

MOUNT KONOCTI MUTUAL WATER COMPANY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

LARRY BAIN, CPA

An Accounting Corporation

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Mount Konocti Mutual Water Company
Kelseyville, CA

Opinion

We have audited the accompanying financial statements of Mount Konocti Mutual Water Company, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mount Konocti Mutual Water Company as of June 30, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mount Konocti Mutual Water Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mount Konocti Mutual Water Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

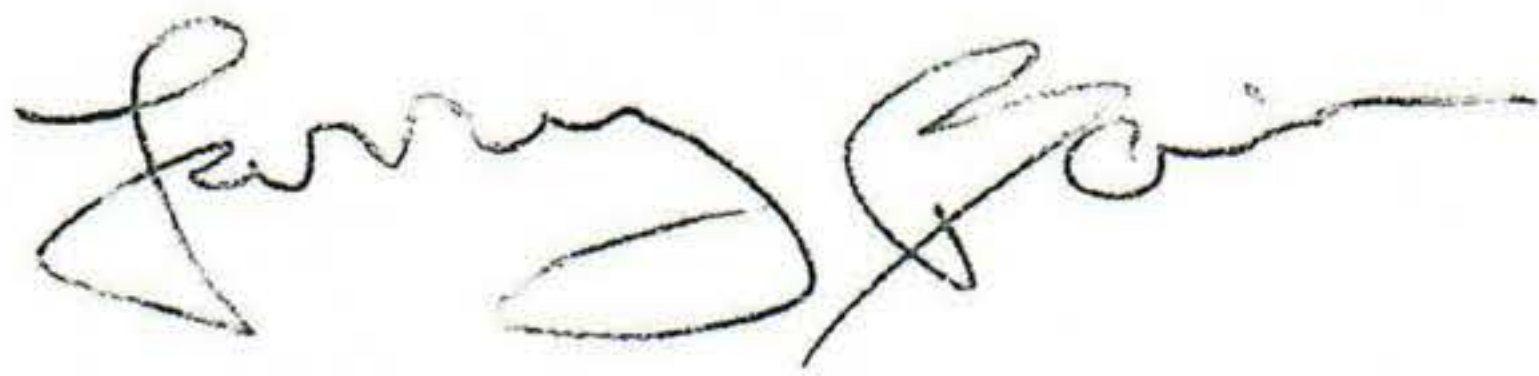
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mount Konocti Mutual Water Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mount Konocti Mutual Water Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Larry Bain, CPA,
An Accounting Corporation
October 21, 2025

MOUNT KONOCTI MUTUAL WATER COMPANY

Notes to the Financial Statements June 30, 2025

Note 1: Organization

Mt. Konocti Mutual Water Company (the Company) is a California corporation organized for the purpose of developing, distributing, supplying and delivering water for domestic use and irrigation purposes to lot owners at Clear Lake Riviera, Lake County, California. All lot owners may apply for a stock certificate issued by the Company that may not be transferred except upon merger or sale of the parcel. Non-payment of assessments results in forfeiture of the right to water service. Each lot owner holding a stock certificate is entitled to one vote.

Note 2: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Mount Konocti Mutual Company have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Company to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Company management and the board of directors. Because the Company had an accumulated deficit at year end there were no net assets without donor restrictions reported.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. As of June 30, 2025 the Company did not have net assets with donor restrictions.

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

B. Accounts Receivable

Billings for water service are sent bi-monthly to homeowners. Irrigation water and commercial lot owners are billed monthly. Such billings are assessments against shares. When an assessment becomes delinquent, forfeiture proceedings are implemented. In the event a share becomes forfeited the owner and any subsequent owner of the property are not entitled to any of the services provided by the Company until such time as the share has been reinstated. The share may be redeemed only by payment of the balance assessed against the share as well as a reinstatement fee. All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

MOUNT KONOCTI MUTUAL WATER COMPANY

Notes to the Financial Statements
June 30, 2025

Note 2: Summary of Significant Accounting Policies (Continued)

C. Property, Plant and Equipment

Property, plant and equipment are stated at historical costs. When assets are retired or otherwise disposed of, the net book value, which is the difference between historical costs and related accumulated depreciation, is removed from the financial statement. Any gain or loss from the retirement or disposal of an asset is reflected in net income for the period. Depreciation is calculated using the straight-line method based on an estimated useful life of 3 to 40 years. The Company's policy is to expense capital assets costing less than \$5,000.

Maintenance and repairs are charged to expense as incurred. Significant additions or improvements are capitalized and depreciated over the revised estimated useful lives. Costs incurred for major improvements or construction of assets are carried in construction in progress until the project is completed at which time costs related to the project are capitalized in the appropriate asset account.

