



FINANCIAL REPORT  
(Reviewed)

December 31, 2023

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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.**  
Frazier Park, 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, 2023 and 2022, 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 schedule of operating expenses are presented for purposes of additional analysis and are 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.

*Daniells Phillips Vaughan & Bock*

Bakersfield, California  
July 2, 2024

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## BALANCE SHEETS

December 31, 2023 and 2022

See Independent Accountant's Review Report

	2023	2022
<b>ASSETS</b>		
Current Assets		
Cash	\$ 473,147	\$ 384,778
Accounts receivable	89,840	96,240
Grant receivable	2,134,718	5,843
Prepaid expenses	4,065	5,212
<b>Total current assets</b>	<b>2,701,770</b>	<b>492,073</b>
Property and Equipment (Note 2)		
Land	102,652	102,652
Land improvements	449,419	449,419
Vehicles	33,993	33,993
Machinery and equipment	3,842,507	3,829,486
Construction in progress	2,312,787	109,657
	<b>6,741,358</b>	<b>4,525,207</b>
Less accumulated depreciation	967,050	847,805
	<b>5,774,308</b>	<b>3,677,402</b>
	<b>\$ 8,476,078</b>	<b>\$ 4,169,475</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Current maturities of long-term debt (Note 2)	\$ 7,510	\$ 7,094
Accounts payable:		
Trade	33,522	12,323
Construction	2,121,625	5,833
Accrued expenses	9,408	6,922
Deferred revenue	6,031	7,975
<b>Total current liabilities</b>	<b>2,178,096</b>	<b>40,147</b>
Long-term Liabilities		
Long-term debt, less current maturities (Note 2)	1,896	9,394
Deferred taxes (Note 3)	42,565	30,828
	<b>44,461</b>	<b>40,222</b>
Stockholders' Equity		
Capital stock, \$1 par value; authorized 50,000 shares; issued and outstanding 31,671 shares	31,671	31,671
Retained earnings	6,221,850	4,057,435
	<b>6,253,521</b>	<b>4,089,106</b>
	<b>\$ 8,476,078</b>	<b>\$ 4,169,475</b>

See Notes to Financial Statements.

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

### STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2023 and 2022

See Independent Accountant's Review Report

	2023	2022
Operating Revenue		
Water sales	\$ 454,649	\$ 421,845
Transfer fees and late charges	16,673	15,801
<b>Total operating revenue</b>	<u>471,322</u>	<u>437,646</u>
Operating Expenses	<u>494,627</u>	428,939
<b>Operating income (loss)</b>	<u>(23,305)</u>	8,707
Other Income (Expense):		
Grant revenue	2,203,134	109,657
Interest expense	(742)	(1,157)
<b>Income before income taxes</b>	<u>2,179,087</u>	<u>117,207</u>
Income Taxes (Note 3)	14,672	17,214
<b>Net income</b>	<u>2,164,415</u>	99,993
Retained earnings, beginning	<u>4,057,435</u>	3,957,442
Retained earnings, ending	<u>\$ 6,221,850</u>	<u>\$ 4,057,435</u>

See Notes to Financial Statements.

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2023 and 2022

See Independent Accountant's Review Report

	2023	2022
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 2,164,415	\$ 99,993
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	119,245	111,058
Deferred taxes	11,737	16,414
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	6,400	(6,156)
Grant receivable	(2,128,875)	(5,843)
Prepaid expenses	1,147	6,711
Increase (decrease) in:		
Trade accounts payable and accrued expenses	17,852	9,654
Deferred revenue	(1,944)	4,565
<b>Net cash provided by operating activities</b>	<u>189,977</u>	<u>236,396</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment -		
<b>Net cash (used in) investing activities</b>	<u>(94,526)</u>	<u>(163,395)</u>
<b>Cash Flows From Financing Activities</b>		
Principal payments on long-term debt -		
<b>Net cash (used in) financing activities</b>	<u>(7,082)</u>	<u>(6,682)</u>
<b>Net increase in cash</b>	<u>88,369</u>	<u>66,319</u>
Cash		
Beginning	384,778	318,459
Ending	<u>\$ 473,147</u>	<u>\$ 384,778</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash payments for:		
Interest	\$ 742	\$ 1,157
Income taxes	<u>\$ 800</u>	<u>\$ 800</u>
<b>Supplemental Schedule of Noncash Operating and Investing Activities</b>		
Accounts payable incurred for purchase of construction in progress	<u>\$ 2,121,625</u>	<u>\$ 5,833</u>

See Notes to Financial Statements.

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## NOTES TO FINANCIAL STATEMENTS

### See Independent Accountant's Review Report

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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 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 Accounting Standards Codification (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.



# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## NOTES TO FINANCIAL STATEMENTS

### See Independent Accountant's Review Report

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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.

*Reclassifications:* Certain items in the 2022 financial statements have been reclassified to conform to the 2023 presentation, with no effect on net income.

*Subsequent events:* The Company has evaluated subsequent events through July 2, 2024, 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, 2023 and 2022:

	2023	2022
Note payable to a bank, due in monthly installments of \$654 including interest at 5.75%, due in March 2025, collateralized by a vehicle	\$ 9,406	\$ 16,488

# 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, 2023 are due in future years as follows:

Years ending December 31,	
2024	\$ 7,510
2025	1,896
	<u>\$ 9,406</u>

### **Note 3. Income Tax Matters**

The provision for income taxes charged to operations for the years ended December 31, 2023 and 2022 consists of the following:

	2023	2022
Current:		
State	<u>\$ 2,935</u>	<u>\$ 800</u>
Deferred:		
Federal	10,276	18,279
State	1,461	(1,865)
	<u>11,737</u>	<u>16,414</u>
	<u>\$ 14,672</u>	<u>\$ 17,214</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 grant revenue being non-taxable for federal and state income tax purposes. The deferred tax asset at December 31, 2023 and 2022, respectively, consists of \$1,431 and \$16,744 of net operating loss carryforwards. The deferred tax liability at December 31, 2023 and 2022, respectively, consists of \$43,996 and \$47,572 of differences in the basis for property and equipment.

The Company has approximately \$6,800 of federal net operating losses to offset future taxable income. The federal net operating losses expire through 2036.

## **SUPPLEMENTARY INFORMATION**

# LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

## SCHEDULES OF OPERATING EXPENSES

Years Ended December 31, 2023 and 2022

See Independent Accountant's Review Report

	2023	2022
Salaries	\$ 148,206	\$ 129,769
Depreciation	119,245	111,058
Licenses and permits	43,176	33,203
Professional services	35,981	11,786
Insurance	31,567	29,776
Utilities	24,477	20,258
Contract labor	20,546	11,890
Payroll taxes	13,953	11,752
Office supplies	13,903	15,729
Automotive	8,016	13,922
Subscriptions and memberships	7,410	6,960
Postage	7,165	2,296
Equipment rental	6,687	11,855
Telephone	5,522	4,445
Rent	4,320	4,065
Repairs and maintenance	3,018	7,224
Bank fees	546	809
Training	530	1,368
Miscellaneous	359	163
Printing	-	611
	<u>\$ 494,627</u>	<u>\$ 428,939</u>