

CEDARPINES PARK MUTUAL WATER CO.

21853 CREST FOREST DR. P.O. BOX 9259 CEDARPINES PARK, CA. 92322 (909) 338-1821 FAX (909) 338-7311

July 12, 2012

Dear Members:

This newsletter has been prepared in response to requests from some members for a report on the status of a lawsuit that was filed against Cedarpines Park Mutual Water Company by Cheryl Turpin and James Morrison in October, 2011. Ms. Turpin and Mr. Morrison are not represented by legal counsel in that action. They have filed the complaint "in pro se," which means on their own behalf without representation by legal counsel. Even though the complaint was filed more than eight months ago, the case is still in the pleading stage as the court has determined that a number of the "causes of action" in the complaint have failed to meet even the minimum legal requirements for pleading a cause of action. Twice already the court has struck down their complaint for failure to satisfy the requirements of law. Ms. Turpin and Mr. Morrison have now filed their third amended complaint in an attempt to cure the deficiencies in the previous versions of the complaint.

Among other things, the complaint alleges that the Company's Board of Directors in 1994 committed fraud by misrepresenting shareholder approval of a combination grant/loan from the United States Department of Agriculture, Farmers Home Administration, to finance an upgrade of the Company's water system. Although none of the current members of the Board were on the Board at that time, a review of the Company's records reveals that in 1994 the Company was under a mandate from the California Department of Health Services to bring the water system into compliance with Health Department requirements. In response to that mandate, the Board was able to secure a combination grant/loan from the USDA for \$1,085,000 in grant money and \$1,670,500 in loan money to complete the improvements, with the loan portion to be repaid to the USDA over a period of 40 years. Execution of the loan contract required approval by the Company's members. The Company's records reveal that the Board mailed ballots to the Company's members in 1994, asking them to vote yes or no on the loan contract; that the Company received signed ballots from the owners of well over 50% of the outstanding shares; and that 95% of those who responded were in favor of the proposal. According to the Company's records, the yes votes represented more than a

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majority of the total number of outstanding shares. The loan contract was signed, the grant/loan funds were received, the water system was upgraded, and since 1994 the Company has been paying down the loan over a 40 year loan repayment schedule.

The vote to approve the loan occurred 18 years ago. The plaintiffs in the lawsuit either do not remember having an opportunity to vote on the proposed loan, or are intentionally misrepresenting the truth to the court in order to salvage their court action. Their complaint, signed under penalty of perjury, alleges that they did not receive ballots in 1994 and were not aware of the proposed loan. However, the Company's records reveal that not only were they aware of the proposed loan, and given an opportunity to vote on it, but in fact Cheryl Turpin returned a signed ballot to the Company voting "yes" to approve the loan. (A copy of her 1994 ballot voting "yes" to authorize the loan agreement is enclosed.) Attached to the third amended complaint are declarations from several additional members, also signed under penalty of perjury, stating that they also do not remember being advised of a proposed loan, or being given an opportunity to vote on it. However, the Company's records reveal that a number of them also signed and returned ballots to the Company voting "yes" to approve the loan in 1994.

The current Board believes that the Company has no alternative to opposing and defending the lawsuit. If the grant/loan transaction were invalidated, the financial consequences for the Company's members would be disastrous. The Company is now forced to incur legal fees to defend allegations that are clearly false, which only drives up the cost of providing service, but the Company really has no alternative.

Although the complaint also alleges a number of other misdeeds dating as far back as the early 1980s, apparently the plaintiffs' primary objective is to persuade the Board to adopt a motion lowering the quorum for shareholder meetings from 50% to 20% of the outstanding shares. However, the Board has been advised by two separate law firms that the Board cannot lawfully do that. Provisions in the bylaws dating back to when the Company was first formed provide that only the shareholders themselves may change the 50% quorum requirement for shareholder action, and the Board has been advised that it is bound by those provisions. If the quorum requirement were reduced to only 20%, a majority of that reduced quorum (or only 10% plus one) could take action that would bind the other 90%. The Board suspects that the original incorporators of the Company wanted to prevent that from happening, and therefore imposed protections to ensure that a quorum for shareholder action would be 50% of the outstanding shares, plus one.

