

**ICR WATER USERS ASSOCIATION**  
**Board of Directors Meeting, Talking Rock Ranch House**  
August 25, 2009

Approved 9-22-09

Those Present:

**Board Members**

Hugh Pryor, President  
Bill Meyer, Treasurer  
Jimmy Stoner, Secretary  
Shirley Lilien, Director

**Contract Staff**

Chris Williamson, aQuality  
Bruce Eldredge-MDI  
Dee Crooker-MDI  
Bob Busch - Manager

**Member Guests**

Chris Stoner	Gene Leasure	John Payne	Dayne Taylor
Lee Gibson	Bob Steffenson	Roger Stock	Larry Bligh
Tina Bligh	Harvey Roberts	Craig Krumwiede	Pat Carpenter
Walt Gontowski	Pat Bledsoe	Craig Brown	Chuck O'Brien
Kim Utz	Fred Mayer	Eileen McGowan	Marless Taylor
Eric Seineke	Vicki Sawyer	Scott Robbins	Will Evans
Shirley Leisure	Virginia Hilkemeier	John Morley	

**Public Comment Session**

Member/Owner Comments:

The following are questions/comments from the members, and responses by the Board:

Craig Brown: You're coming up to looking at a renewal of the contract with MDI, obviously. I wanted to let the Board know that in the last seven months, I've received three notices from them of being past due. Now, that's impossible because I pay them through my bank, and on each occasion, I was given three different explanations why this is occurring, which to me are unacceptable. The first time, they said they had received the check the day after it was sent out from my bank, and ten days before the due date, but because somebody was on vacation, it never got entered. Subsequently, I received a bill the next month saying it was past due. They said they would take care of it, and I called the following day, and miraculously, they were able to fix it in 24 hours. Two months later, the same thing. I called again, "What happened this time?" "Oh, well, we had a problem with the system crashing." And I asked how long it would take before the system's back up and you correct the error. And they said probably tomorrow. Same exact thing happened last month. This time, the lady was vacation. I don't understand, but I shouldn't be getting past due notices when I'm automatically paying the bills, and I'm assuming I'm not the only one, so it was something I wanted to bring to your attention. You're negotiating a contract with them, they're asking for increases. Maybe we should have better performance.

Hugh: Just to correct the record, we're not negotiating a new contract with them. We did that a year ago, and it's a three year contract.

Craig: Then it's a modification, correct?

Hugh: Correct.

Craig: I also urge the Board that if (inaudible)

Shirley: Well, we also need to figure out if it's the ACH system or MDI.

Hugh: We'll do that, Craig. We'll go find out what happened, for sure, and get back to you.

Chuck O'Brien: I'd like to inquire what happened to the matter of the comments by Director Stoner and Meyer with respect to the performance by Dayne Taylor in his intervention with the ACC. There had been those comments which were eliminated by a vote of 3 to 2.

Hugh: We accepted those. We put them on the website. They're available for anybody to see.

Chuck: No, what I'm speaking to is the fact that Director Stoner produced a tape of the ACC that confirmed what he said. Isn't that the case?

Hugh: Correct.

Chuck: And have you further revised your Minutes, or do you want to put in the next Board the fact that his comments and Director Meyer's comments were correct, because I was at the meeting when they were rejected, and they were rejected in a completely offensive manner. One Director stated that their comments were not reliable and they were hearsay, but your comments were reliable and could stay in the Minutes. What resolution is there to that? Now, I have one more comment. I noted that one of the Directors today strongly opposed, maybe even vehemently opposed, eliminating the policy book because there was continuity and there was a past, and the Directors in the past had followed it, and it was inappropriate to simply eliminate it. It's ironic that that's exactly what that Director is pushing in respect to the Architectural Review Committee. She's advocating elimination, damned the results and consequences. So, I'd invite you all to consider the effect of that kind of a position and that kind of logic.

Hugh: Let me address that. We did talk about the fact that we have gotten input from our attorney. We've gotten input from our insurance carrier, and we're in the process of sitting down with the ARC to sort out what the issues are.

Chuck: But you will remember that at the last meeting, she said, "I don't care what happens. I just want it gone." That's what she said, and I think enough people here heard it. But I'm more interested in the Minutes, the effect of the deletion of those comments by the Directors.

