

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



**For the Years Ended
December 31, 2021 and 2020**

EGAN CPAs LP

LAS FLORES WATER COMPANY

DECEMBER 31, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

LAS FLORES WATER COMPANY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Las Flores Water Company

Opinion

We have audited the accompanying financial statements of Las Flores Water Company (a California nonprofit mutual benefit corporation) which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of income, stockholders' 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 Las Flores Water Company as of December 31, 2021 and 2020, 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.

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 Las Flores 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 Las Flores 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 Las Flores 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 Las Flores 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 information on pages ___ to ___ 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 CPAs LP

March 9, 2022

LAS FLORES WATER COMPANY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,310,794	1,164,839
Accounts receivable, net	191,723	191,583
Materials & supplies	36,240	30,711
Prepaid expenses	10,270	8,832
	<u>1,549,027</u>	<u>1,395,965</u>
UTILITY PLANT, net	2,215,807	2,241,084
OTHER ASSETS	<u>1,000</u>	<u>1,000</u>
	<u>\$ 3,765,834</u>	<u>3,638,049</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of note payable	\$ 48,959	46,599
Accounts payable	65,141	75,378
Accrued liabilities	46,981	38,199
	<u>161,081</u>	<u>160,176</u>
NOTE PAYABLE, less current portion	<u>184,499</u>	<u>233,431</u>
Total liabilities	<u>345,580</u>	<u>393,607</u>
 STOCKHOLDERS' EQUITY		
Capital stock - authorized		
5,000 shares, \$100 par value	366,675	366,675
Paid in capital	240,002	240,002
Retained earnings	2,813,577	2,637,765
Total stockholders' equity	<u>3,420,254</u>	<u>3,244,442</u>
	<u>\$ 3,765,834</u>	<u>3,638,049</u>

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

LAS FLORES WATER COMPANY

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
REVENUES		
Water sales	\$ <u>2,020,897</u>	<u>2,023,684</u>
Total revenues	<u>2,020,897</u>	<u>2,023,684</u>
OPERATING AND MAINTENANCE EXPENSES		
Source of supply	789,319	788,472
Pumping & purification	235,322	208,685
Distribution	<u>236,354</u>	<u>240,359</u>
Total direct costs	<u>1,260,995</u>	<u>1,237,516</u>
Gross profit	<u>759,902</u>	<u>786,168</u>
OVERHEAD EXPENSES		
Commercial	34,144	19,858
Administrative	442,636	401,641
General	<u>128,303</u>	<u>148,983</u>
Total overhead expenses	<u>605,083</u>	<u>570,482</u>
Income before other income (expense) and provision for income taxes	<u>154,819</u>	<u>215,686</u>
OTHER INCOME (EXPENSE)		
Interest expense	(12,844)	(14,994)
Other income	34,157	33,257
Interest Income	480	5,641
	<u>21,793</u>	<u>23,904</u>
Income before provision for income taxes	<u>176,612</u>	<u>239,590</u>
PROVISION FOR INCOME TAXES	<u>800</u>	<u>800</u>
Net income	<u>\$ <u>175,812</u></u>	<u><u>238,790</u></u>

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

LAS FLORES WATER COMPANY
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>NUMBER OF SHARES</u>	<u>AMOUNT</u>	<u>PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCE					
January 1, 2020	<u>3,556.50</u>	\$ <u>366,675</u>	<u>240,002</u>	<u>2,398,975</u>	<u>3,005,652</u>
Net income	_____	_____	_____	<u>238,790</u>	<u>238,790</u>
BALANCE					
December 31, 2020	<u>3,556.50</u>	<u>366,675</u>	<u>240,002</u>	<u>2,637,765</u>	<u>3,244,442</u>
Net income	_____	_____	_____	<u>175,812</u>	<u>175,812</u>
BALANCE					
December 31, 2021	<u><u>3,556.50</u></u>	\$ <u><u>366,675</u></u>	<u><u>240,002</u></u>	<u><u>2,813,577</u></u>	<u><u>3,420,254</u></u>

