

KISELA & HARDAWAY

CERTIFIED PUBLIC ACCOUNTANTS

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Lake of the Woods Mutual Water Company, Inc.
7025 Cuddy Valley Road, Unit F
Frazier Park, California 93225

We have compiled the accompanying statement of assets, liabilities and stockholders' equity - income tax basis of Lake of the Woods Mutual Water Company, Inc., as of December 31, 2001, and the related statement of revenue, expenses and retained earnings, and statement of cash flows - income tax basis, for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the accounting basis used by the company for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statement and, accordingly, do not express an opinion or any other form of assurance on them.

Kisela & Hardaway

KISELA & HARDAWAY
Certified Public Accountants

February 19, 2002

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENT OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY
DECEMBER 31, 2001

ASSETS

CURRENT ASSETS:

Cash in bank		\$ 123,709
Cash in savings		79,472
Accounts receivable:		
Water, interest and late charges		9,415
Assessments		21,434
Prepaid expenses		2,266
Bond		<u>1,000</u>
Total current assets		237,296

PLANT AND EQUIPMENT:

Plant and equipment	\$ 591,676	
Less - accumulated depreciation	<u>(399,050)</u>	<u>192,626</u>
		<u>\$ 429,922</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Payroll taxes payable		\$ 465
Total current liabilities		<u>465</u>

STOCKHOLDERS' EQUITY:

Capital stock, authorized 50,000 shares		
at \$1.00 par value; issued and outstanding		
31,434 shares	\$ 31,434	
Paid-in capital	560,351	
Retained earnings	<u>(162,328)</u>	<u>429,457</u>
		<u>\$ 429,922</u>

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2001

INCOME:		
Water service (Net of discounts)		\$ 85,940
Transfer fees and late charges		1,669
Hook up charges		3,150
Interest on savings		<u>1,624</u>
		92,383
OPERATING EXPENSES:		
Payroll	\$ 19,578	
Payroll taxes	1,917	
Material and supplies	9,502	
Water analysis	5,437	
Office expense	1,885	
Telephone & relay	1,387	
Power	12,454	
Contract labor	3,698	
Professional fees	1,470	
Taxes and licenses	434	
Insurance	12,267	
Depreciation	<u>26,293</u>	<u>96,322</u>
NET (LOSS) BEFORE TAXES		(3,393)
INCOME TAXES		<u>(800)</u>
NET (LOSS)		<u>\$ (4,739)</u>

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings</u>
Balance at January 1, 2001	\$ 31,434	\$ 560,351	\$ (157,589)
Net loss			(4,739)
Current assessment			
Balance at December 31, 2001	<u>\$ 31,434</u>	<u>\$ 560,351</u>	<u>\$ (162,328)</u>

See accountant's report.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2001

CASH PROVIDED FROM OPERATIONS:	
Net loss	\$ (4,739)
Items not requiring cash:	
Depreciation	26,293
Increase in accounts receivable	(6,503)
Increase in prepaid expenses	(654)
Increase in payroll taxes payables	465
Cash used by operations	<u>14,862</u>
CASH PROVIDED BY FINANCIAL ACTIVITIES:	
Current assessment	0
CASH USED FOR CAPITAL INVESTMENT ACTIVITIES:	
Plant and equipment additions	<u>(7,554)</u>
NET INCREASE IN CASH	7,308
BEGINNING CASH AT JANUARY 1, 2001	<u>195,873</u>
CASH BALANCE AT DECEMBER 31, 2001	<u>\$ 203,181</u>

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1: TYPE OF ENTITY

Lake of the Woods Mutual Water Company, Inc. is a California corporation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented on the accounting basis used for income tax purposes. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Fixed assets are recorded at cost and are being depreciated over their estimated useful lives by use of the straight-line and accelerated methods.

Assessments to stockholders are determined annually by the Board of Directors in amounts deemed necessary for extension and replacements of the water system. This is treated as a capital contribution and not an income item.

A provision for federal and state income taxes 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 carryforwards. The minimum state income tax amounted to \$800.

NOTE 3: A provision for bad debts is not necessary because the corporation has potential lien rights for all monies due for assessments and water services.