



FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Years Ended
December 31, 2019 and 2018

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018 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 17, 2020

LINCOLN AVENUE WATER COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash	\$ 2,324,870	2,255,596
Cash, designated	823,413	606,809
	<u>3,148,283</u>	<u>2,862,405</u>
Accounts receivable	393,185	420,271
Other receivables	237,575	204,099
Material and supplies	64,111	63,713
Prepaid expenses	45,550	62,536
Total current assets	<u>3,888,704</u>	<u>3,613,024</u>
Utility plant and equipment, net	15,376,361	14,447,834
Water rights, net	8	8
Other assets	<u>1,000</u>	<u>-</u>
	<u>19,266,073</u>	<u>18,060,866</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 167,509	189,635
Accrued liabilities	215,941	202,764
Construction payable	41,043	-
Customer deposits	324,445	303,610
Other deposits	5,933	4,257
Total current liabilities	<u>754,871</u>	<u>700,266</u>
Stockholders' equity		
Common stock, appurtenant, 20,000 shares authorized	304,613	300,353
Common stock, nonappurtenant, 20,000 shares authorized	23,410	24,070
Retained earnings	18,183,179	17,036,177
Total stockholders' equity	<u>18,511,202</u>	<u>17,360,600</u>
	<u>\$ 19,266,073</u>	<u>18,060,866</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Water sales	\$ 2,971,785	3,228,078
Water service charge	1,618,507	1,617,574
Water quality cost reimbursement	812,663	824,980
Late fees and other charges	74,075	86,720
Other	43,813	500
Total operating revenues	<u>5,520,843</u>	<u>5,757,852</u>
OPERATING EXPENSES		
Distribution	2,817,437	2,723,087
General	585,579	568,910
Administrative	639,204	757,518
Depreciation	597,355	595,740
Total operating expenses	<u>4,639,575</u>	<u>4,645,255</u>
Income from operations	<u>881,268</u>	<u>1,112,597</u>
OTHER REVENUES		
Stock transfer and lost certificate fees	25,000	26,450
Rental income	1,200	1,200
Interest income	16,743	5,358
Nonoperating revenue, reserve for catastrophic loss	199,644	199,214
Miscellaneous income	23,147	66,266
Total other revenues	<u>265,734</u>	<u>298,488</u>
Net income	\$ <u>1,147,002</u>	<u>1,411,085</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, 2019 AND 2018

	<u>Common Stock Appurtenant</u>		<u>Common Stock Non-Appurtenant</u>		<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
At January 1, 2018	3,602	238,383	2,492	24,840	15,625,092	15,888,315
Share split	2					
Purchase of shares	5	61,200				61,200
Transfer of shares	77	770	(77)	(770)		
Contributed equity					1,327,225	1,327,225
Net income					1,411,085	1,411,085
Balance, December 31, 2018	<u>3,686</u>	<u>\$ 300,353</u>	<u>2,415</u>	<u>\$ 24,070</u>	<u>\$ 17,036,177</u>	<u>\$ 17,360,600</u>
Share split						
Transfer of shares	66	660	(66)	(660)		
Purchase of shares	13	3,600				3,600
Net income					1,147,002	1,147,002
Balance, December 31, 2019	<u>3,765</u>	<u>\$ 304,613</u>	<u>2,349</u>	<u>\$ 23,410</u>	<u>\$ 18,183,179</u>	<u>\$ 18,511,202</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>1,147,002</u>	<u>1,411,085</u>
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	597,355	595,740
Changes in assets and liabilities:		
Receivables	(6,390)	(36,410)
Materials and supplies	(398)	24,108
Prepaid expenses	16,986	(899)
Accounts payable	(22,126)	58,246
Accrued liabilities	13,177	(9,117)
Deposits	22,511	26,395
Deferred income	-	-
Total adjustments	<u>621,115</u>	<u>658,063</u>
Net cash provided by operating activities	<u>1,768,117</u>	<u>2,069,148</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of other asset	(1,000)	-
Purchases of utility plant	<u>(1,484,839)</u>	<u>(907,450)</u>
Net cash used by investing activities	<u>(1,485,839)</u>	<u>(907,450)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Sales of shares	<u>3,600</u>	<u>61,200</u>
Net cash provided by financing activities	<u>3,600</u>	<u>61,200</u>
Net increase in cash	285,878	1,222,898
CASH, Beginning of year	<u>2,862,405</u>	<u>1,639,507</u>
CASH, End of year	<u>\$ <u>3,148,283</u></u>	<u><u>2,862,405</u></u>

