

Inscription Canyon Water Company

Board of Directors Meeting

June 10, 2024

DRAFT Minutes

Attendees:

Randy Joly – Secretary

Mike Hubbard – VP Operations

Dan Cancelleri – Director

Cheryl Ibbotson – Business Office

Pat Carpenter – Operations

Derek Scott – Operations

Mark Armstrong – President

Absent: Giles Howard – Treasurer

Mark Armstrong called the meeting to order at 9am. The board was able to confirm quorum.

Mark Armstrong asked the board if there were any questions or modifications to the draft minutes of the board meeting held May 7th. There were none so he made a motion to ratify the Minutes of the BOD meeting held May 7th, 2024. The motion was seconded by Randy Joly and passed.

Giles Howard was not able to attend the meeting, and so Mark Armstrong provided the financial report.

Finance Report

- YTD Revenue Performance and Variances

The latest financial statements were reviewed and no major variances were noted. The board noted that revenue was YTD approximately \$14K

favorable to plan and expenses were approximately \$12K favorable to plan. The net income was therefore \$26K less of a loss than budgeted.

Mark Armstrong stated that he was working with Symmetry to obtain bills of sale for infrastructure transferred to ICWC in TRR since 2019. This depreciation and amortization should have been on our books. The board agreed to have this entry back dated to January 2024 and not restate prior year's annual reports. Cheryl Ibbotson will make these entries and 2024 restatements when the documents are received.

- Cash Position/trajectory

The current cash position approximately \$300K. This is in line with the previous projections, given the large capitalized cash outlay for the TRR well #5 project. The projection for year end is still to be around \$500K, as June-September are the high revenue months.

Operations Report

Well #5 status report

- Costs vs estimates – tracking

Mike Hubbard stated that there were no changes to the cost projections discussed at the last meeting, and that the project was still tracking to come in approximately \$15K below estimates. The board agreed to use the current well equipment for the time being, but that more capacity could be available in the future with a larger pump/motor and VFD. Mike Hubbard asked Pat Carpenter for estimates on the cost of those components, as well as whether larger wiring or other costs would be necessary.

- Test pumping results

The preliminary test pumping results from the new well were very encouraging. It appears that it may raise our previous pumping capacity by up to 200 gpm at peak times. Because of the larger diameter of well#5, it appears to have a lesser draw down effect on well #4, which would allow both to operate simultaneously a significant part of the time. Stress test pumping and production capacity testing will be

performed when the well is ready for commissioning. Mike Hubbard suggested that an informal communication to Symmetry would be appropriate. There was some discussion whether this was necessary, but the board agreed and Mark Armstrong agreed to make the communication.

- Project timeline -Estimate to complete

Mike Hubbard stated that the project was about one month behind based mostly on permitting times, but would be ready to go live in August. Water samples have been submitted to ADEQ for approval and Civiltec is managing the permitting and ADWR process. The remaining items are primarily electrical and piping. Mike Hubbard provided the test pumping data to Civiltec last week.

- Estimated Well #1 downtime prior to #5 production

There was some concern about an extended downtime of well #1 prior during the conversion to well #5. A plan has been developed to make that a one-day process, which will not have any effect on supply.

- TRR well operations strategy – well # 3,4, 5

The board asked Derek Scott to review pumping data and projections and propose an operating pattern for the three TRR wells by season. That will be discussed next meeting.

- Mark Armstrong inquired about the status of the solar equipment replacement for the Whispering Canyon tank instruments. Derek Scott stated that the vendor was waiting for one part and then the install would be completed. ETA is June 15.
- Derek Scott informed the board that CL2 storage for the ICR well#1 had been relocated to an outdoor cabinet. This was to avoid corrosive vapors near the electrical gear.
- The board discussed some modifications to the plumbing at the ICR wellheads that would make it possible to track the losses of water during well switching by meter rather than relying on estimates. Pat

Carpenter agreed to provide an estimate for the pipe work and mag-meter.

- ADWR TRR sufficiency study

The board discussed the status of the current ADWR sufficiency study requested from Symmetry for the phase 7 plan in TRR. No data has been requested from ICWC as of yet.

- Summer wellfield hydrology testing

ICR well #1 and #2 and the ICR wellfield will be tested this summer. Dates are being finalized. Results will be posted on ICWC.info.

Other Business:

Verizon Cell Tower inquiry

Mark Armstrong previously provided a proposed final contract to the board for their review and comments. The cell tower company agreed to all but one of our requested changes. The first part of the agreement provides for an annual payment by Verizon to ICWC for an option to lease a 2500 Sq Ft piece of ground behind the Whispering Canyon storage tank. This option period of up to 3 years would allow time for the cell tower provider to go through the county/public approval process prior to signing the lease on the land. This process includes public hearings, comments, objections etc. ICWC has no involvement in this process.

