



FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Years Ended
December 31, 2020 and 2019

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2020 AND 2019

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 corporation) which comprise the statements of financial position as of December 31, 2020 and 2019, 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, 2020 and 2019 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 16, 2021

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------------|----------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 2,374,008 | 2,324,870 |
| Cash, designated | 1,035,415 | 823,413 |
| | <u>3,409,423</u> | <u>3,148,283</u> |
| Accounts receivable | 532,006 | 393,185 |
| Other receivables | 109,209 | 237,575 |
| Material and supplies | 80,829 | 64,111 |
| Prepaid expenses | 47,344 | 45,550 |
| Total current assets | <u>4,178,811</u> | <u>3,888,704</u> |
| Utility plant and equipment, net | 17,509,710 | 15,376,361 |
| Water rights, net | 8 | 8 |
| Other assets | <u>1,000</u> | <u>1,000</u> |
| | <u>21,689,529</u> | <u>19,266,073</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current portion of notes payable | \$ 286,638 | - |
| Accounts payable | 116,817 | 167,509 |
| Accrued liabilities | 202,450 | 215,941 |
| Projects payable | 233,857 | 41,043 |
| Customer deposits | 341,260 | 324,445 |
| Other deposits | 7,258 | 5,933 |
| Total current liabilities | <u>1,188,280</u> | <u>754,871</u> |
| Long-term liabilities | | |
| Notes payable, net of current portion | <u>1,073,168</u> | <u>-</u> |
| Total liabilities | <u>2,261,448</u> | <u>754,871</u> |
| Stockholders' equity | | |
| Common stock, appurtenant | 304,853 | 304,613 |
| Common stock, nonappurtenant | 23,170 | 23,410 |
| Retained earnings | <u>19,100,058</u> | <u>18,183,179</u> |
| Total stockholders' equity | <u>19,428,081</u> | <u>18,511,202</u> |
| | <u>\$ 21,689,529</u> | <u>19,266,073</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, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------------------------|-------------------|------------------|
| OPERATING REVENUES | | |
| Water sales | \$ 3,404,556 | 2,971,785 |
| Water service charge | 1,618,804 | 1,618,507 |
| Water quality cost reimbursement | 413,245 | 812,663 |
| Late fees and other charges | 46,255 | 74,075 |
| Other | 8,000 | 43,813 |
| Total operating revenues | <u>5,490,860</u> | <u>5,520,843</u> |
| OPERATING EXPENSES | | |
| Distribution | 2,983,080 | 2,817,437 |
| General | 616,568 | 585,579 |
| Administrative | 643,640 | 639,204 |
| Depreciation | 566,049 | 597,355 |
| Total operating expenses | <u>4,809,337</u> | <u>4,639,575</u> |
| Income from operations | <u>681,523</u> | <u>881,268</u> |
| OTHER REVENUES (EXPENSES) | | |
| Stock transfer and lost certificate fees | 19,772 | 25,000 |
| Rental income | 1,100 | 1,200 |
| Interest income | 12,149 | 16,743 |
| Nonoperating revenue, reserve for catastrophic loss | 199,618 | 199,644 |
| Miscellaneous income, net | 29,029 | 23,147 |
| Interest expense | (26,312) | - |
| Total other revenues | <u>235,356</u> | <u>265,734</u> |
| Net income | <u>\$ 916,879</u> | <u>1,147,002</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, 2020 AND 2019

| | Common Stock Appurtenant | | Common Stock Non-Appurtenant | | Retained Earnings | Total Equity |
|-------------------------|--------------------------------------------|-----------------------|--------------------------------------------|----------------------|--------------------------|--------------------------|
| | <u>20,000 Shares Authorized Shares</u> | <u>Amount</u> | <u>20,000 Shares Authorized Shares</u> | <u>Amount</u> | | |
| At January 1, 2019 | 3,686 | 300,353 | 2,415 | 24,070 | 17,036,177 | 17,360,600 |
| Transfer of shares | 66 | 660 | (66) | (660) | | |
| Purchase of shares | 13 | 3,600 | | | | 3,600 |
| Net income | | | | | 1,147,002 | 1,147,002 |
| As of 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> |
| Transfer of shares | 24 | 240 | (24) | (240) | | |
| Net income | | | | | 916,879 | 916,879 |
| As of December 31, 2020 | <u><u>3,789</u></u> | <u><u>304,853</u></u> | <u><u>2,325</u></u> | <u><u>23,170</u></u> | <u><u>19,100,058</u></u> | <u><u>19,428,081</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, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|----------------------------------------------------------------------------------|---------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ <u>916,879</u> | <u>1,147,002</u> |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 566,049 | 597,355 |
| Increase in allowance for doubtful accounts | 11,000 | - |
| Changes in assets and liabilities: | | |
| Receivables | (21,455) | (6,390) |
| Materials and supplies | (16,718) | (398) |
| Prepaid expenses | (1,794) | 16,986 |
| Accounts payable | (50,692) | (22,126) |
| Accrued liabilities | (13,491) | 13,177 |
| Deposits | 18,140 | 22,511 |
| Total adjustments | <u>491,039</u> | <u>621,115</u> |
| Net cash provided by operating activities | <u>1,407,918</u> | <u>1,768,117</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of other asset | - | (1,000) |
| Purchases of utility plant | <u>(2,506,584)</u> | <u>(1,484,839)</u> |
| Net cash used by investing activities | <u>(2,506,584)</u> | <u>(1,485,839)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from notes payable | 1,500,000 | - |
| Principal payments on notes payable | (140,194) | - |
| Sales of shares | - | 3,600 |
| Net cash provided by financing activities | <u>1,359,806</u> | <u>3,600</u> |
| Net increase in cash | 261,140 | 285,878 |
| CASH, Beginning of year | <u>3,148,283</u> | <u>2,862,405</u> |
| CASH, End of year | <u>\$ 3,409,423</u> | <u>3,148,283</u> |

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations - The Lincoln Avenue Water Company (“the Company”) is a California stock water company exempt from tax 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 determined that an allowance for doubtful accounts of \$11,000 is required at December 31, 2020. No allowance for doubtful accounts was required at December 31, 2019..

