

GRANITE OAKS WATER USERS ASSOCIATION

Annual Shareholders' Meeting

July 26, 2014

2025 Seven Oaks Ct

Approved 9/24/2014

Call to Order: President Gerry Garcia called the meeting to order at 9:00 a.m.

Note: .From GOWUA Bylaws:

Quorum: The members holding 50 percent plus one of the Class B votes of the Association shall constitute a quorum at meetings of the membership of the Association. If a quorum is not present at any meeting of members, those in attendance may conduct an informational meeting, but no business upon which a vote is to be taken, shall be conducted.

There were approximately two dozen shareholders in attendance. Approximately 55 proxy statements had been returned. There was not a quorum present.

Gerry Garcia announced that since a quorum was not present and an official meeting couldn't be conducted, but the Board would proceed with an informational meeting and try to answer any questions. She then introduced members of the board, herself and contract staff:

Officers

Jim Peoples, Vice President (absent)

John Monroe, Secretary

John James, Treasurer

Directors

Gerry Tumey , Director

Larry Dorrell, Director

Jim Peterson, Director

The President then introduced contract staff:

Allen Kaplan, Auditor

Bob Busch, MDI Financial (Manager)

Mike Young, Fann Environmental

Gerry Garcia then asked that each of the Board Members and contract staff give those present some personal background, following which she then asked Allen Kaplan to give a financial report.

Financial Report *Allen Kaplan, Auditor*

Allan Kaplan reported that the Company had a very solid year, financially in 2013. Revenues have been over \$200,000 for a number of years. He noted that net income for 2013 was over \$26,000. Revenue and expense have remained consistent for a several years. He referred to the budget for 2014 and the year to date actuals. He noted that customers were up from 461 last year to 465 so far this year. Revenues are above budget by about \$4,000 and expenses are \$about \$4,000 under budget, so Net Income is about \$8,000 about budget for year to date. He then referred to the third page of his report that showed year to date 2013 vs year to date 2014 and noted differences. He reviewed the Balance Sheet, noting the addition of approximately \$244,000 in assets from a year ago. He discussed the details of cash assets, noting the amounts in various bank and CDs. He then stated that cash was down by \$167,000 from a year ago due to the expenditures for the assets added during the year. Finally, he reviewed all the purchases of assets by the company since its beginning in 1994. Over \$1,045,000 in assets have been purchased over the years.

Allen then responded to questions.

QUESTION: Revenue for 2002 was over was over \$289,000. It has not been that high since. Why not?

RESPONSE: Land was sold in 2002. The company purchased two lots in order to drill a well, and only had need for one lot. The other was sold for a profit at \$52,000. Also, 2002 was a very hot year and water usage reached a record that hasn't been reached since.

QUESTION: Are we comparable this year?

RESPONSE: No. Although use is so far, slightly higher than last, it isn't expected to be close to a record year for water use.

President Garcia then asked Bob Busch to give a manager's report.

Manager's Report *Bob Busch, Manager*

Bob Busch stated he would discuss several things that the Company had undertaken since the last Annual Meeting.

The financial services contract with MDI Taxes & Accounting, for accounting and billing services, was reviewed for another three years.

Inspection of interior of the water storage tanks on Post Oak Rd. were completed. The Company employed MIDCO Diving to dive into the tanks and inspect and film the inspection. The tanks were found to be in good condition, with only minor maintenance items required. They will not need to be inspected again for several years.

The Company completed the upsizing of distribution lines on Bard Ranch Ct. and Royal Oaks Ct. and the addition of higher capacity fire hydrants along those streets. Allen Kaplan referred to the addition of those assets in his financial report.

Bob stated that during the past year and before, the Company has been concerned about the high amount of non-revenue water. Non-revenue water percentages fluctuated wildly over the past 24 months, and the Company took several steps to isolate and identify the cause.

An Adopt a Hydrant program was initiated – Approximately a dozen residents volunteered to frequently monitor fire hydrants to determine if any were being tampered with or if someone were stealing water from the hydrants. After a couple of months, no evidence of tampering was discovered, and the monitoring was discontinued.

QUESTION: Did the spikes in use continue?

RESPONSE: We had noticed spikes on the chart recorder in the pump station. They occurred at irregular times, but often at night. We had a technician service the system and he found a component that was causing a transient spike or false indication on the recorder. After the repair the chart spikes have disappeared.

QUESTION: Are you still seeing non-revenue water loss every month.

RESPONSE: Non-revenue water has not been fluctuating as much in the last few months. A year and a half ago, we experienced non-revenue water at 16% of the amount pumped. That occurred in the early winter when usage was around 2,000,000 gallons. It has settled down to 5-6% for the past few months. Historically, that has been 3-4%.

Bob went on to report that the Company has purchased three new well meters to make sure well meter readings are accurately registering the amount pumped.

QUESTION: Does the Company have a good handle on residential meters? A couple of neighbors had meters with zero usage for several months last year. .

RESPONSE: We did find that there were a half dozen non-functioning meters in the area where water pressure is highest. Those were replaced.

QUESTION: Do we replace meters that register too high also, and who do we call to find out when our meter is to be tested?

