



AUDITED FINANCIAL STATEMENTS

**Years Ended
December 31, 2015 and 2014**

EGAN & EGAN
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2015 AND 2014

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

LINCOLN AVENUE WATER COMPANY

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance sheets	3
Statements of income	4
Statements of stockholders' equity	5
Statements of cash flows	6
Notes to financial statements	7
SUPPLEMENTARY SCHEDULE	
Schedules I - Distribution, General and Administrative expenses	11

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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, 2015 and 2014, 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, 2015 and 2014 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, 2015 and 2014 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

April 11, 2016

LINCOLN AVENUE WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash	\$ 1,184,660	1,796,044
Accounts receivable	398,577	395,056
Other receivables	265,027	117,065
Material and supplies	84,773	81,425
Prepaid expenses	41,191	33,877
Total current assets	<u>1,974,228</u>	<u>2,423,467</u>
Utility plant and equipment, net	12,644,995	11,611,041
Water rights, net	8	8
Other assets	<u>2,420</u>	<u>2,420</u>
	<u>\$ 14,621,651</u>	<u>14,036,936</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$ 252,881	268,426
Accrued liabilities	196,113	181,448
Customer deposits	248,705	243,097
Other deposits	6,394	5,194
Total current liabilities	<u>704,093</u>	<u>698,165</u>
Stockholders' equity		
Common stock, appurtenant, 20,000 shares authorized	219,593	215,913
Common stock, nonappurtenant, 20,000 shares authorized	26,680	27,560
Retained earnings	13,671,285	13,095,298
Total stockholders' equity	<u>13,917,558</u>	<u>13,338,771</u>
	<u>\$ 14,621,651</u>	<u>14,036,936</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Water sales	\$ 2,367,369	3,019,303
Water service charge	1,599,330	1,564,742
Water quality cost reimbursement	837,121	756,376
Late fees and other charges	79,659	85,917
Other	6,200	4,434
Total operating revenues	<u>4,889,679</u>	<u>5,430,772</u>
OPERATING EXPENSES		
Distribution	3,017,040	2,735,107
General	634,151	701,902
Administrative	708,310	679,435
Depreciation	535,851	464,506
Total operating expenses	<u>4,895,352</u>	<u>4,580,950</u>
(Loss) income from operations	<u>(5,673)</u>	<u>849,822</u>
OTHER REVENUES		
Stock transfer and lost certificate fees	23,775	19,350
Rental income	1,200	1,152
Interest income	108	108
Nonoperating revenue, reserved for catastrophic loss	132,862	-
Miscellaneous income, including property tax refunds	423,715	11,573
Total other revenues	<u>581,660</u>	<u>32,183</u>
Net income	<u>\$ 575,987</u>	<u>882,005</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, 2015 AND 2014

	<u>Common Stock</u> <u>Appurtenant</u>		<u>Common Stock</u> <u>Non-Appurtenant</u>		<u>Retained</u> <u>Earnings</u>	<u>Total</u> <u>Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>		
At January 1, 2014	3,282	201,423	2,805	28,050	12,213,293	12,442,766
Transfer of shares	49	490	(49)	(490)		
Sale of shares	5	14,000				
Net income					882,005	882,005
Balance, December 31, 2014	3,336	215,913	2,756	27,560	13,095,298	13,324,771
Transfer of shares	88	880	(88)	(880)		
Sale of shares	1	2,800				
Net income					575,987	575,987
Balance, December 31, 2015	<u>3,425</u>	<u>219,593</u>	<u>2,668</u>	<u>26,680</u>	<u>\$ 13,671,285</u>	<u>\$ 13,917,558</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>575,987</u>	<u>882,005</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	535,851	464,506
Changes in assets and liabilities:		
Receivables	(151,483)	24,210
Materials and supplies	(3,348)	43,225
Prepaid expenses	(7,314)	12,922
Accounts payable	(15,545)	(7,275)
Accrued liabilities	14,665	26,178
Deposits	6,806	7,904
Total adjustments	<u>379,632</u>	<u>571,670</u>
Net cash provided by operating activities	<u>955,619</u>	<u>1,453,675</u>
NET CASH USED BY INVESTING ACTIVITIES		
Purchases of utility plant	<u>(1,569,803)</u>	<u>(1,319,367)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES		
Sales of stock	<u>2,800</u>	<u>14,000</u>
Net (decrease) increase in cash	(611,384)	148,308
CASH, Beginning of year	<u>1,796,044</u>	<u>1,647,736</u>
CASH, End of year	<u>\$ <u>1,184,660</u></u>	<u>\$ <u>1,796,044</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	\$ <u>-</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.

