OSCPA

Independent Auditor's Report
Required by Oregon State Regulations

To the Board of Directors
Three Sisters Irrigation District
Deschutes County, Oregon

We have audited the accompanying basic financial statements of Three Sisters Irrigation District (the District) as of and for the year ended December 31, 2025 and have issued our report thereon dated August 11, 2026. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether Three Sisters Irrigation District's financial statements are free of material misstatement we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of Public Funds with Financial Institutions (ORS Chapter 295)
- Indebtedness limitations, restrictions and repayment
- Insurance and fidelity bonds in force or required by law
- Programs funded from outside sources
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C)
- Authorized investment of surplus funds (ORS Chapter 294)

In connection with our testing nothing came to our attention that caused us to believe Three Sisters Irrigation District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered Three Sisters Irrigation District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Three Sisters Irrigation District internal control over financial reporting.

This report is intended for the information of Three Sisters Irrigation District's board of directors and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

DOUGALL CONRADIE LLC
Portland, Oregon

August 11, 2026

Richard Winkel, Partner