

**LAKE OF THE WOODS  
MUTUAL WATER COMPANY, INC.**

**FINANCIAL REPORT**

**DECEMBER 31, 2019**

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SHANNON M. WEBSTER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
**Lake of the Woods Mutual Water Company, Inc.**  
Bakersfield, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of **Lake of the Woods Mutual Water Company, Inc.** which comprise the balance sheet as of December 31, 2019, the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the balance sheet as of December 31, 2019.

***Basis for Disclaimer of Opinion on 2019 Operations and Cash Flows***

In accordance with the terms of our engagement, we did not audit the balance sheet of **Lake of the Woods Mutual Water Company, Inc.** as of December 31, 2018. Such balance sheet includes amounts which enter into the determination of the results of operations and cash flows for the year ended December 31, 2019.

***Disclaimer of Opinion on 2019 Operations and Cash Flows***

Because of the significance of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 2019. Accordingly, we do not express an opinion on the results of operations and cash flows for the year ended December 31, 2019.

***Opinion***

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of **Lake of the Woods Mutual Water Company, Inc.** as of December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

We were engaged to audit the financial statements taken as a whole. The accompanying schedule of operating expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

*Daniells Phillips Vaughan & Bock*

Bakersfield, California  
July 15, 2021

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## BALANCE SHEET December 31, 2019

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### ASSETS

#### Current Assets

Cash	\$	213,963
Accounts receivable		28,495
Prepaid expenses		3,798
<b>Total current assets</b>		<u>246,256</u>

#### Property and Equipment

Land		102,652
Land improvements		449,419
Machinery and equipment		3,723,535
		<u>4,275,606</u>
Less accumulated depreciation		523,661
		<u>3,751,945</u>

Deferred Taxes, net of valuation allowance \$80,740

		-
	\$	<u>3,998,201</u>

### LIABILITIES AND STOCKHOLDERS' EQUITY

#### Current Liabilities

Accounts payable	\$	7,850
Accrued expenses		1,475
Deferred revenue		6,142
<b>Total current liabilities</b>		<u>15,467</u>

Deferred Taxes

		<u>29,600</u>
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Commitment (Note 3)

#### Stockholders' Equity

Capital Stock, authorized 50,000 shares at \$1 par value; 31,671 shares issued and outstanding		31,671
Retained Earnings		3,921,463
		<u>3,953,134</u>
	\$	<u>3,998,201</u>

See Notes to Financial Statements.

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended December 31, 2019

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Operating Revenue	
Water sales	\$ 330,554
Transfer fees and late charges	8,279
Connection fees	2,468
Other	3,024
<b>Total operating revenue</b>	<u>344,325</u>
Operating Expenses	<u>223,945</u>
<b>Operating income</b>	120,380
Other Income	
Grant revenue	
United States Department of Agriculture Rural Development	748,599
Department of Water Resources	387,505
Other	27,680
<b>Income before income taxes</b>	<u>1,284,164</u>
Income taxes (benefit) (Note 2)	<u>(6,824)</u>
<b>Net income</b>	1,290,988
Retained earnings, beginning	<u>2,630,475</u>
Retained earnings, ending	<u><u>\$ 3,921,463</u></u>

See Notes to Financial Statements.

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## STATEMENT OF CASH FLOWS

Year Ended December 31, 2019

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### Cash Flows From Operating Activities

Net income	\$ 1,290,988
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation	61,083
Deferred taxes	(7,624)
Changes in working capital components:	
(Increase) decrease in:	
Accounts receivable	831,251
Prepaid expenses	(2,423)
(Decrease) in:	
Accounts payable and accrued expenses	(808,716)
Deferred revenue	(381)
<b>Net cash provided by operating activities</b>	<u>1,364,178</u>

### Cash Flows From Investing Activities

Purchase of property and equipment -	
<b>Net cash (used in) investing activities</b>	<u>(1,204,260)</u>

### Cash Flows From Financing Activities

Principal payments on long-term debt -	
<b>Net cash (used in) financing activities</b>	<u>(12,332)</u>

<b>Net increase in cash</b>	147,586
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### Cash

Beginning	66,377
Ending	<u>\$ 213,963</u>

### Supplemental Disclosure of Cash Flow Information

Cash payments for income taxes	<u>\$ 800</u>
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See Notes to Financial Statements.

