

OILDALE MUTUAL WATER COMPANY, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015



DALE PINER

CERTIFIED PUBLIC ACCOUNTANT

BAKERSFIELD, CALIFORNIA

OILDALE MUTUAL WATER COMPANY, INC.
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June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
OILDALE MUTUAL WATER COMPANY, INC.
Oildale, California

I have audited the accompanying financial statements of Oildale Mutual Water Company, Inc., which comprise the balance sheets as of June 30, 2016 and 2015 and the related statements of income and changes in retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oildale Mutual Water Company, Inc. as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Dale Piner
Bakersfield, CA
August 24, 2016

OILDALE MUTUAL WATER COMPANY, INC.

BALANCE SHEETS
June 30, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,329,976	\$ 2,563,943
Investments-funded reserve	11,626,798	8,998,868
Accounts receivable-trade	470,077	538,300
Interest receivable	6,984	3,928
Supply inventory-at cost	<u>105,395</u>	<u>120,028</u>
TOTAL CURRENT ASSETS	<u>13,539,230</u>	<u>12,225,067</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Wells and pumping equipment	1,926,402	1,776,283
Distribution system	16,673,202	16,585,530
Transportation equipment	641,258	496,561
Buildings and improvements	1,017,605	1,017,605
Other equipment	<u>328,403</u>	<u>216,444</u>
	20,586,870	20,092,423
Less accumulated depreciation	<u>7,865,724</u>	<u>7,382,322</u>
	12,721,146	12,710,101
Land	<u>722,773</u>	<u>722,773</u>
	<u>13,443,919</u>	<u>13,432,874</u>
TOTAL ASSETS	\$ <u>26,983,149</u>	\$ <u>25,657,941</u>

OILDALE MUTUAL WATER COMPANY, INC.

BALANCE SHEETS
June 30, 2016 and 2015

	2016	2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accruals	\$ 342,842	\$ 334,658
Current portion of long-term debt	1,559	-
Customer prepayments	<u>105,911</u>	<u>93,879</u>
TOTAL CURRENT LIABILITIES	<u>450,312</u>	<u>428,537</u>
LONG-TERM DEBT, less current portion	57,700	-
Contributions in aid of construction	4,878,879	5,044,054
STOCKHOLDERS' EQUITY		
Common stock (3,000,000 shares authorized, 1,668,056 and 1,657,500 shares issued and outstanding, 2016 and 2015 respectively, par value \$1 and \$2)	3,055,506	3,034,394
Deposit on stock	64,888	17,999
Additional contributed capital	5,731,277	5,731,277
Retained earnings	<u>12,744,587</u>	<u>11,401,680</u>
	<u>21,596,258</u>	<u>20,185,350</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>26,983,149</u>	\$ <u>25,657,941</u>

See independent auditor's report and notes to the financial statements.

OILDALE MUTUAL WATER COMPANY, INC.

STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS
Years Ended June 30, 2016 and 2015

	2016	2015
REVENUE		
Water sales and related charges	\$ 7,102,837	\$ 7,554,110
Water development charges	<u>767,150</u>	<u>177,500</u>
Total revenues	<u>7,869,987</u>	<u>7,731,610</u>
EXPENDITURES		
Water supply costs	<u>3,896,125</u>	<u>3,984,912</u>
OPERATIONS AND MAINTENANCE		
Field salaries	487,081	446,873
Repairs and maintenance	126,894	137,984
Operations	25,745	28,999
Utilities	121,248	327,701
Fuel and lubricants	26,989	35,425
Engineering	(9,520)	9,913
Laboratory testing	15,572	15,710
Employee benefits	<u>216,009</u>	<u>168,440</u>
	<u>1,010,018</u>	<u>1,171,045</u>
ADMINISTRATIVE AND GENERAL		
Salaries	498,815	565,845
Professional fees	59,132	94,135
Health benefits	60,964	43,170
Public relations	39,653	26,795
Postage and printing	61,101	64,946
Insurance	57,549	26,260
Pension plan	33,951	59,706
Payroll and other taxes	193,594	221,475
Office expenses and supplies	<u>228,750</u>	<u>186,557</u>
	<u>1,233,509</u>	<u>1,288,889</u>
Depreciation	<u>439,647</u>	<u>372,346</u>
Operating income	1,290,688	914,418
OTHER INCOME		
Interest income	45,469	17,206
Litigation settlement	-	3,634,114
Gain on sale of assets	<u>7,550</u>	<u>4,000</u>
Income before tax	1,343,707	4,569,738
Current income tax	<u>800</u>	<u>-</u>
Net income	<u>1,342,907</u>	<u>4,569,738</u>
RETAINED EARNINGS-JULY 1	<u>11,401,680</u>	<u>6,831,942</u>
RETAINED EARNINGS-JUNE 30	\$ <u>12,744,587</u>	\$ <u>11,401,680</u>

