

CEDARPINES PARK MUTUAL WATER COMPANY

REVIEWED FINANCIAL STATEMENTS

YEARS ENDED APRIL 30, 2012 AND 2011

CEDARPINES PARK MUTUAL WATER COMPANY

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Independent Accountant's Review Report

To the Board of Directors
Cedarpines Park Mutual Water Company
Cedarpines Park, California

We have reviewed the accompanying balance sheet of Cedarpines Park Mutual Water Company as of April 30, 2012 and 2011, and the related statements of income, retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. These financial statements are the responsibility of the Company's management.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express an opinion.

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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with generally accepted accounting principles.

*One Eighty Business Solutions,
an Accountancy Corporation*

July 17, 2012

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CEDARPINES PARK MUTUAL WATER COMPANY

BALANCE SHEETS

APRIL 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	\$ 216,852	\$ 163,647
Accounts receivable, net of allowance for doubtful accounts of \$18,096 and \$21,731	109,482	94,614
Other receivable	-	-
Inventory (Note 1)	41,639	38,234
Prepaid expenses	13,754	8,869
Total Current Assets	<u>381,727</u>	<u>305,364</u>
 DESIGNATED ASSETS:		
Rural Utilities Service debt service reserve - cash in bank	<u>68,044</u>	<u>25,525</u>
 PROPERTY, PLANT AND EQUIPMENT - at cost (Note 2):		
Land, buildings and equipment	4,953,964	4,914,498
Less: Accumulated depreciation	<u>2,664,907</u>	<u>2,537,065</u>
	2,289,057	2,377,433
Construction in progress	79,066	79,066
Total Property, Plant and Equipment	<u>2,368,123</u>	<u>2,456,499</u>
 TOTAL ASSETS	<u>\$ 2,817,894</u>	<u>\$ 2,787,388</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY

BALANCE SHEETS

APRIL 30, 2012 AND 2011

LIABILITIES AND MEMBERS' EQUITY

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 11,476	\$ 39,127
Accrued expenses	25,596	4,965
Accrued interest (Note 4)	35,794	36,607
Note payable – vehicle, current (Note 5)	5,880	-
Rural Utilities Service loan, current (Note 4)	31,714	30,348
Total Current Liabilities	<u>110,460</u>	<u>111,047</u>
 LONG-TERM LIABILITIES:		
Note payable – vehicle, long term (Note 5)	22,050	-
Rural Utilities Service loan, long term (Note 4)	1,300,069	1,331,783
Total Liabilities	<u>1,432,579</u>	<u>1,442,830</u>
 MEMBERS' EQUITY:		
Capital stock, no par value		
Authorized: 5,000 shares		
Issued and outstanding: 4,437 shares and 4,472 shares	279,431	297,631
Memberships forfeited	128,574	100,074
Contributed capital	1,132,742	1,132,742
	<u>1,540,747</u>	<u>1,530,447</u>
Retained (deficit)/earnings		
Unrestricted	(223,476)	(211,415)
Designated for debt service	68,044	25,526
	<u>(155,432)</u>	<u>(185,889)</u>
Total Members' Equity	<u>1,385,315</u>	<u>1,344,558</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 2,817,894</u>	 <u>\$ 2,787,388</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY

STATEMENTS OF INCOME/ (LOSS)

APRIL 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES:		
Membership assessments	\$ 212,917	\$ 209,581
Water consumption charges	207,586	205,057
One time meter charge	136,556	-
Water meter charges	197,487	194,262
Connection charges	17,500	20,000
Membership transfer fees	640	572
Penalty income	13,546	10,765
Miscellaneous income	19,297	20,651
Total Revenues	<u>805,529</u>	<u>660,888</u>
EXPENSES:		
Salaries and wages	167,601	112,358
Payroll taxes	19,167	13,171
Employees' benefits	13,130	10,022
Production power	23,701	34,376
Cost of water	-	12,840
Water analysis	17,355	8,848
Repairs and maintenance	21,870	11,234
Tools and shop expense	1,652	643
Truck and tractor expense	18,278	13,405
Taxes - other	10,243	9,035
Insurance	26,156	24,346
Professional services	89,462	30,556
Office expense	14,016	9,285
Printing and postage	6,139	6,214
Telephone	8,446	6,439
Utilities	4,456	3,941
Permits	6,694	6,015
Computer maintenance	7,595	4,512
Miscellaneous expense	6,533	4,602
Directors' expense	5,300	4,400
Contract labor	106,400	173,638
Bad debt expense	10,497	14,818
Depreciation	127,842	139,767
Total Expenses	<u>712,533</u>	<u>654,465</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY

