



**AUDITED FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2013 and 2012**

**EGAN & EGAN**  
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

LINCOLN AVENUE WATER COMPANY

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Lincoln Avenue Water Company

**Introduction**

We have audited the balance sheets of Lincoln Avenue Water Company as of December 31, 2013 and 2012, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

**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 Lincoln Avenue Water Company as of December 31, 2013 and 2012 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information presented on page 11 for the years ended December 31, 2013 and 2012 are presented for purposes of additional analysis and is not required as part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Egan & Egan*

March 28, 2014

LINCOLN AVENUE WATER COMPANY

BALANCE SHEETS

DECEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,647,736	1,598,990
Accounts receivable	450,259	423,906
Other receivables	86,072	203,909
Material and supplies	124,650	148,745
Prepaid expenses	46,799	52,705
Total current assets	<u>2,355,516</u>	<u>2,428,255</u>
<b>Utility plant and equipment, net</b>	10,756,180	10,279,015
<b>Water rights, net</b>	8	8
<b>Other assets</b>	<u>2,420</u>	<u>4,650</u>
	<u>\$ 13,114,124</u>	<u>12,711,928</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current liabilities</b>		
Accounts payable	\$ 275,701	172,106
Accrued liabilities	155,270	153,185
Customer deposits	233,995	222,980
Other deposits	6,392	7,782
Total current liabilities	<u>671,358</u>	<u>556,053</u>
<b>Stockholders' equity</b>		
Common stock, appurtenant, 20,000 shares authorized	201,423	200,613
Common stock, nonappurtenant, 20,000 shares authorized	28,050	28,860
Retained earnings	12,213,293	11,926,402
Total stockholders' equity	<u>12,442,766</u>	<u>12,155,875</u>
	<u>\$ 13,114,124</u>	<u>12,711,928</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 2,986,191	2,938,605
Water service charge	1,560,204	1,555,542
Water quality cost reimbursement	817,185	803,155
Late fees and other charges	92,799	93,430
Other	<u>7,000</u>	<u>0</u>
Total operating revenues	<u>5,463,379</u>	<u>5,390,732</u>
<b>OPERATING EXPENSES</b>		
Distribution	3,374,147	3,216,424
General	716,687	707,883
Administrative	647,789	605,669
Depreciation	<u>529,702</u>	<u>460,937</u>
Total operating expenses	<u>5,268,325</u>	<u>4,990,913</u>
Income from operations	<u>195,054</u>	<u>399,819</u>
<b>OTHER REVENUES</b>		
Stock transfer and lost certificate fees	23,265	19,950
Rental income	1,200	1,200
Interest income	118	736
Miscellaneous income	<u>67,254</u>	<u>27,693</u>
Total other revenues	<u>91,837</u>	<u>49,579</u>
Net income	<u>\$ 286,891</u>	<u>449,398</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, 2013 AND 2012

	<u>Common Stock</u> <u>Appurtenant</u>		<u>Common Stock</u> <u>Non-Appurtenant</u>		<u>Retained</u> <u>Earnings</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	
At January 1, 2012	3,108	199,683	2,979	29,790	\$ 11,477,004
Share split					
Transfer of shares	93	930	(93)	(930)	
Net income					<u>449,398</u>
Balance, December 31, 2012	<u>3,201</u>	<u>200,613</u>	<u>2,886</u>	<u>28,860</u>	<u>11,926,402</u>
Share split					
Transfer of shares	81	810	(81)	(810)	
Net income					<u>286,891</u>
Balance, December 31, 2013	<u><u>3,282</u></u>	<u><u>201,423</u></u>	<u><u>2,805</u></u>	<u><u>28,050</u></u>	<u><u>\$ 12,213,293</u></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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ <u>286,891</u>	<u>449,398</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	529,702	460,937
Changes in assets and liabilities:		
Receivables	91,484	(36,569)
Materials and supplies	24,095	(71,114)
Prepaid expenses	5,906	(11,609)
Accounts payable	103,595	(127,412)
Accrued liabilities	2,085	(25,122)
Deposits	9,627	(6,339)
Total adjustments	<u>766,494</u>	<u>182,772</u>
Net cash provided by operating activities	<u>1,053,385</u>	<u>632,170</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
Purchases of utility plant	<u>(1,006,869)</u>	<u>(645,311)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Increase in other assets	2,230	1,242
Net increase (decrease) in cash	48,746	(11,899)
CASH, Beginning of year	<u>1,598,990</u>	<u>1,610,889</u>
CASH, End of year	<u>\$ <u>1,647,736</u></u>	<u>\$ <u>1,598,990</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>CASH PAID DURING THE YEAR FOR:</b>		
Interest	\$ <u>-</u>	<u>-</u>
Income taxes	\$ <u>800</u>	<u>800</u>

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

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations - The Lincoln Avenue Water Company (“the Company”) is a non-profit mutual water company 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 may be above FDIC insured limits per institution. At December 31, 2013, all Company cash is insured by the FDIC.

