

**PALOMINO LAKES MUTUAL WATER
COMPANY**

FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2025 and 2024

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members of
Palomino Lakes Mutual Water Company
Cloverdale, California

I have reviewed the accompanying financial statements of Palomino Lakes Mutual Water Company (a non-profit mutual benefit corporation), which comprise the balance sheets as of March 31, 2025 and 2024, and the related statements of revenues and expenses and cash flows for the years 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 entity 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, I 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

My responsibility is to conduct the review engagements 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 me to perform procedures to obtain limited assurance as a basis for reporting whether I am 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. I believe that the results of my procedures provide a reasonable basis for my conclusion.

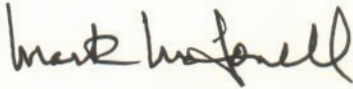
I am required to be independent of Palomino Lakes Mutual Water Company and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements related to my reviews.

Accountant's Conclusion

Based on my reviews, I am 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements on page 13 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. I have not audited, reviewed, or compiled the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.



Santa Rosa, California
July 17, 2025

PALOMINO LAKES MUTUAL WATER COMPANY
BALANCE SHEETS
March 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Cash for operations	\$23,826	\$31,026
Accounts receivable	7,967	6,260
Prepaid expense	24,641	-
Total current assets	<u>56,434</u>	<u>37,286</u>
 Water system property and equipment, net	 1,282,766	 1,359,547
 Land easements	 387,000	 387,000
 Cash reserves:		
Future major repairs and replacements reserve	74,550	99,739
Loan reserve	70,625	65,760
Regulatory reserve	25,000	25,000
 Capital stock in lender, CoBank	 <u>6,447</u>	 <u>5,542</u>
TOTAL ASSETS	<u><u>\$1,902,822</u></u>	<u><u>\$1,979,874</u></u>
 LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Current portion of long-term debt	\$23,000	\$22,000
Accounts payable	1,722	2,612
Deferred revenue	1,384	-
	<u>26,106</u>	<u>24,612</u>
 Long-term debt, net of current portion	 1,133,725	 1,155,685
 Assessments received in advance (see revenue recognition accounting policies on page 7)		
Future major repairs and replacements	105,218	129,306
Debt repayment	58,279	54,426
 Easement acquisition commitment	 <u>27,587</u>	 <u>28,177</u>
Total liabilities	<u>1,350,915</u>	<u>1,392,206</u>
 Members' equity	 <u>551,907</u>	 <u>587,668</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$1,902,822</u></u>	<u><u>\$1,979,874</u></u>

See accompanying notes and independent accountant's report.

PALOMINO LAKES MUTUAL WATER COMPANY
STATEMENTS OF REVENUES AND EXPENSES
Years Ended March 31, 2025 and 2024

	2025	2024
REVENUES		
Water use charges	\$100,496	\$72,693
Member assessments for repayment of long-term debt	69,466	69,466
Member assessments for future major repairs and replacements	53,860	34,491
Other income	7,655	6,766
Total revenues	<u>231,477</u>	<u>183,416</u>
EXPENSES		
Depreciation and amortization	77,124	76,497
Repairs and maintenance	50,368	23,275
Interest	48,511	50,029
Water system specialist	29,623	25,022
Insurance	16,600	12,463
Electric utilities	13,764	10,441
Bookkeeping	9,764	9,138
Water control system monitoring service	7,086	10,347
Water testing	5,498	3,080
Professional fees	4,189	3,734
Miscellaneous	2,854	3,740
Water Resources Control Board fees	1,257	1,114
Meter reading	600	600
Total expenses	<u>267,238</u>	<u>229,480</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(35,761)	(46,064)
BEGINNING MEMBERS' EQUITY	<u>587,668</u>	<u>633,732</u>
ENDING MEMBERS' EQUITY	<u><u>\$551,907</u></u>	<u><u>\$587,668</u></u>

See accompanying notes and independent accountant's report.