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### **Note 1. Nature of Business and Significant Accounting Policies**

*Nature of business:* Lake of the Woods Mutual Water Company, Inc. (the "Company") 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 provisions 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.

A summary of the Company's significant accounting policies follows:

*Basis of accounting:* The accompanying financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

*Use of estimates:* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash:* The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash.

*Accounts receivable:* Accounts receivable are customer obligations due under normal trade terms. Management deems all water sales and services receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been recorded. Historical experience indicates that uncollectible receivables are immaterial.

*Property and equipment:* Land improvements and machinery and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 – 25 years. Maintenance and repairs which do not increase the useful life of the assets are charged to expense as incurred. Major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

*Deferred revenue:* Deferred revenue consists of amounts collected prior to December 31 for water supplied subsequent to that date.

*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 qualifying costs are incurred.

*Income taxes:* Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.



# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## NOTES TO FINANCIAL STATEMENTS

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The Company recognizes the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The amount of unrecognized tax benefits is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination.

*Authoritative pronouncement not yet adopted:* In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual reporting periods beginning after December 15, 2019 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The Company has not yet selected a transition method and is currently evaluating the impact of the pending adoption of ASU 2014-09 on the financial statements.

*Subsequent events:* The Company has evaluated subsequent events through July 15, 2021, the date on which the financial statements were available to be issued. Significant subsequent events are discussed at Note 4.

### Note 2. Income Tax Matters

The provision for income taxes charged to operations for the year ended December 31, 2019 consists of the following:

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Current:	
State	\$ 800
Deferred:	
Federal	(6,459)
State	(1,165)
	<u>(7,624)</u>
	<u>\$ (6,824)</u>

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and California state income tax rates to pretax income due to utilization of net operating losses. Net deferred tax assets consist of \$80,741 of deferred tax assets, which have been 100% allowed for, related to net operating loss carryforwards and deferred tax liabilities of \$29,600 related to property and equipment differences.

The Company has approximately \$161,200 and \$144,300 of federal and state of California net operating losses, respectively. The federal and state net operating losses expire through 2036.

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## NOTES TO FINANCIAL STATEMENTS

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### Note 3. Operating Lease

The Company leases office space under a noncancelable operating lease that expires in July 2025. The Company is responsible for 50% of the required minimum lease payments as the Company shares the office space 50/50 with another mutual water company. The lease requires minimum monthly rents of \$525 for the period of January 2020 through July 2020; \$550 for the period of August 2020 through July 2021 and \$650 for the period of August 2021 through July 2025.

Future minimum rental payments required as of December 31, 2019 are as follows:

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2020	\$	3,213
2021		3,550
2022		3,900
2023		3,900
2024		3,900
2025		2,275
	\$	<u>20,738</u>

Total rent expense for the year ended December 31, 2019 totaled \$3,075.

### Note 4. Subsequent Events

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical areas in which the Company operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Company, to date the Company has experienced no financial effects. The Company continues to operate and receive income from customers and pay its vendors in a timely manner. Going forward, it is possible that customers of the Company face cash flow problems due to Covid-related issues. As a result, those issues could impact cash flow to the Company.

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which established the Paycheck Protection Program (the “Program”). The Program was created to assist small businesses in paying their employees and certain other expenses during the COVID-19 crisis. The Company applied for a loan under this Program and received from its bank a loan in the amount of \$22,800 on May 2, 2020. The loan is forgivable if the Company meets certain criteria as established under the Program. On December 15, 2020 the Company was notified by its bank that the Company’s Paycheck Protection Program loan in the amount of \$22,939 including interest of \$139 had been forgiven as the Company met all of the criteria for loan forgiveness.

## **SUPPLEMENTARY INFORMATION**

**LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.**

**SCHEDULE OF OPERATING EXPENSES**

**Year Ended December 31, 2019**

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Depreciation	\$	61,083
Salaries		52,320
Contract labor		27,136
Insurance		18,903
Utilities		17,611
Licenses and permits		13,530
Professional services		13,091
Payroll taxes		4,864
Rent		3,075
Postage		2,637
Automotive		2,421
Telephone		2,076
Training		1,667
Subscriptions and memberships		1,084
Bank fees		917
Repairs and maintenance		634
Printing		536
Meals and entertainment		360
	\$	<u>223,945</u>