



FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

Years Ended
December 31, 2024 and 2023

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2025 AND 2024

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, 2025 and 2024, 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, 2025 and 2024, 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 12 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, 2026

LINCOLN AVENUE WATER COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
ASSETS		
Current Assets		
Cash	\$ 1,837,045	2,049,905
Cash, designated	1,550,191	1,996,666
	<u>3,387,236</u>	<u>4,046,571</u>
Accounts receivable	263,123	480,984
Other receivables	40,063	39,251
Material and supplies	63,260	70,771
Prepaid expenses	114,965	184,024
Total current assets	<u>3,868,647</u>	<u>4,821,601</u>
 Utility plant and equipment, net	 18,511,169	 19,738,129
 Water rights, net	 9	 9
	<u>22,379,825</u>	<u>24,559,739</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable	\$ -	160,277
Accounts payable	199,628	143,099
Accrued liabilities	205,050	201,651
Customer deposits	410,365	415,405
Other deposits	22,107	3,445
Total current liabilities	<u>837,150</u>	<u>923,877</u>
 Total liabilities	 <u>837,150</u>	 <u>923,877</u>
 Stockholders' equity		
Common stock, appurtenant	402,693	362,963
Common stock, nonappurtenant	20,130	20,660
Retained earnings	21,119,852	23,252,239
Total stockholders' equity	<u>21,542,675</u>	<u>23,635,862</u>
	<u>\$ 22,379,825</u>	<u>24,559,739</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, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Water sales	\$ 1,477,280	3,604,649
Water service charge	780,733	1,693,696
Water quality cost reimbursement	1,155,992	459,986
Late fees and other charges	22,763	62,985
Water connection and other fees	121,800	45,450
Total operating revenues	<u>3,558,568</u>	<u>5,866,766</u>
OPERATING EXPENSES		
Distribution	3,799,514	3,414,125
General	817,515	800,010
Administrative	645,287	746,985
Depreciation	1,006,806	701,225
Total operating expenses	<u>6,269,122</u>	<u>5,662,345</u>
(Loss) income from operations	<u>(2,710,554)</u>	<u>204,421</u>
OTHER REVENUES (EXPENSES)		
Stock transfer and lost certificate fees	20,300	20,400
Interest income	61,048	89,023
Nonoperating revenue, reserve for catastrophic loss	88,923	200,463
Miscellaneous income, net	409,586	48,388
Interest expense	(1,690)	(13,173)
Total other revenues	<u>578,167</u>	<u>345,101</u>
Net (loss) income	<u>\$ (2,132,387)</u>	<u>549,522</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, 2025 AND 2024

	Common Stock Appurtenant		Common Stock Non-Appurtenant		Retained Earnings	Total Equity
	<u>20,000 Shares Authorized</u> <u>Shares</u>	<u>Amount</u>	<u>20,000 Shares Authorized</u> <u>Shares</u>	<u>Amount</u>		
As of December 31, 2023	3,999	342,803	2,130	21,220	22,702,717	23,066,740
Share split						
Transfer of shares	56	560	(56)	(560)		
Purchase of shares	3	19,600				19,600
Net income					549,522	549,522
As of December 31, 2024	4,058	362,963	2,074	20,660	23,252,239	23,635,862
Transfer of shares	53	530	(53)	(530)		
Purchase of shares	4	39,200				39,200
Net income					(2,132,387)	(2,132,387)
As of December 31, 2025	<u>4,115</u>	<u>402,693</u>	<u>2,021</u>	<u>20,130</u>	<u>21,119,852</u>	<u>21,542,675</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, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ <u>(2,132,387)</u>	<u>549,522</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,006,806	701,225
Changes in assets and liabilities:		
Receivables	217,049	33,025
Materials and supplies	7,511	26,436
Prepaid expenses	69,059	(88,520)
Accounts payable	56,529	(125,686)
Accrued liabilities	3,399	(1,658)
Deposits	13,622	10,546
Total adjustments	<u>1,373,975</u>	<u>555,368</u>
Net cash (used) provided by operating activities	<u>(758,412)</u>	<u>1,104,890</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of utility plant	<u>220,154</u>	<u>(1,585,440)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(160,277)	(310,673)
Sales of shares	39,200	19,600
Net cash used by financing activities	<u>(121,077)</u>	<u>(291,073)</u>
Net decrease in cash	(659,335)	(771,623)
CASH, Beginning of year	<u>4,046,572</u>	<u>4,818,195</u>
CASH, End of year	<u>\$ 3,387,237</u>	<u>4,046,572</u>

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

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 and are owners of the utility.

