

CRESTVIEW MUTUAL WATER COMPANY, INC

Financial Statements

November 30, 2022

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Independent Accountants' Review Report

Board of Directors
Crestview Mutual Water Company, Inc
Camarillo, California

We have reviewed the accompanying financial statements of Crestview Mutual Water Company, Inc. (a nonprofit organization), which comprise the statement of financial position as of November 30, 2022, and the related statements of activities, functional expenses and 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 organization 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 controls relevant to the preparation and fair presentation of the 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.

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 review.

Accountant's Conclusion

Based on our review, 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.

Lindsay and Company LLP

Lindsay and Company, LLP
Certified Public Accountants
Ventura, California

March 13, 2023

CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Financial Position
November 30, 2022

Assets

Current Assets

Cash and cash equivalents	\$ 2,716,568
Certificates of deposit	10,012
Accounts receivable	134,061
Other current assets	<u>106,406</u>
Total Current Assets	2,967,047

Property, Plant and Equipment

Net of accumulated depreciation	4,181,232
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Noncurrent Assets

Cash, board designated for immediate or emergency needs	<u>200,000</u>
Total Noncurrent Assets	<u>200,000</u>

Total Assets	<u>\$ 7,348,279</u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 67,349
Accrued expenses	93,920
Current portion of notes payable	<u>140,885</u>
Total Current Liabilities	<u>302,154</u>

Noncurrent Liabilities

Notes payable, net of current portion	<u>913,271</u>
Total Noncurrent Liabilities	<u>913,271</u>

Total Liabilities	1,215,425
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Net Assets

Common stock, 2,498.77 shares issued and outstanding, no par value	208,000
Net assets, unrestricted, board designated	200,000
Net assets, unrestricted	<u>5,724,854</u>
Total Net Assets	<u>6,132,854</u>

Total Liabilities and Net assets	<u>\$ 7,348,279</u>
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See accompanying notes and independent accountants' review report
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CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Activities
For the Year Ended November 30, 2022

Changes in Unrestricted Net Assets

Revenues

Water sales	\$ 1,942,467
Service availability fees	271,652
Miscellaneous revenues	3,060
Gain on sale of asset	1,000
Interest income	<u>29,951</u>
Total Unrestricted Revenue	2,248,130

Expenses

Operating expenses	1,179,473
Management and general expenses	<u>404,601</u>
Total Expenses	1,584,074

Increase (Decrease) in Unrestricted Net Assets 664,056

Net Assets as of November 30, 2021 5,468,798

Net Assets as of November 30, 2022 \$ 6,132,854

CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Cash Flows
For the Year Ended November 30, 2022

Cash Flows From Operating Activities

Increase (Decrease) in Net Assets	\$ 664,056
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Decrease in accounts receivable	66,263
Increase in prepaid expenses and other assets	(18,916)
Decrease in accounts payable	(5,495)
Increase in accrued expenses	5,839
Depreciation and amortization	<u>179,667</u>
Net Cash Provided by Operating Activities	<u>891,414</u>

Cash Flows From Investing Activities

Purchase of property, plant and equipment	<u>(409,052)</u>
Net Cash Used In Investing Activities	<u>(409,052)</u>

Cash Flows From Financing Activities

Payments on notes payable	<u>(122,526)</u>
Net Cash Used in Financing Activities	<u>(122,526)</u>

Net Increase in Cash and Cash Equivalents

359,836

Cash and Cash Equivalent as of November 30, 2021

2,356,732

Cash and Cash Equivalent as of November 30, 2022

\$ 2,716,568

Supplementary Cash Flow Information

Cash paid for income taxes	\$ 800
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CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Functional Expenses
For the Year Ended November 30, 2022

Operating Expenses	<u>Amount</u>
Auto and truck	\$ 10,775
Computer	8,049
Depreciation and amortization	167,954
Employee benefits	19,887
Conservation expense	1,189
Insurance	38,992
Miscellaneous	1,060
Outside services	236,002
Pension expense	10,673
Power	150,837
Regulatory compliance	42,330
Repairs and maintenance	139,597
Salaries and payroll taxes	196,589
Supplies	15,196
Telephone and telemetry	10,073
Water purchase	83,309
Water purification	<u>46,961</u>
Total Operating Expenses	\$ 1,179,473
Management and General Expenses	
Bank charges	\$ 1,948
Computer expense	14,891
Depreciation and amortization	11,713
Dues and subscriptions	2,173
Employee benefits	21,684
Insurance	1,382
Meeting costs	11,719
Office supplies	3,920
Outside services	4,902
Pension expense	7,258
Postage and shipping	3,809
Professional fees	203,104
Salaries and payroll taxes	87,975
Taxes and licenses	19,907
Telephone	2,686
Internet	1,736
Utilities	<u>3,794</u>
Total Management and General Expenses	\$ <u>404,601</u>
Total Functional Expenses	\$ 1,584,074

