



FINANCIAL REPORT
(Reviewed)

December 31, 2022

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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, 2022 and 2021, the related statements of income and retained earnings, and cash flows for the years 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 4 to the financial statements, the 2021 financial statements have been restated to correct an error.

Daniells Phillips Vaughan & Bock

Bakersfield, California
December 1, 2023

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

BALANCE SHEETS

December 31, 2022 and 2021

See Independent Accountant's Review Report

	2022	2021 (Restated - Note 4)
ASSETS		
Current Assets		
Cash	\$ 384,778	\$ 318,459
Accounts receivable	96,240	90,084
Grant receivable	5,843	-
Prepaid expenses	5,212	11,923
Total current assets	492,073	420,466
Property and Equipment		
Land	102,652	102,652
Land improvements	449,419	449,419
Vehicles	33,993	33,993
Machinery and equipment	3,829,486	3,769,915
Construction in progress	109,657	-
	4,525,207	4,355,979
Less accumulated depreciation	847,805	736,747
	3,677,402	3,619,232
	\$ 4,169,475	\$ 4,039,698
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt (Note 2)	\$ 7,094	\$ 6,699
Accounts payable	18,156	4,140
Accrued expenses	6,922	5,451
Deferred revenue	7,975	3,410
Total current liabilities	40,147	19,700
Long-term Liabilities		
Long-term debt, less current maturities (Note 2)	9,394	16,471
Deferred taxes (Note 3)	30,828	14,414
	40,222	30,885
Stockholders' Equity		
Capital stock, \$1 par value; authorized 50,000 shares; issued and outstanding 31,671 shares	31,671	31,671
Retained earnings	4,057,435	3,957,442
	4,089,106	3,989,113
	\$ 4,169,475	\$ 4,039,698

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2022 and 2021

See Independent Accountant's Review Report

	2022	2021 (Restated - Note 4)
Operating Revenue		
Water sales	\$ 421,845	\$ 412,830
Transfer fees and late charges	15,801	8,803
Total operating revenue	<u>437,646</u>	<u>421,633</u>
Operating Expenses	<u>428,939</u>	416,496
Operating income	<u>8,707</u>	5,137
Other Income (Expense):		
Grant revenue	109,657	38,845
Interest expense	(1,157)	(1,551)
Income before income taxes	<u>117,207</u>	<u>42,431</u>
Income Taxes (Note 3)	17,214	15,214
Net income	<u>99,993</u>	<u>27,217</u>
Retained earnings, beginning	3,957,442	3,930,225
Retained earnings, ending	<u>\$ 4,057,435</u>	<u>\$ 3,957,442</u>

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

See Independent Accountant's Review Report

	2022	2021 (Restated - Note 4)
Cash Flows From Operating Activities		
Net income	\$ 99,993	\$ 27,217
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	111,058	109,607
Deferred taxes	16,414	14,414
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	(6,156)	(53,392)
Grant receivable	(5,843)	-
Prepaid expenses	6,711	(7,980)
Increase (decrease) in:		
Accounts payable and accrued expenses	15,487	2,426
Deferred revenue	4,565	(6,311)
Net cash provided by operating activities	242,229	85,981
Cash Flows From Investing Activities		
Purchase of property and equipment -		
Net cash (used in) investing activities	(169,228)	(14,709)
Cash Flows From Financing Activities		
Principal payments on long-term debt -		
Net cash (used in) financing activities	(6,682)	(6,304)
Net increase in cash	66,319	64,968
Cash		
Beginning	318,459	253,491
Ending	\$ 384,778	\$ 318,459
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	\$ 1,157	\$ 1,551
Income taxes	\$ 800	\$ 800

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 approximately 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:

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.

Grant receivable: Grant receivable represents the portion of grants earned but not received as of year-end.

Property and equipment: Land and improvements, vehicles, machinery and equipment, and construction in progress 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.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

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.

Authoritative pronouncement adopted: In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.

Subsequent events: The Company has evaluated subsequent events through December 1, 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, 2022 and 2021:

	2022	2021
Note payable to a bank, due in monthly installments of \$654 including interest at 5.75%, due in March 2025, collateralized by a vehicle	\$ 16,488	\$ 23,170

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, 2022 are due in future years as follows:

Years ending December 31,

2023	\$	7,094
2024		7,513
2025		1,881
	\$	<u>16,488</u>

Note 3. Income Tax Matters

The provision for income taxes charged to operations for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021 (Restated - Note 4)
Current:		
State	\$ 800	\$ 800
Deferred:		
Federal	18,279	976
State	(1,865)	13,438
	<u>16,414</u>	<u>14,414</u>
	\$ 17,214	\$ 15,214

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. The deferred tax asset at December 31, 2022 and 2021, respectively, consists of \$16,744 and \$34,898 of net operating loss carryforwards. The deferred tax liability at December 31, 2022 and 2021, respectively, consists of \$47,572 and \$49,312 of differences in the basis for property and equipment.

The Company has approximately \$67,700 and \$28,500 of federal and state of California net operating losses, respectively to offset future taxable income. The federal and state net operating losses expire through 2036.

Note 4. Restatement

The 2021 financial statements have been restated for the correction of an error. The effect of the restatement was to increase the deferred tax liability by \$14,414, increase income taxes by \$14,414 resulting in a decrease to net income of \$14,414.

SUPPLEMENTARY INFORMATION

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

SCHEDULES OF OPERATING EXPENSES

Years Ended December 31, 2022 and 2021

See Independent Accountant's Review Report

	2022	2021
Salaries	\$ 129,769	\$ 114,186
Depreciation	111,058	109,607
Licenses and permits	33,203	23,351
Insurance	29,776	20,041
Utilities	20,258	21,293
Office supplies	15,729	19,877
Automotive	13,922	5,118
Contract labor	11,890	22,057
Equipment rental	11,855	11,135
Professional services	11,786	33,924
Payroll taxes	11,752	11,594
Repairs and maintenance	7,224	3,753
Subscriptions and memberships	6,960	6,529
Telephone	4,445	4,028
Rent	4,065	3,750
Postage	2,296	4,796
Training	1,368	174
Bank fees	809	545
Printing	611	570
Miscellaneous	163	168
	<u>\$ 428,939</u>	<u>\$ 416,496</u>