RESPONSE: The Company is required by regulation to test meters every 10 years. Meters that are 3% out of tolerance (plus or minus) are required to be replaced. Call Bob Busch to find out when your meter is scheduled to be tested.

QUESTION: Is there any truth to the rumor that there is a residential property along Bard Ranch that has an unregistered connection?

RESPONSE: The Company checked into a property that originally was connected to the Deerfield well, but determined that the connection had been disabled and destroyed when the Royal Oaks development was constructed. We are not aware of the rumors of a connection north of Bard Ranch Rd., and are doubtful an unregistered connection exists in that area.

Bob then reported that water level in only two of the three wells can be determined. The sounding tube in the third well (Glenshandra) was apparently damaged on the initial installation over 10 years ago, and it can't be monitored. The Company had a well drilling firm check out and attempt to repair the sounding tube, but they were unable to do so. The pump would have to be pulled and a new sounding tube placed at a cost of \$2,000 to \$3,000. The Company has chosen to install a new sounding tube the next time the pump is pulled for servicing or replacement.

QUESTION: Do we have a measurement on the wells now?

RESPONSE: Post Oak is at 312ft. this year, 313 last year. Deerfield was 316 last year, 321 ft. this year.

QUESTION: Has the Company looked into tamper proof hydrant caps?

RESPONSE: We did look into installing locks on the hydrants. It would cost about \$9,000.

QUESTION: Are there any plans for additional lines or hydrants this year?

RESPONSE: The Capital Improvement Program consisted of 5 phases. Three phases have been completed. The other phases have been put on hold at this time, due to cash flow considerations.

QUESTION: The fire hydrant at the corner of Live Oaks and Granite Oaks has been out of service for a long time. What is the story?

RESPONSE: The hydrant has been out of service twice in the past year for two different problems. The parts have been on order for some time and are believed to be shipped. We will look further into the situation..

QUESTION: Is the capacity of the Post Oak well less than the others or do we just pump it less?

RESPONSE: The capacity of the Post Oak well is about 80 gal/min. That is all we can pump from it. The well is pumped on a regular basis, along with the other two wells, but it will only pump about 80 gal/min.

QUESTION: Do we know how much water we have in the wells?

RESPONSE: We know where the water level is in two of the wells. We know the pumps are placed at about 400 ft. The wells are about 600 ft deep, so we have a fair reservoir under the pumps.

QUESTION: Wouldn't it seem that spending \$2,000 to fix the tube on the third well would be a good thing, so we would see how much water we have in the well?

RESPONSE: The Board did consider the expenditure, but the thinking was that the tube would be repaired the next time the well is serviced.

QUESTION: Did we notice any dip in the water table with the development of American Ranch?

RESPONSE: We don't think we are in the same aquifer, but we haven't noticed any change in the rate of decline with the development of American Ranch.

QUESTION: Are there any plans for changing the rate higher users pay for water?

RESPONSE: The Company has been hesitant to try to change rates. It requires a rate case before the Arizona Corporation Commission. There is some concern by the Board that might not

have the desired effect on some higher use customers and it costs about \$50,000 to process a rate case.

QUESTION: Is drilling a well an option for some customers?

RESPONSE: It could be. That is another concern about pursuing a rate case. Some owners might try to drill a private well.

There followed a general discussion about high users and conservation efforts.

QUESTION: My neighbor is periodically gone for weeks or months at a time. There have been a couple of times his irrigation system has broken. I have called the water company on a couple of occasions to come out and fix it, but they haven't. Is it proper to send these requests to you?

RESPONSE: No, the water company can't come on private property and manage their irrigation system. You should contact the owner to have a service company to repair the problem. The water system stops at the meter, and we can't repair irrigation systems.

Gerry Garcia then requested Mike Young give an Operator's Report.

Operator's Report *Mike Young, Fann Environmental*

Mike Young stated that Fann Environmental operates systems all over the state, and Granite Oaks Water is one of the best. The Board has looked at ways to keep the system in good shape and to make improvements.

QUESTION: How far have the wells dropped since 1994?

RESPONSE: We have data from 2000. The Post Oak well was at 309 ft in 2000 and 312 ft. in 2014. The Deerfield well was at 125 ft. in 2000 and at 221 ft. in 2014.

Residential Water Theft.

John Monroe reported that on several occasions a truck has been seen either stealing water from residential hydrants or scouting the area, apparently looking for targets. He stated that the Company is working on some ideas for deterring these people and will be informing everyone.

There was a general discussion about the thieves, their pattern, vehicle, description of the individual(s), and possible motivation.

Gerry Garcia stated that there is a community website, www.nextdoor.com, that could be used to inform or communicate about things going on in the neighborhood. It is very easy to sign up. Nearly 60 residents have signed up so far.

Gerry Garcia then asked for any other questions or comments.

Greg Brown, County Supervisor from District 4 asked for a few minutes to address the group. In response to a question from a resident about cleaning up State Trust Land near the development, he did contact the State. The State has no policy, but suggested getting the community involved in putting together a plan. He suggested that a meeting of the community be scheduled to bring the community and the experts together to put a plan together to clean up the State Trust Land.

There being no other comments or questions, Gerry Garcia thanked everyone for coming and adjourned the meeting.