Hugh: Well, you see, there's two things. One is all those comments, verbatim, were put up on the website. Jimmy got hold of a recording of the ACC open meeting, and had it transcribed – at least the part that pertains to ICR – and I think where we are, you can correct me Jimmy, but we're in the process of reimbursing you for your costs and putting that up on the website so that everybody can read what was said by whom and draw their own conclusions.

Chuck: Why don't you elevate it to the level of the Minutes?

Hugh: Why is that important?

Chuck: Because you chose to eliminate them, and in so choosing, you chose, or one of the Directors chose, fairly degrading comments, when you said that Directors Meyer and Stoner's observations were hearsay and were not reliable. At the same time, they were asked about your comments, and they were reliable.

Hugh: If you look at the comments, I only made two comments. That there was an amendment and that the vote was 4:1. Both of those are just facts.

Chuck: Well, they were facts, as he demonstrated, their report of the ACC's praise for Dayne was also a fact. That fact you chose to eliminate, while your facts remain in the Minutes. It's not logical, candidly, and it's not equitable.

Hugh: Well, the truth is, we tried to put all that information in a form where everybody can see it. I don't really understand . . .

Chuck: Which has more dignity? Comments in the Minutes of the Board or comments by one of those peons who just makes trouble . . . . .?

Hugh: The truth is, I think the thing that has the most validity is the transcript of the actual hearing which Jimmy has arranged to get, and putting that up. That is, in fact, what happened word for word.

Larry Bligh: I have to agree. That should be an addition to the Minutes. I've been a part of Boards, corporate boards, probably as many as anybody in this room. And I question why Minutes are amended. If something takes place at the Board, well, I guess the perfect example would be what Jimmy was representing earlier. There's a question about this policy manual. If the Minutes are complete, you can go back and reference those Minutes. If something takes place at this Board meeting, it should be a part of the Minutes. It shouldn't be up to you or anyone else to amend those Minutes and remove them. Minutes are a record of what took place.

Hugh: Yeah, and as I said last . . .

Larry: And they're not up the Board just to willy-nilly decide what he says isn't good, and what I say is good.

Hugh: As I've said – let me separate this part of the meeting – this part of the meeting is not in the Minutes.

Larry: I'm not talking about this part of the meeting. I'm talking about the Board meeting Minutes where that issue was raised by Jimmy, and a decision by a group of this Board decided that that would be removed from the Minutes. The Minutes should be a record of the complete meeting itself, and everything that took place. I believe this young lady here is taking down all that information. And where does it say that anyone should have the right to remove them? Adding that information to the website is a great idea. Everybody can go read it.

Homeowner: They're not being recorded.

Hugh: Yes, they are.

Larry: I'm talking about the Board meeting Minutes themselves. That was part of the Board meeting and I don't understand why the Board meeting Minutes are amended. I've been a part of many Boards throughout my career, and I've never seen that done before. Ever. Ever. That's what the record is for. That's exactly right. Jimmy can go back and research the Minutes and find the record of this book being adopted. Great, right? Maybe that was removed. Maybe it was removed. Maybe somebody decided they didn't like it. The record should be clear and complete.

Hugh: Yeah, well it's neither one of those, I can tell you that for sure.

Larry: Pardon me?

Hugh: It's neither one of those.

Larry: I'm just using that as an example. But the action taken by the Board to simply decide, "I don't like what that says," and have it removed, is outrageous.

Craig Krumwiede: Hi, everybody, I'm Craig Krumwiede. I was asked by some of the Board members to attend today. A little update on what we're up to in Talking Rock. First of all, I'm very glad we got everything worked out at the ACC.

Craig Brown: Who are you, Mr. Krumwiede?

Craig K.: I'm the President of Harvard Investments. What we're doing, as far as the Water Service Agreement, WSA, we entered into, and that everybody's support of, we agreed to drill an effluent storage pond which we have a permit for, and we bid it out and we're reviewing the bids. We will start construction on that next month. That will be completed in the timelines as set forth in the WSA. The other thing that we've done is we really focused on the new technology and our golf maintenance has worked hard to keep our water usage down. And we've reduced it substantially between 2006 and 2008, and we're using less in 2009. So, we've worked closely with the computerized irrigation systems. We put in new sprinkler heads and reduced our (inaudible). We're actually using less water than the computerized system recommends and we're still getting good results on the golf course. We take seriously doing our efforts to minimize the use of groundwater.

