

PETE'S MOUNTAIN WATER COMPANY ANNUAL REPORT

September 30, 2021

The Board of Directors of Pete's Mountain Water Company (PMWC) is pleased to present the Annual Report for the Company. The report covers activities during the past year and includes the Fiscal Year-end Financial Statements (through June 30, 2021), Notice of Annual Meeting and Proxy.

We will hold our annual meeting on October 11, 2021, via a virtual meeting hosted on Zoom. The only formal action to be taken at the meeting is to elect two Members to serve on the Board for a new three-year term. The Board has nominated Dana Yip and Kay Pollack, current Members on our Board, to serve a new term. No additional nominations have been made, so their reelection is assured. Sorry, no voting drama here! However, representatives of the Board will be on our Zoom call to make a brief presentation and answer any questions you may have.

What is important is to share with you our business updates and financial condition. Our monthly newsletter has attempted to keep you informed throughout the year, but here are the highlights:

Water System Operator

Phillip Merrill of Merrill Water Systems (MWS) continues to operate the system, be responsible for required water system testing and reporting (see below), and conduct routine and ad hoc maintenance. MWS has been a valuable resource throughout the water system upgrade, advising the Board and assisting with some management of the projects. Mr. Merrill communicates frequently with the Board as needed, files a monthly report to the Board (more frequently during summer months), and either attends or is available for questions at Board meetings. He is the first point of contact if there are service or quality problems with your water supply: (503) 734-7400, info@merrillwater.com.

Status of Repairs and Improvements

The past year once again presented challenges to our water system. Because of improvements we have made since acquiring the system in November 2017, we were better able to manage those challenges. The final improvements in our comprehensive rehabilitation program of the water system are now complete. We are pleased to report that we have no need for, nor plans to make, any further major improvements or modifications to our system.

Improvements through Fall 2020

Since the membership purchased Pete's Mountain Water Company, almost every component of the water system has been repaired, renovated, or replaced. Both wells were cleaned out and new power supply, pumps, and variable frequency drives were installed. New transducers and electrical controls greatly improve our ability to accurately monitor the water levels in the wells, manage pumping volume and protect the pumps. The Board placed critical focus on improving well #2. Over 50 feet of debris was removed from the well and the casing was cleaned, brushed and swabbed, enabling the well to deliver more water. New copper wiring was installed, along with a new, more powerful pump, set 56 feet deeper than the previous pump. A backup generator was installed to power the pumps that send water from the reservoir to users during power interruptions and avoid boil-water notices following such outages.

Improvements in 2021

Installation of remote readable water meters:

After a competitive bidding process, Merrill Water System obtained the contract for the meter project. MSW installed new electronic remote-read meters for the entire system between October, 2020, and June, 2021. The meters enable MSW and the Board to monitor daily water usage, apparent leaks and excessive usage, as well as to save time and money by eliminating monthly on-site meter reading and compilation of usage data. More importantly, the electronic meter system includes free access to the *EyeOnWater* app, enabling members to monitor their water usage and receive leak alerts. This tool helps us manage the limited water supply and avoid critical water loss for individual members and the system, especially during the irrigation season. At this time, 65 of 86 members have downloaded the app. *We strongly encourage all members to download and use this critical tool.*

Installation of the chlorination system:

In 2020 the Oregon Health Authority ruled that, because there were three positive tests for coliform bacteria in less than 18 months, PMWC was required to install a permanent chlorination system. Coliform bacteria are widely distributed throughout nature. These indicators do not themselves cause disease, but are markers for the presence of other disease-causing organisms that are difficult to detect. During the past year there have been no positive tests for coliform bacteria. Our system has never had a positive test for *E. coli.*, which can cause severe illness.

Merrill Water Systems was also awarded the competitive contract to install the chlorination system. The Board prioritized installation of the meters over installation of the chlorination system until early 2021. The installation is now competed, but due to a chlorine shortage and because PMWC has had no health-threatening water quality test results, the OHA has extended the deadline for activating chlorination. We will use the minimum amount of chlorine required by the regulating agency, so the taste of the water should not be affected.