If the process resulted in an approval by Yavapai county, the lease agreement would then be in force and provide a yearly revenue to ICWC for many years, with additional rent if other carriers were added. This would not only improve cell phone service quality in our 4 developments, but would help subsidize water rates.

Mark Armstrong made a motion for the board to authorize execution of this agreement. Randy Joly seconded the motion and it passed. There are several steps prior to the contract being in effect. Once it is executed, it will be posted to the ICWC.info website.

Part-time Manager

The board has been concerned for the past 5 years about the inability to recruit new board members. Of the current board, one member -volunteer has been serving for 7 years, one for 6 1/2, 2 for 5 and one for 3. The last 2 annual elections produced no net-new nominations. A suggestion was made by one of the member-attendees at the 2024 annual meeting, that perhaps a contracted manager that relieved the board members of much of their operational time commitments would make it easier to recruit “oversight” board volunteers. This had been discussed by previous boards since 2020.

The board researched this concept and agreed to investigate the legal ramifications and costs of this structural change. The resolution to fund the legal work was passed at the May 7th meeting and appears in the minutes of that meeting. The research revealed that many utilities do use contracted management to operate the day today functions of the company. The going rate for these types of services was in the \$60K-\$80K/yr range. There are several companies and individuals that provide these services in Arizona.

The company’s attorney determined that it was not a violation of the company bylaws to hire such a resource as an independent contractor. However, several board members expressed a reluctance to bring in a resource that had no ties to the communities that the company served, and no knowledge of the system or its complicated history and diverse users. There was also concern about the ramp up time and the total annual cost.

The concept of contracting with a member was also briefly discussed at the May 7th meeting, where Mark Armstrong proposed to be the test pilot for this concept. He agreed to provide the services at a “substantially below market” rate to prove out the concept and get the boundaries of an ongoing job description defined. The board asked the company attorney to define the parameters for that to happen, with regards to Mark Armstrong’s current status as a board member and officer. The attorney reported to the board that to satisfy the ICWC bylaws, and the State of Arizona Statutes, that a board member could contract services to the company as long as:

- The potential conflict of interest was presented to, and accepted by the board by resolution

- The services were contracted transparently, and the contract was deemed favorable-fair to the company

The board agreed that this approach would be a good trial and would eliminate the ramp up time and be much lower cost.

The board acknowledged the disclosure of the conflict of interest potentially caused by this action. Randy Joly made a motion to accept the conflict as it had been presented. The motion was seconded by Dan Cancelleri and passed.

The board then reviewed Mark Armstrong's qualifications for the position. Their findings indicated that he presented the following attributes:

- Degree in Chemical Engineering
- Master's degree in Business
- 6 years on the ICWC board including 2 as VP operations and 3 1/2 as President
- Established relationships with all active developers and the golf course operators
- Established relationships with all vendors and agencies
- Established relationships with all contract operations and business partners
- Established relationships with existing board members
- Visible member in all communities

As a result of these discussions, the board determined that there was not likely a better candidate available to trial this function, and requested that the company attorney, Jeff Crockett esq., prepare a draft contract for Mark Armstrong to provide these services. This draft was presented to the board. After a review of the contract, and a board conference-conversation with the attorney, Randy Joly made a motion to proceed with the contract, which was seconded by Mike Hubbard. The motion passed 3-0 with Mark Armstrong recusing himself from the vote.

The board agreed, that upon execution of the contract, that the structural changes would be effective July 1st. In the interest of maintaining an evenly

distributed management structure, the board also proposed the following officer assignment changes, also to be effective July 1st:

Mark Armstrong resigns as president and becomes a director and manager

Randy Joly resigns as secretary and becomes President

Giles Howard becomes Secretary and Treasurer

Mike Hubbard remains VP -Operations

Dan Cancelleri remains – Director

These changes were motioned for a vote by Randy Joly, seconded by Mike Hubbard and passed. Cheryl Ibbotson agreed to verify that these officer assignments were in compliance with the AZCC rules.

With one board member planning to re-locate, and one of the current board members being in the last year of their term and not seeking re-election, the board believes that this will allow the company to keep sufficient board members involved to satisfy the bylaws of the company in the event of another zero-nominee situation, and not allow control of our water resources to fall into the hands of a state agency. The manager contract, when executed, will be posted on ICWC.info. This contract will be available to future applicants if the company deems it appropriate. It is cancellable with 30 days-notice, if future boards desire to revert to the current management model.

The board confirmed its intention to start conveying this concept to persons potentially interested in an “oversight only” board position, so that they may consider nomination for the elections this fall.

A special notice regarding these changes will also be posted to the ICWC website, and will be followed by any communication protocol changes.

Miscellaneous

Dan Cancelleri inquired as to whether ICWC had received any participation requests from a fire-wise group that met in TRR last week. No board members had been contacted.

Adjournment

AS there was no further business proposed, Mark Armstrong made a motion to adjourn the meeting. The motion was seconded by Dan Cancelleri, and the meeting was adjourned at 10:37am.