

Lake of the Woods Mutual Water Company (LOWMWC) Q&A Shareholder Letter

A few shareholders have recently complained about a lack of transparency. We want to assure all our Shareholders we have heard their concerns and want to correct any misconceptions.

1. Are Directors/Officers paid or compensated for their time and why do they volunteer? No. Directors are unpaid volunteers and receive no compensation. Our Bylaws require the company be run by a Board of Directors. If no one is willing to be a Director, there is no one authorized to hire employees to collect payments, pay the bills, and turn on the water. Directors volunteer so they, and therefore we, can live here.

2. Why aren't the Board meetings open to the public? LOWMWC is a private corporation and not a public entity. Therefore meetings are only open to "eligible persons," a term defined by law, and not the general public. Refer to the website for Board Meeting Policy (eligibility) information. California Corp. Code 14305 Open Meeting Law link. <https://codes.findlaw.com/ca/corporations-code/corp-sect-14305/>

3. What are the monies from the Grants used for and how much money in State grants were received in 2022? The State awarded us Grants with the designated purpose of replacing aged infrastructure. They are not for paying the shareholders bills so they can have free water. The State releases the funds to us to pay our contractors as each step of the work is completed. In 2022 we received \$103,824.00 (and paid out \$103,824.00 to the contractors) from the \$3,500,000.00 Phase Two grant.

4. What company documents are shareholders entitled to? California Corporate Code 14307 (see below) determines what documentation a Board may share with its shareholders. Copies of some of those required documents are available on our website or a request form can be picked up and returned to the office.

California Corporate Code 14307:

a)(1) Unless its governing documents impose more stringent standards, a mutual water company that operates a public water system shall make the following records promptly available upon written request to an eligible person upon payment of fees covering direct costs of duplication:

(A) Agendas and minutes of board meetings conducted on or after January 1, 2014.

(B) A copy of an annual budget adopted pursuant to subdivision (a) of Section 14306.

(C) A copy of an accounting report prepared pursuant to subdivision (b) of Section 14306.

(D) A copy of any records reporting the results of a water quality test.

(E) A copy of an annual report that has been distributed to the mutual water company's shareholder or members.

(2) Any request for records pursuant to this subdivision shall be limited to the three calendar years preceding the written request for the records.

5. Is the water safe to drink? Our water meets all the safe drinking requirements standards set by the State of California.

6. What is a base rate and how is it determined? When the Cuddy Family first developed the sub-division they knew they also needed a water supply system. They created a mutual water company. A buyer of a "water lot" also purchased water shares and agreed to an annual assessment fee. Each shareholder that connected to the water supply agreed to share the costs for infrastructure (wells, tanks, pipelines, etc), to share the costs of maintaining it and to share the costs of running the company (electricity, permits, fees, etc). Even if no one consumes a single drop of water, there are still shared overhead costs that constitute the "base rate". The base rate is not an assessment. A base rate is a uniform charge that is applied to a customer's bill regardless of the volume of water consumed, and usually includes a portion of the fees the

company has to pay regardless of water use, such as personnel and operations. The use rate is related to the costs for the amount of water produced.

7. Why does the base rate and use rate increase? Costs for items such as services, repairs, purchases, and labor increase over time. As the costs to run the company go up (utilities, rent, etc.) those costs are passed along to the Shareholders.

8. If a property has a meter larger than 3/4" can a shareholder request a smaller one? Kern County establishes required meter sizes that we have to follow. We cannot reduce meter size if it is below the County requirement. Less than 6 shareholders have meters larger than 3/4" and the two accounts that are 2" meters are commercial accounts.

9. Why doesn't the company accept online payments? We continually check on the costs of doing so, but in the end it would mean increasing everyone's bill \$30-\$35 per month to cover the additional costs. Since only a portion of the shareholders would actually benefit from this service, the board agreed it would be unfair and unwarranted to burden everyone.

10. What is the hiring process for contractors and the CPA? Do shareholders have a say in that? For grant-funded projects, the company is required to publicly bid the work and award the contract to the lowest responsible bidder. The project engineer reviews the bid to ensure they are responsive and the contractor meets the "responsibility" requirement. Contractors hired directly by our company are chosen by the Board of Directors. However, if a shareholder would like to make a suggestion or a referral, the Board would take it into consideration, assuming there is no conflict of interest.. There is a costly learning curve for a new contractor to understand the idiosyncrasies of our system. Therefore we tend to go with the same electrical, cross connection, accountant, laboratory, auditor etc we have always used. Our independent accountant has been the same accountant since 2016. We are required by the state through the grant program to have an independent auditor.

11. Can't we just drill another well and get more water? Yes and no. Imagine how long it would take one person to empty a full glass of water through one straw. Now put seven straws with seven people drinking from that same glass. Essentially drilling another well would be like adding an eighth straw into the glass. We have already tried drilling in six other spots in our community and came up dry.