Water Production Under Increased Demands in 2021

The upgrades we've made greatly improved the Board's ability to manage our limited natural resource and protect our capital investments through this year's demands on our water system. Although we are experiencing an extended drought, we were able to provide adequate water to members for irrigation this past summer without jeopardizing the valuable pumps.

Falling water levels in the wells:

During the first three months of the summer irrigation season, water levels in the wells were dropping at an increasing and alarming rate. The water level when the pump is operating must be kept at least 10 feet above the pump, preferably higher, to avoid damaging the pump. Throughout July, water levels in both wells fell so low that the variable frequency drive automatically reduced the pumping rate to protect our pumps.

The daily data available from the electronic meters enabled the Board and MWS to closely track overall and individual water usage. Many members used the *EyeOnWater* app to manage their water usage. High-volume usage members were personally contacted and asked to reduce their demand. This helped take pressure off the system, but water levels continued to drop.

Water curtailment and premium pricing:

On August 4th, all members were notified to use no more than 3,000 gallons of water per day or 21,000 gallons of water per week, and beginning August 11th, the Board imposed a premium charge for excessive water use: all water usage above 21,000 gallons per week was priced at double the normal rate. The detailed electronic data about daily water usage enabled the Company to accurately calculate and charge members for the excess usage.

The new electronic meters and access to daily water usage data enabled the Company to perform targeted water-demand management rather than imposing an odd-even day watering schedule, or the more severe “stop all outside irrigation” orders, which had often been issued in the past. The Board is relieved to report that, as members reduced their usage, water levels in the wells rebounded in September, even before there was significant rainfall.

The Board is compiling detailed data on water usage compared to water levels in both wells over several years in order to fine-tune usage policy for next year’s irrigation season.

Weather events causing power outages:

This year’s unprecedented weather events also challenged our water system as never before.

Although a January windstorm caused a 36-hour power outage for many of our members, the generator we installed in 2020, kicked in immediately and continued powering water distribution to members throughout this event as well as several other shorter power outages that occurred this year.

More seriously, the February ice storm felled a tree, which broke a member’s water line. Since the electronic meter system does not classify water flow as a leak until 24 hours of continuous flow has been logged, this massive leak drained the remaining water from the reservoir before a leak alert was received. Our back-up generator only sustains pressure in the distribution system. A generator large enough to power the well pumps and keep the reservoir filled would be very expensive and wasn’t considered a prudent investment. Normally, a power outage in mid-winter would not be of great concern because water usage is low and there is enough water in the reservoir to provide household water for several days. Due to the power outage, the well pumps could not refill the reservoir until power was restored.

For several days following the ice storm, Mr. Merrill and Board members worked to truck in water and were unable to find a larger generator to rent. Severe ice and downed power lines also greatly complicated our ability to respond. Fortunately, members Brent and Marchelle Schafer generously loaned a generator from their business that was large enough to power the pumps until power was restored.

Required Reporting, Permitting, Certification, and Insurance

Each year, PMWC is required by law to certify and submit data pertaining to water supply and quality. The following reports are on our website (<https://www.petesmountainwatercompany.com/>) for your review:

- Water quality report, submitted to the Oregon Health Authority (OHA) by the end of June.
- Water level report, submitted to OWRD by the end of March.
- Water usage report, submitted to OWRD by the end of the calendar year.
- Backflow testing report, submitted to OHA by the end of March for the prior year.

Backflow assembly testing:

The Board originally offered to coordinate backflow assembly testing as a convenience to members and to expedite what we need from members for water quality reporting requirements. When testing organized by PMWC in 2020 fell short of expectations, former Board member, Jim Battan, generously volunteered to analyze and propose necessary changes to the process for 2021. Mr. Battan developed, and the Board accepted, a comprehensive policy and process for PMWC and identified two reliable companies: American Backflow and Oregon Backflow.

This year's process has been slower than expected and testing for 2021 has not yet been completed. Because of the complexity of the project, the Board is reviewing our own needs to protect water quality, the legal requirements for the Company to report backflow testing, and the costs and benefits of our sponsoring a group backflow assembly testing program going forward. We will announce our decision for next year's backflow assembly testing early in 2022.