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

LAS FLORES WATER COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>175,812</u>	<u>238,790</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	178,781	181,350
Receivables	(140)	(60,695)
Materials and supplies	(5,529)	(1,362)
Prepaid expenses	(1,438)	4,095
Accounts payable	(10,237)	13,831
Accrued liabilities	8,782	2,062
Total adjustments	<u>170,219</u>	<u>139,281</u>
Net cash provided by operating activities	<u>346,031</u>	<u>378,071</u>
NET CASH USED BY INVESTING ACTIVITIES		
Purchases of utility plant	<u>(153,504)</u>	<u>(320,614)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Repayments of note payable	<u>(46,572)</u>	<u>(44,422)</u>
Net cash (used) provided by financing activities	<u>(46,572)</u>	<u>(44,422)</u>
Net increase in cash and cash equivalents	145,955	13,035
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,164,839</u>	<u>1,151,804</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ <u>1,310,794</u></u>	<u>\$ <u>1,164,839</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u>12,844</u>	<u>14,994</u>
Income taxes	\$ <u>800</u>	<u>800</u>

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

LAS FLORES WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations - The Las Flores Water Company (“the Company”) is a non-profit organization pursuant to Section 501(c)(12) of the Internal Revenue Code. The Company was incorporated in 1885 to provide water to residents of certain parts of Altadena, California. As a mutual-owned water utility, it services approximately 1,470 shareholders.

(b) Basis of Presentation - The presentation herein reflects the ownership interests and economic benefits of the shareholders. The accompanying financial statements are presented adopting the amendment to the presentation as stated in Financial Accounting Standards Board statement number 2016-14. The Company is required to report information regarding its financial position and activities according to two classes of membership equity: with and without donor restrictions. In all cases, the Company’s membership equity as presented herein is without donor restrictions.

(c) Cash and Cash Equivalents - The Company considers cash and short-term investments of three months or less to be cash and cash equivalents. The Company maintains cash at financial institutions which provide insurance by the Federal Deposit Insurance Corporation. The Board of Directors does not believe that the amounts on deposit are at risk of loss as of December 31, 2021 and 2020.

(d) Accounts Receivable - Management has determined that no allowance for bad debts is required at December 31, 2021 and 2020.

(e) 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.

(f) Depreciation - Depreciation is calculated over estimated useful lives using the straight-line method as follows:

	<u>Years</u>
Trucks	3 - 5
Furniture and fixtures	7 - 31
Equipment	5 - 20
Water distribution systems	20 - 50
Wells, tunnels and reservoirs	75
Buildings and improvements	20

(g) Revenue Recognition – The Company recognizes revenue from water sales upon billing water delivered to the customer and due within thirty days of billing.

(h) Income Taxes - The Las Flores 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.

(i) 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.

LAS FLORES WATER COMPANY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(Continued)

NOTE 2 - EMPLOYEE BENEFIT PLAN

The Company has a Simplified Employee Pension Plan covering employees who qualify based on their length of service. The Company contributes 7.4% of eligible compensation. For the years ended December 31, 2021 and 2020, the contributions were \$23,257 and \$22,491, respectively.

NOTE 3 - UTILITY PLANT

Utility plant consists of:

	2021	2020
Land	\$ 36,236	36,236
Buildings	826,630	826,630
Maps and surveys & engineering	73,003	73,003
Wells, tunnels & reservoirs	785,750	785,750
Distribution system	2,919,671	2,766,167
Furniture & fixtures	10,871	10,871
Trucks	121,154	121,154
Equipment	196,863	196,863
Total utility plant	4,970,178	4,816,674
Less accumulated depreciation	(2,754,371)	(2,575,590)
Utility plant, net	\$ 2,215,807	2,241,084

NOTE 4 - SOURCE OF SUPPLY

The Company buys a majority of its water from one supplier. This supplier can unilaterally increase the price of water supplied and curtail the amount of water delivered to the Company. Significant increases in the source of supply would adversely affect the Company's operating results if the water rates charged to its customers were not immediately affected.

