



FINANCIAL REPORT
(Reviewed)

December 31, 2025

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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, 2025 and 2024, 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

Supplementary Information

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 schedules of operating expenses have 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 schedules of operating expenses. We have not audited the schedules of operating expenses and do not express an opinion on such information.

Daniells Phillips Vaughan & Bock

Bakersfield, California
October 1, 2026

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

BALANCE SHEETS

December 31, 2025 and 2024

See Independent Accountant's Review Report

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 508,867	\$ 507,106
Accounts receivable	125,675	125,523
Grant receivable	-	494,465
Income tax receivable	11,280	-
Prepaid expenses	4,774	3,514
Total current assets	650,596	1,130,608
Property and Equipment (Note 2)		
Land	253,599	102,652
Land improvements	449,419	449,419
Vehicles	33,993	33,993
Machinery and equipment	7,469,467	7,440,532
	8,206,478	8,026,596
Less accumulated depreciation	1,339,600	1,131,510
	6,866,878	6,895,086
	\$ 7,517,474	\$ 8,025,694
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt (Note 2)	\$ -	\$ 1,902
Accounts payable:		
Trade	18,418	2,505
Construction	-	494,641
Accrued expenses	4,193	18,522
Deferred revenue	5,113	6,279
Total current liabilities	27,724	523,849
Deferred Taxes (Note 3)	14,050	43,137
Stockholders' Equity		
Capital stock, \$1 par value; authorized 50,000 shares; issued and outstanding 31,756 shares	31,756	31,756
Retained earnings	7,443,944	7,426,952
	7,475,700	7,458,708
	\$ 7,517,474	\$ 8,025,694

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended December 31, 2025 and 2024

See Independent Accountant's Review Report

	2025	2024
Operating Revenue		
Water sales	\$ 605,997	\$ 518,854
Transfer fees and late charges	21,168	28,137
Total operating revenue	627,165	546,991
Operating Expenses	643,765	586,297
Operating (loss)	(16,600)	(39,306)
Other Income (Expense):		
Grant revenue	5,305	1,257,443
Interest (expense)	-	(310)
Income (loss) before income taxes (benefit)	(11,295)	1,217,827
Income Taxes (Benefit) (Note 3)	(28,287)	12,640
Net income	16,992	1,205,187
Retained earnings, beginning	7,426,952	6,221,765
Retained earnings, ending	\$ 7,443,944	\$ 7,426,952

See Notes to Financial Statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2025 and 2024

See Independent Accountant's Review Report

	2025	2024
Cash Flows From Operating Activities		
Net income	\$ 16,992	\$ 1,205,187
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	208,089	164,461
Deferred taxes	(29,087)	572
Changes in working capital components:		
(Increase) decrease in:		
Accounts receivable	(152)	(35,683)
Grant receivable	494,465	1,640,253
Income tax receivable	(11,280)	-
Prepaid expenses	(1,260)	551
Increase (decrease) in:		
Trade accounts payable and accrued expenses	1,584	(21,903)
Construction accounts payable	(494,641)	(2,121,625)
Deferred revenue	(1,166)	248
Net cash provided by operating activities	183,544	832,061
Cash Flows From Investing Activities		
Purchase of property and equipment -		
Net cash (used in) investing activities	(179,881)	(790,598)
Cash Flows From Financing Activities		
Principal payments on long-term debt -		
Net cash (used in) financing activities	(1,902)	(7,504)
Net increase in cash	1,761	33,959
Cash		
Beginning	507,106	473,147
Ending	\$ 508,867	\$ 507,106
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	\$ -	\$ 310
Income taxes	\$ 800	\$ 800
Supplemental Schedule of Noncash Operating and Investing Activities		
Accounts payable incurred for purchase of property and equipment	\$ -	\$ 494,641

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 and cash equivalents: For purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

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. Repairs and maintenance 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.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

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.

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: During the year ended December 31, 2025 the Company determined they qualify as a tax-exempt mutual organization under Internal Revenue Code (IRC) § 501(c)(12). The Company remains subject to tax on unrelated business taxable income, if any, and may be subject to federal or state taxes not covered by its exemption. Management evaluates tax positions, including continued qualification for tax-exempt status and unrelated business income positions, under generally accepted accounting principles in the United States of America (U.S. GAAP) for uncertainty in income taxes. Accounting Standards Codification (ASC 740) applies to tax-exempt not-for-profit status and unrelated business income positions, and additional disclosures are required when unrecognized tax benefits exist.

Management has determined that the Company has no material uncertain tax positions requiring recognition in the financial statements as of December 31, 2025.

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 October 1, 2026, the date on which the financial statements were available to be issued. There were no subsequent events identified by management that would require disclosure in the financial statements.

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

See Independent Accountant's Review Report

Note 2. Pledged Assets and Long-term Debt

Long-term debt consists of the following as of December 31, 2025 and 2024:

	2025	2024
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

Note 3. Income Tax Matters

Effective for the year ended December 31, 2025 the Company is intended to be exempt from federal income tax under IRC § 501(c)(12). The Section 501(c)(12) exemption generally requires that 85 percent or more of income consist of amounts collected from members for the sole purpose of meeting losses and expenses. Failure to meet the 85 percent test in a particular year bars exemption for that year. Gross income for the test generally includes investment and capital gain income, and accrual-method organizations determine compliance under the accrual method.

Management believes the Company met the 85 percent member income test for the year ended December 31, 2025. The Company had no material unrelated business taxable income and no unrecognized tax benefits recorded at December 31, 2025.

The provision for income taxes charged to operations for the years ended December 31, 2025 and 2024 consists of the following:

	2025	2024
Current:		
Federal	\$ -	\$ 11,269
State	800	800
	<u>800</u>	<u>12,069</u>
Deferred:		
Federal	(31,197)	1,665
State	2,110	(1,094)
	<u>(29,087)</u>	<u>571</u>
	<u>\$ (28,287)</u>	<u>\$ 12,640</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 liability at December 31, 2025 and 2024, respectively, consists of \$14,050 and \$43,137 of differences in the basis for property and equipment. Additionally, the deferred tax liability at December 31, 2025 relates only to the state as the federal deferred tax liability was reduced to \$0 due to the Company being exempt from federal income taxes under IRC § 501(c)(12).

SUPPLEMENTARY INFORMATION

LAKE OF THE WOODS MUTUAL WATER COMPANY, INC.

SCHEDULES OF OPERATING EXPENSES

Years Ended December 31, 2025 and 2024

See Independent Accountant's Review Report

	2025	2024
Depreciation	\$ 208,089	\$ 164,461
Salaries	172,361	170,243
Licenses and permits	45,901	38,321
Insurance	41,582	40,926
Office supplies	27,515	21,704
Professional services	23,907	23,391
Utilities	21,479	21,884
Contract labor	19,398	25,372
Repairs and maintenance	19,071	2,477
Equipment rental	15,127	16,753
Payroll taxes	13,253	16,356
Subscriptions and memberships	9,570	10,308
Automotive	9,452	10,752
Telephone	8,221	7,901
Rent	4,575	4,510
Training	1,905	-
Bank fees	1,424	733
Postage	640	9,449
Miscellaneous	295	756
	\$ 643,765	\$ 586,297