



FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT

Years Ended
December 31, 2017 and 2016

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

LINCOLN AVENUE WATER COMPANY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Lincoln Avenue Water Company

Introduction

We have audited the accompanying financial statements of Lincoln Avenue Water Company (a California nonprofit mutual benefit corporation) which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, stockholders' equity, 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 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

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Avenue Water Company as of December 31, 2017 and 2016 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Schedule on page 11 is presented for purposes of additional analysis and is not a required part of the 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Egan & Egan

April 20, 2018

LINCOLN AVENUE WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
FINAL		
Current Assets		
Cash	\$ 1,238,245	1,525,952
Cash, designated	401,262	200,330
	<u>1,639,507</u>	<u>1,726,282</u>
Accounts receivable	464,507	414,368
Other receivables	123,453	101,006
Material and supplies	87,821	86,750
Prepaid expenses	61,637	49,183
Total current assets	<u>2,376,925</u>	<u>2,377,589</u>
Utility plant and equipment, net	14,136,124	12,799,774
Water rights, net	<u>8</u>	<u>8</u>
	<u>\$ 16,513,057</u>	<u>15,177,371</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 131,389	134,901
Accrued liabilities	211,881	209,345
Customer deposits	277,215	257,265
Other deposits	4,257	5,617
Total current liabilities	<u>624,742</u>	<u>607,128</u>
Stockholders' equity		
Common stock, appurtenant, 20,000 shares authorized	238,273	217,903
Common stock, nonappurtenant, 20,000 shares authorized	24,950	25,720
Retained earnings	15,625,092	14,326,620
Total stockholders' equity	<u>15,888,315</u>	<u>14,570,243</u>
	<u>\$ 16,513,057</u>	<u>15,177,371</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water sales	\$ 2,940,324	2,532,445
Water service charge	1,629,322	1,645,479
Water quality cost reimbursement	661,126	627,241
Late fees and other charges	91,040	87,592
Other	13,750	13,750
Total operating revenues	<u>5,335,562</u>	<u>4,906,507</u>
OPERATING EXPENSES		
Distribution	3,687,517	2,738,209
General	541,134	570,047
Administrative	805,270	717,550
Depreciation	585,111	568,561
Total operating expenses	<u>5,619,032</u>	<u>4,594,367</u>
Income (loss) from operations	<u>(283,470)</u>	<u>312,140</u>
OTHER REVENUES		
Stock transfer and lost certificate fees	24,055	21,450
Rental income	1,200	1,200
Interest income	1,339	439
Nonoperating revenue, reserve for catastrophic loss	199,437	199,216
Miscellaneous income	28,686	120,890
Total other revenues	<u>254,717</u>	<u>343,195</u>
Net (loss) income	<u>\$ (28,753)</u>	<u>655,335</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Common Stock</u> <u>Appurtenant</u>		<u>Common Stock</u> <u>Non-Appurtenant</u>		<u>Retained</u> <u>Earnings</u>	<u>Total</u> <u>Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
At January 1, 2016	3,425	\$ 219,593	2,668	\$ 26,680	13,671,285	13,917,558
Share split						
Transfer of shares	96	960	(96)	(960)		
Redemption of shares	(1)	(2,650)				(2,650)
Net income					655,335	655,335
Balance, December 31, 2016	3,520	217,903	2,572	25,720	14,326,620	14,570,243
Transfer of shares	148	770	(148)	(770)		
Purchase of shares	7	19,600				19,600
Contributed equity					1,327,225	1,327,225
Net loss					(28,753)	(28,753)
Balance, December 31, 2017	<u>3,675</u>	<u>\$ 238,273</u>	<u>2,424</u>	<u>\$ 24,950</u>	<u>\$ 15,625,092</u>	<u>\$ 15,888,315</u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ <u>(28,753)</u>	<u>655,335</u>
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation	585,111	568,561
Changes in assets and liabilities:		
Receivables	(72,586)	148,230
Materials and supplies	(1,071)	(1,977)
Prepaid expenses	(12,454)	(5,572)
Accounts payable	(3,512)	(117,977)
Accrued liabilities	2,536	13,232
Deposits	18,590	7,781
Total adjustments	<u>516,614</u>	<u>612,278</u>
Net cash provided by operating activities	<u>487,861</u>	<u>1,267,613</u>
NET CASH USED IN INVESTING ACTIVITIES		
Purchases of utility plant	<u>(594,236)</u>	<u>(723,341)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Sales (redemption) of shares	<u>19,600</u>	<u>(2,650)</u>
Net (decrease) increase in cash	(86,775)	541,622
CASH, Beginning of year	<u>1,726,282</u>	<u>1,184,660</u>
CASH, End of year	\$ <u><u>1,639,507</u></u>	<u><u>1,726,282</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u><u>-</u></u>	<u><u>-</u></u>
Income taxes	\$ <u><u>800</u></u>	<u><u>800</u></u>