PALOMINO LAKES MUTUAL WATER COMPANY
STATEMENTS OF CASH FLOWS
Years Ended March 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	(\$35,761)	(\$46,064)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash from operating activities:		
Depreciation and amortization	77,124	76,497
Patronage distribution of capital stock in lender, CoBank	(905)	(1,057)
Changes in		
Accounts receivable	(1,707)	(4,411)
Prepaid expense	(24,641)	11,182
Accounts payable	(890)	(363)
Easement acquisition commitment	(433)	(431)
Deferred revenue	1,384	-
Assessments received in advance (see revenue recognition accounting policies on page 7)	(20,235)	(340)
Net cash from operating activities	<u>(6,064)</u>	<u>35,013</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Easement acquisition	(500)	(500)
Purchases of water system property and equipment	-	(15,736)
Net cash from investing activities	<u>(500)</u>	<u>(16,236)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt	(20,960)	(21,174)
Net cash from financing activities	<u>(20,960)</u>	<u>(21,174)</u>
CHANGE IN CASH	(27,524)	(2,397)
BEGINNING CASH	<u>221,525</u>	<u>223,922</u>
ENDING CASH	<u><u>\$194,001</u></u>	<u><u>\$221,525</u></u>
SUMMARY OF CASH ACCOUNTS		
Cash for operations	\$23,826	\$31,026
Cash reserves:		
Future major repairs and replacements reserve	74,550	99,739
Loan reserve	70,625	65,760
Regulatory reserve	25,000	25,000
	<u><u>\$194,001</u></u>	<u><u>\$221,525</u></u>
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Interest payments	<u>\$48,511</u>	<u>\$50,029</u>
Income tax payments	<u>\$ -</u>	<u>\$ -</u>
Noncash investing activity - additional investment in capital stock of lender, CoBank	<u><u>\$905</u></u>	<u><u>\$1,057</u></u>

See accompanying notes and independent accountant's report.

PALOMINO LAKES MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2025 and 2024

Note 1. Organization

Palomino Lakes Mutual Water Company (the Water Company) is incorporated in the State of California as a non-profit mutual benefit corporation. It is responsible for the operation and maintenance of a residential water system serving the Palomino Lakes community in Cloverdale, California which consists of 115 properties, including 108 homes. The water supply well depends on the Russian River riparian underflow as its source of potable water.

Note 2. Summary Of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Water Company is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code and from state franchise taxes under a similar section of the California Revenue and Taxation Code. Once filed, annual information returns are subject to audit for up to three years by the federal government, and four years by the state government.

Bank Accounts

Assessments are deposited into the Water Company's operating bank account unless designated for future major repairs and replacements in which case the assessments are deposited into the future major repairs and replacements reserve account. Additional reserves are specified by regulations and the Water Company's lender, United States Department of Agriculture.

The Water Company maintains cash balances with one commercial bank in the United States. Balances up to \$250,000 are federally-insured.

PALOMINO LAKES MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2025 and 2024

Note 2. Summary Of Significant Accounting Policies (continued)

Subsequent events

The financial statements were evaluated for subsequent events through July 17, 2025, the date the financial statements were available to be issued.

Revenue Recognition

Revenue recognition accounting principles generally accepted in the United States of America require revenue to be recognized through five steps consisting of identifying a contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to performance obligations, and recognizing revenue as performance obligations are satisfied.

Water use assessments revenue is recognized at the time a meter reading is billed. Each meter reading is considered a distinct performance obligation. The Water Company reads customer water meters on or about May 1, August 1, November 1, and February 1 and mails customer bills within two weeks of these dates.

The Water Company recognizes revenue from assessments for loan repayments, future major repairs and replacements, and other special items as such assessments are expended for their designated purposes. A liability (assessments received in advance) is recorded for unexpended assessments until the Water Company satisfies its performance obligation by expending the funds for their designated purposes. In the fiscal years ended March 31, 2024 and 2023, the Water Company recognized revenue of \$4,567 and \$-0-, respectively, that was included in assessments received in advance at the beginning of the fiscal year.