The Company obtains some water from its own wells. The quality of this water and the ability to deliver it to its customers is subject to Federal safe drinking water requirements. To the extent that this water quality does not meet or exceed Federal standards, the Company must purchase additional water from its only supplier to supplement its source of supply. Accordingly, the cost of water may increase. The Company may be required to cease pumping water from its wells should the water quality fall below standards. They may be required to incur the significant expense of cleaning contaminants from extracted groundwater. No provision for these costs, if any, are provided for in these accompanying financial statements as the amounts are not reasonably estimable.

LAS FLORES WATER COMPANY
NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

(Continued)

NOTE 5 - PROVISION FOR INCOME TAXES

The Company is subject to California tax on its unrelated business income. The provision for income taxes was \$800 for each of the years ended December 31, 2021 and 2020, respectively. The Company's most recent three and four years of income tax returns are open for audit by the Internal Revenue Service and Franchise Tax Board, respectively.

NOTE 6 – NOTE PAYABLE

In connection with the construction of the new shop building, the Company entered into a \$350,000 bank loan. The loan is for a term of 84 payments over 7 years commencing in June 2019, with an interest rate of 4.95%. The note is collateralized by the Company's real property. At December 31, 2020, the amount outstanding was \$280,030.

Future principal payments are as follows:

<u>Year</u>		
2022	\$	48,959
2023		51,438
2024		54,043
Thereafter		<u>79,018</u>
	\$	<u>233,458</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Line of Credit

The Company has a bank line of credit, providing borrowings up to \$50,000 with interest at the bank's prime rate plus 3%. During the years ended December 31, 2021 and 2020, no amounts were borrowed or outstanding. The Company expects that the line of credit will be continuously renewed at similar terms.

Self-Insurance

The Company maintains insurance, subject to applicable deductibles and policy exclusions, for various risks such as property damage, general liability, group health and workers' compensation claims. Additionally, the Company's self-insures for damage caused by an earthquake, flood and other risks.

Contingencies

The Company is subject to certain claims and assessments arising from the ordinary course of its operations. Management of the Company and its legal counsel will vigorously contest these claims. Management does not expect that the outcome of these matters will materially affect its financial position. A provision for loss was not provided in the accompanying financial statements.

Commitments

The Company is committed for construction contracts relating to its water distribution for approximately \$110,000.

NOTE 8 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were available to be issued, March 9, 2022. No material subsequent events required disclosure.

SUPPLEMENTARY SCHEDULES

LAS FLORES WATER COMPANY
OPERATING AND MAINTENANCE EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>SOURCE</u>	<u>PUMPING</u>	<u>DISTRIBUTION</u>
Labor		31,758	65,673
Purchased water	757,289		
Purification			4,535
Depreciation	24,654	16,294	103,584
Utilities		187,134	
Watermaster	7,376		
Monitoring and pipeline repairs		136	
Supplies and other			62,562
Total	<u>789,319</u>	<u>235,322</u>	<u>236,354</u>

LAS FLORES WATER COMPANYOVERHEAD EXPENSEFOR THE YEAR ENDED DECEMBER 31, 2021

	<u>COMMERCIAL</u>	<u>ADMINISTRATIVE</u>	<u>GENERAL</u>
	final	final	final
Labor	17,575	175,128	8,163
Labor, paid time off		29,764	
Director's fees		3,575	
Supplies		7,832	39,661
Insurance		144,216	
Professional & legal		36,869	
Taxes - Payroll, licenses and property		21,710	
Depreciation		285	33,964
Bank charges			450
Postage	8,832		
Pension		23,257	
Staff Development			331
Miscellaneous			16,135
Total	<u>26,407</u>	<u>442,636</u>	<u>98,704</u>