



**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

To the Board of Directors  
Lake of the Woods Mutual Water Company, Inc.  
Frazier Park, California

We have reviewed the accompanying financial statements of Lake of the Woods Mutual Water Company, Inc., (a California Corporation) which comprise the balance sheet - tax basis as of December 31, 2018, the related statement of income - tax basis and statement of changes in stockholders' equity - tax basis, and the statement of cash flows - tax basis, for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statement as a whole. Accordingly, we do not express such an opinion.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the company uses for income tax purposes; this includes determining that the basis of accounting the company uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the company uses for income tax purposes. We believe that the results of our procedures provide a reasonable basis for our report.

***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the company uses for income tax purposes.

***Basis of Accounting***

We draw attention to Note 2A of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

*Hardaway Axume Weir CPAs, LLP*

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.  
BALANCE SHEET - TAX BASIS  
DECEMBER 31, 2018

**ASSETS**

**CURRENT ASSETS:**

Cash in bank		\$ 66,377
Accounts receivable		31,180
Grant claims receivable		8,994
Prepaid insurance		<u>2,657</u>
Total Current Assets		109,208

**FIXED ASSETS:**

Land, plant and equipment	\$ 2,504,227	
Less: Assets purchased with grant funds	(1,302,293)	
Less: Accumulated depreciation	<u>(586,510)</u>	
Total Fixed Assets		615,424

**INTANGIBLE ASSETS:**

Prepaid loan fees	26,169	
Less: Accumulated amortization	<u>(7,934)</u>	
Total Intangible Assets		<u>18,235</u>

**TOTAL ASSETS**

\$ 742,867

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES:**

Accounts payable		\$ 2,262
Prepaid assessment income		6,523
Current portion of long-term debt		<u>1,154</u>
Total Current Liabilities		9,939

**LONG-TERM DEBT:**

Frazier Park Evangelical Free Church trust deed payable	\$ 1,154	
Less: Current portion	<u>(1,154)</u>	0
Total Liabilities		<u>9,939</u>

**STOCKHOLDERS' EQUITY:**

Capital stock, authorized 50,000 shares at \$1.00 par value; issued and outstanding 31,671 shares	31,671	
Paid-in capital	1,296,783	
Retained earnings	<u>(595,526)</u>	
Total Stockholders' Equity		<u>732,928</u>

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY**

\$ 742,867

See accompanying notes and independent accountant's review report.

**LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.**  
**STATEMENT OF INCOME - TAX BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**REVENUES:**

Water service (Net of discounts)		\$ 312,446
Transfer fees and late charges		14,931
Hook up charges		3,222
Interest on savings		1
Grants:		
Proposition 84 - Integrated Regional Water Management Implementation		774,259
Grant funds utilized		<u>(774,259)</u>
		<u>330,600</u>

**OPERATING EXPENSES:**

Material & supplies	\$ 6,325	
Contract labor	9,497	
Payroll	89,267	
Payroll taxes	4,737	
Insurance	19,994	
Water analysis and fees	4,788	
Repairs & maintenance	3,951	
Water hauling	5,000	
Fuel and auto	6,844	
Office expenses & gas	9,604	
Rent	3,000	
NSF charges and bank fees	872	
Telephone and relay	1,858	
Power	18,466	
Professional fees	26,850	
Interest expense	14,010	
Taxes, licenses and permits	18,437	
Dues & subscriptions	1,304	
Depreciation	<u>49,891</u>	<u>294,694</u>

<b>NET OPERATING INCOME</b>		35,906
<b>PROVISION FOR INCOME TAXES</b>		<u>(800)</u>
<b>NET INCOME</b>		<u>\$ 35,106</u>

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - INCOME TAX BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings (Deficit)</u>
Balance at January 1, 2018	\$ 31,671	\$ 811,638	\$ (630,632)
Net income			35,106
Current assessment		<u>485,145</u>	
Balance at December 31, 2018	<u>\$ 31,671</u>	<u>\$ 1,296,783</u>	<u>\$ 595,52</u>

See accompanying notes and independent account's review report.

**LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.  
STATEMENT OF CASH FLOWS - TAX BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**CASH PROVIDED FROM OPERATIONS:**

Net profit	\$ 35,106
Items not requiring cash:	
Decrease in accounts receivable	9,311
Increase in grants receivable	(161)
Decrease in accounts payables	(11,276)
Decrease in payroll liabilities	(1,807)
Decrease in prepaid assessments	(216)
Cash Provided from Operations	30,957

**CASH PROVIDED BY FINANCIAL ACTIVITIES:**

Retirement of long-term debt	(23,273)
Current assessment (paid-in capital)	485,145
Cash Provided by Financial Activities	461,872

**CASH USED FOR CAPITAL INVESTMENT ACTIVITIES:**

Depreciation & amortization	49,891
Grant retainer receivable	9,862
Capitalized loan fees	(19,893)
Plant and equipment additions	(485,145)
Cash Used for Capital Investment Activities	(445,285)