The plaintiffs are very unhappy not to have gotten their way and have employed various means to apply pressure. Mrs. Turpin wrote to the Farmers Home Administration attempting to invalidate the grant/loan transaction, alleging erroneously that it was never approved by the members in 1994. The Farmers Home Administration did not respond to her

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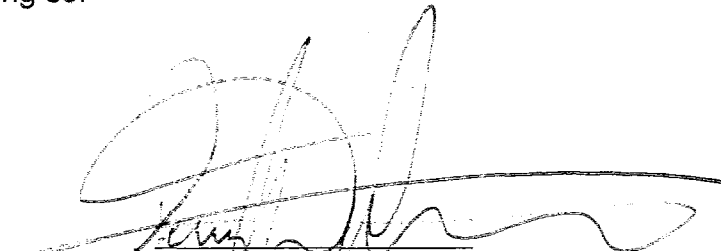
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letter and has not even contacted the Company to inquire about it. Mr. Morrison has publicly stated his intention to bankrupt the Company and has been taking out his wrath on the Company's staff. For example, he began paying his bill for water service by dumping thousands of pennies from a wheel barrow onto the floor of the Company's office, which required the office manager (Angela) to transport box loads of pennies to the bank for deposit into the Company's account. This continued until the Board finally adopted a policy to prevent payment in that manner. Again, such measures ultimately increase the cost of service to the customer, and thus are counter-productive.

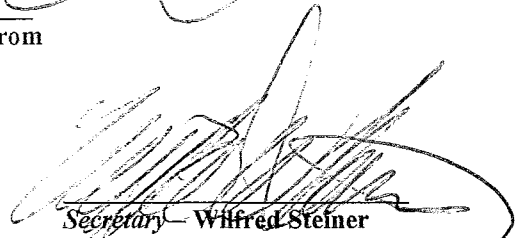
The Board hopes that this report answers some of the questions that have been asked, and hopefully will dispel some of the misinformation that is being circulated in the community. The Board has been advised not to litigate the case in the newspapers, and is trying to refrain from doing so.




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CEDARPINES PARK MUTUAL WATER COMPANY

BALLOT
FOR VOTE ON PROPOSED
FHA GRANT/LOAN TRANSACTION

Pursuant to Section 7513 of the California Corporations Code, the Board of Directors of Cedarpines Park Mutual Water Company is distributing this written ballot to every shareholder entitled to vote on the proposed action set forth below:

Proposed Action: Approval of a Resolution authorizing the Board to proceed with the loan/grant transaction with the Farmers Home Administration which will allow the completion of mandated improvements to the Company's system ahead of schedule.

Please indicate below whether you approve or disapprove of this action.

X Approval of Action

_____ Disapproval of Action

AE-5260-00 18 SHARES
FRED & CHERYL TURPIN
P O BOX 9145
CEDARPINES PARK, CA 92322

Name of Member: _____

Number of shares: 18

Dated: 11-2, 1994

[Signature]
Signature of Member

[Signature]
Signature of Member

In order to approve this proposal, the Board of Directors needs to receive responses from over one half of the shareholders, and a majority of the members who respond must approve the action in order to proceed with the proposed transaction.

Ballots must be received by our office no later than November 11, 1994 in order to be counted. Provided your ballot is received by this deadline, your vote will be cast in accordance with your choice as indicated above.



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NOTICE

Cedarpines Park Mutual Water Company formally invites all interested shareholders and customers to attend the monthly Board of Directors meeting and 2012 Annual Shareholder's Meeting

NOTICE OF REGULAR BOARD MEETING

DATE: Thursday, July 19, 2012
MEETING TIME: 6:00 PM
LOCATION: Leisure Shores Community Center
Lakeside Room
24658 San Mortiz Dr
Crestline, CA 92325

NOTICE OF ANNUAL SHAREHOLDERS MEETING

DATE: Saturday, July 28, 2012
REGISTRATION: 12:00 PM
MEETING TIME: 1:30 PM
LOCATION: Leisure Shores Community Center
Lakeside Room
24658 San Mortiz Dr
Crestline, CA 92325

SHAREHOLDER PROXY DUE DATE

DEADLINE: Friday, July 20, 2012 at 4:00PM

BOARD SERVICE APPLICATION DUE DATE

DEADLINE: Friday, July 20, 2012 at 4:00PM

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