Insurance coverage:

PMWC has renewed general liability insurance coverage for \$1 million. At this time, we have opted not to purchase Director and Officer liability insurance. With the completion of the extensive improvements, we have increased the all-hazards insurance coverage on our pump house and equipment to \$491,000, an amount estimated by our primary contractor as adequate to replace those "above ground" items. We have not sought earthquake insurance because of the cost, deductibles and exclusions.

Monthly Billing and Accounting

Bills continue to be managed by our accounting firm, Tabor Accounting Group, 7501 SW Findlay Rd., Durham, Oregon 97224, (503) 598-1011. This is your first point of contact if you have questions about your bill: ruthv@taboraccountinggroup.com.

A work team has been researching billing programs that upload data from Badger meters directly into the billing program, send bills and receive payments electronically, is user-friendly for the accounting team and our members, and is cost-effective for our small water system. The team has found a program that fit our needs and has asked the Board to approve purchasing it. Before the end of the year, you should be receiving your bills electronically and have the option to pay online.

Financial Report

Attached is a copy of our Statement of Assets, Liabilities and Equities; Statements of Revenue and Expenses; and the Statement of Cash Flows for 12 months ending June 30, 2021. Nothing but good news here. Our current rate structure continues to provide adequate revenue to fund our operations and should provide ample reserves unless significant unexpected repairs or improvements are required.

You will note that our Statements of Revenue and Expenses show a loss of approximately \$34,000. However, included as an operating expense is a Depreciation Expense of over \$44,000. This is not a cash outlay but, rather, an accounting charge that reduces the value of our improvements and equipment on our books to reflect expected wear and tear and obsolescence over time. It is likely that replacement of some of our system components will be required in the future, but on a cash basis our operating income exceeds our cash expenses. Also contributing to our accounting "loss" is nearly \$12,000 in interest expenses for our loan with the State. This payment is funded by the monthly loan fee repayment assessment discussed below, which assessment is not included as "revenue" under accounting rules, but is incoming cash nonetheless.

Our Statement of Assets, Liabilities and Equities as of June 30, 2021, reflects the strength of the Company. Key items include cash of over \$280,000 and total equity of over \$430,000. During the year, we received confirmation that \$234,000 of the initial loan amount had been "forgiven" under the terms of the Safe Drinking Water Revolving Loan Fund through the State of Oregon, discussed below. This amount represents a significant portion of the equity we have in the Company. We anticipate additional forgiveness of approximately \$60,000 with our second loan, which will be added to our equity when confirmed.

Financing The System

Most of the funds for the purchase and upgrade of the water system have been provided through the Safe Drinking Water Revolving Loan Fund of the State of Oregon. We obtained two loans, totaling \$1,187,000. The original loan to purchase the system, rehab well #1, and replace the electrical and control systems was \$983,000 at a 2.15% annual interest rate; \$234,000 of that amount was forgiven, meaning we are not required to pay it back. The second loan, approved in 2020, to install line reactors, make improvements to well #2, install remote readable meters, and install the chlorination system, was for \$204,000 at a 1.95% annual interest rate; up to \$64,000 of that will be forgiven. Therefore, the net amount we will be responsible for repaying for both loans will be approximately \$889,000.

Payments on the original net loan amount (\$749,000) began October 1, 2020, in the amount of \$11,665 per quarter. Payments on the second net loan amount (\$140,000) are expected to be approximately \$2,118 per quarter and should start soon, since those improvements are complete.

The combined annual loan payments will be slightly higher than the \$49.00 per month loan repayment fee currently in effect totals. However, we have enough in cash reserves from previously collected member fees, which should fully cover this shortfall. Therefore, unless we require additional loans in the future, there should not be an increase in the monthly loan repayment fee. Even including the monthly loan repayment fee, PMWC monthly charges remain below those of most neighboring rural and urban water systems.

In Closing:

If you have any questions about the meeting, our water system or our financial condition, please feel free to contact any member of the Board to obtain further information, ask questions, or express concerns. You may also visit our website for more detailed information and background documents: <https://www.petesmountainwatercompany.com/>

Thanks again for your support,

Your Board of Directors

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