

KRISTA MUTUAL WATER COMPANY

FINANCIAL REPORT

DECEMBER 31, 2020



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Krista Mutual Water Company
Frazier Park, California

We have reviewed the accompanying financial statements of Krista Mutual Water Company, (a California corporation) which comprise the balance sheet as of December 31, 2020, the related statement of income and retained earnings, and the statement of 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 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 engagement 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.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in accordance with accounting principles generally accepted in the United States of America.

Hardaway Axume Weir CPAs, LLP

Hardaway Axume Weir CPAs, LLP
Bakersfield, California
December 9, 2021

KRISTA MUTUAL WATER COMPANY
BALANCE SHEET
DECEMBER 31, 2020

ASSETS

Current Assets:

Cash		\$ 123,966
Accounts receivable		17,460
Prepaid expenses		1,176
Deferred tax benefits (current portion)		<u>1,963</u>
Total Current Assets		144,565

Property and Equipment:

Land, plant and equipment	\$ 581,536	
Less-Accumulated depreciation	<u>(168,716)</u>	412,820

Other Assets:

Deferred tax benefits (long-term portion)		<u>1,935</u>
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Total Assets		<u><u>\$ 559,320</u></u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable		\$ 3,070
Prepaid assessment income		<u>8,060</u>
Total Current Liabilities		11,130

Long-Term Debt:

none

Stockholders' Equity:

Capital stock	\$ 107,502	
Retained earnings	<u>440,688</u>	<u>548,190</u>

Total Liabilities and Stockholders' Equity		<u><u>\$ 559,320</u></u>
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See accompanying notes.

KRISTA MUTUAL WATER COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2020

Operating Revenues:

Water service (Net of discounts)		\$ 151,575
Transfer fees and late charges		6,887
Interest on savings		<u>17</u>
Total Operating Revenues		158,479

Operating Expenses:

Contract labor	\$ 29,360	
Payroll	37,586	
Payroll taxes	3,470	
Insurance	8,883	
Water analysis and fees	1,466	
Repairs and maintenance	1,321	
Office expenses and gas	8,060	
Rent	12,568	
Telephone and relay	3,179	
Power	19,954	
Professional fees	5,673	
Taxes, licenses and permits	284	
Depreciation	<u>6,912</u>	<u>138,716</u>
Total Operating Expenses		19,763

Other Income:

Grant revenue from State Proposition 1		23,309
Federal Payroll Protection Loan proceeds forgiven		<u>8,800</u>
Income before taxes		51,872
Income taxes (note 2)		<u>(2,763)</u>

Net Income		49,109
Retained Earnings, beginning		<u>391,579</u>
Retained Earnings, ending		<u><u>\$ 440,688</u></u>

See accompanying notes.

KRISTA MUTUAL WATER COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

Cash Flows from Operating Activities:

Net income	\$ 49,109
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation	6,912
Deferred taxes	1,963
Payroll Protection Program loan proceeds included in net income	(8,800)
Changes in working capital components:	
(Increase) in accounts receivable	(8,342)
(Increase) in prepaid expenses	(741)
(Decrease) in accounts payable	(1,381)
Increase in prepaid assessment income	4,664
Net cash provided by operating activities	43,384

Cash Flows from Investing Activities:

Purchase of property and equipment -	
Net cash (used in) investing activities	(23,309)

Cash Flows from Financing Activities:

Payroll Protection Program loan proceeds -	
Net cash provided by financing activities	8,800

Net Increase In cash	28,875
Beginning cash	95,091
Ending cash	\$ 123,966

Supplemental Disclosure of Cash Flow Information:

Cash payments for income taxes	\$ 800
Payroll Protection Program loan forgiven	8,800

See accompanying notes.

KRISTA MUTUAL WATER COMPANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1: NATURE OF ENTITY

Krista Mutual Water Company (the "Company") was incorporated on April 29, 1971, for the purpose of providing water to the unincorporated community of Los Padres Estates, California and operated as a C Corporation until 2015, when it applied for and received recognition as a tax-exempt organization under section 501(c)(12) of the Internal Revenue Code. The Company operates under the provision of Sec. 2705 of the California Public Utilities Code. There are approximately 193 locations, owned by 184 shareholders served by the Company. The Company normally extracts its water supply from properties it owns.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

In 2020, the Company adopted the policy of preparing its financial statements in accordance with generally accepted accounting principles prepared on the accrual basis of accounting. Prior to 2020, the Company's financial statements were prepared on the basis of accounting it used to file Federal income tax returns. The change was one of the requirements of the State Water Resources Control Board in its grant agreements. See Note 5.

B. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

C. Cash Equivalents Policy

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Company's cash is placed within one local banking institution. At times, the balance on deposit exceeds federally insured limits. The Company believes it is not exposed to any significant credit risk on its cash and cash equivalents.

D. Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms. Management deems all water sales and services receivables as fully collectible as of December 31, 2020, and therefore no allowance for doubtful accounts is deemed necessary.

NOTE 2: Continued**E. Property and Equipment**

Fixed assets are recorded at cost and are being depreciated over their estimated useful lives of 60 years by use of the straight method. Expenditures for maintenance, repairs, and improvements, which do not materially extend the useful lives of the assets are charged to expense. 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 the net income or loss for the year.

F. Prepaid Assessment Income

Prepaid assessment income consists of amounts collected prior to December 31 for water supplied after that date.

G. Revenue Recognition

The Company bills its shareholders monthly for water usage. These amounts are recognized as revenue upon at the end of each month (after water has been supplied.) Transfer fees and late charges are similarly billed at the time the services are provided or delinquency causing late charges occur.

The Company has elected to apply the practical expedient allowed under the Financial Accounting Standards Board Accounting Standards Codification 606-10-14 (ASU 2014-09) to apply the revenue standard to the shareholders as a collective group based upon their similar nature and characteristics.

Income from grants is recognized when qualifying costs are incurred. See Note 5.

The Company's revenue recognition practices under ASU 2014-09 are unchanged from its prior practice and thus no transition adjustment is needed on these financial statements.

I. Income Taxes

Deferred tax benefits are provided whereby a tax asset (deferred tax benefit) is recognized when reported amounts of losses on financial statements exceed those reported on tax returns. Deferred tax liabilities can occur when gains on financial statements exceed those reported on tax returns. Deferred tax benefits 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

NOTE 2: Continued

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.

J. Subsequent Events

The Company has evaluated subsequent events through December 9, 2021, the date on which the financial statements were available to be issued. Significant subsequent events are discussed at Note 4.

NOTE 3: INCOME TAX MATTERS

Until December 31, 2015, the Company was subject to both federal and state income taxes. In 2016, the Company received tax exempt status for Federal income taxes. The company is not tax exempt for state income tax purposes, and normally pays the state minimum tax of \$800 per year.

The provision for income taxes charged to operations for the year ended December 31, 2020, consists for the following:

Current - State	\$ 800
Deferred - State	<u>(3,563)</u>
Provision for taxes	<u>\$ (2,763)</u>

The company has \$62,196 of state of California net operating losses available to offset taxable income in future years.

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 equally with another mutual water company. The lease requires minimum monthly rents of \$550 for the period of August 2020 through July 2021, and \$650 for the period of August 2021 through July 2025.

Future minimum rental payments required as of December 31, 2020, are as follows:

2021	\$ 3,550
2022	3,900
2023	3,900
2024	3,900
2025	<u>2,275</u>
	<u>\$ 17,525</u>

Total rent expense for the year ended December 31, 2020, totaled \$3,200.

NOTE 5: CONTINGENCIES AND SUBSEQUENT RISKS

At the September 28, 2020, shareholder meeting, shareholders voted for the Company to be annexed into the Lebec County Water District (LCWD). LCWD has agreed to the annexation, which will cause the Company's assets and operations to transfer to LCWD and the dissolution of Krista Mutual Water Company. A rate study is underway to determine the future water fees to users resulting from annexation, which is expected to occur no sooner than 2027.

The extended drought has placed some doubt as to the actual level of water available from Company sources. At present the Company has instituted mandatory water rationing to mitigate a potential water shortage. Continued drought conditions could cause the Board of Directors to impose additional usage restraints.

A Compliance Order was issued by the State Water Control Board which requires the Company to submit a corrective action plan for bringing the water system's fluoride levels within a maximum containment level allowed under the California Safe Drinking Water Act. The Company was not able to meet the April 30, 2021, deadline for complete compliance with the Safe Drinking Water Act. The Company is subject to a lump sum fine of \$500 to \$1,000 for noncompliance and a \$10,000 "rescindable" fine which is cancelable if the company comes into complete compliance by a yet to be determined deadline. Neither the lump sum nor the rescindable fine has been issued as of the date of these financial statements.

The World Health Organization, in response to the coronavirus outbreak, declared a "Public Health Emergency of International Concern" on January 30, 2020. The extent of the economic impact of the virus and the current and future steps taken by governments and industry to mitigate it have had and are expected to continue to have an adverse impact on the economies of many regions, including the geographical area in which the Company operates. The significance of these events and their financial impact are indeterminate.

NOTE 6: GRANTS

The Company has received a grant from the State Water Resources Control Board to fund the corrective action plan for fluoride containment as described in Note 4. The grant is for a maximum of \$500,000, the estimated reasonable cost of the plan.

A second grant from the State Water Resources Control Board in the amount of \$800,000 was approved in 2021, to fund the cost of meters for all service connections, a backup generator, and other costs to bring the Company into compliance with the Safe Drinking Water Act.

An \$8,800 Payroll Protection Program loan was received in 2020. The Company met requirements for loan forgiveness in 2020 and the \$8,800 is reported as income on these financial statements.