GRANITE OAKS WATER USERS ASSOCIATION

Annual Shareholders' Meeting
July 27, 2013

Draft 2

Call to Order: President Jim Peoples 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 conducte*d.

There were 26 shareholders in attendance. Approximately 50 proxy statements had been returned. There was not a quorum present.

Jim Peoples 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. He then introduced himself and members of the board and contract staff:

Officers	Directors
Ken Mino, Vice President	Gerry Tumey , Director
John Monroe, Secretary	Gerry Garcia, Director
John James, Treasurer	Gene Zutell, Director (absent)

The President then introduced contract staff: Allen Kaplan, Auditor
Bob Busch, MDI Financial (Manager)

Jim Peoples noted that Fann Environmental the water system operator, did not have a representative present. He then introduced Allan Kaplan.

Financial Report *Allen Kaplan, Auditor*

Allan Kaplan reported that the company now has about 460 customers, the most since the company began. Net income for the first half of the year is about $12,000 ahead of budget. Revenues are up about $2000 for the first half of the year. Expenses are about $11,000 under budget. Compared to last year, Operating Expenses are about $8,000 lower , Revenue is about $2,000 higher, and net income is about $10,000 higher than a year ago. We have about $430,000 in cash. The only change in assets is the Account 105, Construction Work in Progress which represents expenditures for engineering work on the Capital Improvement Program that will be capitalized when the work is complete. He reported that 4 CD's, totaling about $55,000 will be maturing before the end of the year.

Cash is down about $3,000 compared to last year. Cash received is up about $3,000 from last year and expenses are down about $15,000. The main difference is the expenditures for engineering work (Construction Work in Progress) of about $38,000.

.

Since 1996, $879,000 has been spent on assets. Allan referred to a chart showing annual financials since 1994.

Jim Peoples stated the occasionally questions come up about what the Board plans to do with the cash reserves and what are they for. The Board decided to conduct a engineering study to determine what improvements could be made to the system. The study was completed and one

phase of the resulting construction work has been completed. Jim then introduced Davin Benner of Granite Basin Engineering, and asked him to give an overview of the study and resulting plan.

Davin reported that his firm was retained to complete a needs assessment study, identifying any shortcomings and identify problem areas. Current design requirements would require 1500 gpm flow rates for fire hydrants is the subdivision were being constructed today. However, the basic infrastructure is not large enough, either in distribution line size or water storage to accomplish that. The study did determine that domestic water flows are fine, but that improvements to increase flow in several areas of the system to improve flows at fire hydrants could be made.. Fire flows in areas where there are existing 4' lines, could be improved by increasing line sizes.. Granite Basin Engineering (GBE) identified 5 areas where improvements could be made. The first one, adding a line between Post Oak Pump Station and Charter Oak, has already been completed. When the contractor began excavating for the work, an 8" line was already in place. Davin indicated that GBE had no record of the connection, Fann Environmental was unaware of the connection, and it was "discovered".

Davin went on to explain the other phases: Phase (2) Bard Ranch Ct- addition of line and hydrants Phase(3) Royal Oak Cr – addition of line & hydrants Phase(4) Mesa Oak Ct- addition of line and hydrants and Phase(5)- Glenhaven Dr – addition of line to close loop on Glenhaven and addition of lines.

Following are generalized questions raised concerning the Capital Improvement Project along with the a summary of the response(s) given:

QUESTION: Was the pipe connection for phase one already in place and what work had to be done?

RESPONSE: Davin confirmed that the pipe connection was in place and working. He said the it was installed using a tapping sleeve and valve. This is not a method normally used on initial construction, but rather for later additions (although this was challenged from the floor, with Duane Gann stating that a 2003 report from Civiltec indicate an 8" line is there). The contractor found the tapping sleeve and valve at the very beginning of the job, and no other work was required.

QUESTION: What is the total cost of all the phases?

RESPONSE: The engineer's estimate of the cost for all 5 phases is $507,000. This does not include the cost of up to 60 additional fire hydrants to provide 500 ft spacing or less. These additional fire hydrants could be added one or more at a time at any point in the future.

QUESTION: What is the time line for completion of all the phases?

RESPONSE: At this time, the Board has not approved any other phases for construction. No specific timeline has been set. However, given that the company now has about $430,000 in cash, and assuming some level of reserve should be maintained, (e.g. $250,000), that leaves about $180,000 available now for construction. If the company generates $20,000 in net income annually, it could take 10 years or more to have enough cash to complete all 5 phases.

QUESTION: With interest rates so low, wouldn't it be prudent to consider financing ?

RESPONSE: The Board has not considered financing at this time. Members preferred to finance capital construction from cash on hand.

QUESTION: How much and what size pipe is now available due to it being excess from Phase1?