D. Inventory

Inventory is stated at cost and consists primarily of parts, supplies and chemicals. Cost is determined using the first-in, first-out method of accounting.

E. Cash Equivalents

For purpose of the statement of cash flows, the Company considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

F. Compensated Absences

Employees of the Company are entitled to paid vacation and sick days, depending on job classification, length of service, and other factors. At June 30, 2025 accrued compensated absences was \$174,084.

G. Liquidity and Availability of Financial Resources

The Company's current assets at June 30, 2025 were \$3,015,900. The Company had \$37,436 prepaid expense and \$46,265 inventory for a total \$83,701 nonfinancial current assets leaving \$2,932,199 available to meet cash needs for general expenditures within one year of the date of the statement of financial position.

H. Use of Estimates in the Preparation of Financial Statements

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

MOUNT KONOCTI MUTUAL WATER COMPANY

Notes to the Financial Statements June 30, 2025

Note 3: Cash and Investments

Cash and investments at June 30, 2025, consisted of the following:

	Unrestricted	Restricted	Total
Petty cash	\$ 200	\$ -	\$ 200
Checking	228,419		228,419
Savings	205,176	55,402	260,578
Certificates of deposit	569,790		569,790
Total cash and investments	<u>\$ 1,003,585</u>	<u>\$ 55,402</u>	<u>\$ 1,058,987</u>

Restricted cash in a savings account is reserved for the purpose of repayment of legal fees. Furthermore a depreciation reserve was established for depositing connection fees to pay for future facility expansions and for Board approved capital costs.

As of June 30, 2025, the Company had cash deposits in excess of federally insured limits in one financial institutions in the amount of \$470,999.

Note 4: Property, Plant and Equipment

Property, plant and equipment at June 30, 2025, consisted of the following:

Land	\$ 189,430
Construction in progress	2,281,586
Investment in water system	1
Water assets	4,926,189
Plant assets	35,315
Office building	112,503
Office furniture and equipment	65,999
Vehicles	143,749
Total	<u>7,754,772</u>
Less accumulated depreciation	<u>(4,091,371)</u>
Net book value	<u>\$ 3,663,401</u>

MOUNT KONOCTI MUTUAL WATER COMPANY

Notes to the Financial Statements June 30, 2025

Note 5: Promissory Note

On September 23, 2024, the Company borrowed \$1,401,900 from the Rural Communities Assistance Corporation as a cash flow loan for its DWR grant project to build new water tanks. The cost of issuance was \$21,029 and the interest rate is 5.5%. All accrued interest and principal must be repaid by December 31, 2025. The loan is a revolving line of credit and the amount borrowed as of June 30, 2025 was \$764,203.

Note 6: Income Taxes

During the fiscal year ended June 30, 1984, the Company applied for and received tax exempt status as a homeowners' association from the State of California. Currently the State tax exempt status has been revoked. During the 2009-10 fiscal year, the company petitioned its shareholders to change the Articles of Incorporation language for the purpose of resubmitting the application for tax exempt status. The majority of shareholders did not respond to the petition and as required by law, the Company cannot receive tax exempt status without majority shareholder approval. Therefore, income from membership dues, fees and assessments are taxable for State tax purposes. During the fiscal year ended June 30, 1988, the Company applied for and received tax exempt status for federal purposes retroactive to July 1, 1986. Income from sources other than membership dues, fees and assessments cannot exceed 15% of gross revenues.

Note 7: Capital Stock

Upon escrow closure and company issuance of a "Stock Certificate" (share) the parcel owner becomes a member in this company. Each member in good standing has equal rights and has one vote for each share held at the Annual Shareholders' Meeting. Shares are appurtenant to the property owned and cannot be sold separately. Should a parcel be split the share may be provided to either parcel, but the share cannot be split.

As of June 30, 2025, the Company had consolidated all of its stock certificates and had the retired stock in its possession. In addition, customer's accounts, which have become delinquent, go into forfeiture proceedings. The Company allows a grace period of 45 days in which shareholders may become in good standing by paying the outstanding assessment. If the customer's account remains in arrears, their share reverts back to the Company. As of June 30, 2025, 2,822 shares were issued, 2,713 were outstanding and 77 shares were in forfeiture.

Note 8: Legal Fee and Lot Owner Liabilities

Effective November 1, 1993, the Committee's plan of Unimproved Lot Owners and unsecured creditors reorganization (Plan) was approved by the U.S. Bankruptcy Court. In accordance with the Plan, the Company has complied with the following conditions:

- * Changed the nature of all stock shares to full voting rights for all holders, regardless of class of those shares.
- * Provided credits for refund of distribution charges, assessments or hookup fees to lot owners meeting certain requirements.
- * Repayment of the accrued lot owner liability fee from new hook ups. Interest portion is calculated on January 1 and July 1 each year based on the difference between prime rate and 10%.
- * Repayment of accrued legal fees representing Attorney's balance due of \$84,182 as of June 30, 2025. The payments are semi-annual and change due to the variable interest rate noted above.