Accounts Receivable

Accounts receivable are generally collected within one month. Late fees and interest may be charged on accounts thirty days or more past due. Accounts receivable are reported at net realizable value, management's estimate of the amount that will ultimately be collected. Uncollectible receivables are charged to operations using the allowance method. The allowance for doubtful accounts is based on the identification of potentially uncollectible accounts, the level of delinquent accounts based on contractual terms, and historical collection experience. Accounts are delinquent one month after billing. When efforts to collect delinquent receivables fail, the receivables are written off. Management believes receivables at March 31, 2025 and 2024 will be fully collected. Accordingly, no allowance for doubtful receivables was recorded.

PALOMINO LAKES MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2025 and 2024

Note 2. Summary Of Significant Accounting Policies (continued)

Deferred Revenue

Water service charges received in advance are deferred until earned.

Land Easements

The Water Company has right-of-way land easements permitting it to install, maintain and operate all of its facilities including well, water mains, water tank sites, and plant building. The land easements are carried at cost and carrying value is assessed for impairment. A qualitative assessment is performed at least annually unless a quantitative assessment is instead performed by discounting future cash flows in conjunction with land easements use to estimate their fair value. Carrying value is impaired if it exceeds fair value in which case it is written down to fair value.

Water System Property and Equipment

Costs of water system property and equipment in excess of \$2,000 are capitalized and depreciated using the straight-line method over the estimated useful lives of depreciable assets: 25 years for water system property, 5 years for equipment.

Capital Stock in Lender, CoBank

The Water Company holds capital stock the in its lender, CoBank. Such stock is distributed through the bank's patronage program and is carried at cost less impairment, if any.

Members' Equity

Members' equity presented in the accompanying financial statements represents the excess, or residual, of assets over liabilities. The Water Company board may designate, or set aside, a portion of members' equity as reserves for specific purposes.

PALOMINO LAKES MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2025 and 2024

Note 3. Components of Water System Property and Equipment

	March 31,	
	2025	2024
Water system property	\$2,476,261	\$2,476,261
Equipment		
Laptop computers	3,483	3,483
Freewave radio	2,484	2,484
	2,482,228	2,482,228
Less accumulated depreciation	(1,199,462)	(1,122,681)
Water system property and equipment, net	<u>\$1,282,766</u>	<u>\$1,359,547</u>

Note 4. Long-Term Debt

The Water Company has the following United States Department of Agriculture Rural Development sponsored loans:

Terms	March 31,	
	2025	2024
Monthly payments of \$3,689 including interest at 4.00%.	\$765,755	\$779,103
Monthly payments of \$364 including interest at 4.00%.	75,470	76,790
Loan financed by CoBank with monthly payments of \$1,736 including interest at 4.25%.		
Principal balance	318,125	324,522
Unamortized debt issuance costs	(2,625)	(2,730)
	<u>\$1,156,725</u>	<u>\$1,177,685</u>

PALOMINO LAKES MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2025 and 2024

Note 4. Long-Term Debt (continued)

Debt issuance costs are amortized to interest expense over the term of the loan.

The Water Company's loans are secured by its assets including its land easements, water system property and equipment, and future revenues. The loans include a covenant requiring the Water Company to maintain a debt service coverage ratio of not less than 1.10 to 1.00 (i.e., net income plus depreciation and interest expense divided by debt service payments due within the year).

Interest incurred for years ended March 31, 2025 and 2024 was \$48,511 and \$50,029, respectively.