Homeowner: You said it went down significantly. How much did you use in 2006, 2008?

Craig K.: We used 362 acre feet in 2006, and we used 302 acre feet in 2008. And we're using less this year, so far.

Homeowner 2: What is your projection when the golf course will be able to use only effluent?

Craig K.: It's tied to the number of occupants in the houses. We believe it will occur – I can't tell you when – it depends on how fast people build houses.

Homeowner 3: Why do I, as an ICR resident, have to subsidize your golf course with our water costs?

Craig K.: We actually have the right to water the course on our own, as part of our settlement with this whole rate case. We agreed to become a customer and pay the rate we negotiated and was accepted by the Corporation Commission, and intervener Mr. Taylor supported and we agreed to that for five years.

Craig Brown: What does that have to do with the Water District? Why is it that Talking Rock hasn't considered opening up some of its facilities, and I'm not talking about the golf necessarily. Say, the bar and restaurant and snack shop, to WC and ICR residents.

Craig K.: I'm glad you brought that up. We do have memberships available.

Craig Brown: No, I'm not talking about that. Don't go there.

Craig K.: I'm sorry, I don't know the history of that comment, so I apologize. We obviously are in this business to generate revenue.

Craig Brown: It would be convenient for us to go to a nice restaurant by going across the road vs driving 20 miles.

Craig K.: Why don't we talk about that offline.

Lee Gibson: I apologize for not being at more of these meetings. I've only worry about money we spend, about money we don't spend, and the money we're spending two or three times. Bob, I understand that you're responsible for all the underground infrastructure – leaks, water, joints, pumps, things like that?

Bob Busch: Actually, that's probably more of the operator's responsibility. He's the guy who does all the maintenance and upkeep of the system.

Lee: Does he work for you?

Bob: No, he's a separate entity.

Lee: Contracted off of you?

Bob: Through the Board.

Lee: Okay, so this guy is the one responsible for, like you said – a little number just came across before -- 27,000 gal. of water, just gone. Nobody knows where it went. But to me, that calculates out to one building pad. That's all it takes to go out here, water it down, and go. Somebody get a sweetheart deal? Did somebody get it by illegal gains? Or do we simply have some valves that are just running every month? It's not a lot of money – what are we talking, \$80, \$90, \$100? But it adds up. That 27,000 gal., like you said, it's gone. Everybody flips up their hands and says, "We don't know where it went." It could have went anywhere. But, here we go back to the buildings. The buildings we've looked at over the years. The small buildings housing the pumps and generators, and all that stuff. How big are these buildings and how many of them are there?

Bob: The five that we talked about at this meeting, there are three that are 10X20, one that's probably 20X20, and the other's about 25X50.

Lee: So, we're talking about 600 sq. feet.

Bob: More than that.

Lee: Okay, and you're going to spend \$5,150 for rat infested insulation of the buildings. I understand you've taken bids on this, or what?

Bill: Yes.

Lee: And the best you came up with was \$5,150?

Hugh: Yes.

Lee: The size of these buildings tell me that they required a permit. Anything over 10X10 requires a permit. You have electric in it, water in it, anything like that in it?

Bob: Yes

Lee: Then it's required to have a permit. Well, the County insists on having a building permit on anything over square footage. Now, if this thing was permitted, which it should have been by all legal means, I never heard of a building in my life that was insulated and never covered up. Doesn't happen. Who signed off on this thing? And who built these buildings?

Bob: They were built by TRR when they constructed the well and the well house.

Lee: Alright, who built it?

Bob: The contractor's name?

Lee: Yes.

Bob: I don't know.

Lee: So, TRR is responsible for these buildings.

Bob: They were built 6 or 7 years ago.

Lee: Are you responsible for these buildings?

Bob: Now.

Lee: It sounds like you ought to pay the bill. It's not funny. This should have been finished. I mean, we're out here in the country. There are mice, rats, bugs everywhere. Anybody in their right mind stands up and sees insulation hanging off a wall, they know that rats and mice are going to make homes in them. Does that sound feasible? Talking Rock, they have a lot of money. Write a check. Get it done. And do it right this time. That sound fair?

Bob: I understand your comment. I don't agree with it.

Lee: Okay, thank you.