STATEMENTS OF INCOME/ (LOSS)

APRIL 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING INCOME/(LOSS)	92,996	(6,423)
NON-OPERATING REVENUE (EXPENSE):		
Interest expense (Note 4)	(61,114)	(62,681)
Interest income	259	540
Total Non-Operating (Expense)	<u>(60,855)</u>	<u>(62,141)</u>
NET INCOME/(LOSS) BEFORE PROVISION FOR STATE INCOME TAXES	32,141	(55,718)
PROVISION FOR STATE INCOME TAXES	<u>1,684</u>	<u>688</u>
NET INCOME/(LOSS)	<u>\$ 30,457</u>	<u>\$ (56,406)</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
APRIL 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
MEMBERS' EQUITY - Beginning of year	1,344,558	1,389,464
Add:		
Membership shares sold	10,300	11,500
Net income	30,457	
Subtract:		
Net loss	<u>-</u>	<u>(56,406)</u>
MEMBERS' EQUITY - End of Year	<u>\$ 1,385,315</u>	<u>\$ 1,344,558</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY

STATEMENTS OF CASH FLOW

APRIL 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 746,682	\$ 627,712
Cash paid to suppliers	(442,535)	(384,318)
Cash paid to employees	(146,968)	(108,747)
Interest received	259	541
Other operating cash receipts	33,483	31,989
Income taxes paid	(1,683)	(688)
Interest paid	(61,929)	(63,387)
Net Cash Provided By Operating Activities	<u>127,309</u>	<u>103,102</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Cash purchases of capital assets	(39,466)	(19,808)
Net Cash Used For Investing Activities	<u>(39,466)</u>	<u>(19,808)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Principal paid on loans and notes payable	(31,820)	(29,041)
Cash received from financing service vehicle	29,400	-
Cash received from sales of membership shares	10,300	11,500
Net Cash Provided By/(Used For) Financing Activities	<u>7,880</u>	<u>(17,541)</u>
Net Increase/(Decrease) in Cash	95,723	65,753
Cash at Beginning of Year	<u>189,173</u>	<u>123,420</u>
Cash at End of Year	<u>\$ 284,896</u>	<u>\$ 189,173</u>
Cash at End of Year includes:		
Cash	\$ 216,852	\$ 163,647
Rural Utilities Service Debt Reserve - cash in bank	68,044	25,526
	<u>\$ 284,896</u>	<u>\$ 189,173</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY

STATEMENTS OF CASH FLOWS

APRIL 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income/(Loss)	\$ 30,457	\$ (56,406)
Adjustments:		
Depreciation	127,842	139,767
Bad debt reserve adjustment	10,497	14,818
Changes in Assets and Liabilities:		
Increase in accounts receivable	(25,364)	(1,184)
(Increase) decrease in inventory	(3,405)	2,011
(Increase) decrease in prepaid expenses	(4,885)	799
(decrease) increase in accounts payable	(27,652)	394
Increase in accrued expenses	20,633	3,610
(Decrease) in accrued interest	(814)	(707)
Net Cash Provided by Operating Activities	<u>\$ 127,309</u>	<u>\$ 103,102</u>

See independent accountant's review report and notes to financial statements.

CEDARPINES PARK MUTUAL WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Cedarpines Park Mutual Water Company is a private, non-profit corporation, which sells water to landowners of Cedarpines Park, California, who are shareholders of the water company.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting policies to be used in the preparation of financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Accounting Method

The financial statements of the Company have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

The Company considers all investments purchased with an original maturity of three months or less to be cash equivalents. Certificates of deposit and other securities with original maturities over three months are stated at cost, which approximates market value.

Inventory Valuation

The Company accounts for inventory at the lower of cost (on a first-in, first-out basis) or market. Inventory consisted of plumbing parts and supplies.