See independent auditor's report and notes to the financial statements.

OILDALE MUTUAL WATER COMPANY, INC.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING ACTIVITIES:		
Net income (loss)	\$ 1,342,907	\$ 4,569,738
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	439,647	372,346
(Increase) decrease in:		
Accounts Receivable	65,167	80,468
Inventory	14,633	(35,683)
Groundwater storage	-	359,567
Increase (decrease) in:		
Accounts payable	8,184	(243,107)
Customer prepayments	12,032	13,230
NET CASH FROM OPERATING ACTIVITIES	<u>1,882,570</u>	<u>5,116,559</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	(615,867)	(71,552)
Contributions in aid of construction	165,175	(1,764,443)
Proceeds of investment sales	3,012,304	3,240,612
Purchases of investments	<u>(5,640,234)</u>	<u>(8,502,766)</u>
NET CASH FROM INVESTING ACTIVITIES	<u>(3,078,622)</u>	<u>(7,098,149)</u>
FINANCING ACTIVITIES:		
Contributions in aid of construction	(165,175)	368,343
New borrowings	59,259	-
Issuance of stock	21,112	1,675,224
Increase (decrease) on deposits on stock	<u>46,889</u>	<u>(10,836)</u>
NET CASH FROM FINANCING ACTIVITIES	<u>(37,915)</u>	<u>2,032,731</u>
Net increase (decrease) in cash	(1,233,967)	51,141
Cash-July 1	<u>2,563,943</u>	<u>2,512,802</u>
Cash-June 30	\$ <u>1,329,976</u>	\$ <u>2,563,943</u>
Supplemental Disclosures		
Interest paid	\$ -	\$ -
Income taxes paid	\$ 1,600	\$ -

See independent auditor's report and notes to the financial statements.

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Oildale Mutual Water Company, Inc. (Company) is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles in the United States of America and have been consistently applied in the preparation of the financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Business Activity

Oildale Mutual Water Company, Inc. was organized in 1919. The Company is a mutual water company and is an exempt organization under Internal Revenue Code Section 501(c)(12). The Company was organized to provide a water supply to the unincorporated area north of the river in Bakersfield, California. Each landowner within the Company's boundaries that desires water must purchase capital stock from the Company before water is delivered. The number of shares required to be purchased is 290 per acre. Par value of the stock is \$2.00 per share. The Company's revenues are structured to provide water to its customer/shareholders at cost.

Basis of Accounting and Revenue Recognition

The accrual basis of accounting is used to prepare the accompanying financial statements. Revenues are recognized when earned and expenses are recognized when incurred. Revenues are derived from the monthly billing of commercial and residential water deliveries. All commercial water revenues are billed based upon metered water deliveries. The meters are read on a monthly basis. Residential water revenues are billed at a flat rate per month or by metered water deliveries. All customers are billed monthly and accounts become delinquent if not paid within 30 days.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, The Company considers all short-term investments to be cash equivalents. The Company considers investments with an original maturity of ninety days or less when purchased to be cash equivalents.