Bob Steffenson: Could you briefly summarize what the options are, the four options that the lawyer advised you?

Hugh: Nothing that I got from my attorney can be done briefly, but I'll give a whack at it. Our first option is to file a Declaratory Judgment with Yavapai County asking the Court to declare the provisions do not bind the ICRWUA, to declare the provisions invalid, and/or to determine whether the ICRWUA can amend its By-laws to eliminate any connection with the ARC.

So, in summary, the first option is to have the Court separate the ARC from the Water Co.

The second option is to amend the By-laws of the Water Co. to assure that the only involvement that the Board has is for the situations specifically required in the CC&R's of Lots 1-180.

The third one would be to amend the purpose in its Articles of Incorporation to include the responsibilities with the ARC. That is to say, make our Articles of Incorporation define that we also operate an architectural review committee.

And then the fourth option is to completely sever its relationship with the ARC by changing the By-Laws, which leaves the ARC without a home, so to speak. Those are the four options.

Chuck O'Brien: Those are pretty draconian. The implications to those living on Lots 1-180 in ICR are pretty profound. You will have eliminated, as Shirley Lilien pointed out, something that's existed and worked for years, and if you simply eliminate the ARC, you leave us without a structure or an institution that will protect us, and, by the way, I noticed that last year, you received a letter from your counsel and it indicates that the way to do it was have a vote of the ICR, requiring 2/3 approval.

Hugh: You're referring to the February 2008 meeting?

Chuck: Yes. Now, why is it, have you hired a new lawyer?

Hugh: No, same guy.

Chuck: Same law firm, but have now reached a different set of legal conclusions. That's fairly extraordinary.

Hugh: For an attorney to change his mind?

Hugh: I don't think it's changed, but I don't have total recall of what was in that 2" binder.

Chuck: I'll send you a copy.

Hugh: I have it.

Chuck: I encourage you to look at it because you are – this is what Shirley Lilien just said – you can't change things. You want to preserve the continuity of an institution.

Shirley: Please do not misquote me. Okay? There's a very big difference between what the law requires and what's not appropriate, as opposed to a policy book which we built, so don't confuse the two issues.

Chuck: They are the same principle. It is exactly the same. You want to preserve the policy book because it has stood the test of time. We, in ICR, want to preserve the ARC because it has protected us and stood the test of time. So, if anything, ours is a more compelling argument

Bob Steffenson: You're not speaking for the group. It's not "we." We may need something there, but if we dissolve it completely, we can start from scratch and do what we want with it.

Shirley: It's not a complete dissolving. That's the whole issue. Your CC&R's are still your CC&R's. And you homeowners from ICR can enforce the CC&R's. The question here, and you seem to be missing sight of it, I understand your problem. In TRR, we have a homeowners' association. We pay for it and they take care of it. All of these issues. You don't have a homeowners' association. What you have is the ARC that was put into the Water Co. because the developer didn't want to mess with it anymore. It's not appropriate for the people in TR, WC, and The Preserve, and the remainder of the lots in ICR other than 1-180, to have to bear the liability or the enforcement issues or anything else . . .

Chuck: But, why are we, in ICR, subsidizing your right to play golf? (General audience agreement.) And once you eliminate the ARC, there's nothing. We will require 2/3 vote of the ICR, Lots 1-180, in order to create a new ARC or a new HOA. I think it would be blocked quite easily in Court, but you know, you guys are paying with our dollars for your legal defense. You know, I've talked to you already about breach of fiduciary duty. You want to hear another concern that I have, that I think is valid? I would like you to comment on this. Let's discuss the matter of conflict of interests. Blatz (?). It defines a conflict of interest