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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, 2019 and 2018.

(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, 2019 AND 2018

(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. The delivery of water fulfills the Company's performance obligation.

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 17, 2020. See Note 7.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2019</u>	<u>2018</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,116,918	1,087,617
Reservoirs, roads and sumps	5,946,555	5,946,555
Rental Property	15,538	15,538
Pipelines	11,345,447	11,207,780
Treatment plants	1,070,131	1,070,131
Wells	2,080,443	2,080,443
Pumping, booster and chlorinator plants	918,498	800,461
Machinery and tools	743,591	710,155
Automobiles and trucks	486,763	454,195
Furniture, fixtures and equipment	1,112,797	1,038,690
In progress	1,452,786	367,568
Total property, plant and equipment	<u>26,306,364</u>	<u>24,796,030</u>
Less: accumulated depreciation	<u>(10,930,003)</u>	<u>(10,348,196)</u>
Net property, plant and equipment	<u>\$ 15,376,361</u>	<u>14,447,834</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, 2019 and 2018, 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, 2019 AND 2018

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, 2019 and 2018, the Company contributed \$65,000 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.

For the year ended December 31, 2019, the Company had construction commitments to three vendors of up to \$1,844,820 for the North Glenrose Reservoir Rehabilitation Project.

NOTE 7 – SUBSEQUENT EVENT

On April 2, 2020, the Governor of the State of California issued an Executive Order (“Order”) responding to the COVID-19 pandemic prohibiting the discontinuation of water service for lack of payment. The accompanying financial statements do not include the effects, if any, that this Order may have on the Company.

SUPPLEMENTARY SCHEDULE

LINCOLN AVENUE WATER COMPANY

DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
DISTRIBUTION SYSTEM EXPENSES		
Auto and truck expense	\$ 55,071	48,427
Imported water purchases	603,318	574,975
Special water lease	580,000	339,000
Miscellaneous	5,718	6,498
Outside labor	97,804	108,984
Repairs	24,706	15,441
Salaries	507,093	511,132
Supplies	56,385	63,046
Utilities	348,773	405,760
Water quality compliance	538,569	649,824
Total distribution system expenses	<u>\$ 2,817,437</u>	<u>2,723,087</u>
GENERAL EXPENSES		
Business taxes and licenses	\$ 29,426	27,034
Directors' fees and expenses	44,607	44,346
Insurance	300,340	273,744
Legal and professional	39,661	44,510
Membership dues	13,130	19,352
Miscellaneous	(174)	(1,538)
Payroll taxes	78,847	87,534
Retirement plan	65,000	65,000
Property taxes	14,742	8,928
Total general expenses	<u>\$ 585,579</u>	<u>568,910</u>
ADMINISTRATIVE EXPENSES		
Computer billing, hardware and software	\$ 31,253	33,375
Miscellaneous, primarily bank fees	50,518	54,513
Office outside services	16,657	34,059
Postage	30,148	30,214
Repairs and maintenance	10,505	8,400
Salaries, including paid time off	483,989	561,030
Supplies	4,075	6,783
Utilities	12,059	29,144
Total administrative expenses	<u>\$ 639,204</u>	<u>757,518</u>
Total	<u>\$ 4,042,220</u>	<u>4,049,515</u>