NOTES TO THE FINANCIAL STATEMENTS

CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2022

Note 1: Summary of Significant Accounting Policies

Organization:

Crestview Mutual Water Company, Inc was incorporated as a not for profit mutual benefit organization on March 3, 1950, to provide water service to approximately 620 homes located in or near Camarillo, California.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues from contracts with customers are recognized when they are earned and expenses are recognized when they are incurred. The Company does not receive contributions, and therefore has no donor-restricted revenues, however should that change, donor contributions would be recognized when the promise to give is received by the Company and any conditions placed on the revenue have been met.

Cash and Cash Equivalents:

The Company considers all liquid investments with an original maturity of one year or less to be cash equivalents.

Cash Restrictions:

Board Designated for Capital Projects

On June 24, 2003, the Board adopted a resolution designating funds to be used for immediate or emergency needs only. The balance in these designated funds, as of November 30, 2022, is \$200,000. This restriction, voluntarily established by the Company Directors, may be removed by the Directors at any time.

Pledged as Collateral

The Company has \$10,000 held in a certificate of deposit held as collateral as a requirement by the county in the event that the Company's activities cause damage to county property.

Liquidity:

As of November 30, 2022, the Company has \$2,850,628 of financial assets available to meet cash needs for general expenditures within one year of the balance sheet date, consisting of \$2,716,567 in cash and money market savings and \$134,061 in accounts receivable. Should the Company require additional cash, the Board can raise water rates to generate more income or authorize borrowing from one of several banks with which the Company has a banking relationship.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable:

Accounts receivable are stated at net realizable value. Management expects to collect all of the receivables reported on the balance sheet, and therefore no allowance for uncollectible receivables has been recorded.

Water Rights:

Water rights in the amount of \$100,000 were fully amortized in prior years.

Compensated Absences:

The Company accrues for accumulated and unused vacation time which vest and are payable upon termination. Sick leave is not included in the accrual, as the Company does not pay for unused sick time upon employee termination.

Income Taxes:

The Corporation is exempt from Federal income tax under Internal Revenue Service Code section 501(c)(12). The Corporation is subject to State income taxation and the minimum Franchise tax.

For California income tax purposes, special assessment income is treated as capital contributions and is excluded from income taxation. The Company does not have material timing differences in recognition of income for tax and financial reporting. Accordingly, no provision for deferred taxes has been recorded.

The Company is subject to routine audits by the Internal Revenue Service for fiscal years ended 2019 through 2021 and by the California Franchise Tax Board for fiscal years ended 2018 through 2021.

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2022

Note 1: Summary of Significant Accounting Policies (Continued)

Subsequent Events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 13, 2023, the date the financial statements were available to be issued.

Note 2: Significant Group Concentration of Credit Risks

The Company maintains bank accounts at financial institutions whose aggregate balances at times may exceed the federally insured maximum of \$250,000. The excess amount at November 30, 2022 is \$2,457,421.

Individually insignificant accounts receivable are due from residential customers, substantially all of whom are located in or near Camarillo, California. The Company believes that essentially all accounts receivable are collectible due to its ability to turn off water supply to non-paying customers and establish liens against real property. Due to the geographical concentration of the Company's activities, revenues may fluctuate based on changes in water usage due to the level of rainfall, and the need to purchase water versus pumping from their wells.

Note 3: Fair Value Measurements

SFAS No. 157, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets and has the highest priority, and Level 3 inputs have the lowest priority. The Company uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Company measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

At November 30, 2022, all of the Company's investments are in cash or cash equivalents (certificates of deposit), which are valued at Level 1, based on quoted net asset values, in the amount of \$2,926,580.

Note 4: Property, Plant, and Equipment

Ordinary expenditures for renewals and betterments are charged to expense. Major expenditures for renewals and betterments are capitalized at cost. In cases where assets are donated to the Company, construction costs or estimated fair values are recorded. Costs of
(Continued)

CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2022

Note 4: Property, Plant, and Equipment (Continued)

assets sold, retired or otherwise disposed of have been eliminated from the accounts, and gains or losses on disposition are included in operations.