(c) Accounts Receivable - Management has determined that no allowance for bad debts is required at December 31, 2013 and 2012.

(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, 2013 AND 2012

(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. Estimated unbilled water revenue through December 31, 2013 and 2012 has been accrued at year-end.

(i) Reclassifications - The prior year's presentation contains reclassifications to conform to the current year's presentation.

(j) Water rights - Water rights of \$138,401 before amortization represent surface and groundwater rights.

(k) Fair value of financial instruments - The fair value of the Company's operating assets and liabilities approximate their carrying value.

(l) 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.

(m) 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.

(n) Subsequent events - The Company has evaluated subsequent events through the date at which the financial statements were available to be issued. No material subsequent events required disclosure

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2013</u>	<u>2012</u>
Land	\$ 16,897	16,897
Buildings and improvements	900,745	854,914
Reservoirs, roads and sumps	5,409,379	5,409,379
Pipelines	8,674,698	7,874,059
Treatment plants	896,617	896,617
Wells	570,502	570,502
Pumping, booster and chlorinator plants	513,254	513,254
Machinery and tools	647,630	404,955
Automobiles and trucks	381,280	374,289
Furniture, fixtures and equipment	370,013	341,326
In progress	140,108	258,328
Total property, plant and equipment	<u>18,521,123</u>	<u>17,514,520</u>
Less: accumulated depreciation	<u>(7,764,943)</u>	<u>(7,235,505)</u>
Net property, plant and equipment	<u>\$ 10,756,180</u>	<u>10,279,015</u>

The Company's surface water treatment plant transmission system sustained major damage from the Station Fire in 2009. The damage was exacerbated by the heavy rains and mud flows that followed. The system remained off line until all necessary repairs was made. All required repairs were completed by year end December 31, 2013. During this period the Company also updated or renewed all regulatory permits associated with the operation of the plant. The system is now operational, standing ready to treat surface water.

NOTE 3 - 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. During the year ended December 31, 2012, Company entered into an agreement with a local municipality to lease water rights in order to secure its access to water. The agreement required the Company to pay eight quarterly payments of \$275,000 through December 31, 2013.

The Company obtains the balance of its water from local deep wells. 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.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 4 - 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, 2013 and 2012, respectively.

NOTE 5 - 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, 2013 and 2012, the Company contributed \$45,000 and \$42,000 each year to the plan, 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 6 - 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.

The Company has certain operating leases for equipment requiring future lease payments as follows:

Year Ending <u>December 31,</u>	
2014	3,463
2015	<u>2,309</u>
	<u>\$ 5,772</u>

The Company will permit NASA JPL to install an extraction well on its existing parking lot near the office of the Company. NASA JPL will manage the construction activity. The Company may incur some cost of relocating employees during the construction period.

**SUPPLEMENTARY SCHEDULE**

## LINCOLN AVENUE WATER COMPANY

## DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>DISTRIBUTION SYSTEM EXPENSES</b>		
Auto and truck expense	\$ 45,630	61,988
Imported water purchases	629,253	546,662
Special water lease	1,008,333	1,100,000
Miscellaneous	3,814	6,995
Outside labor	79,047	84,675
Repairs	29,131	2,280
Salaries	452,040	459,540
Supplies	97,353	91,298
Utilities	420,083	302,358
Water quality compliance	609,463	560,628
Total distribution system expenses	<u>3,374,147</u>	<u>3,216,424</u>
<b>GENERAL EXPENSES</b>		
Business taxes and licenses	24,293	31,077
Directors' fees and expenses	44,300	42,926
Insurance	315,483	322,651
Legal and professional	31,660	22,768
Membership dues	18,096	11,170
Miscellaneous	(535)	(677)
Payroll taxes	72,392	73,942
Retirement plan	45,000	42,000
Property taxes	165,998	162,026
Total general expenses	<u>716,687</u>	<u>707,883</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Computer billing, hardware and software	15,928	20,030
Miscellaneous	42,631	45,445
Office outside services	16,904	33,615
Postage	31,791	27,187
Repairs and maintenance	6,252	4,780
Salaries, including paid time off	507,599	450,975
Supplies	5,493	5,803
Utilities	21,191	17,834
Total administrative expenses	<u>647,789</u>	<u>605,669</u>
Total	<u>\$ 4,738,623</u>	<u>4,529,976</u>