MOUNT KONOCTI MUTUAL WATER COMPANY

Notes to the Financial Statements June 30, 2025

Note 8: Legal Fee and Lot Owner Liabilities (Continued)

As a result of the reorganization plan the Company incurred a Lot Owner and Legal Liability which contributes to the accumulated deficit of \$2,096,890 at June 30, 2025. The Lot Owner Liability and Legal Liability, which are being paid through assessments on water users and hookup fees, will continue until the debts are paid in full.

The plan requires the company to pay claims held by unimproved lots not in cash, but instead will be satisfied by offsets or credits against new hookup fees. Pursuant to a prescribed formula, each owner of an unimproved lot who holds a claim against the company by virtue of the class judgement will be entitled to a partial credit against his or hers hookup fee when the lot is improved and connected to the water delivery system. In this manner the company's cash flow requirements will be eased and lot owners will receive the value of their claims upon development of their parcels. The claims accrue annual interest at the difference between prime rate and 10%. The lot owner liability including accrued interest as of June 30, 2025 was \$5,547,638.

In the event the company is unable to obtain financing to fund expansion of their system to accommodate new users, the Plan allows for the company to impose an assessment upon all shareholders for the costs of expanding the system. The proceeds of such assessment shall be used only to fund the cost of expansion. To date the Company has not exercised its right to impose an assessment for this purpose.

Note 9: Prior Period Adjustment

A prior period adjustment was made increasing beginning net assets \$813,533 to write down the prior year status S lot owner liability to the maximum amount of the refund available of \$4,200. The refund is equal to or less than the net hookup fee. The hookup fee in effect at June 30, 2024 was \$4,850 and the cost of hookup was \$650.

Note 10: Retirement Plan

The Company contributes to a SEP/IRA retirement plan in accordance with the Social Security Act of 1974. The plan is a defined contribution pension plan. The basis for annual contributions is eligible employee compensation. A separate account is maintained for each eligible employee. The contribution percentage is limited to 15% annually. The Board of Directors has authorized a contribution of 7.5%. An employee reaches eligibility after being employed by the Company for one year. The Company contributions to the plan for the fiscal year ended June 30, 2025 were \$50,792.

Note 11: Risk Management

The Company maintains a commercial package policy covering general and auto liability, public officials' and employees' errors and omissions, employment general practices and a separate workers compensation insurance policy. The policies provide limits of liability per occurrence and in an aggregate amount with variable deductibles. Furthermore the Company maintains an excess of underlying coverage/limits policy.

Note 12: Related Party Transactions

The Company provides Board members a water credit equal to the base water rate after service on the Board for a two year period. The amount of credits received during the 2024/25 fiscal year was \$3,510. The credit also continues for a two year period after a vested Board member leaves the Board.

MOUNT KONOCTI MUTUAL WATER COMPANY

Notes to the Financial Statements June 30, 2025

Note 13: Commitments and Contingencies

Undeliverable Hookup Refunds

The Company, after making an attempt to deliver hookup fee refunds, has many refund checks that were never cashed or they were returned undeliverable and voided. These amounts were recorded as non-operating expense when incurred and then as non-operating revenue when they became stale dated or were returned undeliverable. The lot owner liability was reduced when the hookup refund check was issued to the former lot owners, however a contingent liability remains for undeliverable hookup refunds should the former owner submit a claim for reimbursement.

Lawsuits

In the normal course of business, the Company is subject to various lawsuits. Defense of lawsuits is typically handled by the Company's insurance carrier and losses, if any, are expected to be covered by insurance. The Company is unaware of any pending litigation or other contingencies which would have a material effect on the financial condition or liquidity of the Company.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the district expects such amounts, if any, to be immaterial.

Income Tax

During the 2024/25 fiscal year the Company reported \$1,907,569 grant revenue that was provided by the State of California Department of Water Resources. The grant was used for Mt. Konocti storage tank replacement and drought resiliency. For California income tax purposes the Company reported the grant revenue on form 100 as a deduction under Revenue and Taxation Code Sec. 24405 (A). For Federal income tax purposes the Company has also excluded the grant revenue from taxable income. Should the California Franchise Board and/or the IRS disallow the exclusion of the grant revenue from taxable income the Company could be liable for the tax and penalties attributed to the grant revenue. No tax liability has been recorded in these financial statements.

Note 14: Subsequent Events

Subsequent events were evaluated through October 21, 2025, the date these financial statements were available for distribution.

