



FINANCIAL REPORT
(Reviewed)

December 31, 2024

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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.
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, 2024 and 2023, 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 Matters

As discussed in Note 4 to the financial statements, the financial statements as of and for the year ended December 31, 2024 has been restated to correct a misstatement. Our conclusion is not modified with respect to this matter.

The accompanying schedules 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
September 19, 2025

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

BALANCE SHEETS

December 31, 2024 and 2023

See Independent Accountant's Review Report

	2024	2023
ASSETS		
Current Assets		
Cash	\$ 507,106	\$ 473,147
Accounts receivable	125,523	89,840
Grant receivable	494,465	2,134,718
Prepaid expenses	3,514	4,065
Total current assets	1,130,608	2,701,770
Property and Equipment (Note 2)		
Land	102,652	102,652
Land improvements	449,419	449,419
Vehicles	33,993	33,993
Machinery and equipment	7,440,532	3,842,507
Construction in progress	-	2,312,787
	8,026,596	6,741,358
Less accumulated depreciation	1,131,510	967,050
	6,895,086	5,774,308
	\$ 8,025,694	\$ 8,476,078
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt (Note 2)	\$ 1,902	\$ 7,510
Accounts payable:		
Trade	2,505	33,522
Construction	494,641	2,121,625
Accrued expenses	18,522	9,408
Deferred revenue	6,279	6,031
Total current liabilities	523,849	2,178,096
Long-term Liabilities		
Long-term debt, less current maturities (Note 2)	-	1,896
Deferred taxes (Note 3)	43,137	42,565
	43,137	44,461
Stockholders' Equity		
Capital stock, \$1 par value; authorized 50,000 shares; issued and outstanding 31,756 shares	31,756	31,756
Retained earnings	7,426,952	6,221,765
	7,458,708	6,253,521
	\$ 8,025,694	\$ 8,476,078

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2024 and 2023

See Independent Accountant's Review Report

	2024	2023
Operating Revenue		
Water sales	\$ 518,854	\$ 454,649
Transfer fees and late charges	28,137	16,673
Total operating revenue	546,991	471,322
Operating Expenses	586,297	494,627
Operating (loss)	(39,306)	(23,305)
Other Income (Expense):		
Grant revenue	1,257,443	2,203,134
Interest (expense)	(310)	(742)
Income before income taxes	1,217,827	2,179,087
Income Taxes (Note 3)	12,640	14,672
Net income	1,205,187	2,164,415
Retained earnings, beginning, as originally stated	6,221,765	4,057,435
Prior period adjustment (Note 4)		(85)
Retained earnings, beginning, as restated		4,057,350
Retained earnings, ending	\$ 7,426,952	\$ 6,221,765

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2024 and 2023

See Independent Accountant's Review Report

	2024	2023
Cash Flows From Operating Activities		
Net income	\$ 1,205,187	\$ 2,164,415
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	164,461	119,245
Deferred taxes	572	11,737
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	(35,683)	6,400
Grant receivable	1,640,253	(2,128,875)
Prepaid expenses	551	1,147
Increase (decrease) in:		
Trade accounts payable and accrued expenses	(21,903)	17,852
Construction accounts payable	(2,121,625)	-
Deferred revenue	248	(1,944)
Net cash provided by operating activities	832,061	189,977
Cash Flows From Investing Activities		
Purchase of property and equipment -		
Net cash (used in) investing activities	(790,598)	(94,526)
Cash Flows From Financing Activities		
Principal payments on long-term debt -		
Net cash (used in) financing activities	(7,504)	(7,082)
Net increase in cash	33,959	88,369
Cash		
Beginning	473,147	384,778
Ending	\$ 507,106	\$ 473,147
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	\$ 310	\$ 742
Income taxes	\$ 800	\$ 800
Supplemental Schedule of Noncash Operating and Investing Activities		
Accounts payable incurred for purchase of property and equipment	\$ 494,641	\$ 2,121,625

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 credit losses 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

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.

Subsequent events: The Company has evaluated subsequent events through September 19, 2025, the date on which the financial statements were available to be issued. A subsequent event has been identified by management and is further discussed in Note 5.

Note 2. Pledged Assets and Long-term Debt

Long-term debt consists of the following as of December 31, 2024 and 2023:

	2024	2023
Note payable to a bank, due in monthly installments of \$654 including interest at 5.75%, due in March 2025, collateralized by a vehicle	\$ 1,902	\$ 9,406

Aggregate maturities on long-term debt of \$1,902 are due during the year ended December 31, 2025.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 3. Income Tax Matters

The provision for income taxes charged to operations for the years ended December 31, 2024 and 2023 consists of the following:

	2024	2023
Current:		
Federal	\$ 11,269	\$ -
State	800	2,935
	<u>12,069</u>	<u>2,935</u>
Deferred:		
Federal	1,665	10,276
State	(1,094)	1,461
	<u>571</u>	<u>11,737</u>
	<u>\$ 12,640</u>	<u>\$ 14,672</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, 2024 and 2023, respectively, consists of \$0 and \$1,431 of net operating loss carryforwards. The deferred tax liability at December 31, 2024 and 2023, respectively, consists of \$43,137 and \$43,996 of differences in the basis for property and equipment.

Note 4. Prior Period Adjustment and Restatement

The December 31, 2024 financial statements have been restated for the correction of an error. The Company inadvertently included 85 shares of capital stock in retained earnings. The effect of correcting this error was to decrease beginning retained earnings at December 31, 2024 by \$85 and increase capital stock at December 31, 2024 by \$85. There was no effect on net income for the year ended December 31, 2024.

Note 5. Subsequent Event

On August 2, 2025, the Company closed escrow on the purchase of real property in Frazier Park, California with a purchase price of \$150,000. No financing arrangement was incurred in connection with the acquisition, as the purchase was completed using available cash resources.

SUPPLEMENTARY INFORMATION

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

SCHEDULES OF OPERATING EXPENSES

Years Ended December 31, 2024 and 2023

See Independent Accountant's Review Report

	2024	2023
Salaries	\$ 170,243	\$ 148,206
Depreciation	164,461	119,245
Insurance	40,926	31,567
Licenses and permits	38,321	43,176
Contract labor	25,372	20,546
Professional services	23,391	35,981
Utilities	21,884	24,477
Office supplies	21,704	13,903
Equipment rental	16,753	6,687
Payroll taxes	16,356	13,953
Automotive	10,752	8,016
Subscriptions and memberships	10,308	7,410
Postage	9,449	7,165
Telephone	7,901	5,522
Rent	4,510	4,320
Repairs and maintenance	2,477	3,018
Miscellaneous	756	359
Bank fees	733	546
Training	-	530
	\$ 586,297	\$ 494,627