



*Review Report of Independent Accountants and  
Financial Statements with Supplementary Information*

**Musick Meadows Mutual Water Co. #2, Inc.**

*December 31, 2020*

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## **Review Report of Independent Accountants**

To the Stockholders  
Musick Meadows Mutual Water Co. #2, Inc.

We have reviewed the accompanying financial statements of Musick Meadows Mutual Water Co. #2, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of operations, stockholders' equity, 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 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 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 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.

***Supplementary Information***

The accompanying supplementary information included on page 12 is presented for purposes of additional analysis and is 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 supplementary information has 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 supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

Three handwritten signatures in black ink, appearing to be in cursive or a similar fluid script, positioned horizontally.

Fresno, California  
April 14, 2021

## **Financial Statements**

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**Musick Meadows Mutual Water Co. #2, Inc.**  
**Balance Sheet**  
**December 31, 2020**

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**ASSETS**

CURRENT ASSETS

Cash and cash equivalents	\$	86,226
Certificates of deposit		<u>128,750</u>

Total current assets 214,976

PROPERTY AND EQUIPMENT, net

269,382

Total assets \$ 484,358

**LIABILITIES AND STOCKHOLDERS' EQUITY**

CURRENT LIABILITIES

Accounts payable	\$	2,918
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OTHER LIABILITIES

6,780

Total liabilities 9,698

STOCKHOLDERS' EQUITY

474,660

Total liabilities and stockholders' equity \$ 484,358

**Musick Meadows Mutual Water Co. #2, Inc.**  
**Statement of Operations**  
**Year Ended December 31, 2020**

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REVENUE	
Annual assessments	\$ 59,505
Capital assessments	4,860
	64,365
Total revenue	64,365
OPERATING EXPENSES	
Accounting	6,800
Fees and taxes	1,141
Insurance	3,272
Maintenance - repairs	4,145
Office expense	4,326
Office supplies	1,837
Snow removal	17,255
Utilities	2,820
Water master	9,270
Water testing	3,270
	54,136
Total operating expenses	54,136
Net operating income before depreciation expense	10,229
Depreciation expense	20,741
	(10,512)
Operating loss	(10,512)
OTHER INCOME	
Interest income	981
Transfer fees	500
Other income	1,690
	3,171
Total other income	3,171
Loss before provision for income taxes	(7,341)
PROVISION FOR INCOME TAXES	
	800
Net loss	\$ (8,141)

**Musick Meadows Mutual Water Co. #2, Inc.**  
**Statement of Stockholders' Equity**  
**Year Ended December 31, 2020**

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	Common Stock		Retained Earnings	Total Equity
	Number of Shares Outstanding	Amount		
BALANCE, December 31, 2019	83	\$ 8,300	\$ 474,501	\$ 482,801
Net loss	-	-	(8,141)	(8,141)
BALANCE, December 31, 2020	<u>83</u>	<u>\$ 8,300</u>	<u>\$ 466,360</u>	<u>\$ 474,660</u>



**Musick Meadows Mutual Water Co. #2, Inc.**  
**Statement of Cash Flows**  
**Year Ended December 31, 2020**

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CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	\$ (8,141)
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation	20,741
Change in operating assets and liabilities:	
Accounts payable	2,918
Other liabilities	<u>(845)</u>
Net cash from operating activities	<u>14,673</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of certificates of deposit, net	<u>(5,786)</u>
Net change in cash and cash equivalents	8,887
CASH AND CASH EQUIVALENTS, beginning of year	<u>77,339</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 86,226</u></u>

# Musick Meadows Mutual Water Co. #2, Inc.

## Notes to Financial Statements

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### NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

**Nature of business** – Musick Meadows Mutual Water Co. #2, Inc. (the “Company”) operates as an incorporated mutual benefit water company on behalf of lot owners in the Musick Meadows subdivision (the “Subdivision”). The Subdivision consists of 83 lots, of which 2 lots have been combined; therefore, only 81 lots are assessed annually. All lot owners may apply for a certificate of membership in the Company that may not be transferred except upon sale of the parcel. Nonpayment of assessments results in forfeiture of the right to water service. Each lot owner holding a membership certificate is entitled to one vote. A significant portion of the Company’s revenue is derived from assessments.

**Basis of accounting** – These financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**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 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.