The cost of property and equipment is depreciated over the estimated useful lives of the assets using the straight-line method of depreciation, with estimated lives ranging from five to fifty years. Depreciation expense for the year ended November 30, 2022, is \$179,667.

Fixed assets consist of the following:

Land and land improvements	\$ 541,939
Vehicles	103,375
Buildings and equipment	387,485
Fixtures, furnishings	6,504
Distribution lines	968,762
Filtration plants	1,275,853
Hydrants and meters	177,154
Pumping plants	734,374
Pump houses and reservoirs	457,701
Transmission mains	1,213,613
Wells	2,356,495
Capitalized costs	627,172
Computers and software	292,885
Construction in progress	<u>900,592</u>
Total fixed assets at cost	10,043,904
Less accumulated depreciation	<u>(5,862,672)</u>
Net Fixed Assets	\$ <u>4,181,232</u>

Note 5: Expansion

In order to maintain a sufficient water supply for shareholders, the Company is in the early stages of building Well 7 and Well 8. While the Board of Supervisors denied the permit application, Crestview has formed a Shareholder Advisory Group to work through the issues and identify the best suitable location for the well to be constructed. In prior fiscal years, the Company entered into an Installment Purchase Agreement with Holman Capital Corporation for \$1.5 million to fund Well 7. Of the \$1.5 million, approximately \$550,000 has been spent to date.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2022

Note 5: Expansion (continued)

The transaction was financed through Community Bank of Santa Maria. During the current fiscal year, the Company paid and capitalized \$56,593 in interest on this note. Please see Note 7 for more detail on the note payable.

Well 8 is being built under contract with Calleguas Municipal Water District ("Calleguas"). Calleguas originally agreed to reimburse the Company for the costs of constructing the well up to \$2,100,000. Calleguas subsequently authorized an additional \$1,200,000 in cost for the construction of the well, increasing the total reimbursement to \$3,300,000. During the prior fiscal year an interconnection was built, partially using existing assets, which will be used to supply Calleguas' customers with water in the event of a natural disaster which causes a disruption in their state water deliveries. The Company is currently seeking a Conditional Use Permit from the City of Camarillo and expects to complete construction of the well within five years

Note 6: 401(k) Plan

The Company maintains a 401(k) Retirement Plan. Employer contributions to the plan, if any, are determined annually by the Board of Directors. For the year ended November 30, 2022, the Board has elected to contribute 9% of eligible employees' gross pay. The employees' gross pay is calculated on a calendar year basis. At November 30, 2022, the Company has accrued \$17,931 for contributions to the plan.

Note 7: Notes Payable

During the 2019 fiscal year, the Company entered into an Installment Purchase Agreement with Holman Capital Corporation for \$1.5 million dollars at 5.5% interest rate. As mentioned in Note 5, this transaction was financed through Community Bank of Santa Maria. The loan is secured by the related escrow funds and the Company's Net Water Revenues and is payable in 120 monthly installments of \$16,278.94, including interest. The maturity date of the loan is April 23, 2029. Maturities of the note payable are as follows for the years ended November 30:

	2023	\$ 140,885
	2024	148,832
	2025	157,227
	2026	166,096
	2027	175,465
	Thereafter	<u>265,651</u>
Total Notes Payable		<u>\$ 1,054,156</u>

CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2022

Note 8: Contingencies

The Company is a defendant in the matter Las Posas Valley Water Rights Coalition et al v. Fox Canyon Groundwater Management Agency. This matter involves adjudication of groundwater extraction rights within the Las Posas Basin. The Company provides water services to its shareholders, which relies in part on exercising groundwater extraction rights in the basin. The result may be a determination of the water rights held collectively by the shareholders as rights appurtenant to the land held by each shareholder. This matter may increase water delivery costs to its shareholders. The case will require the court to determine water rights within the basin for all parties. The Company does not expect to experience any material financial consequences from any decision.

In connection with the Well 7 expansion, the Company is in a dispute with certain shareholders who are members of the Las Posas Hills Owners Association (HOA), who are objecting to the installation of a new well within the HOA. The Company has been negotiating with certain shareholders. The permit process is on hold with the County of Ventura. The outcome of this matter is currently not known, but it may increase water delivery costs to its shareholders.