



FINANCIAL REPORT
(Reviewed)

December 31, 2021

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FINANCIAL STATEMENTS

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SHANNON M. WEBSTER

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of **Lake of the Woods Mutual Water Company, Inc.** (the Company), which comprise the balance sheets as of December 31, 2021 and 2020, the related statements of income and retained earnings, and cash flows 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 Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements 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 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements 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 accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountant's Conclusion

Based on our reviews, 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 accounting principles generally accepted in the United States of America.

Other Matter

The accompanying schedules of operating expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Emphasis of Matter

As discussed in Note 5 to the financial statements, the 2020 financial statements have been restated to correct an error.

Daniells Phillips Vaughan & Bock

Bakersfield, California
January 30, 2023

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

BALANCE SHEETS

December 31, 2021 and 2020

See Independent Accountant's Review Report

| | 2021 | 2020 (Restated - Note 5) |
|---|---------------------|--------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 318,459 | \$ 253,491 |
| Accounts receivable | 90,084 | 36,692 |
| Prepaid expenses | 11,923 | 3,943 |
| Total current assets | 420,466 | 294,126 |
| Property and Equipment | | |
| Land | 102,652 | 102,652 |
| Land improvements | 449,419 | 449,419 |
| Vehicles | 33,993 | 33,993 |
| Machinery and equipment | 3,769,915 | 3,755,206 |
| | 4,355,979 | 4,341,270 |
| Less accumulated depreciation | 736,747 | 627,140 |
| | 3,619,232 | 3,714,130 |
| Deferred Taxes, net of valuation allowance 2021 \$69,372; 2020 \$61,918 (Note 3) | - | - |
| | \$ 4,039,698 | \$ 4,008,256 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Current maturities of long-term debt (Note 2) | \$ 6,699 | \$ 6,325 |
| Accounts payable | 4,140 | 2,637 |
| Accrued expenses | 5,451 | 4,528 |
| Deferred revenue | 3,410 | 9,721 |
| Total current liabilities | 19,700 | 23,211 |
| Long-term debt, less current maturities (Note 2) | 16,471 | 23,149 |
| Commitment (Note 4) | | |
| Stockholders' Equity | | |
| Capital Stock, authorized 50,000 shares at \$1 par value; 31,671 shares issued and outstanding | 31,671 | 31,671 |
| Retained Earnings | 3,971,856 | 3,930,225 |
| | 4,003,527 | 3,961,896 |
| | \$ 4,039,698 | \$ 4,008,256 |

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2021 and 2020

See Independent Accountant's Review Report

| | 2021 | 2020 (Restated - Note 5) |
|---|---------------------|--------------------------------|
| Operating Revenue | | |
| Water sales | \$ 412,830 | \$ 344,825 |
| Transfer fees and late charges | 8,803 | 11,579 |
| Total operating revenue | <u>421,633</u> | <u>356,404</u> |
| Operating Expenses | <u>416,496</u> | 397,869 |
| Operating income (loss) | <u>5,137</u> | <u>(41,465)</u> |
| Other Income (Expense): | | |
| Grant revenue | 38,845 | - |
| Paycheck Protection Program loan forgiveness (Note 1) | - | 22,800 |
| Interest expense | (1,551) | (1,373) |
| Income (loss) before income taxes | <u>42,431</u> | <u>(20,038)</u> |
| Income taxes (benefit) (Note 3) | <u>800</u> | <u>(28,800)</u> |
| Net income | <u>41,631</u> | <u>8,762</u> |
| Retained earnings, beginning | 3,930,225 | 3,921,463 |
| Retained earnings, ending | <u>\$ 3,971,856</u> | <u>\$ 3,930,225</u> |

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF CASH FLOWS Years Ended December 31, 2021 and 2020 See Independent Accountant's Review Report

| | 2021 | 2020 (Restated - Note 5) |
|--|-------------------|--------------------------------|
| Cash Flows From Operating Activities | | |
| Net income | \$ 41,631 | \$ 8,762 |
| Adjustment to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 109,607 | 103,479 |
| Paycheck Protection Program loan forgiveness | - | (22,800) |
| Deferred taxes | - | (29,600) |
| Changes in working capital components: | | |
| (Increase) in: | | |
| Accounts receivable | (53,392) | (8,197) |
| Prepaid expenses | (7,980) | (145) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | 2,426 | (2,160) |
| Deferred revenue | (6,311) | 3,579 |
| Net cash provided by operating activities | 85,981 | 52,918 |
| Cash Flows From Investing Activities | | |
| Purchase of property and equipment - | | |
| Net cash (used in) investing activities | (14,709) | (31,671) |
| Cash Flows From Financing Activities | | |
| Proceeds from Paycheck Protection Program loan | - | 22,800 |
| Principal payments on long-term debt - | (6,304) | (4,519) |
| Net cash provided by (used in) financing activities | (6,304) | 18,281 |
| Net increase in cash | 64,968 | 39,528 |
| Cash | | |
| Beginning | 253,491 | 213,963 |
| Ending | \$ 318,459 | \$ 253,491 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash payments for: | | |
| Interest | \$ 1,551 | \$ 1,373 |
| Income taxes | \$ 800 | \$ 800 |
| Supplemental Schedule of Noncash Investing and Financing Activities | | |
| Long-term debt incurred for purchase of property and equipment | \$ - | \$ 33,993 |

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS See Independent Accountant's Review Report

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.

Global pandemic: 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 was forgiven in December 2020. The forgiveness is presented as income in the statement of income and retained earnings for the year ended December 31, 2020.