LINCOLN AVENUE WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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 are above FDIC insured limits per institution.

Cash includes amounts collected and reserved for catastrophic losses.

(c) Accounts Receivable - Management has determined that no allowance for bad debts is required at December 31, 2015 and 2014.

(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, 2015 AND 2014

(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.

Water billing includes a monthly amount to fund a reserve in the event of an uninsured catastrophic loss. Amounts collected are restricted for these purposes and maintained in a separate bank account.

(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, 2015 AND 2014

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2015</u>	<u>2014</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,062,009	1,062,009
Reservoirs, roads and sumps	5,894,745	5,409,379
Rental Property	15,538	15,538
Pipelines	9,912,045	9,179,340
Treatment plants	950,873	950,873
Wells	570,502	570,502
Pumping, booster and chlorinator plants	646,161	620,003
Machinery and tools	653,541	653,541
Automobiles and trucks	502,602	422,638
Furniture, fixtures and equipment	1,009,386	549,813
In progress	108,649	322,611
Total property, plant and equipment	<u>21,342,948</u>	<u>19,773,144</u>
Less: accumulated depreciation	<u>(8,697,953)</u>	<u>(8,162,103)</u>
Net property, plant and equipment	<u>\$ 12,644,995</u>	<u>11,611,041</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. However, the major feeder pipelines required replacement. Until these pipelines are completed, the surface water treatment plant is idle. 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 when sufficient water flow becomes available.

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.

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, 2015 AND 2014

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, 2015 and 2014, respectively. The Federal and state tax returns are open for examination for the preceding three and four years, 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, 2015 and 2014, the Company contributed \$50,000 and \$47,000 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.

During the year ended December 31, 2014, NASA JPL commenced the installation of a new extraction well on the Company's property near the office complex. NASA JPL is managing the construction activity. The Company does not anticipate incurring any material expense related to this project.

SUPPLEMENTARY SCHEDULE

LINCOLN AVENUE WATER COMPANY

DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
DISTRIBUTION SYSTEM EXPENSES		
Auto and truck expense	\$ 61,802	52,753
Imported water purchases	675,398	849,349
Special water lease	687,500	203,250
Miscellaneous	4,688	2,403
Outside labor	118,825	102,667
Repairs	12,146	2,096
Salaries	465,699	436,762
Supplies	148,002	163,357
Utilities	363,578	414,654
Water quality compliance	479,402	507,816
Total distribution system expenses	<u>\$ 3,017,040</u>	<u>2,735,107</u>
GENERAL EXPENSES		
Business taxes and licenses	\$ 31,696	27,852
Directors' fees and expenses	44,684	38,813
Insurance	255,125	277,059
Legal and professional	53,510	40,948
Membership dues	26,412	27,194
Miscellaneous	(1,466)	(247)
Payroll taxes	76,562	73,695
Retirement plan	50,000	47,000
Property taxes	97,628	169,588
Total general expenses	<u>\$ 634,151</u>	<u>701,902</u>
ADMINISTRATIVE EXPENSES		
Computer billing, hardware and software	\$ 29,242	24,743
Miscellaneous, primarily bank fees	46,967	50,456
Office outside services	21,027	14,380
Postage	35,142	33,377
Repairs and maintenance	9,106	6,349
Salaries, including paid time off	529,232	518,231
Supplies	6,484	5,366
Utilities	31,110	26,533
Total administrative expenses	<u>\$ 708,310</u>	<u>679,435</u>