MOUNT KONOCTI MUTUAL WATER COMPANY
Statement of Financial Position
June 30, 2025

Assets

Current Assets

Cash and investments	\$ 1,003,585
Accounts receivable	149,038
Grant receivable	1,779,576
Prepaid expense	37,436
Inventory	46,265
Total current assets	<u>3,015,900</u>

Noncurrent Assets

Restricted cash	55,402
Accounts receivable - forfeitures	<u>10,118</u>

Property, Plant, and Equipment -

Net of accumulated depreciation of \$4,091,371 in 2025	<u>3,663,401</u>
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Total noncurrent assets	<u>3,728,921</u>
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Total assets	<u>6,744,821</u>
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Liabilities

Current Liabilities

Accounts payable	\$ 875,745
Retention payable	89,885
Accrued payroll	7,859
Accrued interest on legal fees	3,683
Accrued legal fees - current portion	47,865
Promissory note	764,203
Total current liabilities	<u>1,789,240</u>

Long-term Liabilities

Compensated absences	174,084
Lot owners' liability	5,547,638
Accrued legal fees - long-term	36,317
Total long-term liabilities	<u>5,758,039</u>
Total liabilities	<u>7,547,279</u>

Net Assets

Common stock	2,636
Restricted for legal fee assessment	55,402
Accumulated deficit	<u>(860,496)</u>
Total net assets (accumulated deficit)	<u>\$ (802,458)</u>

MOUNT KONOCTI MUTUAL WATER COMPANY

Statement of Activities

For the Fiscal Year Ended June 30, 2025

Operating Revenue	
Water sales	\$ 1,650,348
Other operating revenue	<u>35,182</u>
Total operating revenues	<u>1,685,530</u>
Operating Expenses	
Water plant	440,738
General and administrative	122,080
Salaries and benefits	885,812
Depreciation	<u>160,940</u>
Total operating expenses	<u>1,609,570</u>
Operating income (loss)	<u>75,960</u>
Non-Operating Revenue/Expenses	
Interest revenue	22,377
Assessments	73,236
Hookup fees	4,200
Grant revenue	1,907,569
Property tax	(2,895)
Interest expense- lot owner liability	(156,725)
Interest expense-legal fee liability	<u>(9,150)</u>
Total non-operating revenues (expenses)	<u>1,838,612</u>
Net income (loss)	<u><u>\$ 1,914,572</u></u>

MOUNT KONOCTI MUTUAL WATER COMPANY
Statement of Activities (Continued)
For the Fiscal Year Ended June 30, 2025

	Common Stock	Restricted for Legal Assessment	Accumulated Deficit	Total
Net assets (deficit), beginning of fiscal year	\$ 2,636	\$ 57,527	\$ (3,590,726)	\$ (3,530,563)
Net income (loss)			1,914,572	1,914,572
Restricted net assets		(2,125)	2,125	-
Lot mergers and forfeitures			-	-
Prior period adjustment			813,533	813,533
Net assets (deficit) end of fiscal year	<u>\$ 2,636</u>	<u>\$ 55,402</u>	<u>\$ (860,496)</u>	<u>\$ (802,458)</u>

MOUNT KONOCTI MUTUAL WATER COMPANY**Statement of Cash Flows****For the Fiscal Year Ended June 30, 2025****Cash Flows From Operating Activities:**

Increase (decrease) in net assets	\$ 1,914,572
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:	
Depreciation	160,940
Interest expense-legal fee and lot owner liabilities	153,363
(Increase) decrease in:	
Accounts receivable	(22,696)
Grant receivable	(1,717,363)
Prepaid expense	(10,281)
Inventory	(1,083)
Accounts payable	839,914
Retention payable	89,885
Accrued payroll	(16,002)
Compensated absences	(13,802)
Net cash provided by (used in) operating activities	<u>1,377,447</u>

Cash Flows From Capital and Related Financing Activities:

Principal received for promissory note	<u>764,203</u>
Net cash used by capital and related financing activities	<u>764,203</u>

Cash Flows From Investing Activities:

Purchase of property and equipment	<u>(1,957,913)</u>
Net cash used by investing activities	<u>(1,957,913)</u>

Cash Flows From Non-Capital Financing Activities:

Lot owner liability refunds-net	(10,833)
Principal paid on legal fee liability	(68,152)
Net cash used by non-capital financing activities	<u>(78,985)</u>

Net increase (decrease) in cash and cash equivalents	104,752
Cash and cash equivalents, beginning of fiscal year	<u>954,235</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 1,058,987</u>

Reconciliation of Cash and Cash Equivalents to the Balance Sheet:

Cash and investments - unrestricted	\$ 1,003,585
Cash and investments - restricted	<u>55,402</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 1,058,987</u>

Supplemental Data

Interest paid	\$ (12,512)
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