MINUTES OF THE ANNUAL MEETING OF THE
SHAREHOLDERS OF CEDARPINES PARK MUTUAL WATER COMPANY

July 29, 1989

The annual shareholders meeting of the Cedarpines Park Mutual Water Company was called to order at 1:30 p.m. on Saturday, July 29, 1989, at the Valley of Enchantment Elementary School, located at 22836 Fir Lane, Valley of Enchantment, California. Gary Remmers, Vice-President of the Company's Board of Directors, opened the meeting and thanked all present for their attendance. He introduced the other members of the Board of Directors in attendance, including Paul Brumfeld, Terri Jimenez, and Walt Kunsek. President Clark Fis her was absent. Also in attendance from among the staff and consultants were Lois Barker, Frances Forth, Perry Dahlstrom, and Mike Riddell.

Mr. Remmers announced to those in attendance that there were 4,281 outstanding shares in the Company, and he stated that the fifty percent quorum requirement in the by-laws meant that 2,142 shares of stock had to be represented at the meeting either in person or by proxy in order to have a quorum. Lois Barker and Frances Forth tallied the shares represented at the meeting, and reported that only 1,850 shares were represented. Mr. Remmers then declared that although there did not appear to be a quorum to conduct official business, the discussion would continue according to the agenda for the benefit of those shareholders who were in attendance.

General Manager Perry Dahlstrom next provided an operations report, including a description of system improvements performed during the previous year and system improvements anticipated in the near future. He added that the Company had purchased a dump truck to help mitigate the expenses of performing system improvements, and that the State Health Department had agreed to credit those costs to the requirement to spend a certain sum each year on system improvements. Mr. Dahlstrom continued his report by stating that well production had been 10 gallons per minute less during the last year than it had been during the previous year due to abnormally dry weather conditions. He stated that energy costs had increased as a result of having to purchase and pump more water from the Crestline-Lake Arrowhead Water Agency. Mr. Dahlstrom also mentioned the increases in the Agency's charge for water service, which had resulted in increased costs for the Company. He added that the Company had recently mailed out notices that water conservation kits were available. He added that State law would require the Company to take specific steps to abandon old vertical wells previously utilized by the Company, at additional expense. He noted that one of the upcoming expenses would be the refurbishment of one of the Fern Crest reservoirs. Finally, Mr. Dahlstrom distributed to those in attendance a projected improvement plan for the upcoming three-year period.

Gary Remmers next referred those in attendance to the handouts which had been distributed prior to the meeting. He stated that one of the handouts is an annexation agreement which had been delivered to Crestline Village County Water District previously, providing for the annexation of the Cedarpines Park service area to the District. He stated that the annexation would probably take approximately three months from the date that it was filed, and that it would cost approximately $3,000 to $5,000 to complete. Mr. Remmers continued that annexation and subsequent conveyance of the assets to Crestline Village County Water District hopefully would increase the efficiency of the operation of the water system and would increase the money available for construction of system improvements. He added that the proposed merger hopefully would spread the cost of construction more equitably over a broader base within the Cedarpines Park area. However, Mr. Remmers noted that the annexation agreement really did not spell out the method of financing the system improvements. He reported that after considerable discussion, the Board had generally agreed that an aggressive pay-as-you-go system improvement program would be less expensive than the sale of bonds to finance all of the system improvements all at once. He referred the group to another handout which revealed a financing program that would make approximately $209,000 available for construction each year, and he noted that the handout also revealed the projected financial impact on the average shareholder owning four shares. He stated that one problem was the issue of compensating shareholders for their shares, noting that a share distribution would require an increase in water rates and standby charges to the very customers who would be receiving the distribution upon liquidation of the Company.

A series of questions and answers ensued regarding the benefits and detriments of the proposed merger. Included were discussions of the anticipated costs, other options for financing system improvements, water quality issues, and operational flexibility.

Norm Hunt, General Manager of Crestline Village County Water District, took the podium in an effort to answer a number of the questions that had been asked. He began by stating that further development could be anticipated in Cedarpines Park, and that there really was very little that could be done about it. He stated that the master plan for the Cedarpines Park water system does contemplate ultimate development, and that following the merger his District would continue with the master plan developed for the Company itself, but would try to accelerate the improvement program. He stated that there is very little grant or loan money available for system improvements, and that it would be necessary to participate in stiff competition and assume a position on a priority list in order to qualify. He noted that the original proposal was to form an assessment district and sell bonds to finance the system improvements and also to finance the purchase of the Company's assets at book value. However, he stated that his District was opposed to that concept because it would be too expensive. Referring to the handouts, Mr. Hunt explained that he really preferred the aggressive pay-as-you-go system improvement program, without payment of a purchase price, in an effort to minimize water rates and standby charges following the merger.

One member of the audience expressed frustration at the recurring failure to obtain a quorum at annual shareholders meetings, noting that the shareholders were essentially being deprived of the opportunity to elect members of their own Board of Directors. It was suggested that those in attendance, although less than a quorum, should vote for a candidate to fill the upcoming vacancy on the Board, recognizing that the vote would be non-binding on the Board and would be for Board consideration only. The Board of Directors generally agreed that they would be interested in knowing who those shareholders in attendance would be interested in having fill the vacancy, and it was agreed to proceed with a straw ballot. Nominations were solicited, and in response, Greg Rice, Ernie Richardson, Rob Fawley, Ron Albright, and Walt Kunsek were nominated. Each of the nominees then provided a brief description of himself and his qualifications, except for Rob Fawley, who declined the nomination and threw his support behind nominee Greg Rice. Straw ballots were then distributed to those shareholders in attendance, and each shareholder was asked to fill out a ballot and also indicate the number of shares in the Company that he or she owned. After all of the shareholders had had an opportunity to complete their ballots, the completed ballots were collected by Frances Forth and Lois Barker, who proceeded to tally the vote. It was agreed that proxies would not be counted in tallying the straw ballot. The count revealed that Greg Rice had received 134 votes, Walt Kunsek had received 40 votes, Ernie Richardson had received 31 votes, and Ron Albright had received 17 votes. Gary Remmers thanked those who had voted and stated that the Board of Directors would take the straw ballot votes into consideration when filling the vacancy on the Board.

There being no further discussion to consider, the meeting was adjourned at approximately 5:25 p.m.

Lois M. Barker, Secretary

Gary Remmers, Vice-President