12. What is the status of the current construction project (Phase 2)? We are about 85% complete on Phase 2 (\$3.5M Grant). We still have some big ticket items to do. There will be a schedule of turning off the existing water lines and activating the new water lines. That will mean small or large sections of the community will be without water for part of the day. This process will take several days to complete so it is possible sections of the community will be without water more than once. When we get the details of that plan confirmed with our engineers and our contractor we will be posting the information on our website, at the window of our office, in our newsletter and possibly on social media. Right now we have a temporary cold patch on top of the "trenched in the road" areas. Kern County has very specific weather conditions for our contractors to be able to do the final paving. Therefore it may be a few months before that final paving can be done. In the meantime, please contact the office and let us know of any area the temporary cold patch is not adequately protecting so we can keep up on it. Thanks!

13. What is the difference between a "water lot" and a "non-water lot" and why can't more water lots be developed. There were originally 892 lots in the sub-division. Mrs.

Cuddy (the owner of the sub-division) decided which lots were eligible to receive water service (water lot) and which ones were not eligible to receive water service (non-water lot). There are 598 water lots, of which 392 have meters. The remaining 206 can't be connected to the system until the State permits it.

14. What does our major infrastructure consist of? Seven wells. Four are functional at this time. Two have been placed on standby. The seventh one became non-functional over thirty five years ago. Three storage tanks; a blending station (mixes the water from wells 1,2 & 7 together for better water quality); water meters and thousands of feet of water lines. Some water lines from the 1950's are still in use.

15. What are the Board Meetings (Attendance) Rules: *A meeting of the LOWMWC Board of Directors is for the Directors to conduct company business. Eligible persons are authorized to attend meetings and may make a statement during the designated comment period. It is not an open forum. Questions may be submitted in writing to the office or via email to lowwaterco@gmail.com.*

The 12-7-23 meeting was canceled due to a combination of reasons

- 1. Ineligible attendee(s) who refused to leave a private meeting (we are not a public entity)*
- 2. Attendees whose behavior prevented the Board of Directors from being able to conduct company business.*

The 12-7-23 meeting was rescheduled to 12-20-23. The Board Meeting Policy is posted on our website, on the front door of the office facing outside and on the window of the office facing outside. It states:

- *a. Meetings of the Board of Directors of the Lake of the Woods Mutual Water Company are to conduct company business. The meetings start promptly at 6:00 pm. We encourage people to arrive early to confirm their attendance eligibility prior to 6:00 pm. In-person eligible attendees are limited to five persons. On-line attendees will be vetted prior to the meeting to confirm their eligibility. Eligible attendees are observers only and may only comment during their 3-minute comment period. Anyone wanting responses to questions should submit those questions in writing. If the Board of Directors goes into Executive Session, all in-person attendees will be required to leave the office at that time. Online attendees will be temporarily blocked out. Inperson attendees may wait outside to be readmitted after the Executive Session is completed. Online attendees will be unblocked. Executive Sessions are usually held at the end of a meeting. Upon reconvening of the regular Board meeting, we will report any action taken during the Executive Session. The meeting is usually adjourned after that.*
- *b. Definition of eligible attendees: A person who is any of the following:*
 - *(i) A shareholder or member of the mutual water company.*
 - *(ii) A person who is an occupant, pursuant to a lease or a rental agreement, of commercial space or a dwelling unit to which the company sells, distributes, supplies, or delivers drinking water. An occupant must provide an original lease or a rental agreement as proof of occupancy.*
 - *(iii) An elected official of a city or county who represents people who receive drinking water directly from the company on a retail basis.*
 - *(iv) Any other person eligible to participate in the company's meetings under provisions of the company's articles or bylaws.*

At the 12-20-23 meeting we had approximately 16 people come to the office a few minutes before the meeting was to start. We have enough seating for five eligible attendees. The first two people were confirmed as eligible and admitted. At 5:58 pm the third person claimed to be a shareholder. Upon checking the list of eligible attendees we confirmed they were not a shareholder. We announced we have time to vet one more person for admittance because it was now 6:00 pm and the meeting had to start. Instead the remaining crowd wanted to discuss the reasons for not admitting the in-eligible person. Copies of the rules that were posted on the website, window and door were distributed to the persons who arrived too late. The door was closed and the meeting was held.

Changes to Board Meeting Rules

At the meeting on 01-04-24 the Board approved to change the Board Meeting Policy to require *“eligible persons to give the board at least 24 hours advance written notice of his or her intent to personally attend the meeting.”* We are concerned if more than five people show up to attend a meeting, those not being admitted will feel slighted. By requiring written notice, thereby reserving a seat, we can let potential attendees know when all five spots have been filled. Thereby giving them an opportunity to attend the meeting online.