



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

**Years Ended**  
**December 31, 2022 and 2021**

**EGAN & EGAN**  
**Certified Public Accountants**

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2022 AND 2021

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

**Opinion**

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, 2022 and 2021, and the related statements of income, stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lincoln Avenue Water Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lincoln Avenue Water Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that,

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lincoln Avenue Water Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lincoln Avenue Water Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **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 10, 2023

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,927,604	2,642,996
Cash, designated	1,444,179	1,235,253
	<u>4,371,783</u>	<u>3,878,249</u>
Accounts receivable	342,970	436,374
Other receivables	40,581	60,487
Material and supplies	66,071	75,744
Prepaid expenses	87,055	69,348
Total current assets	<u>4,908,460</u>	<u>4,520,202</u>
Utility plant and equipment, net	18,180,219	17,777,400
Water rights, net	8	8
Other assets	<u>-</u>	<u>1,000</u>
	<u>23,088,687</u>	<u>22,298,610</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Current portion of notes payable	\$ 304,256	295,315
Accounts payable	125,340	188,810
Accrued liabilities	194,247	212,683
Customer deposits	382,716	364,421
Other deposits	6,544	4,257
Total current liabilities	<u>1,013,103</u>	<u>1,065,486</u>
<b>Long-term liabilities</b>		
Notes payable, net of current portion	<u>470,949</u>	<u>777,965</u>
Total liabilities	<u>1,484,052</u>	<u>1,843,451</u>
<b>Stockholders' equity</b>		
Common stock, appurtenant	309,763	312,763
Common stock, nonappurtenant	21,860	22,460
Retained earnings	21,273,012	20,119,936
Total stockholders' equity	<u>21,604,635</u>	<u>20,455,159</u>
	<u>\$ 23,088,687</u>	<u>22,298,610</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 3,078,011	3,388,445
Water service charge	1,645,689	1,618,540
Water quality cost reimbursement	964,943	1,280,704
Late fees and other charges	60,080	54,279
Water connection and other fees	43,418	161,122
Total operating revenues	<u>5,792,141</u>	<u>6,503,090</u>
<b>OPERATING EXPENSES</b>		
Distribution	3,042,998	3,761,155
General	644,126	561,177
Administrative	689,863	768,170
Depreciation	621,280	588,471
Total operating expenses	<u>4,998,267</u>	<u>5,678,973</u>
Income from operations	<u>793,874</u>	<u>824,117</u>
<b>OTHER REVENUES (EXPENSES)</b>		
Stock transfer and lost certificate fees	23,100	26,200
Rental income	-	1,000
Interest income	16,752	6,266
Nonoperating revenue, reserve for catastrophic loss	199,382	199,574
Miscellaneous income, net	145,710	-
Interest expense	<u>(25,742)</u>	<u>(37,279)</u>
Total other revenues	<u>359,202</u>	<u>195,761</u>
Net income	<u>\$ 1,153,076</u>	<u>1,019,878</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, 2022 AND 2021

	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>		
As of December 31, 2020	3,789	304,853	2,325	23,170	19,100,058	19,428,081
Transfer of shares	71	710	(71)	(710)		
Purchase of shares	4	7,200				7,200
Net income					1,019,878	1,019,878
As of December 31, 2021	3,864	312,763	2,254	22,460	20,119,936	20,455,159
Transfer of shares	60	600	(60)	(600)		
Redemption of shares	2	(3,600)				(3,600)
Net income					1,153,076	1,153,076
As of December 31, 2022	<u>3,926</u>	<u>309,763</u>	<u>2,194</u>	<u>21,860</u>	<u>21,273,012</u>	<u>21,604,635</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, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ <u>1,153,076</u>	<u>1,019,878</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	621,280	588,471
Changes in assets and liabilities:		
Receivables	113,310	144,354
Materials and supplies	9,673	5,085
Prepaid expenses	(17,707)	(22,004)
Accounts payable	(63,470)	71,993
Accrued liabilities	(18,436)	10,233
Deposits	<u>20,582</u>	<u>20,160</u>
Total adjustments	<u>665,232</u>	<u>818,292</u>
Net cash provided by operating activities	<u>1,818,308</u>	<u>1,838,170</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in other asset	1,000	-
Purchases of utility plant	<u>(1,024,099)</u>	<u>(1,090,018)</u>
Net cash used by investing activities	<u>(1,023,099)</u>	<u>(1,090,018)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(298,075)	(286,526)
(Redemptions) sales of shares	<u>(3,600)</u>	<u>7,200</u>
Net cash used by financing activities	<u>(301,675)</u>	<u>(279,326)</u>
Net increase in cash	493,534	468,826
CASH, Beginning of year	<u>3,878,249</u>	<u>3,409,423</u>
CASH, End of year	<u>\$ <u>4,371,783</u></u>	<u><u>3,878,249</u></u>

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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, 2022 and 2021.

(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, 2022 AND 2021

(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 10, 2023.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2022</u>	<u>2021</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,116,918	1,116,918
Reservoirs, roads and sumps	8,867,758	8,863,958
Rental Property	15,538	15,538
Pipelines	13,158,673	12,479,635
Treatment plants	1,070,131	1,070,131
Wells	2,196,550	2,080,443
Pumping, booster and chlorinator plants	993,931	985,734
Machinery and tools	754,172	750,415
Automobiles and trucks	443,080	467,796
Furniture, fixtures and equipment	1,218,299	1,147,184
Meters	961,884	823,308
Total property, plant and equipment	<u>30,813,831</u>	<u>29,817,957</u>
Less: accumulated depreciation	<u>(12,633,612)</u>	<u>(12,040,557)</u>
Net property, plant and equipment	<u>\$ 18,180,219</u>	<u>17,777,400</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. 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>	
2023	\$ 304,256
2024	313,432
2025	157,517
	<u>\$ 775,205</u>

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

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, 2022 and 2021, 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, 2022 and 2021, the Company contributed \$60,000 and \$65,000, 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 plans to commence a pipeline replacement project during 2023. The contractual commitment is \$264,505.

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 COMPANYDISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>DISTRIBUTION SYSTEM EXPENSES</b>		
Auto and truck expense	\$ 61,498	52,615
Imported water purchases	1,093,678	1,152,765
Special water lease	350,000	854,500
Miscellaneous	2,995	10,987
Outside labor	116,753	99,259
Repairs	30,605	19,474
Salaries	545,278	496,098
Supplies	51,520	47,568
Utilities	454,478	512,745
Water quality compliance	336,193	515,144
Total distribution system expenses	<u>\$ 3,042,998</u>	<u>3,761,155</u>
<b>GENERAL EXPENSES</b>		
Business taxes and licenses	\$ 46,790	22,889
Directors' fees and expenses	40,464	41,097
Insurance	355,487	285,101
Legal and professional	26,120	34,020
Membership dues	18,637	16,303
Miscellaneous	(7)	(550)
Payroll taxes	81,823	79,223
Retirement plan	60,000	65,000
Property taxes	14,812	18,094
Total general expenses	<u>\$ 644,126</u>	<u>561,177</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Computer billing, hardware and software	\$ 48,439	47,718
Miscellaneous, primarily bank fees	43,680	60,998
Office outside services	40,606	61,551
Postage	24,359	31,172
Repairs and maintenance	7,036	17,110
Salaries, including paid time off	495,917	522,061
Supplies	6,921	7,290
Utilities	22,905	20,270
Total administrative expenses	<u>\$ 689,863</u>	<u>768,170</u>