

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

FINANCIAL STATEMENTS

Year Ended
December 31, 2023

Krikorian & Company
Accountancy Corporation

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Stockholders
Musick Meadows Mutual Water Co. #2, Inc.
Shaver Lake, California

We have reviewed the accompanying financial statements of Musick Meadows Mutual Water Co. #2, Inc., which comprise the balance sheet as of December 31, 2023, and the related statements of income and retained earnings 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 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 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 AICPA. 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 report.

We are required to be independent of Musick Meadows Mutual Water Co. #2, Inc. 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.

Supplementary Information

The accompanying supplementary information included on page 11 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. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

Krikorian & Company Accountancy Corporation

Fresno, California

June 24, 2024

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

BALANCE SHEETS

December 31,	2023
ASSETS	
Current assets	
Cash and cash equivalents	\$ 65,572
Restricted cash and cash equivalents	186,862
Total current assets	252,434
Property and equipment	
Property and equipment, at cost	429,111
Accumulated depreciation	(221,809)
Property and equipment, net	207,302
Total assets	\$ 459,736
LIABILITIES AND STOCKHOLDERS' EQUITY	
Other liabilities	
Other liabilities	\$ 2,784
Total liabilities	2,784
Stockholders' equity	
Common stock, \$100 par value, 83 shares issued and outstanding	8,300
Retained earnings	448,652
Total stockholders' equity	456,952
Total liabilities and stockholders' equity	\$ 459,736

See accompanying notes and independent accountant's review report

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

Year Ended December 31,	2023
Revenue	
Annual assessments	\$ 59,530
Capital assessments	9,720
Total revenue	69,250
Operating expenses	
Accounting	2,750
Fees and taxes	1,854
Insurance	5,349
Maintenance - repairs	5,949
Office expense	4,399
Office supplies	1,920
Snow removal	21,200
Utilities	3,453
Water master	9,533
Water testing	3,006
Rent	566
Depreciation and amortization	20,625
Total operating expenses	80,604
Income from operations	(11,354)
Other income (expense)	
Interest income	5,417
Transfer fees	75
Other income	667
Total other income	6,159
Income before income taxes	(5,195)
Income tax expense	800
Net income (loss)	(5,995)
Retained earnings at beginning of year	454,647
Retained earnings at end of year	\$ 448,652

See accompanying notes and independent accountant's review report

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

STATEMENTS OF CASH FLOWS

Year Ended December 31,	2023
OPERATING ACTIVITIES	
Net loss	\$ (5,995)
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation	20,625
Change in operating assets and liabilities:	
Accounts payable	(336)
Other liabilities	(1,880)
Net cash provided by operating activities	12,414
Net increase (decrease) in cash	12,414
Cash and cash equivalents at beginning of year	240,020
Cash and cash equivalents at end of year	\$ 252,434

See accompanying notes and independent accountant's review report

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

NOTES TO FINANCIAL STATEMENTS

The Company

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.

Significant Accounting Policies

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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues 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.

Restricted cash

Restricted cash balance consists of money raised for capital purposes under the Capital Replacement Plan. Lot owners restricted cash for capital replacements and Company improvements and have assessed an additional annual capital assessment for this purpose. At December 31, 2023, the balance in this account was \$186,862.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense when incurred; major renewals and betterments that extend the useful lives are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in current operations. The estimated useful lives of the assets range from 5 to 25 years.

See independent accountant's review report

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2023.

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.

The Company adopted ASC 606, *Revenue from Contracts with Customers*, which amended the existing accounting standards for revenue recognition. The adoption of the new revenue standard does not have a significant impact on the amount and timing of revenue recognized in the Company's financial statements. Based on the Company's evaluation process and review of its contracts with members, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

Member assessments

Members are subject to monthly assessments to provide funds for the Company's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

New accounting pronouncement

On January 1, 2022, the Company assessed the requirements of FASB ASC 842, *Leases*. The new lease guidance requires lessees to recognize right-of-use assets and lease liabilities for operating leases.

As of January 1, 2023, the Company did not have any operating leases. Therefore, adoption of the new guidance did not impact the balance sheet, statements of income and cash flows for the year ended December 31, 2023.

Concentration of Credit Risk

The Company's exposure to concentrations of credit risk consist of the deposits of cash balances. The Company places its deposits with high-quality financial institutions. At times the deposits may exceed the insured amount of \$250,000 provided by the U.S. FDIC. At December 31, 2023, there are no excess uninsured cash balances.

See independent accountant's review report

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.

NOTES TO FINANCIAL STATEMENTS

Contingencies, Risks, and Uncertainties

During March 2020, there was a global outbreak of a new strain of coronavirus, COVID-19. As COVID-19 has continued to spread, the situation continues to evolve, including mandates from federal, state and/or local authorities to mitigate the spread of the virus, which have adversely impacted global commercial activity and have contributed to significant volatility in financial markets. Uncertainty remains regarding increased risks concerning COVID-19 for the foreseeable future.

Property and equipment

Property and equipment, net consisted of the following:

December 31,	2023
Land	\$ 1,169
Water plant and related equipment	374,340
Improvements	53,602
Total cost	429,111
Less: accumulated depreciation	(221,809)
Property and equipment, net	\$ 207,302

Depreciation expense for the year ended December 31, 2023 was \$20,625.

Income Taxes

The Company qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2023. Under that section, the Company is not taxed on all income and expenses related to its exempt purpose of providing water. Net nonexempt income, such as interest earnings, is taxed at federal and state corporate rates. For the year ended December 31, 2023, the provision for income taxes was \$800.

Subsequent Events

Management has evaluated subsequent events through June 24, 2024, the date on which the financial statements were available to be issued. The Company did not have any subsequent events requiring recording or disclosure for the year ended December 31, 2023.

MUSICK MEADOWS MUTUAL WATER CO. #2, INC.**BUDGET TO ACTUAL - REVENUES AND EXPENSES**

Year Ended December 31, 2023	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Annual assessments	\$ 59,505	\$ 59,530	\$ 25
Capital assessments	9,720	9,720	-
Other income	885	6,159	5,274
Total revenue	70,110	75,409	5,299
Operating Expenses			
Accounting	5,050	2,750	(2,300)
Fees and taxes	3,713	2,654	(1,059)
Insurance	5,349	5,349	-
Maintenance - repairs	12,480	5,949	(6,531)
Office expense	4,413	4,399	(14)
Office supplies	2,245	1,920	(325)
Snow removal	18,282	21,200	2,918
Utilities	3,200	3,453	253
Water master	9,585	9,533	(52)
Water testing	3,255	3,006	(249)
Rent	566	566	(0)
Depreciation and amortization	20,713	20,625	(88)
Total operating expenses	88,851	81,404	(7,447)
Net income (loss)	\$ (18,741)	\$ (5,995)	\$ 12,746

See accompanying notes and independent accountant's review report