

# PETE'S MOUNTAIN WATER COMPANY ANNUAL REPORT

September 26, 2022

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 since September 2021, and includes the Fiscal Year-end Financial Statements (through June 30, 2021), Notice of Annual Meeting and Proxy.

## **Notice of Annual Meeting and Board Elections**

You are cordially invited to attend the annual PMWC membership meeting scheduled for October 10, 2022, 7:00 p.m. Ken and Carol Roberts have, once again, graciously offered their carriage house at 2700 SW Schaeffer Road as a meeting place. Light refreshments and drinks will be provided. Please RSVP to [info@petesmountainwatercompany.com](mailto:info@petesmountainwatercompany.com) so we have an estimate of attendance.

The only formal action to be taken at the meeting is to elect members to serve on the Board. For this year's annual meeting, there are two directors whose terms are up for renewal: Troy Bundy and Max LaBar. The LaBars sold their home, moved out of the area, and are no longer members, so his position is open. Troy has agreed to serve another term. Further, after having actively led the community effort to finance, purchase, and upgrade the water system, beginning in 2016, and having served as officers and Board members for the past six years, members David Pollack, Kay Pollack and Ken Roberts will be stepping off the Board. This leaves four open positions to be filled at this year's annual meeting. The Board has nominated the following to serve terms as noted:

Term ending 2023:

Kyle Connall  
Alan Bellanca

Term ending 2024:

Iris Zhao

Term ending 2025:

Troy Bundy  
Brent Schafer

No additional nominations have been made. Please attend the membership meeting and vote for the Board positions. A form of proxy is enclosed should you prefer to submit in advance of the meeting or bring it with you.

Directors are elected by a plurality of votes casted. The number of members present or represented at the annual meeting by proxy, will constitute a quorum for the transaction of business.

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:

## **Organization, Governance and Operation of Pete's Mountain Water Company**

Pete's Mountain Water Company (PMWC) was formed in 2017, and is structured as a not-for-profit corporation for the benefit of its members. PMWC purchased Pete's Mountain Water Co., Inc. from Suzanne Weber on November 30, 2017. Our organizational documents, including bylaws and system rules and regulations, are posted in the Documents section of our website. These documents provide essential guidance for our members regarding how the Company operates and how to interact with the Board. The members of the Board of Directors serve as volunteers. As a mutual benefit association, each household account has a share of the Company. Therefore, it behooves you, as co-owners and as users of the system, to become familiar with these processes and to value our water system as a shared resource.

**Water System Operator:** Phillip Merrill of Merrill Water Systems (MWS) continues to operate the system, provide 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 management of projects. Mr. Merrill communicates frequently with the Board as needed, files a monthly report to the Board (more frequently during summer months), and attends 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](mailto:info@merrillwater.com).

**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](mailto:ruthv@taboraccountinggroup.com).

**Increased Responsibilities for Merrill Water Systems and Tabor Accounting Group:** Several Board members (or former members) have been volunteering to do tasks that are not performed by Tabor Accounting or Merrill Water Systems. However, most of those members are leaving the Board after several years. In order to relieve Board members of many of the day-to-day responsibilities, we decided to assign more tasks to either Tabor Accounting Group or Merrill Water Systems, as follows:

- Updating the roster: transferred from Jim Battan to Tabor Accounting.
- High volume usage or leak alerts: transferred from Max LaBar to Merrill Water Systems
- Contacting members with delinquent accounts: transferred from Dana Yip to Tabor Accounting in consultation with the Treasurer
- Annual backflow assembly testing management: transferred from Jim Battan and Dana Yip to Merrill Water Systems
- Annual renewal of various registrations: transferred from Jim Battan and Max LaBar to Tabor Accounting

Other tasks, most of which pertain to communications to members about policy or Board actions, will remain the responsibility of Board members. Specific responsibilities will be determined by the newly configured Board.

- Annual report
- Newsletters and urgent announcements or alerts
- Responding to member emails about various questions that are not billing or water supply related
- Beacon app problems: Dana Yip has volunteered to help members with problems
- Billing disputes that Tabor Accounting can't handle
- Updating the web page

### **Status of Our Physical Plant and Water Production**

**Improvements through Fall 2021:** 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 and reservoir, 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. Remote readable water meters were installed, enabling MWS and the Board to monitor water usage and leaks, as well as to save time and money by eliminating monthly on-site meter reading and tedious compilation of usage data.

