

KRISTA MUTUAL WATER COMPANY

FINANCIAL REPORT

DECEMBER 31, 2021



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, 2021, 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.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the 2020 financial statements have been restated to correct an error.

Hardaway Axume Weir CPAs, LLP

Hardaway Axume Weir CPAs, LLP
Bakersfield, California
May 26, 2023

KRISTA MUTUAL WATER COMPANY
BALANCE SHEET
DECEMBER 31, 2021

ASSETS

Current Assets:

Cash		\$ 144,892
Accounts receivable		60,432
Prepaid expenses		<u>813</u>
Total Current Assets		206,137

Property and Equipment:

Land, plant and equipment	\$ 660,687	
Less-Accumulated depreciation	<u>(185,290)</u>	<u>475,397</u>

Total Assets \$ 681,534

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable		\$ 49,490
Prepaid assessment income		<u>4,832</u>
Total Current Liabilities		54,322

Deferred tax liability 42,700

Stockholders' Equity:

Capital stock, authorized 1,000 shares at no par value, 193 shares issued and outstanding	\$ 107,502	
Retained earnings	<u>477,010</u>	<u>584,512</u>

Total Liabilities and Stockholders' Equity \$ 681,534

See accompanying notes.

KRISTA MUTUAL WATER COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2021

Operating Revenues:

Water service (Net of discounts)		\$ 162,170
Transfer fees and late charges		4,515
Interest on savings		<u>15</u>
Total Operating Revenues		<u>166,700</u>

Operating Expenses:

Contract labor	\$ 31,799		
Equipment rental	13,746		
Payroll	39,555		
Payroll taxes	3,771		
Insurance	10,766		
Water analysis and fees	515		
Office expenses and gas	5,101		
Rent	4,150		
Telephone and relay	2,800		
Power	25,941		
Professional fees	6,955		
Taxes, licenses and permits	470		
Depreciation	<u>11,012</u>		<u>156,581</u>
Total Operating Expenses			10,119

Other Income:

Grant revenue from State Proposition 1		<u>79,163</u>
Income before taxes		89,282
Income taxes (note 2)		<u>2,850</u>

Net Income		86,432
Retained Earnings, beginning		<u>390,578</u>
Retained Earnings, ending		<u>\$ 477,010</u>

See accompanying notes.

KRISTA MUTUAL WATER COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

Cash Flows from Operating Activities:

Net income	\$ 86,432
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation	11,012
Deferred taxes	2,050
Changes in working capital components:	
(Increase) in accounts receivable	(42,972)
(Increase) in prepaid expenses	375
(Decrease) in accounts payable	46,420
(Decrease) in prepaid assessment income	(3,228)
Net cash provided by operating activities	<u>100,089</u>

Cash Flows from Investing Activities:

Purchase of property and equipment -	
Net cash (used in) investing activities	<u>(79,163)</u>

Net Increase In cash 20,926

Beginning cash 123,966

Ending cash \$ 144,892

Supplemental Disclosure of Cash Flow Information:

Cash payments for income taxes	\$ 800
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See accompanying notes.

KRISTA MUTUAL WATER COMPANY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021

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

The accompanying financial statements present financial results on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other assets and liabilities.

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, 2021, and therefore no allowance for doubtful accounts is deemed necessary.

E. Bad Debts

Bad debts are charged to expense when management determines that the debt is not collectible.

NOTE 2: Continued**F. 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.

Depreciation amounted to \$11,012 for the year ended December 31, 2021.

G. Prepaid Assessment Income

Prepaid assessment income consists of amounts collected at December 31st of each year for water supplied after that date.

H. 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 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 Krista Mutual Water Company 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 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 the 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 transition 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 from grants is recognized when qualifying costs are incurred. See Note 5.

NOTE 2: Continued**I. 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 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.

J. Subsequent Events

The Company has evaluated subsequent events through May 23, 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 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, 2021, consists for the following:

	<u>2021</u>		
	<u>Beginning</u>	<u>Deferred</u>	<u>Total</u>
Federal	\$ -	\$ -	\$ -
State	(40,650)	2,050	(42,700)
	<u>\$ (40,650)</u>	\$ 2,050	<u>\$ (42,700)</u>
Balance			
Beginning of period		\$ 800	
End of period		<u>\$ 2,850</u>	

NOTE 3: Continued

At December 31, 2021, deferred tax consists of taxes deferred on the following temporary difference categories:

Cash basis adjustments	\$	0
Carryovers		6,900
Depreciation adjustments		<u>(49,600)</u>
	\$	<u>(42,700)</u>

The company has a \$44,985 California net operating loss available for up to 20 years to offset taxable income in future years.

The Company's income tax returns for the years ended December 31, 2021, 2020 and 2019 remain subject to examination by the Internal Revenue Service. In addition to the tax returns previously mentioned, the 2018 tax return also remains subject to examination by California's Franchise Tax Board.

Management is not aware of any uncertain tax positions included in any of the tax returns that remain subject to examination.

NOTE 4: OPERATING LEASE

The Company leases office space under a non-cancelable operating lease that expires in July 2028. 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 2022.

Future minimum rental payments required as of December 31, 2022 are as follows:

2022	\$	4,038
2023		4,230
2024		4,230
2025		4,230
2026		4,230
Thereafter		<u>6,698</u>
	\$	<u>27,656</u>

Total rent expense for the year ended December 31, 2021 totaled \$4,150.

NOTE 5: CONTINGENCIES AND SUBSEQUENT RISKS

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.

NOTE 5: Continued

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 but as of 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. While it is unknown how long these conditions will last and what the complete financial effect will be to the Company, to date the Company has not experienced any negative financial effects.

NOTE 6: GRANTS

The Company has received a grant from the State Water Board to fund the corrective action plan for fluoride containment as described in Note 5. 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.

NOTE 7: RESTATEMENT

The 2020 financial statements have been restated for the correction of an error. The effect of the restatement was to increase deferred taxes in the amount of \$44,548 and to record additional accumulated depreciation of \$5,562. The result of the restatements reduced retained earnings by \$50,110.