as a situation in which regard for one duty leads to disregard of others. That's cited in 463 \_\_\_\_\_. Or might reasonably be expected to do so. That's conflict of interest. Let's look at your situation. Ms. Lilien, Mr. Lobaugh, and Mr. Pryor are residents of TR. All residents of TR pay proportionate share of the cost of the golf course. A significant portion of such costs consist of the expense for water. Before the Arizona Corporation Commission rate ordered earlier this year, the cost of water to the golf course, but only the golf course, was approximately .04¢ for 1,000 gal., while ICR, TRR, and WC residents were paying approximately \$2.80 for 1,000 gal. of water. When the Arizona Corporation Commission ordered the ICRWUA to present a revised schedule of rates, an irreconcilable conflict was presented to the Directors of the Water Board from TR. Any increase of the cost to the golf course would result in an increase of the dues of TR residents to the golf course. If the golf course were to pay the same rate as residents of ICR and WC, then because the golf course uses more water than I believe all others combined, rates would be reduced for ICR and WC, and increased for TR. The effective cost in such situations is TR residents would be higher, however, because they would pay the same rate as ICR and WC, but their share of the much increased rate to the golf course would be borne by them. It's clear. It's logical. Therefore, the TR Directors of the Water Board have a conflict. If they move to increase the cost of water to the golf course in an amount equal to the amount charged ICR and WC, they would violate a selfish duty to themselves, that is to pay as little as possible, as well as a duty to their constituents, the TR residents. If the TR Director voted to equalize the cost of water to all, then they will have violated at least their duty to the TR residents. TR Directors and any person tied to the golf course should have recused themselves, that's you. But they did not. In fact, they opposed the increase to the modestly increased golf course rate and they spent many tens of thousands of dollars for lawyers to protect their position once Dayne Taylor intervened. That's a fact.

Harvey Roberts: The rate case has been settled. I'm wondering, Bill said you have a -\$4,000 cash flow. Is the Company on a projection to actually make money? I thought the purpose of the case was to at least get us in the black, not in the red. Are we going to be in the black in a couple of months? In response to this fellow, aren't you splitting out the two systems so you can see who's paying what and how they balance out? And if you go with the conflict of interest, with this complicated discussion, this would also apply to the people on the other side of the street trying to make their rates lower, so, I mean, it's a community Board. They're trying to do their best. Let's not get into more court fights. Could you answer my question about whether the rates will put us in the black?

Hugh: The cash flow ought to be positive, based on what we know today.

Harvey: Cash flow is one thing, but when you add depreciation and go the whole nine yards, what's the bottom line? In 2006, it was \$100,000 negative. Is there anything positive?

Hugh: No, if you include depreciation, it does not.

Harvey: Then how do we get out of this hole?

Hugh: You don't, near as I can tell from the people that I've talked to that know something about this. We're always one rate case behind in terms of breaking even because the Corporation Commission does not allow you to recapture depreciation to any great extent. I mean, they're the ones that decide. It's not us.

Gene: But you're the ones who are doing the monthly accounting. You should know by now how its going.

Hugh: We know exactly how it's going.

Gene: I don't get that impression.

Hugh: And those financials are where you can see them yourself.

Dayne: I have several questions regarding the two water systems. You're accounting both systems as far as financial, positives or negatives. Is that correct.

Bill: That's correct.

Dayne: The report that was provided, that I found on the website, did not. It gave a company positive. Is it possible to see the cash flow for the two separate water systems?

Bill: I have no problem with that if the Board approves it. I think it's fine to do. We currently, I believe, in May or June, began keeping financial records our two separate systems, separately, as well as company wide. If the Board approves putting those on the website, I certainly would go along with that.

Bob: I believe what's on the website now is the cash flow report for the Company, the financial report which includes an income statement and balance sheet for the total company, and one for the TR system, and another one for the ICR system, as well as a check register. So, all of that should be on the website now.

Dayne: I would like for you to explain, or Bill to explain, to any of us that financial statement as it is provided as to the positives – what is said in that statement. I've been working with MDI statements for five years plus, and I have never, never been able to get my arms around their statements. And I have constituents here in the audience that looked at those statements and said, "Good luck if you can figure out what the statements say." I would like to see a separate statement stating the ICR, or the two separate systems, and what their cash flow is and how they do contribute to the overall company.

Hugh: In short form, when Bill makes his financial report, you'd like to see them done separately. Is that what you're saying?

Dayne: And the other thing I want to say is that as part of the policy team, having received this policy book back in the April time frame, I want to just bring to the attention that it is required for someone to get a water meter, house plans reviewed by the Architectural Committee is required. There's a member on this Board who has been on this Board almost four years, that supposedly has a water meter, but he owns a piece of property in the service area, but yet how can he (1) to be on this Board, you have to have a water meter, and to get a water meter, you have to have plans approved by the Architectural Committee, so this person is on this Board in violation of this Policy Book. Can you explain how Mr. Lobaugh is on this Board and having not followed through with what – this Policy Book has been here for several years and needs to be complied with.

