

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



**For the Years Ended
December 31, 2019 and 2018**

EGAN CPAs LP

LAS FLORES WATER COMPANY

DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

LAS FLORES WATER COMPANY

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	3
Statements of income	4
Statements of stockholders' equity	5
Statements of cash flows	6
Notes to financial statements	7
SUPPLEMENTARY SCHEDULES	
Schedules I - Operating and maintenance expenses	10
Schedules II - Overhead expenses	11

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Las Flores Water Company

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, 2019 and 2018, 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 Las Flores Water Company as of December 31, 2019 and 2018, 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules on pages 10 and 11 are presented for purposes of additional analysis and are 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 20, 2020

LAS FLORES WATER COMPANY
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,151,804	974,524
Accounts receivable, net	130,888	150,859
Materials & supplies	29,349	29,230
Prepaid expenses	<u>12,927</u>	<u>17,708</u>
Total current assets	<u>1,324,968</u>	<u>1,172,321</u>
UTILITY PLANT, net	2,101,820	1,919,003
OTHER ASSETS	<u>1,000</u>	<u>1,000</u>
	<u>\$ 3,427,788</u>	<u>3,092,324</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of note payable	\$ 44,353	-
Accounts payable	61,547	71,243
Accrued liabilities	<u>36,137</u>	<u>29,352</u>
Total current liabilities	<u>142,037</u>	<u>100,595</u>
NOTE PAYABLE, less current portion	<u>280,099</u>	-
Total liabilities	<u>422,136</u>	<u>100,595</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	<u>2,398,975</u>	<u>2,385,052</u>
Total stockholders' equity	<u>\$ 3,005,652</u>	<u>2,991,729</u>
	<u>\$ 3,427,788</u>	<u>3,092,324</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
REVENUES		
Water sales	\$ <u>1,729,888</u>	<u>1,865,980</u>
OPERATING AND MAINTENANCE EXPENSES		
Source of supply	723,737	725,162
Pumping & purification	169,429	166,803
Distribution	<u>265,960</u>	<u>274,614</u>
Total direct costs	<u>1,159,126</u>	<u>1,166,579</u>
Gross profit	<u>570,762</u>	<u>699,401</u>
OVERHEAD EXPENSES		
Commercial	20,784	21,731
Administrative	447,891	465,711
General	<u>99,349</u>	<u>113,269</u>
Total overhead expenses	<u>568,024</u>	<u>600,711</u>
Income before other income (expense) and provision for income taxes	<u>2,738</u>	<u>98,690</u>
INTEREST EXPENSE	(10,862)	-
LOSS ON DISPOSITION OF ASSETS	(10,575)	-
OTHER INCOME	32,798	29,109
INTEREST INCOME	<u>624</u>	<u>474</u>
	<u>11,985</u>	<u>29,583</u>
Income before provision for income taxes	<u>14,723</u>	<u>128,273</u>
PROVISION FOR INCOME TAXES	<u>800</u>	<u>800</u>
Net income	<u>\$ <u>13,923</u></u>	<u><u>127,473</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, 2019 AND 2018