Property, Plant and Equipment

Purchased property and equipment are stated at cost and donated property and equipment are recorded at their estimated fair market value at date of donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

Subsequent Events

Management has evaluated subsequent events through July 12, 2012 and has determined that there are no transactions that will have a significant impact on the Company.

CEDARPINES PARK MUTUAL WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

NOTE 2: PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment:

	<u>Balance</u> <u>April 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>April 30, 2012</u>
Land	\$ 53,682	\$ 10,066	\$ -	\$ 63,748
Buildings and paving	191,054	-	-	191,054
Office furniture and equipment	65,104	-	-	65,104
Tanks, pumps and miscellaneous equipment	1,541,615	-	-	1,541,615
Pipelines	2,737,511	-	-	2,737,511
Wells	44,834	-	-	44,834
Meters and meter boxes	73,171	-	-	73,171
Trucks and tractors	137,210	29,400	-	166,610
Fire hydrants	70,317	-	-	70,317
Totals	<u>\$ 4,914,498</u>	<u>\$ 39,466</u>	<u>\$ -</u>	<u>\$ 4,953,964</u>

	<u>Balance</u> <u>April 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>April 30, 2011</u>
Land	\$ 53,682	\$ -	\$ -	\$ 53,682
Buildings and paving	187,554	3,500	-	191,054
Office furniture and equipment	63,279	1,825	-	65,104
Tanks, pumps and miscellaneous equipment	1,538,493	3,122	-	1,541,615
Pipelines	2,737,511	-	-	2,737,511
Wells	44,834	-	-	44,834
Meters and meter boxes	72,301	870	-	73,171
Trucks and tractors	126,716	10,494	-	137,210
Fire hydrants	70,317	-	-	70,317
Totals	<u>\$ 4,894,687</u>	<u>\$ 19,811</u>	<u>\$ -</u>	<u>\$ 4,914,498</u>

CEDARPINES PARK MUTUAL WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

NOTE 3: INCOME TAXES

No provision for federal income taxes has been included in the financial statements because the Company is exempt from income tax under paragraph 501(c) (12) of the Internal Revenue Code. The Company is liable for California franchise tax and on unrelated business income, which is principally interest on investments.

NOTE 4: LOAN PAYABLE AND GRANT

The Company received a loan and grant from the United States Department of Agriculture Rural Utilities Service for the upgrade of the Company's water system. The original loan amount was \$1,670,500 at 4.50% per annum. The maximum grant amount was \$1,085,000. Loan principal and interest payments of \$91,644 are due on September 25 of each year through September 25, 2036.

Accrued interest due on the loan as of April 30, 2012 and 2011 were \$35,794 and \$36,607 respectively. Interest expense incurred for the years ended April 30, 2012 and 2011 was \$61,267 and \$62,681 respectively.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the years ended April 30, 2012 and 2011:

	<u>April 30, 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>April 30, 2012</u>
Rural Utilities Service Loan	<u>\$ 1,362,131</u>	<u>\$ -</u>	<u>\$ (30,348)</u>	<u>\$ 1,331,783</u>

	<u>April 30, 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>April 30, 2011</u>
Rural Utilities Service Loan	<u>\$ 1,391,173</u>	<u>\$ -</u>	<u>\$ (29,042)</u>	<u>\$ 1,362,131</u>

CEDARPINES PARK MUTUAL WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2012 AND 2011

NOTE 4: LOAN PAYABLE AND GRANT (continued)

The annual requirements to amortize all debts outstanding as of April 30, 2012 are as follows:

<u>Year Ending April 30,</u>	<u>Interest</u>	<u>Principal</u>
2013	59,930	31,714
2014	58,503	33,141
2015	57,012	34,632
2016	55,453	36,191
2017	53,825	37,819
2018 - 2022	242,011	216,209
2023 - 2027	188,785	269,435
2028 - 2032	122,455	335,765
2033 - 2036	39,361	336,877
Totals	<u>\$ 877,335</u>	<u>\$ 1,331,783</u>

NOTE 5: NOTE PAYABLE - VEHICLE

In January of 2012, the Company purchased a service vehicle for \$29,400 with a 5 year note bearing no interest for equal monthly installments of \$490. The Company made payments totaling \$1,470 on this note as of April 30, 2012. The balance due as of April 30, 2012 was \$27,930.