The accompanying notes are an integral part of these financial statements.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations - The Lincoln Avenue Water Company (“the Company”) is a non-profit mutual water company pursuant to Section 501(c)(12) of the Internal Revenue Code. The Company was incorporated in 1896 to provide water to residents of certain parts of Altadena, and an unincorporated area of the County of Los Angeles, California. As a mutual-owned water utility, its shareholders are the recipients of water from its distribution system.

(b) Cash - The Company considers cash and short-term investments of three months or less to be cash. The Company has combined balances in checking, savings and certificate of deposit accounts maintained in financial institutions that are above FDIC insured limits per institution. Cash includes amounts collected and reserved for catastrophic losses.

(c) Accounts Receivable - Management has determined that no allowance for bad debts is required at December 31, 2017 and 2016.

(d) Materials and Supplies - Materials and supplies are used for the maintenance of pipes and pumping equipment, and are stated at the lower of cost or market, using the first-in, first-out method. Materials and supplies include pipes, supplies and meters.

(e) Depreciation - Depreciation is calculated over estimated useful lives using the straight-line method as follows:

Furniture and fixtures	5	-	10
Vehicles and equipment	3	-	10
Wells, tunnels and reservoirs	10	-	70
Water distribution systems	20	-	50
Buildings and improvements	10	-	15

The cost of additions and betterments, which benefit future periods, are capitalized. The cost of repairs and maintenance are expensed as incurred.

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by Management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

(f) Income Taxes - The Lincoln Avenue Water Company is organized as a capital stock mutual water company and is exempt from Federal income tax pursuant to Section 501 (c)(12) of the Internal Revenue Code.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(g) 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 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.

(h) Revenues- Water sales are billed on a monthly cyclical basis.

Water billing includes a monthly amount to fund a reserve in the event of an uninsured catastrophic loss. Amounts collected are restricted for these purposes and maintained in a separate bank account.

(i) Reclassifications - The prior year's presentation contains reclassifications to conform to the current year's presentation.

(j) Water rights - Water rights of \$138,401 before amortization represent surface and groundwater rights.

(k) Fair value of financial instruments - The fair value of the Company's operating assets and liabilities approximate their carrying value.

(l) Concentration of credit risk - The accounts receivable are due from individuals and business located in a specific geographic area. The collection of these receivables may be impacted by economic conditions in this area.