The electronic meter system also includes free access to the [EyeOnWater](#) app, enabling members to monitor their own water usage and receive leak alerts. This tool has greatly helped us manage the limited water supply and avoid critical water loss for individual members and the system, especially during the irrigation season.

In 2020 the Oregon Health Authority ruled that, because we had three confirmed coliform results in an 18-month period, PMWC was required to install a permanent chlorination system. Work on the chlorination system was completed during 2021, but OHA extended the deadline for its activation. 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. Coliform bacteria are not considered a health concern but indicates a compromise in the integrity of the water system. We identified the most likely source of coliform entering the water system as the cement reservoir.

**Improvements and Repairs Since October 2021:** Most of the improvements made during the past year have been in the bookkeeping side of the Company.

**Electronic billing:** We searched for several months for an electronic billing program that would upload data from our electronic meters directly into the billing program, send bills via email and receive payments electronically, was user-friendly for the accounting team and our members, and was cost-effective for our small water system. When we found a program that fit our needs the Board approved purchasing it. Electronic billing finally became a reality in November 2021.

The new system has saved our bookkeeper, Ruth Velez at Tabor Accounting Group, a great deal of time and tedious work. Now Ruth uploads the electronic meter readings for members each month and plugs it into the billing program. Previously, Phillip drove from meter to meter to record the data, then entered it into a spreadsheet and sent it to Ruth. Ruth then manually entered the readings into an old billing software that calculated the difference between the new reading and the previous month's reading to determine the member's usage. The electronic system allows bill processing to begin earlier in the month, without having to wait for meter readings from Phillip. It is also much easier and faster to resend bills to customers, if needed.

**Autopay:** After several delays, autopay for members' convenience was finally activated through US Bank in time for the April 2022 billing. Currently 28 members have signed up for autopay, which saves PMWC time and expense in processing check payments through the office. We encourage members to use this service as a convenience to them and a savings for PMWC.

**Chlorination system:** Pete's Mountain Water Company began continuous chlorination of our water system on June 15, 2022, as required by the Oregon Health Authority (OHA). We are chlorinating at a "low rate" which few members will notice. Chlorine levels are in the 0.3 to 0.6 ppm range which is a much lower concentration than most cities (1.0 to 1.5ppm) typically use.

In addition to the billing and autopay improvements, the Company was also faced with unexpected repairs during the past year. Most significantly, both our well pumps failed. The failures occurred much sooner than we anticipated the normal life of pumps to be.

**Well #2 pump motor failure:** At the end of November 2021, the pump in well #2 failed. It had been replaced in July 2018. The pump manufacturer determined that the stainless-steel housing of the motor failed and the loss was covered with a full warranty. However, the cost of the pump is only a portion of the expense to pull and replace the pump. The labor was a large

expense. At the time of the pump replacement, it was also deemed necessary to replace 10' of copper wire connecting the well head to a junction box.

Even with well #2 being offline for pump motor replacement, well #1 met the system demand during non-irrigation season with no difficulty. Rehabilitating well #1 and creating redundancy in our system has demonstrated its value.

**Well #1 pump failure:** Near the end of January, shortly after the pump in well #2 was replaced and the well was back online, the pump in well #1 failed. It had been replaced in 2017 when the original rehabilitation to the system was done. Well #1 wasn't essential to production at that time, and we wanted to understand the cause of the failure before replacing the pump (especially so closely following the well #2 pump failure). Because there was a significant delay in getting that determination from the manufacturer, well #1 was offline until the end of August. The pump manufacturer was unwilling to give PMWC more than partial reimbursement for the pump under the warranty. After further research and analysis, the Board decided to purchase a pump from a different company. Fortunately, during much of the irrigation season, well #2 supplied ample water for the members' needs.

**Reservoir overflow:** On December 1, 2021, water flowing from the pump house site was reported to Board members. Phillip Merrill determined that a faulty transducer, fouled by scale that obscured its sensing capacity, was unable to accurately read the level of water in the reservoir. This caused the system to continue to pump water from the well into the reservoir when it was full, resulting in an overflow. The transducer was replaced with a new one to correct the problem.

**Meter replacement:** During the past year, the cellular end point of one meter failed. The meter was covered under warranty and replaced.