Hugh: We'll respond to that. I can't do it in real time, but I will respond to that.

Dayne: Like you responded to my request at the last meeting?

Hugh: Which was?

Dayne: The service charge that Harvard is to be paying based on the decision by the Commission? You never responded to me on that one. Hugh, you don't respond to the questions that we have asked you.

Hugh: I believe I did respond, but . . .

Dayne: Where? Will you re-copy the e-mail to me?

Hugh: Sure. Sure. You know better than I do where we are with that, as a matter of fact, don't you?

Dayne: Why should I? You're Chairman of this Board. I asked you that question.

Hugh: You're the one that raised the issue. You've talked to Kevin Torrey. You've talked to Craig Krumwiede. You've talked to others about that specific issue.

Dayne: But I asked you the question so the people in this audience would know the response. I do not communicate with these people.

Hugh: You do not communicate with . . .

Dayne: All the people in this room.

Hugh: Okay. Your point's well taken. I'll do that.

Kim Utz: This is a question about the Architectural Review Committee. Can you get me a copy of attorney's options list

Hugh: I don't see any reason not to, sure.

Kim: Can you e-mail to Fred Mayer or Jan Marshall because I'll be leaving town on Thursday. Bob Busch has the addresses.

Hugh: What were the names again?

Kim: Fred Mayer or Jan Marshall.

Bill: Harvey, I'd like to go back to what I think a couple of your questions were. When the Board projected our financial situation this year with the ACC conclusion, we recognize that when depreciation is included, we would go into the red. That's a fact. And we are going into the red because of depreciation. Depreciation went up when we accepted more infrastructure from TR. Our cost for depreciation increased. So, that part of the budget category will be in the red for the entire year. We also had legal fees to pay that we negotiated. Based on what we thought our cash flow would be, we came to a conclusion that we could pay a certain rate and that was agreed to by the attorneys and a certain amount which was reduced from what their bill was. So, we're doing that monthly. We're paying the attorneys. Our projections at the beginning of the year were such that we would have the funds to do that. We knew we weren't going to have a lot of extra funds. We started the year, I think, with about \$80,000 in the bank. We currently have about \$87,000 in the bank. We have started to keep track of our cash flow very specifically. That's why I report that each month, so that we know we have cash to work with even though we also know on an annual basis, we're going into red because of depreciation. With regard to our projections, I believe Bob gave a comment last Board meeting, for the first six months, I think we were doing slightly better on a cash flow basis than we had anticipated, but not much. For six months, it looked like we were pretty close. So, that's kind of where we are. We should still end up the year, cash flow-wise, okay unless we get some significant breakdown or something. We will not end up the year out of the red.

Jimmy Stoner: I'd like to add to that. There is no reserve. We are not building a reserve. This expenditure that we talked about relative to pest control, sealing up the buildings, that's coming out of the cash. If we

have any major hit relative to the infrastructure, on either side of the street, that comes out of cash. The Stand-by generators, costs associated with those leases, and to put a plug on the TR side, electrical distribution at the well site, comes out of cash. So, every little expenditure that has not been budgeted, is going to deplete our cash, and the rates are not such that we can start to build a depreciation account that can be used as a reserve.

Bill: That's correct.

Jimmy: So, does that help answer your question?

Harvey: We're just one major step away from disaster. Is that what you're saying?

Bill: We were told at the rate case, as Hugh did say, that you're always one rate case behind when it comes to things like depreciation. In fact, we're adding new infrastructure as we go, which causes our depreciation expenses to go up. So, we are one rate case behind, and not only that, but the rate case started in 2006, I believe, and we didn't resolve it until 2008, so we were more than one year behind in that. That didn't help us at all.

Mark Kaiser: I live in ICR and I'm building in the Preserve in the next couple of weeks, and I'm a member here. I went to the first one of these meetings and I posed the same question there and watched these things now for however many years we've been at this battle. It seems to me that all of you that are angry at the golf course side, I'd be suing the developer that made the deal with TR in the first place. These people had nothing to do with that. All they're doing is dealing with the agreements that they inherited and doing the best they can to follow it through. This anger is just pointed in the wrong direction. An unbelievable amount of energy and paper and e-mails by the gazillion. I'm quite sure that there's no fiduciary responsibility that's in default here. I practiced law for 40 years. If I still remember it right, I think Harvard is separate from the TR HOA and they're the ones paying for the golf course side, are they not?