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

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.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS See Independent Accountant's Review Report

Property and equipment: Land and improvements, vehicles, 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 – 40 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 recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing revenue from contracts with customers as follows: 1) identify the contract with a customer, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue when or as performance obligations are satisfied.

The Company's revenue is primarily derived from sales of water to the Lake of the Woods, California community. Revenue is recognized when control of the water is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that water, which is typically upon delivery. The Company's revenues are recognized at a point in-time as control is transferred pursuant to the terms of a contract with the customer.

The transaction price is the amount of consideration the Company expects to ultimately receive in exchange for transferring water to the customer. Revenue is recorded based on the transaction price.

Payments by customers for water may not necessarily follow the same pattern as revenue recognition and are dictated by the terms and conditions of the contracts with customers. Payments received from customers frequently include payments for water delivered subsequent to December 31 and such prepayments are shown as deferred revenue in the accompanying balance sheets.

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.

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.

Advertising: The Company expenses advertising costs as incurred. Advertising expense totaled \$0 and \$522 for the years ended December 31, 2021 and 2020, respectively.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS See Independent Accountant's Review Report

Authoritative pronouncements not yet adopted: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income and retained earnings.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company expects to adopt the guidance retrospectively at the beginning of the period of adoption, January 1, 2022, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Company expects to elect the transition package of practical expedients permitted within the new standard, which among other things, allows the carryforward of the historical lease classification.

The Company is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for the Company beginning on January 1, 2022. The Company is currently evaluating the impact of this new guidance on its financial statements.

Subsequent events: The Company has evaluated subsequent events through January 30, 2023, the date on which the financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

Note 2. Pledged Assets and Long-term Debt

Long-term debt consists of the following as of December 31, 2021 and 2020:

| | 2021 | 2020 |
|--|-----------|-----------|
| Note payable to a bank, due in monthly installments of \$654 including interest at 5.75%, due in March 2025, collateralized by a vehicle | \$ 23,170 | \$ 29,474 |

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

**NOTES TO FINANCIAL STATEMENTS
See Independent Accountant's Review Report**

Aggregate maturities required on long-term debt as of December 31, 2021 are due in future years as follows:

| Years ending December 31, | |
|---------------------------|------------------|
| 2022 | \$ 6,699 |
| 2023 | 7,094 |
| 2024 | 7,513 |
| 2025 | 1,864 |
| | <u>\$ 23,170</u> |

Note 3. Income Tax Matters

The provision for income taxes charged to operations for the years ended December 31, 2021 and 2020 consists of the following:

| | 2021 | 2020 (Restated - Note 5) |
|-----------|---------------|--------------------------------|
| Current: | | |
| State | \$ 800 | \$ 800 |
| Deferred: | | |
| Federal | - | (15,875) |
| State | - | (13,725) |
| | <u>-</u> | <u>(29,600)</u> |
| | <u>\$ 800</u> | <u>\$ (28,800)</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 and differences in the basis for property and equipment. Deferred tax assets at December 31, 2021 and 2020, respectively, consist of \$34,898 and \$54,046 of net operating loss carryforwards and \$34,474 and \$7,872 of differences in the basis for property and equipment, which have been 100% allowed for.

The Company has approximately \$160,600 and \$13,200 of federal and state of California net operating losses, respectively. The federal and state net operating losses expire through 2036.

Note 4. 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 from the Company of \$325 through July 2025.

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

**NOTES TO FINANCIAL STATEMENTS
See Independent Accountant's Review Report**

Future minimum rental payments required as of December 31, 2021 are as follows:

Years ending December 31,

| | | |
|------|----|---------------|
| 2022 | \$ | 3,900 |
| 2023 | | 3,900 |
| 2024 | | 3,900 |
| 2025 | | 2,275 |
| | \$ | <u>13,975</u> |

Total rent expense for the year ended December 31, 2021 totaled \$3,750.

Note 5. Restatement

The 2020 financial statements have been restated for the correction of an error. The effect of the restatement was to decrease deferred taxes by \$7,872, increase income taxes by \$7,872 resulting in a decrease to net income of \$7,872.

SUPPLEMENTARY INFORMATION

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

SCHEDULES OF OPERATING EXPENSES

Years Ended December 31, 2021 and 2020

See Independent Accountant's Review Report

| | 2021 | 2020 |
|-------------------------------|-------------------|-------------------|
| Salaries | \$ 114,186 | \$ 102,530 |
| Depreciation | 109,607 | 103,479 |
| Professional services | 33,924 | 5,032 |
| Licenses and permits | 23,351 | 18,715 |
| Contract labor | 22,057 | 67,600 |
| Utilities | 21,293 | 19,650 |
| Insurance | 20,041 | 24,861 |
| Office supplies | 19,877 | 8,814 |
| Payroll taxes | 11,594 | 11,437 |
| Equipment rental | 11,135 | 9,935 |
| Subscriptions and memberships | 6,529 | 2,656 |
| Automotive | 5,118 | 4,722 |
| Postage | 4,796 | 4,376 |
| Telephone | 4,028 | 3,515 |
| Repairs and maintenance | 3,753 | 2,465 |
| Rent | 3,750 | 3,225 |
| Printing | 570 | 2,732 |
| Bank fees | 545 | 860 |
| Training | 174 | 261 |
| Miscellaneous | 168 | 154 |
| Advertising | - | 522 |
| Meals and entertainment | - | 328 |
| | <u>\$ 416,496</u> | <u>\$ 397,869</u> |