**Water Supply and Demand in 2022:** The much wetter spring helped in two ways: the static water level was somewhat higher at the beginning of irrigation season, and demand on the system wasn't as heavy as it normally is in the late spring, resulting in a later draw-down of the static water level. However, the prolonged dry period beginning in July resulted in a decline in water levels in the wells, especially after mid-August, prompting the need to carefully manage our water supply.

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.

**Water levels in the wells:** Over the past few years since the system has been rehabilitated, with much better monitoring equipment, we can gather more accurate information on both supply and demand, which is critical during irrigation season. 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. Our water manager, Phillip Merrill, has been able to determine that it is best if usage stays in the 70,000 – 80,000 gallons per day range rather than 100,000 gallons per day or greater, which doesn't permit the aquifer to recover. The 70,000 to 80,000 gallons per day level of pumping prevents strain on the pumps and also prevents the water level from dropping dangerously close to them.

**Water curtailment and premium pricing policy:** Based on better and more accurate data, the Board adopted and notified members of an ongoing excess water use surcharge policy aimed at protecting our water supply and valuable pumps during the heavy irrigation season.

The static water level (SWL) is the distance from ground surface level to the water level in the well. The SWL in our wells becomes critical when it drops lower and gets closer to the pump. The pump in well #2, our primary-producing well, is 980 feet below ground level, and there must be a minimum depth of water above it to prevent damage to the pump.

The excess water usage policy took effect August 1, 2022, although in future years it will likely begin earlier in the irrigation season. The excessive water usage policy is structured to link the SWL and amount of water used by a member, as follows:

1. During the irrigation season, as long as the SWL in well #2 is above 900 feet, members shall have a maximum allowed usage of 30,000 gallons per week and 125,000 gallons per month.\* Any water usage above these allowed amounts shall be billed at twice the normal rate.
2. If and when the SWL in well #2 drops below 900 feet, members will be notified by email at least 48 hours in advance of any of the following levels of surcharge being activated:
  - When the SWL is below **900** feet but above **930** feet, the maximum allowed use shall be **21,000** gallons per week, and any usage over 21,000 per week shall be billed at twice the normal rate.
  - When the SWL is below **930** feet but above **960** feet, the maximum allowed use shall be **10,000** gallons per week, and any usage over 10,000 gallons per week shall be billed at twice the normal rate.
  - When the SWL is below **960** feet, the maximum allowed use shall be **2,000** gallons per week. There shall be no outside irrigation, and all usage over 2,000 gallons per week shall be billed at twice the normal rate

\*The first maximum use category (#1 above) is derived from the Board's calculations of the amount of water sufficient to irrigate ½ acre. State regulations allow irrigation of no more than ½ acre (21,780 sq. ft.) total, whether you use your own well or PMWC water, or both. To irrigate ½ acre one inch per week for one month requires 54,450 gallons. To irrigate ½ acre 1.5 inches per week for one month requires 81,675 gallons. Our usage limits when the SWL is above 930 feet still allow for generous outside irrigation and domestic uses. The usage limits when the SWL is below 930 feet reflect the need for the member community to collaborate to preserve essential water availability for all members. Failure to adhere to the imposed limits could jeopardize water access for everyone, and the Board may authorize cessation of water services for members who willfully disregard such limits.

**Incentive to use [EyeOnWater](#) app and set leak alert:** The electronic meter system includes free access to the [EyeOnWater](#) app, enabling members to monitor their water usage and receive leak alerts. The app is free, easy to use, and available wherever you normally access apps for your phone or computer. 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. We have urged all members to download and use this critical tool. At this time, 78 of 86 members have downloaded the app.

The Board determined that, beginning August 1<sup>st</sup>, there would be a \$10.00 per month charge added to the bill of members who don't use the [EyeOnWater](#) app and set it to notify them of a leak. There are two reasons for charging an additional fee to members who don't use it:

1. Especially during the irrigation season when water levels in our wells drop, any leak that is not promptly located and repaired puts additional demand on the system.
2. PMWC's system water manager, Phillip Merrill, monitors water usage, including checking members' electronic meter data for leaks. When Phillip sees a significant leak he contacts the member, sometimes repeatedly until it is repaired, but this service costs PMWC money.

Board member Dana Yip has generously agreed to help any member who is having trouble figuring out how to use the app. Contact Dana at 503-706-2704 or [dyipster1@gmail.com](mailto:dyipster1@gmail.com).