RESPONSE: There was 365 feet of 8" pipe required for Phase 1. There is 400 feet of pipe presently on site. One other Phase (phase 3) is designed with new 8" line (about 860 feet is

required). The Board is considering whether to proceed with phase 3 and use the pipe for a portion of that phase, or whether to substitute 8" pipe for 6" pipe called for in other phases. Although no decision has been made, it seems reasonable to use the pipe where it is designed to be used rather than substituting.

QUESTION: Why not return the 8" pipe and order less expensive 6' pipe?
RESPONSE: There is a hefty restocking fee to return the pipe, besides, there is a phase (phase 3) that requires use of 8" pipe.

QUESTION: Is there 8" line elsewhere in the system now?
RESPONSE: There is about 10.9 miles of distribution line in the system now. The majority of the line is 6" pipe, with most cul de sacs having 4" line.

QUESTION: How many fire hydrants are in the system now?
RESPONSE: There are presently 55 hydrants in the system. Most are 6 in hydrants. Where there are hydrants in cul de sacs, they are 4: hydrants.

QUESTION: How was the contractor for phase 1 selected?
RESPONSE: Four firms were asked to bid: T&H Construction, Watkins/Mendoza, Norco and Fann Environmental. The high and low bids were eliminated and the lower of the remaining bids was selected.

The discussion then shifted to water loss and the possibility of theft.

Following are generalized questions raised water loss and possibility of theft with the a summary of the response(s) given:

QUESTION: How do we know if water is being stolen?
RESPONSE: We don't know for sure that it is actually stolen. We determine loss (water unaccounted for) by totaling all customer meter reading amounts for a given month and comparing it with the total of the meters read at each well for the same period. The Two totals will never be exactly the same because every meter isn't read at exactly the same time, but historically, water loss averaged less than 2%. Last year it averaged over 7%, with two months over 15%. We also have experienced unexplained pumping at night. Chart recorders indicate distribution pumps coming on between midnight and 3am. The unaccounted for water amount for a couple of those months was very high, hundreds of thousands of gallons. It would take an army of water trucks to steal all that water, so theft isn't the only thing happening, but it can't be ruled out.

QUESTION: Have we identified the source or reasons for the losses?
RESPONSE: Not as yet.

QUESTION: How often do these incidents occur?
RESPONSE: It has varied. At times a few months ago, we experienced several incidents a week. Most recently, there were just two nights in June where the chart recorders showed unexplained pumping.

QUESTION: Can we tell where or which hydrants may be targeted or used by thieves?
RESPONSE: No, there is no way to tell which hydrants may have been used.

QUESTION: Why not mark hydrants so we can tell if someone is tampering with them?
RESPONSE: The Board did consider installing hydrant locks, approved by the fire department, on all the hydrants. The cost would have been over $8,000 and the Board opted to

explore other ways. The Sheriff's Office has been contacted and are aware of the situation, but they don't have the resources to patrol the area at night. Marking the hydrants might be a good way to tell if the hydrant has been used. The Board will consider that.

QUESTION: Didn't the company recently discover non-working meters at customer homes?

RESPONSE: Yes. At a recent Board meeting, someone mentioned that a customer had been getting bills for several months with no water use shown on the bill. We then checked about 24 customer meters that had zero use for a month, and discovered half of them were malfunctioning, allowing water to flow without registering usage. The meters were replaced. We will be rechecking zero use meter reading to be sure the meters are functional.

QUESTION: How often are customer meters checked?

RESPONSE: Customer meters are checked periodically, and we are required to verify the accuracy of customer meters at least once, every 10 years. Fann Environmental has a program of meter verification where they check a portion of the meters every year.

QUESTION: Are well meters calibrated/ how often?

RESPONSE: The Glenshandra well meter was calibrated a couple of years ago. There isn't a regular calibration schedule for the three wells.

QUESTION: How much loss is acceptable?

RESPONSE: Our operator, Fann Environmental has indicated that the average system experiences losses around 10%. Losses of 10% are considered acceptable by most companies.

QUESTION: How and how often are meters read?

RESPONSE: Meters are read each month around the 26th of the month. Fann Environmental uses a handheld device, where they read each meter and enter the reading in the handheld. The device alerts them to unusually high or low readings for that meter. (Data from the handheld is downloaded to a computer for billing purposes.)

General Comments & Concerns:

A hydrant in my area was out of service for 3 months. Why did it take so long? Isn't this unacceptable?

During the Dosie fire, the Sheriff's Office would not let anyone on Williamson Valley Road that was not a resident. The water system operator could not get into the area for several days. The Sheriff should be contacted to make sure that the operator can get access. The water system needs to be working in an emergency.

Jim Peoples then asked if there were additional questions from the floor.

There being no other comments or questions, the meeting concluded.