Bill: Harvard's paying.

Mark: So, it's not an issue. I wish I could channel all the energy in this room for people that like to fight. If I had a client like that, it would have really been a fun career.

Craig K: I think, Bill, and I don't understand the rate making at all, was the point that when you said you're one rate case behind, because the new depreciation that you took on, and it was your choice to do it, helps build a rate case . . .

Hugh: For the future.

Craig K: Is that the end point of why you . . .

Bill: That is one end point.

Bob: In fact, the rate case was built on financials for the year 2006, so from 2006 to when new rates went into effect in 2009, we're 2 ½ years too late. That's old news. That's 2 ½ years old.

Dayne: Seven million dollars.

Bob: Yeah, and so we take on infrastructure since then. A lot of things have changed, so like Hugh said, we're one rate case behind all the time.

Hugh: And, in fact, that's the way the accountants explained the operation of the Commission, that they're always one rate case behind. It doesn't matter who you are. APS or good ol' ICR.

Chris Stoner: But we were told by Kevin Torrey that if we had to, we could go back for an emergency rate case.

Hugh: That's a fact, we can.

Bill: That's the point I was going to make. We won't go bankrupt. If we really run into a cash flow problem, then we can go back and ask for emergency rate case.

Hugh: And I don't think the Commission will let us go out of business, to be honest with you. Because they don't want to run the Company.

Craig Brown: I don't expect that you'll have an answer, I've been to several recent meetings for Prescott City Council and people who are running for City Council there and their water issues for that City. They want to run a pipeline from Big Chino to Prescott. It is my understanding that that's going to come through somewhere in this vicinity. I don't know exactly where. But they were talking about the aquifers, and whether there is water or not, and how it would affect the water that we actually get from Pierce several times because they were talking about buying water from in the well. And I was wondering, do we have any idea how that will affect us in any way, shape, or form? Are we thinking about looking into it? Or is it something we shouldn't worry about?

Bill: The Big Chino Water Ranch that Prescott is proposing to build is in Big Chino Valley, we're Williamson Valley, but the two are hydrologically connected. The water line itself will go from about 20 miles north of Paulden down to Paulden, and the water line will shoot over to the town of Chino Valley, and tie into an existing system that Prescott has from Chino Valley into Prescott. So, the water line won't go by here. Will the pumpage, if it occurs at the Chino Water Ranch, affect us? The systems are hydrologically connected. Water from Williamson Valley feeds into Big Chino. There is no hydrological argument to this. The USGS is making a model that incorporates our area as part of the system, and they will be able to predict the consequences of Prescott's pumpage and additional pumpage out of Big Chino because there's a lot more than just Prescott's pumpage that's proposed out there. So, we'll actually get some feel for whether or not this area will be affected by that pumpage, and that will occur over the next several years.

Craig Brown: There seems to be a lot of conjecture back and forth with regards to how it will affect the aquifer and everything that goes into the Verde.

Bill: There's a lot of stuff that I would call conjecture. There's a lot of propaganda because of how the scientific world is very agreeable on how things are and how to project what's going to happen.

Craig Brown: So you don't believe that it will have an effect on us? I mean, obviously, it won't be right away.

Bill: I think it's possible for it to have an effect on us. How much, I don't know. The bigger potential is that pumpage can affect the flow of the Verde River, which takes into a legal scene, and even today, the water adequacy reports for TR have at the bottom, there is a potential legal issue involved with your right to this water.

Marless Taylor: I just wanted to comment on something that Mr. Kaiser had to say. He said that the things that we had to inherit, you just had to work with it. But I don't feel that TR has worked with what they

inherited because, if I'm not mistaken, they actually inherited the \$2.80 per 1,000, just like we all had, and they immediately worked to lower that – and they not only lowered that, but they lowered it to less than .04¢, that Chuck O'Brien mentioned earlier, and so immediately, we were hurt, and I mean TR too. I'm not just talking about ICR or WC or Preserve at the Ranch. TR homeowners were hurt by this too, because of that .04¢, that ridiculous .04¢. And now they raised it to \$1.40, and if you were at the hearing, you heard Commissioner Mays say how ridiculous it was for a golf course to pay one-half of what homeowners pay. They are still paying much less than what they should, and maybe we shouldn't be angry about that. Maybe we should just say, go ahead, we'll keep subsidizing. It's great. And, it isn't.