	<u>NUMBER OF SHARES</u>	<u>AMOUNT</u>	<u>PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCE January 1, 2018	<u>3,556.50</u>	<u>366,675</u>	<u>240,002</u>	<u>2,257,579</u>	<u>2,864,256</u>
Net income	<u> </u>	<u> </u>	<u> </u>	<u>127,473</u>	<u>127,473</u>
BALANCE December 31, 2018	<u>3,556.50</u>	<u>\$ 366,675</u>	<u>240,002</u>	<u>2,385,052</u>	<u>2,991,729</u>
Net income	<u> </u>	<u> </u>	<u> </u>	<u>13,923</u>	<u>13,923</u>
BALANCE December 31, 2019	<u><u>3,556.50</u></u>	<u><u>\$ 366,675</u></u>	<u><u>240,002</u></u>	<u><u>2,398,975</u></u>	<u><u>3,005,652</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>13,923</u>	<u>127,473</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	167,482	157,386
Receivables	19,971	17,886
Materials and supplies	(119)	(11,952)
Prepaid expenses	4,781	(815)
Accounts payable	(9,696)	(34,614)
Accrued liabilities	6,785	(8,694)
Total adjustments	<u>189,204</u>	<u>119,197</u>
Net cash provided by operating activities	<u>203,127</u>	<u>246,670</u>
NET CASH USED BY INVESTING ACTIVITIES		
Purchases of utility plant	<u>(350,299)</u>	<u>(141,539)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Proceeds from note payable	350,000	-
Repayments on note payable	<u>(25,548)</u>	<u>-</u>
Net cash provided by financing activities	<u>324,452</u>	<u>-</u>
Net increase in cash and cash equivalents	177,280	105,131
CASH AND CASH EQUIVALENTS, Beginning of year	<u>974,524</u>	<u>869,393</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ <u>1,151,804</u></u>	<u><u>974,524</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u>10,862</u>	<u>-</u>
Income taxes	<u>\$ <u>800</u></u>	<u><u>800</u></u>

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

LAS FLORES WATER COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018.

(d) Accounts Receivable - Management has determined that no allowance for bad debts is required at December 31, 2019 and 2018.

(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 delivery to the customer.

Rf

(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, 2019 AND 2018

(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, 2019 and 2018, the contributions were \$23,307 and \$22,395, respectively.

NOTE 3 - UTILITY PLANT

Utility plant consists of:

	<u>2019</u>	<u>2018</u>
Land	\$ 36,236	36,236
Buildings	422,434	439,131
Maps and surveys & engineering	73,003	73,003
Wells, tunnels & reservoirs	1,100,705	785,749
Distribution system	2,534,798	2,488,879
Furniture & fixtures	10,871	10,871
Trucks	121,154	121,154
Equipment	<u>196,862</u>	<u>196,862</u>
Total utility plant	4,496,063	4,151,885
Less accumulated depreciation	<u>(2,394,243)</u>	<u>(2,232,882)</u>
Utility plant, net	\$ <u>2,101,820</u>	<u>1,919,003</u>

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, 2019 AND 2018

(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, 2019 and 2018, 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, 2019, the amount borrowed and outstanding was \$324,452.

Future principal payments are as follows:

<u>Year</u>		
2020	\$	44,353
2021		46,599
2022		48,959
2023		51,438
2024		54,043
Thereafter		79,060
	\$	<u>324,452</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, 2019 and 2018, 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.

NOTE 8 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date the financial statements were available to be issued, March 20, 2020.

SUPPLEMENTARY SCHEDULES

LAS FLORES WATER COMPANY
OPERATING AND MAINTENANCE EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>SOURCE</u>	<u>PUMPING</u>	<u>DISTRIBUTION</u>
Labor	\$	30,161	65,751
Purchased water	694,051		
Purification			4,891
Depreciation	24,618	9,736	101,727
Utilities		129,360	
Watermaster	5,068		
Supplies and other		172	93,591
Total	\$ <u>723,737</u>	<u>169,429</u>	<u>265,960</u>

LAS FLORES WATER COMPANY
OVERHEAD EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>COMMERCIAL</u>	<u>ADMINISTRATIVE</u>	<u>GENERAL</u>
Labor	\$ 10,462	177,574	32,696
Labor, paid time off		25,363	
Director's fees		3,800	
Supplies		7,088	2,308
Insurance		107,718	
Professional & legal		26,074	
Taxes - Payroll, licenses and property		57,805	
Depreciation		19,162	12,239
Bank charges			838
Postage	10,322		
Pension		23,307	
Staff Development			494
Repairs and maintenance			35,111
Miscellaneous			15,663
Total	<u>\$ 20,784</u>	<u>447,891</u>	<u>99,349</u>