Annual maturities of long-term debt (rounded to nearest thousand dollars) are as follows:

<u>Year ending March 31,</u>	
2026	\$23,000
2027	24,000
2028	25,000
2029	26,000
2030	27,000
Thereafter	1,031,725
	<u>\$1,156,725</u>

Note 5. Easement Acquisition Commitment

The Water Company has a commitment to acquire a land easement from a member. Consideration consists of an initial \$2,500 payment in 2013 and additional consideration through 2063 as follows: (a) annual payments of \$400, (b) partial reimbursement of the member's yearly property taxes, and (c) up to 60,000 gallons of water per quarter at no charge. The estimated discounted cash flow cost to acquire the easement, \$37,000, assumes quarterly water use of 25,000 gallons; however, higher water use/easement cost is reasonably possible.

PALOMINO LAKES MUTUAL WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
Years Ended March 31, 2025 and 2024

Note 6. Related Party Transaction

A Palomino Lakes community member provides certain operational services (e.g., meter reading). Fees paid for the years ended March 31, 2025 and 2024 totaled approximately \$7,400 and \$3,400, respectively.

Note 7. Major Repair and Special Assessment Pending

A health and safety survey conducted by the California State Water Resources Control Board determined that a repair must be made to eliminate rust inside the walls of one of the Water Company's tanks. In the fiscal year ending March 31, 2026, the tank will be repaired at a cost of approximately \$200,000 and a special assessment of \$2,000 per Palomino Lakes community home will be collected to pay for it.

Note 8. Future Major Repairs and Replacements

The Water Company's Board of Directors has studied the estimated useful lives and replacement costs of the water system's major components in order to plan for future major repairs and replacements. Actual expenditures may vary from estimated future expenditures and therefore amounts collected for future major repairs and replacements may not be adequate to meet future needs and the variations may be material. The Water Company's governing documents require assessments collected for future major repairs and replacements to be held in a separate bank account. If additional funds are needed, the Water Company Board of Directors has the right to increase assessments or delay major repairs and replacements until funds are available as discussed in the Required Supplementary Information on page 13.

REQUIRED SUPPLEMENTARY INFORMATION

**PALOMINO LAKES MUTUAL WATER COMPANY
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
March 31, 2025**

The Water Company's Board of Directors has reviewed the system to estimate the remaining useful lives of major components and the replacement costs using the actual amounts from the recent projects/repairs and discussions with licensed contractors. Estimated current replacement costs will almost certainly be lower than the actual costs incurred at the time of replacement, due to inflation effects and tariffs on steel and other components. The costs that are less than \$50,000 will most likely be covered within the budgets of the Water Company's then-current "Capital Improvement Fund (CIF)", but funding the larger items will require special assessments before those replacement projects can commence. Due to the nature of our system, it is not expected that a loan will be sought to finance any of the items below, although that could be done if the Board chose to do all the replacements at once (See * below). Amounts are rounded to the nearest thousand dollars.

<u>Components</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>
Redwood Tank at site 1	10 yrs**	\$400,000
Redwood Tank at site 2	10 yrs **	\$400,000
Rust removal, repair, and re-coating of Tank 3	Once repair addressed in Note 7 is complete, estimated useful life is 20 yrs.	\$200,000
Installation of cathodic protection for the three existing metal tanks	Optional future repair. Once in place, cost to replace cathodes about every 10 years is not significant.	\$20,000 each
Treatment Building Paint and Roof	10 yrs	\$3,000
Three 20-HP water pumps	10 yrs	\$10,000 each
In-street valve sets (7)	n/a***	\$25,000 each

*If a loan were obtained, the quarterly fixed fees for the community would have to be raised, and additional loan reserves would be required. At this time, it is still possible for the Water Company to get 30-year fixed loans secured entirely from cash flow.

**As these tanks are vulnerable to earthquakes, it is possible that both of them could fail at the same time. However, as each of these tanks are paired with a steel tank, the Board could decide to delay replacing them no matter when they failed.

***These valve sets are all frozen in their open position. While it would be very helpful to replace them now, they do not hamper system operation and do not incur any regulatory issues. They can be replaced individually at a time of our choosing, when available CIF funding permits.