Roger Stalk (to Craig K.): Why are you here today, just to schmooze us into thinking that you are the good guys, and you're not at all the good guys? You, or the people you work for – fair's fair – you guys are raping us. We're subsidizing, and we're not even allowed to come through the gate. I mean, if we're in the red, our cash flow is not in the black, we start spending money to fight you guys because you did not want the rate increase – we spent thousands of dollars on our attorneys to fight you guys to pay a fair share. Step up and start to pay what you should. And you're in arrears \$9,000 right now. Every month, you guys are late, he's late and he gets a notice to pay up. You were \$8900 in arrears at one time. Where's your respect for the rest of the residents besides where your investments are at? You are making money off of the money I pay for the water that you're using to make the grass green here. Most of us don't even have lawns because we're economical-minded. You guys are plain taking advantage of us. I'm not mad at you. I'm just mad at the way you guys are doing this. It's not fair.

Craig K: I'd like to address that if I could. When we started this project, first of all, it was zoned for golf course use before we ever got here. When we looked at it, we had an interest in developing it. And we drilled our own wells, and we got the Corporation Commission to approve that we could serve ourselves at the golf course. Now, in addition to the .04¢, or whatever, we were also paying electric bills and other costs, and so the Water Co. didn't have a contract to serve us water. We had a cost sharing arrangement to pay for pumpage costs, etc. Now, when the Water Co. filed its rate case, we had an agreement with them, they went to the Corporation Commission to get their rate case, Dayne filed his intervention -- I worked with Dayne for years on sewer items – and so, we came to the conclusion that if we could work out an arrangement that would help the Water Co. and still allow us to get through our development and pay for water, that we would agree to settle that out, and we got unanimous support of, you know – Bill Meyers was involved in the negotiations – we worked it through. You know, I'm happy to do it. I want a successful water company. It's important for our development. Obviously, we can't sell houses without a successful water company. We feel we're paying a fair rate. This was negotiated and agreed to. There's a lot of angst here and I'm sorry I haven't come to more of your meetings. I'm happy to come to more of your meetings, but we're trying to do the best we can, and I know that perhaps that doesn't register with you, but we settled this, we made an agreement, it goes forward for five years.

Marless: Craig, were those electric costs for anything that ICR was incurring?

Craig K: I don't know the details of all that, Marless. The electric bills we were paying \_\_\_\_\_.

Dayne: The 15% that is taken off the top for the revenue for service that has been provided, is that 15% applied to TR for the golf course, as well? For the \$1.40 rate that they're paying, does that 15% apply to the \$1.40 rate?

Hugh: No, it's not.

Bill: It comes off the residential income.

Dayne: It comes off just the residential?

Bill and Hugh: Correct.

Bob: Well, off of everything but the golf course.

Dayne: Where is that specified?

Bob: I'm not sure. What do you mean, where is it specified?

Dayne: Where is it documented that that is policy?

Bob: The MXA covers that. It says that they get repaid 15% from all the customers in the area.

Homeowner: The golf course is a customer.

Bob: It's exempted in the WSA, as well. The golf course is exempted from that payback in the WSA, too.

Dayne: Are you sure about that?

Bob: Yes, I am. And it's not being in the calculations. We've been paying them back now since March, and the golf course is not included in that computation.

Bill: If the golf course were, we would be paying more.

Bob: Yes.

Dayne: Well, that's my point. So, the \$1.40, you know, 15% of the \$1.40 would be given back to Harvard.

Hugh: Except that we're not doing that.

Lee: One last question. The Board member that has the lot without the water meter on it, I'd like to ask that Board member a question. I want to know who it is.

Hugh: He's not here.

Lee: He's not here? Any idea if he has a projection for building a home in the near future?

\_\_\_\_\_: Not for himself.

Bill: He's a contractor.

Lee: He's a speculator.

Bill: He builds homes.

Hugh: He builds homes.

Lee: I thought there were only five people on the Board.

Hugh: There are five.

(Applause from all as the rains suddenly came roaring down.)

Adjourned at 11:35