**Cash and cash equivalents** – For purposes of the statement of cash flows, the Company considers all short-term investments purchased with a maturity of three months or less to be cash equivalents. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. The Company has cash balances on deposit which at times may exceed the balance insured with the FDIC. The Company has not experienced any losses on those deposits and believes it is not exposed to any significant credit risk.

**Certificates of deposit** – In 2019, the Company adopted a Capital Replacement Plan and transferred the certificates of deposit previously raised for capital purposes from a savings account to a capital replacement investment account. The balance in this account has been restricted by the lot owners to only be used toward capital replacements and improvements of the Company and have assessed an additional annual capital assessment for this purpose. At December 31, 2020, the balance in this account was \$128,750.

**Property and equipment** – Property, equipment, and improvements are carried at cost less accumulated depreciation. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs, including planned major maintenance activities, are charged to expense as incurred. Gains and losses on dispositions are included in current operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 25 years.

**Long-lived assets** – Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment losses were recognized during the year ended December 31, 2020.

## Musick Meadows Mutual Water Co. #2, Inc. Notes to Financial Statements

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**Revenue recognition** – The Company’s revenue is derived from assessments for the right of use of the water supply. Revenue from the annual assessments is recognized on a monthly basis as earned over the life of the assessment.

**New accounting pronouncement** – On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, and subsequently issued related ASUs, which requires lessees to recognize a liability associated with obligations to make payments under the terms of the arrangement in addition to a right-of-use asset representing the lessee’s right to use, or control the use of the given asset assumed under the lease. The standard will be effective for nonpublic business entities for the calendar year ending December 31, 2022. Early adoption is permitted. The Company is currently evaluating this new standard and the impact it will have on its financial statements.

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements were available to be issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements were available to be issued.

The Company has evaluated subsequent events through April 14, 2021, which is the date the financial statements were available to be issued

### NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2020:

Land	\$ 1,169
Water plant and related equipment	374,340
Improvements	<u>53,602</u>
	429,111
Less: accumulated depreciation	<u>(159,729)</u>
	<u><u>\$ 269,382</u></u>

Depreciation expense for the year ended December 31, 2020, was \$20,741.

### NOTE 3 – INCOME TAXES

The Company has elected to file income taxes by filing as a homeowners’ association under code section 528 of the Internal Revenue Code and applicable California Revenue Code. As a homeowners’ association, the Company is taxed on their gross income, excluding exempt function income, such as interest earnings, at federal and state corporate rates. For the year ended December 31, 2020, the provision for income taxes was \$800.

# **Musick Meadows Mutual Water Co. #2, Inc.**

## **Notes to Financial Statements**

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### **NOTE 4 – UNCERTAINTIES**

In March 2020, the World Health Organization declared the novel coronavirus outbreak a public health emergency. The Company's operations are in California, which has restricted gatherings of people due to the coronavirus outbreak. Given the dynamic nature of these circumstances and business disruption, the Company anticipates a significant short-term impact. The Company will continue to monitor the situation closely, but given the uncertainty of the situation, an estimate of the impact to the financial statements cannot be made at this time.

## **Supplementary Information**

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**Musick Meadows Mutual Water Co. #2, Inc.**  
**Budget to Actual – Revenues and Expenses**  
**Year Ended December 31, 2020**

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	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Annual assessments	\$ 59,505	\$ 59,505	\$ -
Capital assessments	4,860	4,860	-
Other income	-	3,171	3,171
	<hr/>	<hr/>	<hr/>
Total revenues	64,365	67,536	3,171
	<hr/>	<hr/>	<hr/>
<b>EXPENSES</b>			
Accounting	6,800	6,800	-
Depreciation	21,040	20,741	299
Fees and taxes	3,625	1,941	1,684
Insurance	3,300	3,272	28
Maintenance - repairs	16,400	4,145	12,255
Office expense	4,326	4,326	-
Office supplies	2,280	1,837	443
Other expense	125	-	125
Snow removal	19,000	17,255	1,745
Utilities	2,800	2,820	(20)
Water master	9,270	9,270	-
Water testing	-	3,270	(3,270)
	<hr/>	<hr/>	<hr/>
Total expenses	88,966	75,677	13,289
	<hr/>	<hr/>	<hr/>
	\$ (24,601)	\$ (8,141)	\$ 16,460
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