### **Required Reporting, Permitting, Certification, and Insurance**

Each year, PMWC is required by law to certify and submit data pertaining to water supply and quality. Merrill Water Systems is responsible for submitting the following reports, which are also listed 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 and penalty for delinquency:** The Oregon Health Authority requires approved backflow protection devices for any water service customer whose system includes water features such as in-ground irrigation/sprinklers, in-home fire suppression systems, swimming pools, hot tubs, fountains, or ponds. PMWC is required to compile and report backflow device tests to the OHA each year.

During 2020 and 2021, the Board offered to coordinate backflow assembly testing as a convenience to members. However, during both years Board members spent a lot of time and effort trying to get required testing completed, and the number of tests returned was still low.

In spring, 2022, the Board decided the Company will no longer sponsor a group program for backflow device testing. Instead, members resumed responsibility for scheduling their own tests for each backflow device on their property and reporting the results by July 1<sup>st</sup> to Phillip Merrill ([Backflowmerrillwater@gmail.com](mailto:Backflowmerrillwater@gmail.com)).

Because PMWC is required to compile and report backflow device tests to the Oregon Health Authority each year, the Board also adopted a schedule of penalty fees to be imposed on members who do not submit their backflow device test results on time. The entire PMWC Backflow Policy and Procedure document is posted on the Pete's Mountain Water Company website: <https://www.petesmountainwatercompany.com/>

**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.

## **Financial Report**

We ended our fiscal year (June 30) in excellent condition. We had over \$275,000 in cash with less than \$5,000 in current unpaid bills. 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.

Our water revenue was up from prior years as a result of greater water use during last summer (2021) and into the fall. Nonetheless, you will note that our Statements of Revenue and Expenses shows an operating loss of approximately \$3,000 before the unusual pump loss repair of \$22,000, for a combined loss of \$25,855, a reduction from our prior year.

We are satisfied with our financial condition for two reasons: First, our large cash reserves will cover any shortfall for many years absent a major failure in our system. Second, our largest operating expense (at 40%) is "Depreciation" of approximately \$51,000. This "expense" is not a direct cash outlay but, rather, an accounting charge method that reduces the book value of our improvements and equipment to reflect expected wear and tear and obsolescence over time. Some of our system components will continue to require replacement in the future, but it is expected that over time this "reserve" will be adequate to replace components as needed. Adding to our expenses in 2021/22 was the write-off of the remaining book value of the motor in well #2 which prematurely failed and had to be replaced. In August 2022, we also had to replace the motor in well #1, which will increase our costs for the next fiscal year ending in 2023.

When we formed the Company to acquire the water system, we became aware of a very attractive Loan program through the State of Oregon that provided below market interest rates and, even more attractive, a loan forgiveness feature for expenditures that improve the safety and reliability of the water resource for our users. Rather than assess our members directly for these large expenditures, we have been able to finance a majority of the initial purchase price and substantially all of our many improvements with these borrowings. To pay off those loans, we have assessed our members a loan repayment fee (currently \$49/month). Because our loan repayments did not start until we completed the improvements financed by those loans, we had been accumulating a reserve in excess of our loan repayments. While our monthly assessment is a bit less than our loan repayment amounts, our built-up reserve should cover any shortfall for the foreseeable future.

Our Statement of Assets, Liabilities and Fund Balance reflects the strength of our Company. Key items include cash in the bank of over \$275,000 and total Fund Balance (similar to Shareholder Equity) of over \$420,000. This amount exceeds the total of our initial cash membership fees paid upon the formation of the Company due to the loan amount of approximately \$290,000 "forgiven" under the terms of the State of Oregon loan program.

**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 in loan capacity. The original loan capacity, approved in October 2017, 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. We used that loan to purchase the system, rehab well #1, and replace the electrical and control systems. The second loan, approved in 2020, was for up to \$204,000 at a 1.95% annual interest rate; up to \$64,000 of that would be forgiven. We ended up using \$183,302 of that loan capacity (of which \$56,390 is to be forgiven) to install line reactors, make improvements to well #2, install remote readable meters, and install the chlorination system. Therefore, the net amount we will be responsible for repaying for both loans will be approximately \$876,000.

Payments on the original net loan amount (\$749,000) began October 1, 2020, in the amount of \$11,661.00 per quarter. The payments for the second net loan amount (approximately \$127,000) began on April 1, 2022, in the amount of \$1,987.33 per quarter.

The combined annual loan payments will be slightly higher than the current \$49.00 per month loan repayment fee covers. 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 report, 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 for your support,

Your Board of Directors

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