

CRESTVIEW MUTUAL WATER COMPANY, INC

Financial Statements

November 30, 2019

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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, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended. 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 the 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.

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 3, 2020

CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Financial Position
November 30, 2019

Assets

Current Assets

Cash and cash equivalents	\$ 2,674,109
Certificates of deposit	10,005
Accounts receivable	148,346
Other current assets	<u>44,112</u>
Total Current Assets	2,876,572

Property, Plant and Equipment

Net of accumulated depreciation	2,993,049
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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 **\$ 6,069,621**

Liabilities and Net Assets

Current Liabilities:

Accounts payable	\$ 117,607
Accrued expenses	74,338
Current portion of notes payable	<u>124,502</u>
Total Current Liabilities	<u>316,447</u>

Noncurrent Liabilities:

Notes Payable, net of current portion	1,299,268
Total Noncurrent Liabilities	<u>1,299,268</u>
Total Liabilities	1,615,715

Net Assets

Unrestricted	<u>4,453,906</u>
Total Net Assets	<u>4,453,906</u>

Total Liabilities and Net assets **\$ 6,069,621**

CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Activities
For the Year Ended November 30, 2019

Changes in Unrestricted Net Assets

Revenues

Water sales	\$ 1,210,771
Service availability fees	270,242
Miscellaneous revenues	54,073
Interest income	<u>12,906</u>
Total Unrestricted Revenue	1,547,992

Expenses

Operating expenses	1,214,898
Management and general expenses	<u>369,088</u>
Total Expenses	1,583,986

Increase (Decrease) in Unrestricted Net Assets (35,994)

Net Assets as of November 30, 2018 4,489,900

Net Assets as of November 30, 2019 \$ 4,453,906

CRESTVIEW MUTUAL WATER COMPANY, INC
Statement of Cash Flows
For the Year Ended November 30, 2019

Cash Flows From Operating Activities

Increase (Decrease) in Net Assets	\$ (35,994)
Non Cash Expenses:	
Depreciation and Amortization	238,954
Adjustments to reconcile change in net assets to cash provided by operating activities:	
Increase in accounts receivable	(8,504)
Decrease in prepaid expenses and other assets	2,606
Increase in accounts payable	52,454
Decrease in accrued expenses	<u>(4,406)</u>
Net Cash Provided by Operating Activities	<u>245,110</u>

Cash Flows From Investing Activities

Purchase of property, plant and equipment	<u>(279,815)</u>
Net Cash Used In Investing Activities	(279,815)

Cash Flows From Financing Activities

Net proceeds from borrowing	<u>1,423,770</u>
Net Cash Provided by Financing Activities	<u>1,423,770</u>

Net Increase in Cash and Cash Equivalents

1,389,065

Cash and Cash Equivalent as of November 30, 2018

1,285,044

Cash and Cash Equivalent as of November 30, 2019

\$ 2,674,109

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, 2019

Operating Expenses	<u>Amount</u>
Auto and truck	\$ 10,350
Computer	9,717
Depreciation and amortization	221,689
Employee benefits	19,147
Insurance	29,274
Miscellaneous	1,593
Outside Services	206,330
Pension expense	13,474
Power	99,968
Regulatory compliance	21,241
Repairs and maintenance	60,300
Salaries and payroll taxes	179,309
Scheduled Repairs	58,634
Supplies	7,507
Telephone and telemetry	2,466
Water purchase	253,491
Water purification	<u>20,408</u>
Total Operating Expenses	\$ 1,214,898
Management and General Expenses	
Bank charges	\$ 10,959
Computer expense	4,116
Depreciation and amortization	17,265
Dues and subscriptions	2,946
Employee benefits	17,513
Insurance	1,035
Meeting costs	4,123
Office supplies	3,973
Outside services	2,289
Pension expense	6,142
Postage and shipping	4,290
Professional fees	196,332
Seminars and training	848
Salaries and payroll taxes	75,847
Taxes and licenses	14,670
Telephone	2,455
Internet	1,748
Utilities	<u>2,537</u>
Total Management and General Expenses	\$ 369,088
Total Functional Expenses	\$ 1,583,986

NOTES TO THE FINANCIAL STATEMENTS

CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2019

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 600 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, unrestricted revenues are recognized when they are earned and expenses are recognized when they are incurred. Restricted revenues, if any, are recognized when expended for their restricted purposes.

Cash and Cash Equivalents:

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

Statement of Cash Flows:

The Company paid California Franchise taxes of \$800 during the year ended November 30, 2019.

Cash, Board Designated for Capital Projects:

On June 24, 2003, the Board adopted a resolution designating these funds to be used for immediate or emergency needs only. The balance in these designated funds, as of November 30, 2019, is \$200,000. This restriction, voluntarily established by the Company Directors, may be removed by the Directors at any time.

Accounts Receivable:

Accounts receivable are stated at net realizable value. The Company recognizes bad debts using the specific identification method. Management expects to collect all of the receivables reported on the balance sheet.

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.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2019

Note 1: Summary of Significant Accounting Policies (Continued)

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 2016 through 2018 and by the California Franchise Tax Board for fiscal years ended 2015 through 2018.

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.

Subsequent Events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 3, 2020, 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.

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.

CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2019

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, 2019, 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 \$2,684,114.

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 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, 2019, is \$238,954.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2019

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

Fixed assets consist of the following:

Land and land improvements	\$ 541,939
Vehicles	86,142
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	728,018
Pump houses and reservoirs	457,701
Transmission mains	612,451
Wells	2,064,013
Capitalized costs	426,972
Computers and software	292,885
Construction in progress	<u>179,449</u>
Total fixed assets at cost	8,205,328
Less accumulated depreciation	<u>(5,212,279)</u>
Net Fixed Assets	<u>\$ 2,993,049</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. During the current fiscal year, the Company spent approximately \$101,000 on consultants, permits and gas installation toward Well 7. The Company also entered into an Installment Purchase Agreement with Holman Capital Corporation for \$1.5 million dollars to fund Well 7. The transaction was financed through Community Bank of Santa Maria. Please see Note 7 for more detail on the note payable.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2019

Note 5: Expansion (Continued)

Well 8 is being built under contract with Calleguas Municipal Water District ("Calleguas"). Calleguas will reimburse the Company for the costs of constructing the well up to \$2,100,000. During the current fiscal year an interconnection was built, partially using existing assets, which will be used to supply Calleguas' customers with water from Well 8 in the event of a natural disaster which causes a disruption in their state water deliveries. The Company 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, 2019, 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, 2019, the Company has accrued \$19,616 for contributions to the plan.

Note 7: Notes Payable

During the current 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. The following is a summary of the notes payable with the current and long term maturity.

Current maturities	124,502
Notes Payable, less current maturities	<u>1,299,268</u>
Total Notes Payable	1,423,770

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 right 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.

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CRESTVIEW MUTUAL WATER COMPANY, INC
Notes To the Financial Statements
November 30, 2019

Note 8: Contingencies (Continued)

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 belong to the Las Posas Hills Owners Association (HOA), who are objecting to the installation of a new well within the HOA. The Company is negotiating with the HOA, but may be required to file a lawsuit to proceed with the installation of the well. The Company does not believe that this will materially affect the financial condition of the property, but may cause an increase in shareholders' fees to pay for the Company's water delivery service.