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventories

Inventories consist of materials and supplies that are used for repairs and improvements of the water system. The inventory is stated at the lower of cost (first-in, first-out) or market value.

Reclassifications

Certain reclassifications have been made in the 2015 financial statements to conform to the 2016 financial statement presentation.

Depreciation

Property, plant and equipment is stated at cost. Depreciation is provided using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives.

	<u>YEARS</u>
Wells and Pumping Equipment	15-20
Distribution System	25-40
Transportation Equipment	5-10
Buildings and Improvements	20-25
Other Equipment	5-10

Compensated Absences

The Company's policy is to not allow any carryover of vacation and sick pay benefits after the employee's anniversary date. All employees are encouraged to take all vacation time in the year earned. Employees have the option to be paid annually for any unused sick benefits or carryover the accrued benefit with a maximum accrual of 60 days.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions in Aid of Construction

Contributions in Aid of Construction represent costs paid by developers to install main distribution systems. The facilities are included in distribution systems. Depreciation related to contributions is charged to Contributions in Aid of Construction.

NOTE 2. CASH ON HAND AND ON DEPOSIT

The Company's cash funds were held in commercial banks. Below is a listing of cash funds at June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Petty cash	\$ 1,200	\$ 1,200
Cash in banks:		
Checking accounts	1,327,694	2,561,661
Savings account	<u>1,082</u>	<u>1,082</u>
	<u>\$1,329,976</u>	<u>\$2,563,943</u>

The balances held in checking accounts are in excess of the federally insured limit of \$250,000.

NOTE 3. INVESTMENTS-FUNDED RESERVE

The Company maintains a funded reserve for future water system construction and major repairs. The establishment of the separate fund is not required by law and is available for any purpose the Board of Directors desires. These funds are not restricted assets. Below is a listing of investments at June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Certificates of Deposit	\$ 1,243,072	\$2,003,465
CalTrust Funds	8,494,997	5,202,093
Money Market account	<u>1,888,729</u>	<u>1,793,310</u>
	<u>\$11,626,798</u>	<u>\$8,998,868</u>

The certificates of deposits are fully insured by the Federal Deposit Insurance Corporation with no bank or financial institution holding an amount in excess of the Federal Deposit Insurance Corporation limit. The interest rates on the certificates of

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 3. INVESTMENTS-FUNDED RESERVE

deposit vary from 0.20% to 0.40% per annum for 2016 and 0.20% to 0.45% per annum for 2015. Maturity dates of the certificates of deposit range from August 2016 to June 2017. All funds are available for immediate withdrawal with no diminution of principal. If any early withdrawals are made interest earned may be reduce to a lesser rate.

NOTE 4. INCOME TAXES

For federal income tax purposes the Company is exempt under Internal Revenue Code Section 501(c)(12). The State of California considers the Company to be subject to the tax laws governing mutual cooperative organizations. Under State of California Revenue Code Section 24405, the State of California allows as non-taxable income any income generated from the sales (net of expenses) received from their members/shareholders. Therefore, the only income subject to California taxation is interest income received on the Company's investments. All interest income received by the Company is considered taxable by the State of California since the revenues are not direct income received from its exempt purpose. The current income tax provision of \$800, 2016 and \$-0-, 2015, represents the State of California income tax on interest income received by the Company. Total cash payments for income taxes 2016, \$1,600 and 2015, \$-0-. The Company has the years 2013, 2014, 2015 and 2016 subject to examination by the Internal Revenue Service and the State of California.

NOTE 5. DEFINED CONTRIBUTION PLAN

The Company sponsors a defined contribution pension plan covering all non-union employees. The Company contributes 10% of the employee's gross wages. The Company contribution and expense for the year ended June 30, 2016 was \$33,951 and 2015 was \$59,706.

NOTE 6. DEFERRED COMPENSATION PLAN

The Company offers it non-union employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the deferral of a portion of the employee's salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are held by an independent third party. All investment decisions are the responsibility of the employee.

