



**FINANCIAL STATEMENTS**  
with  
**INDEPENDENT AUDITOR'S REPORT**

**Years Ended**  
**December 31, 2018 and 2017**

**EGAN & EGAN**  
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

LINCOLN AVENUE WATER COMPANY

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**EGAN & EGAN**  
CERTIFIED PUBLIC ACCOUNTANTS  
1545 N. Columbus Ave.  
Glendale, CA 91202  
(877) EGAN 4 US EGANCPA.COM

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Lincoln Avenue Water Company

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, 2018 and 2017, and the related statements of income, 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, 2018 and 2017 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 19, 2019

LINCOLN AVENUE WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,255,596	1,238,245
Cash, designated	606,809	401,262
	<u>2,862,405</u>	<u>1,639,507</u>
Accounts receivable	420,271	464,507
Other receivables	204,099	123,453
Material and supplies	63,713	87,821
Prepaid expenses	62,536	61,637
Total current assets	<u>3,613,024</u>	<u>2,376,925</u>
<b>Utility plant and equipment, net</b>	14,447,834	14,136,124
<b>Water rights, net</b>	<u>8</u>	<u>8</u>
	<u>18,060,866</u>	<u>16,513,057</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current liabilities</b>		
Accounts payable	\$ 189,635	131,389
Accrued liabilities	202,764	211,881
Customer deposits	303,610	277,215
Other deposits	4,257	4,257
Total current liabilities	<u>700,266</u>	<u>624,742</u>
<b>Stockholders' equity</b>		
Common stock, appurtenant, 20,000 shares authorized	300,353	238,383
Common stock, nonappurtenant, 20,000 shares authorized	24,070	24,840
Retained earnings	17,036,177	15,625,092
Total stockholders' equity	<u>17,360,600</u>	<u>15,888,315</u>
	<u>\$ 18,060,866</u>	<u>16,513,057</u>

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

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 3,228,078	2,940,324
Water service charge	1,617,574	1,629,322
Water quality cost reimbursement	824,980	661,126
Late fees and other charges	86,720	91,040
Other	500	13,750
Total operating revenues	<u>5,757,852</u>	<u>5,335,562</u>
<b>OPERATING EXPENSES</b>		
Distribution	2,723,087	3,687,517
General	568,910	541,134
Administrative	757,518	805,270
Depreciation	595,740	585,111
Total operating expenses	<u>4,645,255</u>	<u>5,619,032</u>
Income (loss) from operations	<u>1,112,597</u>	<u>(283,470)</u>
<b>OTHER REVENUES</b>		
Stock transfer and lost certificate fees	26,450	24,055
Rental income	1,200	1,200
Interest income	5,358	1,339
Nonoperating revenue, reserve for catastrophic loss	199,214	199,437
Miscellaneous income	66,266	28,686
Total other revenues	<u>298,488</u>	<u>254,717</u>
Net income (loss)	<u>\$ 1,411,085</u>	<u>(28,753)</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, 2018 AND 2017

	<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, 2017	3,520	\$ 217,903	2,572	\$ 25,720	14,326,620	14,570,243
Purchase of shares	2	19,600				19,600
Transfer of shares	80	880	(80)	(880)		
Contributed equity					1,327,225	1,327,225
Net loss					(28,753)	(28,753)
Balance, December 31, 2017	<u>3,602</u>	<u>238,383</u>	<u>2,492</u>	<u>24,840</u>	<u>15,625,092</u>	<u>15,888,315</u>
Share split	2					
Transfer of shares	77	770	(77)	(770)		
Purchase of shares	5	61,200				61,200
Net income					1,411,085	1,411,085
Balance, December 31, 2018	<u><u>3,686</u></u>	<u><u>\$ 300,353</u></u>	<u><u>2,415</u></u>	<u><u>\$ 24,070</u></u>	<u><u>\$ 17,036,177</u></u>	<u><u>\$ 17,360,600</u></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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ <u>1,411,085</u>	<u>(28,753)</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	595,740	585,111
Changes in assets and liabilities:		
Receivables	(36,410)	(72,586)
Materials and supplies	24,108	(1,071)
Prepaid expenses	(899)	(12,454)
Accounts payable	58,246	(3,512)
Accrued liabilities	(9,117)	2,536
Deposits	26,395	18,590
Total adjustments	<u>658,063</u>	<u>516,614</u>
Net cash provided by operating activities	<u>2,069,148</u>	<u>487,861</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
Purchases of utility plant	<u>(907,450)</u>	<u>(594,236)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Sales of shares	<u>61,200</u>	<u>19,600</u>
Net cash provided by financing activities	<u>61,200</u>	<u>19,600</u>
Net increase (decrease) in cash	1,222,898	(86,775)
CASH, Beginning of year	<u>1,639,507</u>	<u>1,726,282</u>
CASH, End of year	<u>\$ <u>2,862,405</u></u>	<u>1,639,507</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest	\$ <u>-</u>	<u>-</u>
Income taxes	\$ <u>800</u>	<u>800</u>

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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, 2018 and 2017.

(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, 2018 AND 2017

(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 19, 2019. No material subsequent events required disclosure

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2018</u>	<u>2017</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,087,617	1,087,617
Reservoirs, roads and sumps	5,946,555	5,946,555
Rental Property	15,538	15,538
Pipelines	11,207,780	10,505,256
Treatment plants	1,070,131	1,070,131
Wells	2,080,443	2,080,443
Pumping, booster and chlorinator plants	800,461	776,458
Machinery and tools	710,155	709,334
Automobiles and trucks	454,195	445,144
Furniture, fixtures and equipment	1,038,690	1,013,886
In progress	367,568	245,411
Total property, plant and equipment	<u>24,796,030</u>	<u>23,912,670</u>
Less: accumulated depreciation	<u>(10,348,196)</u>	<u>(9,776,546)</u>
Net property, plant and equipment	<u>\$ 14,447,834</u>	<u>14,136,124</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 \$800 for each of the years ended December 31, 2018 and 2017, 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, 2018 AND 2017

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, 2018 and 2017, the Company contributed \$65,000 and \$62,000 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 EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>DISTRIBUTION SYSTEM EXPENSES</b>		
Auto and truck expense	\$ 48,427	45,236
Imported water purchases	574,975	1,313,484
Special water lease	339,000	890,167
Miscellaneous	6,498	5,129
Outside labor	108,984	147,389
Repairs	15,441	4,923
Salaries	511,132	498,166
Supplies	63,046	58,192
Utilities	405,760	315,591
Water quality compliance	649,824	409,240
Total distribution system expenses	<u>\$ 2,723,087</u>	<u>3,687,517</u>
<b>GENERAL EXPENSES</b>		
Business taxes and licenses	\$ 27,034	25,721
Directors' fees and expenses	44,346	44,622
Insurance	273,744	244,862
Legal and professional	44,510	43,610
Membership dues	19,352	19,360
Miscellaneous	(1,538)	158
Payroll taxes	87,534	84,248
Retirement plan	65,000	62,000
Property taxes	8,928	16,553
Total general expenses	<u>\$ 568,910</u>	<u>541,134</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Computer billing, hardware and software	\$ 33,375	30,667
Miscellaneous, primarily bank fees	54,513	47,483
Office outside services	34,059	29,150
Postage	30,214	30,212
Repairs and maintenance	8,400	12,962
Salaries, including paid time off	561,030	611,664
Supplies	6,783	7,480
Utilities	29,144	35,652
Total administrative expenses	<u>\$ 757,518</u>	<u>805,270</u>