(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, 2020 AND 2019

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

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

(k) 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.

(l) 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.

(m) Subsequent events - The Company has evaluated subsequent events through the date at which the financial statements were available to be issued which was April 16, 2021.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 2 - UTILITY PLANT

Utility plant consists of:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------------|----------------------|---------------------|
| Land | \$ 16,897 | 16,897 |
| Buildings and improvements | 1,116,918 | 1,116,918 |
| Reservoirs, roads and sumps | 8,694,595 | 5,946,555 |
| Rental Property | 15,538 | 15,538 |
| Pipelines | 11,997,636 | 11,345,447 |
| Treatment plants | 1,070,131 | 1,070,131 |
| Wells | 2,080,443 | 2,080,443 |
| Pumping, booster and chlorinator plants | 958,994 | 918,498 |
| Machinery and tools | 750,415 | 743,591 |
| Automobiles and trucks | 465,446 | 486,763 |
| Furniture, fixtures and equipment | 1,125,402 | 1,112,797 |
| In progress | 669,381 | 1,452,786 |
| Total property, plant and equipment | <u>28,961,796</u> | <u>26,306,364</u> |
| Less: accumulated depreciation | <u>(11,452,086)</u> | <u>(10,930,003)</u> |
| Net property, plant and equipment | <u>\$ 17,509,710</u> | <u>15,376,361</u> |

NOTE 3 – NOTES PAYABLE

At April 6, 2020, the Company obtained a multiple advance term promissory note providing a maximum borrowing of \$1,500,000. The Company's revenues are security for the notes. The notes bear interest at the one month LIBOR rate plus 1.750% at the time of borrowing. The notes require the payment of monthly principal and interest over sixty months with the final payment due on June 20, 2025. During the year ended December 31, 2020, the Company borrowed the full \$1,500,000 in three different notes. The loans bear interest ranging from 2.65% to 3.1% with total monthly payments of approximately \$27,000. Future payments of principal for all the notes are as follows:

| <u>Years Ended December 31,</u> | |
|---------------------------------|---------------------|
| 2021 | \$ 286,638 |
| 2022 | 295,315 |
| 2023 | 304,256 |
| 2024 | 313,432 |
| 2025 | <u>160,165</u> |
| | <u>\$ 1,359,806</u> |

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

NOTE 4 - 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 5 - PROVISION FOR INCOME TAXES

The Company is a stock corporation exempt from Federal income tax under IRS code section IRC 501(c)(12). The Company is 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, 2020 and 2019, respectively. The Federal and state tax returns are open for examination for the preceding three and four years, respectively

NOTE 6 - 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, 2020 and 2019, 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 7 - 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.

NOTE 8 – COVID PANDEMIC

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 Company has provided an allowance for doubtful accounts of \$11,000 for potential doubtful accounts. Revenues from reinstatement fees and late charges were impacted by the Order.

SUPPLEMENTARY SCHEDULE

LINCOLN AVENUE WATER COMPANY

DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------------|---------------------|------------------|
| DISTRIBUTION SYSTEM EXPENSES | | |
| Auto and truck expense | \$ 35,511 | 55,071 |
| Imported water purchases | 635,711 | 603,318 |
| Special water lease | 654,500 | 580,000 |
| Miscellaneous | 6,394 | 5,718 |
| Outside labor | 72,969 | 97,804 |
| Repairs | 8,303 | 24,706 |
| Salaries | 530,887 | 507,093 |
| Supplies | 37,215 | 56,385 |
| Utilities | 471,484 | 348,773 |
| Water quality compliance | 530,106 | 538,569 |
| Total distribution system expenses | <u>\$ 2,983,080</u> | <u>2,817,437</u> |
| GENERAL EXPENSES | | |
| Business taxes and licenses | \$ 34,416 | 29,426 |
| Directors' fees and expenses | 38,178 | 44,607 |
| Insurance | 334,111 | 300,340 |
| Legal and professional | 33,776 | 39,661 |
| Membership dues | 981 | 13,130 |
| Miscellaneous | 11,033 | (174) |
| Payroll taxes | 82,163 | 78,847 |
| Retirement plan | 65,000 | 65,000 |
| Property taxes | 16,910 | 14,742 |
| Total general expenses | <u>\$ 616,568</u> | <u>585,579</u> |
| ADMINISTRATIVE EXPENSES | | |
| Computer billing, hardware and software | \$ 28,915 | 31,253 |
| Miscellaneous, primarily bank fees | 42,600 | 50,518 |
| Office outside services | 16,810 | 16,657 |
| Postage | 26,907 | 30,148 |
| Repairs and maintenance | 5,566 | 10,505 |
| Salaries, including paid time off | 495,024 | 483,989 |
| Supplies | 4,378 | 4,075 |
| Utilities | 23,440 | 12,059 |
| Total administrative expenses | <u>\$ 643,640</u> | <u>639,204</u> |