(m) Contingencies - Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

(n) Subsequent events - The Company has evaluated subsequent events through the date at which the financial statements were available to be issued which was April 20, 2018. No material subsequent events required disclosure

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2017</u>	<u>2016</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,087,617	1,087,617
Reservoirs, roads and sumps	5,946,555	5,924,263
Rental Property	15,538	15,538
Pipelines	10,505,256	10,240,920
Treatment plants	1,070,131	950,873
Wells	2,080,443	570,502
Pumping, booster and chlorinator plants	776,458	757,099
Machinery and tools	709,334	709,334
Automobiles and trucks	445,144	445,144
Furniture, fixtures and equipment	1,013,886	1,014,785
In progress	245,411	279,934
Total property, plant and equipment	<u>23,912,670</u>	<u>22,012,906</u>
Less: accumulated depreciation	<u>(9,776,546)</u>	<u>(9,213,132)</u>
Net property, plant and equipment	<u>\$ 14,136,124</u>	<u>12,799,774</u>

The Company completed well number 6 which was paid for by NASA. The well is on the Company's real property. The contribution of the well was recorded as a contribution-in-aid of construction, increasing the Company's equity.

NOTE 3 - SOURCE OF SUPPLY

The Company purchases a portion of its water from an imported water supplier. This supplier can unilaterally increase the price of its water while curtailing the amount of water delivered. A significant decrease in this delivery would adversely affect the Company's operation.

The Company obtains the balance of its water from local deep wells and its surface water treatment facility. This water must meet Federal and State drinking water standards. This water does not meet these standards at this time and must be treated to remove contaminants. Under an agreement with Cal Tech/NASA the company is reimbursed for the cost of treating this ground water. In the event this agreement did not exist the Company would be required to purchase additional imported water.

NOTE 4 - PROVISION FOR INCOME TAXES

The Company is a nonprofit mutual benefit corporation subject to tax on its net unrelated business income, if any. The provision for income taxes consists of the minimum California Franchise tax of p\$800 for each of the years ended December 31, 2017 and 2016, respectively. The Federal and state tax returns are open for examination for the preceding three and four years, respectively

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 5 - RETIREMENT PLAN

The Company maintains a profit sharing plan covering eligible employees. Employees are vested at 20% each year. Annual contributions to the plan are at the discretion of the Board of Directors and are limited to a percentage of eligible employee compensation under relevant Internal Revenue Code sections. For the years ended December 31, 2017 and 2016, the Company contributed \$62,000 and \$58,000 each year to the plan, respectively.

The Company sponsors a 401(k) for eligible employees providing pre-tax salary deferrals. The Company does not match the employee's contribution.

NOTE 6 - CONTINGENCIES AND COMMITMENTS

The Company is the subject of certain claims and assessments arising from the normal course of its operations. Management of the Company does not expect that the outcome of these matters will materially affect the financial position of the Company.

SUPPLEMENTARY SCHEDULE

LINCOLN AVENUE WATER COMPANY

DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
DISTRIBUTION SYSTEM EXPENSES		
Auto and truck expense	\$ 45,236	47,967
Imported water purchases	1,313,484	697,467
Special water lease	890,167	507,583
Miscellaneous	5,129	7,619
Outside labor	147,389	116,006
Repairs	4,923	16,828
Salaries	498,166	505,500
Supplies	58,192	78,925
Utilities	315,591	333,979
Water quality compliance	409,240	426,335
Total distribution system expenses	<u>\$ 3,687,517</u>	<u>2,738,209</u>
GENERAL EXPENSES		
Business taxes and licenses	\$ 25,721	37,255
Directors' fees and expenses	44,622	45,594
Insurance	244,862	281,716
Legal and professional	43,610	43,670
Membership dues	19,360	15,145
Miscellaneous	158	(342)
Payroll taxes	84,248	79,629
Retirement plan	62,000	58,000
Property taxes	16,553	9,380
Total general expenses	<u>\$ 541,134</u>	<u>570,047</u>
ADMINISTRATIVE EXPENSES		
Computer billing, hardware and software	\$ 30,667	31,495
Miscellaneous, primarily bank fees	47,483	47,243
Office outside services	29,150	29,286
Postage	30,212	34,374
Repairs and maintenance	12,962	10,235
Salaries, including paid time off	611,664	530,494
Supplies	7,480	5,985
Utilities	35,652	28,438
Total administrative expenses	<u>\$ 805,270</u>	<u>717,550</u>