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 7. SEP-IRA PLAN FOR UNION EMPLOYEES

The Company contributes 5% of each union employee's gross wages to SEP-IRA accounts. The contributed amounts become the sole property of each employee at the time of contribution. This is in accordance with Internal Revenue Service Code Sections governing SEP-IRA accounts. During the years ended June 30, 2016 and 2015, the Company contributed \$29,630 and \$29,430, respectively, to the SEP-IRA accounts.

NOTE 8. CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at several financial institutions located in Bakersfield. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, the Company's uninsured cash balance was \$1,034,049 and 2015 was \$2,280,513.

Credit risk with respect to trade receivables is limited because the Company deals with a large number of customers wholly within its water delivery area. The Company closely monitors balances due from customers, if accounts receivable are not paid timely the Company has the option to turn-off water delivery until the account is current. Any unpaid accounts receivable attach to the land in accordance with State of California Code.

NOTE 9. STOCKHOLDER'S EQUITY

During the years ended June 30, 2016 and 2015, the Company issued shares of stock to new water service customers. Below is a detail of the activity.

COMMON STOCK:

	<u>Shares</u>		<u>Amount</u>
Balance July 1, 2014	819,887	\$	1,359,170
New issues July 1, 2014 to June 30, 2015	<u>837,613</u>		<u>1,675,224</u>
Balance June 30, 2015	<u>1,657,500</u>		<u>3,034,394</u>
New issues July 1, 2015 to June 30, 2016	<u>10,556</u>		<u>21,112</u>
Balance June 30, 2016	<u>1,668,056</u>	\$	<u>3,055,506</u>

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 10. COMMITMENTS AND CONTINGENCIES

Water Purchase Contract:

The major source of revenue to the Company is the sale of water. The Company's annual water supply is purchase from NORMWD. NORMWD obtains the water from entitlement owned by Improvement District 4 which is a sub-division of the Kern County Water Agency (Agency). The Agency purchases its water from the State of California water project. The availability of the annual supply of water is determined by the State of California. The Company does not anticipate any significant diminishment of the availability of water, but California's water supply is determined by annual rain and snowfall. During the years ended June 30, 2016 and 2015, the Company paid NORMWD \$1,259,913 and \$1,462,938, respectively, for its annual water supply. Since the Company's total costs for the future years is not known, those costs cannot be determined and are not disclosed.

Treatment Plant Expansion:

In April of 2005, the Company executed a new contract with NORMWD to purchase an additional 5,500 acre feet of water annually. This increased amount obligates the Company to ultimately purchase 12,000 acre feet of water annually. The Company is gradually increasing annual water purchases of treated water as demand increases in their service area. The Company does not reach the full utilization of the 12,000 acre feet of water until 2035.

During 2008, the Agency began construction of the treatment plant expansion. The expansion was completed and began delivering water during 2011. The Company's annual commitment for the expansion varies from year to year. The average annual obligation is \$2,039,000. The Company is obligated to make the annual payment until May 1, 2038. It is estimated the remaining obligation of the Company is \$43,773,051. The final payment is due May 1, 2038. At this time, the future cost of water cannot be determined.

NOTE 11. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through August 24, 2016, the date on which the financial statements were available to be issued.

OILDALE MUTUAL WATER COMPANY, INC.

Notes to the Financial Statements
June 30, 2016 and 2015

NOTE 12. LONG-TERM DEBT

The Company has executed a funding agreement with the State of California, Department of Public Health. The purpose of the agreement is the installation of water meters for all Company customers. California advanced \$62,378 as part of this agreement. The Company is required to repay the loan over 22 years beginning January 2016. The loan has no interest.

The following is a summary of principal maturities of long-term debt.

2017	\$	3,118
2018		3,118
2019		3,118
2020		3,118
2021		3,118
Later years		<u>43,669</u>
	\$	<u>59,259</u>