NET INCREASE IN CASH	47,544
BEGINNING CASH AT JANUARY 1, 2018	18,833
CASH BALANCE AT DECEMBER 31, 2018	\$ 66,377

See accompanying notes and independent accountant's review report.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 1: NATURE OF OPERATIONS**

Lake of the Woods Mutual Water Company, Inc. was incorporated on June 18, 1947 for the purpose of providing water to the Lake of the Woods, California community. The company operates under the provision of Sec. 2705 of the California Public Utilities Code. There are approximately 637 locations, owned by 401 shareholders served by the Company. The Company normally extracts its water supply from properties it owns.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting:**

The accompanying financial statements present financial results on the accrual basis of accounting used for federal income tax purposes which differs from the accrual basis of accounting required under generally accepted accounting principles. The primary difference between the Company's method and the method required by generally accepted accounting principles are that: **a)** depreciation has been recorded using accelerated methods authorized in the Internal Revenue Code, **b)** uncollectible accounts on accounts receivable are recorded when deemed uncollectible without use of an allowance account, **c)** certain accruals for compensation and other expenses are recorded when paid rather than when incurred, and **d)** certain costs are capitalized to inventory that are not typically capitalized under generally accepted accounting principles.

**LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 2: Continued**

**B. Cash Equivalents Policy:**

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The majority of the Company's cash is placed within one local banking institution. At times, the balance on deposit exceeds federally insured limits. To date, the Company has not experienced any losses in such account and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

**C. Revenue Recognition:**

The Company bills its shareholders monthly for water usage. These amounts are recognized as revenue upon billing. Income from grants is recognized when a qualifying cost is incurred.

**D. Accounts Receivable:**

Accounts receivable are not recorded net of an allowance for expected losses. An allowance is deemed unnecessary due to lien rights on all accounts receivable.

**E. Fixed Assets:**

Fixed assets are recorded at cost and are being depreciated over their estimated useful lives between 5 and 25 years by use of the straight-line and accelerated methods. Expenditures for maintenance, repairs and improvements, which do not materially extend the useful lives of the assets are charged to expense.

**F. Special Assessments:**

Shareholders are assessed \$0.50 per share each January for operating capital, primarily used for capital improvements. These amounts are recorded as paid-in capital.

**G. Use of Estimates:**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

**NOTE 3: GRANTS:**

Since 2014, the Company has been awarded five grants listed below for the development of its water system and for the cost of hauling water to supplement its water wells in drought conditions. Three of these grants were closed as of December 31, 2018.

**LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.**  
**NOTES TO FINANCIAL STATEMENT**  
**DECEMBER 31, 2018**

**NOTE 3: Continued**

<b>State of California Grants:</b>	<b>Grant Amount</b>	<b>Funds Utilized as of 12/31/18</b>	<b>Status</b>
Proposition 84 - Drought & Emergency Response	\$ 240,000	\$ 238,120	Closed
Public Water System Drought Emergency Response Program	500,000	499,967	Closed
Proposition 84 - Integrated Regional Water Management Implementation	1,415,000	202,100	Open
<b>US Department of Agriculture Grants:</b>			
Consolidated Farm and Rural Development Act	500,000	335,026	Closed
Rural Development for Water Main Replacement & Meter Installation	1,000,000	8,833	Open

**NOTE 4: LONG-TERM DEBT:**

The Company's long-term debt consists of a trust deed secured by real property and is payable in monthly installments of \$1,161, including interest at 6%. Principal amounts of the trust deed will be retired in future years as following:

2019	\$ 1,154
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**NOTE 5: INCOME TAXES:**

The Company is subject to a provision for federal and state income taxes. Tax has been calculated by using the statutory income tax rates in effect for the current year. Currently, there are no federal taxes due. Also, there are net operating loss carry forwards. The minimum state income tax amounted to \$800.

**NOTE 6: CONCENTRATION OF RISK:**

Management believes the Company is not exposed to any significant credit risk related to cash.

**NOTE 7: UNCERTAINTY IN INCOME TAXES:**

The Company recognizes tax benefits only to the extent that the Company believes it is "more likely than not" that its tax positions will be sustained upon examination by taxing authorities. The company has not been examined by taxing authorities. However, the Company's tax returns are generally still open for examination by tax authorities for three years after they are filed. Management believes that all of its tax positions will be sustained if examined by taxing authorities, therefore no additional tax liabilities or related penalties and interest due to uncertain tax positions have been recorded.

**NOTE 8: CONTINGENCIES AND SUBSEQUENT RISKS:**

The extended drought has placed some doubt as to the actual level of water available from Company sources. At present the Company has instituted mandatory water rationing, is importing water as needed, and actively searching for new water sources. Improvements to the system needed to maintain water supplies in drought conditions require additional sources of financing which the Company is in the process of securing.

**NOTE 9: DATE OF MANAGEMENT REVIEW:**

Management has evaluated subsequent events through October 21, 2019, the date of which the financial statements were available to be issued.