In the event that the Company’s physical assets, including but not limited to wells, pipelines, storage facilities, or related infrastructure, are damaged or destroyed by fire or other casualty, each stockholder shall remain obligated to support the continued operation and restoration of the Company. Such support may include the payment of special assessments, capital contributions, or other charges duly authorized by the Board of Directors in accordance with the Company’s governing documents and applicable law. This obligation is intended to ensure the prompt repair, replacement, or reconstruction of essential water system assets and the uninterrupted provision of water service to all stockholders.

(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, 2025 and 2024. 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.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) Depreciation - continued

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.

(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 \$138,402 before amortization represent surface and groundwater rights.

(j) Assessments - The Board of Directors may assess the stockholders for the installation, depreciation, maintenance, betterment and operation of the pipeline and water system owned by the Company.

(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.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(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 17, 2026.

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2025</u>	<u>2024</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,087,092	1,532,038
Reservoirs, roads and sumps	8,784,978	9,291,450
Rental Property	-	15,538
Pipelines	14,552,510	14,505,964
Treatment plants	1,371,199	1,371,199
Smart meters	1,010,050	1,010,050
Wells	2,196,550	2,196,550
Pumping, booster and chlorinator plants	1,153,948	1,112,667
Machinery and tools	772,666	756,726
Automobiles and trucks	523,550	490,473
Furniture, fixtures and equipment	1,304,018	1,306,257
Meters	129,682	20,076
Total property, plant and equipment	<u>32,903,140</u>	<u>33,625,885</u>
Less: accumulated depreciation	<u>(14,391,971)</u>	<u>(13,887,756)</u>
Net property, plant and equipment \$	<u><u>18,511,169</u></u>	<u><u>19,738,129</u></u>

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

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. The loan matured and was paid in full as of June 20, 2025.

NOTE 4 - SOURCE OF SUPPLY

The Company obtains the majority 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 imported water.

The Company purchases its imported water from a Special District, Foothill Municipal Water District ("Foothill") which sells water it purchases from the Metropolitan Water District. Foothill considers the Company a member agency. In order to obtain water from Foothill, the Company must fund operating expenses of Foothill. These expenses are not included in the cost of purchased water. Foothill 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.

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, 2025 and 2024 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, 2025 and 2024, the Company contributed \$60,000 and \$65,000, respectively.

The Company sponsors 401(k) for eligible employees providing pre-tax salary deferrals. The Company does not match the employees' contributions.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

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 – FIRE LOSS AND CONTINGENCY

Beginning on January 7, 2025, the Eaton Fire destroyed a significant number of structures in Altadena, CA including a large portion of the Company's assets and assets of its stockholders. The Company disposed of nearly \$1 million of assets lost due to the fire. The fire eliminated 58% of the homes and or structures that receive water from the Company, significantly reducing water revenues for the year ended December 31, 2025. Miscellaneous income, net on the Statement of Income contains insurance proceeds received along with the loss on disposition related to the fire.

The Company is one of many Plaintiffs in a mass tort lawsuit filed against public utility that is believed to have caused the fire. The utility has cross-complained against the Company and other Plaintiffs alleging that they failed to provide sufficient water to fight the fire. The Company is vigorously defending against this assertion. The outcome of this litigation is not currently determinable.

SUPPLEMENTARY SCHEDULE

LINCOLN AVENUE WATER COMPANYDISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
DISTRIBUTION SYSTEM EXPENSES		
Auto and truck expense	\$ 74,355	71,225
Wholesale water supplier	1,318,575	1,252,551
Special water lease	24,000	558,000
Miscellaneous	5,379	1,858
Outside labor	303,255	122,498
Repairs	-	139
Salaries	670,961	637,444
Supplies	188,009	55,997
Utilities	497,137	407,933
Water quality compliance	717,843	306,480
Total distribution system expenses	<u>\$ 3,799,514</u>	<u>3,414,125</u>
GENERAL EXPENSES		
Business taxes and licenses	\$ 99,365	64,172
Directors' fees and expenses	39,668	42,759
Insurance	450,052	418,385
Legal and professional	38,060	70,390
Membership dues	25,474	32,931
Miscellaneous	2,976	(15)
Payroll taxes	89,856	89,767
Retirement plan	60,000	65,000
Property taxes	12,064	16,621
Total general expenses	<u>\$ 817,515</u>	<u>800,010</u>
ADMINISTRATIVE EXPENSES		
Computer billing, hardware and software	\$ 46,249	56,881
Miscellaneous, primarily bank fees	51,869	61,513
Office outside services	19,589	33,888
Postage	20,697	31,906
Repairs and maintenance	1,828	7,603
Salaries, including paid time off	470,816	523,237
Supplies	8,909	6,155
Utilities	25,330	25,802
Total administrative expenses	<u>\$ 645,287</u>	<u>746,985</u>
Total	<u>\$ 5,262,316</u>	<u>4,961,120</u>