



FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Years Ended
December 31, 2023 and 2022

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2023 AND 2022

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, 2023 and 2022, 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, 2023 and 2022, 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 19, 2024

LINCOLN AVENUE WATER COMPANY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash	\$ 3,106,243	2,927,604
Cash, designated	1,711,952	1,444,179
	<u>4,818,195</u>	<u>4,371,783</u>
Accounts receivable	415,927	342,970
Other receivables	137,333	40,581
Material and supplies	97,207	66,071
Prepaid expenses	95,504	87,055
Total current assets	<u>5,564,166</u>	<u>4,908,460</u>
Utility plant and equipment, net	18,853,914	18,180,219
Water rights, net	<u>8</u>	<u>8</u>
	<u>24,418,088</u>	<u>23,088,687</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable	\$ 313,432	304,256
Accounts payable	268,785	125,340
Accrued liabilities	203,309	194,247
Customer deposits	401,760	382,716
Other deposits	6,544	6,544
Total current liabilities	<u>1,193,830</u>	<u>1,013,103</u>
Long-term liabilities		
Notes payable, net of current portion	<u>157,518</u>	<u>470,949</u>
Total liabilities	<u>1,351,348</u>	<u>1,484,052</u>
Stockholders' equity		
Common stock, appurtenant	342,803	309,763
Common stock, nonappurtenant	21,220	21,860
Retained earnings	22,702,717	21,273,012
Total stockholders' equity	<u>23,066,740</u>	<u>21,604,635</u>
	<u>\$ 24,418,088</u>	<u>23,088,687</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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES		
Water sales	\$ 2,883,162	3,078,011
Water service charge	1,678,697	1,645,689
Water quality cost reimbursement	999,899	964,943
Late fees and other charges	59,710	60,080
Water connection and other fees	25,800	43,418
Total operating revenues	<u>5,647,268</u>	<u>5,792,141</u>
OPERATING EXPENSES		
Distribution	2,679,272	3,042,998
General	694,593	644,126
Administrative	740,568	689,863
Depreciation	648,774	621,280
Total operating expenses	<u>4,763,207</u>	<u>4,998,267</u>
Income from operations	<u>884,061</u>	<u>793,874</u>
OTHER REVENUES (EXPENSES)		
Stock transfer and lost certificate fees	20,200	23,100
Interest income	73,752	16,752
Nonoperating revenue, reserve for catastrophic loss	199,500	199,382
Miscellaneous income, net	271,761	145,710
Interest expense	(19,569)	(25,742)
Total other revenues	<u>545,644</u>	<u>359,202</u>
Net income	<u>\$ 1,429,705</u>	<u>1,153,076</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, 2023 AND 2022

	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, 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	3,926	309,763	2,194	21,860	21,273,012	21,604,635
Transfer of shares	64	640	(64)	(640)		
Purchase of shares	9	32,400				32,400
Net income					1,429,705	1,429,705
As of December 31, 2023	<u>3,999</u>	<u>342,803</u>	<u>2,130</u>	<u>21,220</u>	<u>22,702,717</u>	<u>23,066,740</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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>1,429,705</u>	<u>1,153,076</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	648,774	621,280
Changes in assets and liabilities:		
Receivables	(169,709)	113,310
Materials and supplies	(31,136)	9,673
Prepaid expenses	(8,449)	(17,707)
Accounts payable	143,445	(63,470)
Accrued liabilities	9,062	(18,436)
Deposits	<u>19,044</u>	<u>20,582</u>
Total adjustments	<u>611,031</u>	<u>665,232</u>
Net cash provided by operating activities	<u>2,040,736</u>	<u>1,818,308</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in other asset	-	1,000
Purchases of utility plant	<u>(1,322,469)</u>	<u>(1,024,099)</u>
Net cash used by investing activities	<u>(1,322,469)</u>	<u>(1,023,099)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(304,255)	(298,075)
Sales (redemptions) of shares	<u>32,400</u>	<u>(3,600)</u>
Net cash used by financing activities	<u>(271,855)</u>	<u>(301,675)</u>
Net increase in cash	446,412	493,534
CASH, Beginning of year	<u>4,371,783</u>	<u>3,878,249</u>
CASH, End of year	<u>\$ <u>4,818,195</u></u>	<u><u>4,371,783</u></u>

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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. From time to time, the Company may have operating cash balances in checking 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 credit losses of \$11,000 is required at December 31, 2023 and 2022. Accounts are specifically reviewed to determine if a collectability problem exists. Amounts due become a lien on the property. Thus, the majority of the accounts receivable are collateralized by the stock holding.

(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, 2023 AND 2022

(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 to the Utility Plant. Amounts collected are required to be used 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 19, 2024.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2023</u>	<u>2022</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,116,918	1,116,918
Reservoirs, roads and sumps	8,873,146	8,867,758
Rental Property	15,538	15,538
Pipelines	13,707,223	13,158,673
Treatment plants	1,340,674	1,070,131
Wells	2,196,550	2,196,550
Pumping, booster and chlorinator plants	1,013,412	993,931
Machinery and tools	756,726	754,172
Automobiles and trucks	461,817	443,080
Furniture, fixtures and equipment	1,232,765	1,218,299
Meters	1,372,753	961,884
Total property, plant and equipment	<u>32,104,419</u>	<u>30,813,831</u>
Less: accumulated depreciation	<u>(13,250,505)</u>	<u>(12,633,612)</u>
Net property, plant and equipment	<u>\$ 18,853,914</u>	<u>18,180,219</u>

NOTE 3 – NOTES PAYABLE

On 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>	
2024	\$ 313,432
2025	<u>157,518</u>
	<u>\$ 470,950</u>

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

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, 2023 and 2022, 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, 2023 and 2022, the Company contributed \$65,000 and \$60,000, 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 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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
DISTRIBUTION SYSTEM EXPENSES		
Auto and truck expense	\$ 76,191	61,498
Imported water purchases	885,506	1,093,678
Special water lease	-	350,000
Miscellaneous	2,472	2,995
Outside labor	165,201	116,753
Repairs	1,581	30,605
Salaries	553,561	545,278
Supplies	30,131	51,520
Utilities	449,339	454,478
Water quality compliance	515,290	336,193
Total distribution system expenses	<u>\$ 2,679,272</u>	<u>3,042,998</u>
GENERAL EXPENSES		
Business taxes and licenses	\$ 42,837	46,790
Directors' fees and expenses	41,643	40,464
Insurance	394,406	355,487
Legal and professional	32,235	26,120
Membership dues	19,624	18,637
Miscellaneous	(1,790)	(7)
Payroll taxes	84,066	81,823
Retirement plan	65,000	60,000
Property taxes	16,572	14,812
Total general expenses	<u>\$ 694,593</u>	<u>644,126</u>
ADMINISTRATIVE EXPENSES		
Computer billing, hardware and software	\$ 48,630	48,439
Miscellaneous, primarily bank fees	55,932	43,680
Office outside services	43,792	40,606
Postage	34,966	24,359
Repairs and maintenance	7,288	7,036
Salaries, including paid time off	513,436	495,917
Supplies	5,370	6,921
Utilities	31,154	22,905
Total administrative expenses	<u>\$ 740,568</u>	<u>689,863</u>