



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 - tax basis as of December 31, 2019, the related statement of income and retained earnings - tax basis, and the statement of cash flows - tax basis, 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 statement 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 the basis of accounting the company uses for income tax purposes; this includes determining that the basis of accounting the company uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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 the basis of accounting the company uses for income tax purposes. We believe that the results of our procedures provide a reasonable basis for our report.

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 the basis of accounting the company uses for income tax purposes.

Basis of Accounting

We draw attention to Note 2A of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Hardaway Axume Weir CPAs, LLP

KRISTA MUTUAL WATER COMPANY
BALANCE SHEET - TAX BASIS
DECEMBER 31, 2019

ASSETS

CURRENT ASSETS:

Cash in bank	\$ 95,091
Accounts receivable	8,399
Grant claims receivable	719
Prepaid expenses	<u>435</u>
Total Current Assets	104,644

FIXED ASSETS:

Land, plant and equipment	\$ 414,658
Less: Accumulated depreciation	<u>(376,640)</u>
Total Fixed Assets	<u>38,018</u>

TOTAL ASSETS

\$ 142,662

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 4,451
Prepaid assessment income	<u>3,395</u>
Current Liabilities	7,846

LONG-TERM DEBT:

None

STOCKHOLDERS' EQUITY:

Capital stock	\$ 107,502
Paid-in capital	220,469
Retained earnings (Deficit)	<u>(193,155)</u>
Total Stockholders' Equity	<u>134,816</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$ 142,662

See accompanying notes and independent accountant's review report.

KRISTA MUTUAL WATER COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS - TAX BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

REVENUES:

Water service (Net of discounts)		\$ 140,810
Transfer fees, late charges		4,528
Refunds		4,245
Interest on savings		31
Total Revenues		149,614

OPERATING EXPENSES:

Contract labor	\$ 62,716	
Payroll	35,251	
Payroll taxes	3,225	
Insurance	8,894	
Water analysis and fees	855	
Repairs and maintenance	627	
Office expenses & gas	5,311	
Rent	3,050	
Telephone and relay	3,099	
Power	22,388	
Professional fees	4,287	
Taxes, licenses and permits	524	
Depreciation	8,312	
Total Operating Expenses		158,539

NET OPERATING INCOME (LOSS) (8,925)

PROVISION FOR INCOME TAXES (800)

NET INCOME (LOSS) (9,725)

RETAINED EARNINGS (DEFICIT) DECEMBER 31, 2018 (183,430)

RETAINED EARNINGS (DEFICIT) DECEMBER 31, 2019 \$ (193,155)

**KRISTA MUTUAL WATER COMPANY
STATEMENT OF CASH FLOWS - TAX BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

CASH PROVIDED FROM OPERATIONS:

Net income (Loss)	\$ (9,725)
Items not requiring cash:	
Depreciation	8,312
Decrease in accounts receivable	452
Decrease in prepaid expenses	174
Increase in accounts payable	1,637
Increase in prepaid assessment income	<u>1,041</u>
Cash Provided (Used) by Operations	<u>1,891</u>
NET INCREASE IN CASH	1,891
BEGINNING CASH AT JANUARY 1, 2019	<u>93,200</u>
CASH BALANCE AT DECEMBER 31, 2019	<u>\$ 95,091</u>

See accompanying notes and independent accountant's review report.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 1: TYPE OF ENTITY

Krista Mutual Water 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 196 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. Method of Accounting:

The accompanying financial statements present financial results on the accrual basis of accounting used for federal income tax purposes which differs from the accrual basis of accounting required under generally accepted accounting principles. The primary difference between the Company's method and the method required by generally accepted accounting principles are that: **a)** depreciation has been recorded using accelerated methods authorized in the Internal Revenue Code, **b)** uncollectible accounts on accounts receivable are recorded when deemed uncollectible without use of an allowance account, **c)** certain accruals for compensation and other expenses are recorded when paid rather than when incurred, and **d)** certain costs are capitalized to inventory that are not typically capitalized under generally accepted accounting principles.

**KRISTA MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

NOTE 2: Continued

B. 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 majority of the Company's cash is placed within one local banking institution. At times, the balance on deposit exceeds federally insured limits. To date, the Company has not experienced any losses in such account and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

C. Revenue Recognition:

The Company bills its shareholders monthly for water usage. These amounts are recognized as revenue upon billing.

D. Accounts Receivable:

Accounts receivable are not recorded net of an allowance for expected losses. An allowance is deemed unnecessary due to its lien rights on all accounts receivable.

E. Fixed Assets:

Fixed assets are recorded at cost and are being depreciated over their estimated useful lives between 5 and 25 years by use of the straight-line and accelerated methods. Expenditures for maintenance, repairs and improvements, which do not materially extend the useful lives of the assets are charged to expense.

F. 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.

NOTE 3: INCOME TAXES:

Until 2015, the Company was subject to the 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 Company does not anticipate future income tax liabilities beyond the state minimum tax.

KRISTA MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2019

NOTE 4: CONCENTRATION OF RISK:

Management believes the Company is not exposed to any significant credit risk related to cash.

NOTE 5: UNCERTAINTY IN INCOME TAXES:

The Company recognizes tax benefits only to the extent that the Company believes it is "more likely than not" that its tax positions will be sustained upon examination by taxing authorities. The company has not been examined by taxing authorities. However, the Company's tax returns generally remain open for examination by tax authorities for three years after they are filed. Management believes that all of its tax positions will be sustained if examined by taxing authorities, therefore no additional tax liabilities or related penalties and interest due to uncertain tax positions have been recorded.

NOTE 6: 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.

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. Complete compliance with the Safe Drinking Water Act is required by April 30, 2021. See Note 7.

NOTE 7: 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 6. The grant is for a maximum of \$500,000, the estimated reasonable cost of the plan. Through December 31, 2019, \$143,569 of grant funds have been expended leaving \$356,431 of unused grant funds available for future corrective action.

NOTE 8: DATE OF MANAGEMENT REVIEW:

Management has evaluated subsequent events through February 21, 2020, the date of which the financial statements were available to be issued.