



## **AUDITED FINANCIAL STATEMENTS**

**Years Ended  
December 31, 2016 and 2015**

**EGAN & EGAN**  
Certified Public Accountants

LINCOLN AVENUE WATER COMPANY

DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015 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, 2016 and 2015 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 21, 2017

LINCOLN AVENUE WATER COMPANY

BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,525,952	1,184,660
Cash, designated	200,330	
	<u>1,726,282</u>	<u>1,184,660</u>
Accounts receivable	414,368	398,577
Other receivables	101,006	265,027
Material and supplies	86,750	84,773
Prepaid expenses	49,183	43,611
Total current assets	<u>2,377,589</u>	<u>1,976,648</u>
<b>Utility plant and equipment, net</b>	12,799,774	12,644,995
<b>Water rights, net</b>	<u>8</u>	<u>8</u>
	<u>\$ 15,177,371</u>	<u>14,621,651</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 134,901	252,881
Accrued liabilities	209,345	196,113
Customer deposits	257,265	248,705
Other deposits	5,617	6,394
Total current liabilities	<u>607,128</u>	<u>704,093</u>
<b>Stockholders' equity</b>		
Common stock, appurtenant, 20,000 shares authorized	217,903	219,593
Common stock, nonappurtenant, 20,000 shares authorized	25,720	26,680
Retained earnings	14,326,620	13,671,285
Total stockholders' equity	<u>14,570,243</u>	<u>13,917,558</u>
	<u>\$ 15,177,371</u>	<u>14,621,651</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 2,532,445	2,367,369
Water service charge	1,645,479	1,599,330
Water quality cost reimbursement	627,241	837,121
Late fees and other charges	87,592	79,659
Other	13,750	6,200
Total operating revenues	<u>4,906,507</u>	<u>4,889,679</u>
<b>OPERATING EXPENSES</b>		
Distribution	2,738,209	3,017,040
General	570,047	634,151
Administrative	717,550	708,310
Depreciation	568,561	535,851
Total operating expenses	<u>4,594,367</u>	<u>4,895,352</u>
Income (loss) from operations	<u>312,140</u>	<u>(5,673)</u>
<b>OTHER REVENUES</b>		
Stock transfer and lost certificate fees	21,450	23,775
Rental income	1,200	1,200
Interest income	439	108
Nonoperating revenue, reserve for catastrophic loss	199,216	132,862
Miscellaneous income, including property tax refunds	120,890	423,715
Total other revenues	<u>343,195</u>	<u>581,660</u>
Net income	<u>\$ 655,335</u>	<u>575,987</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, 2016 AND 2015

	<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, 2015	3,336	215,913	2,756	27,560	13,095,298	13,338,771
Share split						
Transfer of shares	88	880	(88)	(880)		
Sale of shares	1	2,800				2,800
Net income					<u>575,987</u>	<u>575,987</u>
Balance, December 31, 2015	3,425	219,593	2,668	26,680	13,671,285	13,917,558
Transfer of shares	96	960	(96)	(960)		
Purchase of shares	(1)	(2,650)				(2,650)
Net income					<u>655,335</u>	<u>655,335</u>
Balance, December 31, 2016	<u>3,520</u>	<u>217,903</u>	<u>2,572</u>	<u>25,720</u>	<u>\$ 14,326,620</u>	<u>\$ 14,570,243</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ <u>655,335</u>	<u>575,987</u>
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	568,561	535,851
Changes in assets and liabilities:		
Receivables	148,230	(151,483)
Materials and supplies	(1,977)	(3,348)
Prepaid expenses	(5,572)	(7,314)
Accounts payable	(117,977)	(15,545)
Accrued liabilities	13,232	14,665
Deposits	7,781	6,806
Total adjustments	<u>612,278</u>	<u>379,632</u>
Net cash provided by operating activities	<u>1,267,613</u>	<u>955,619</u>
NET CASH USED BY INVESTING ACTIVITIES		
Purchases of utility plant	<u>(723,341)</u>	<u>(1,569,803)</u>
Net increase (decrease) in cash	541,622	(611,384)
CASH, Beginning of year	<u>1,184,660</u>	<u>1,796,044</u>
CASH, End of year	<u>\$ <u>1,726,282</u></u>	<u><u>1,184,660</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, 2016 AND 2015

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, 2016 and 2015.

(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, 2016 AND 2015

(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, 2016 AND 2015

NOTE 2 - UTILITY PLANT

Utility plant consists of:

	<u>2016</u>	<u>2015</u>
Land	\$ 16,897	16,897
Buildings and improvements	1,087,617	1,062,009
Reservoirs, roads and sumps	5,924,263	5,894,745
Rental Property	15,538	15,538
Pipelines	10,240,920	9,912,045
Treatment plants	950,873	950,873
Wells	570,502	570,502
Pumping, booster and chlorinator plants	757,099	646,161
Machinery and tools	709,334	653,541
Automobiles and trucks	445,144	502,602
Furniture, fixtures and equipment	1,014,785	1,009,386
In progress	279,934	108,649
Total property, plant and equipment	<u>22,012,906</u>	<u>21,342,948</u>
Less: accumulated depreciation	<u>(9,213,132)</u>	<u>(8,697,953)</u>
Net property, plant and equipment	<u>\$ 12,799,774</u>	<u>12,644,995</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, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, the Company contributed \$58,000 and \$50,000 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.

**SUPPLEMENTARY SCHEDULE**

## LINCOLN AVENUE WATER COMPANY

DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>DISTRIBUTION SYSTEM EXPENSES</b>		
Auto and truck expense	\$ 47,967	61,802
Imported water purchases	697,467	675,398
Special water lease	507,583	687,500
Miscellaneous	7,619	4,688
Outside labor	116,006	118,825
Repairs	16,828	12,146
Salaries	505,500	465,699
Supplies	78,925	148,002
Utilities	333,979	363,578
Water quality compliance	426,335	479,402
Total distribution system expenses	<u>\$ 2,738,209</u>	<u>3,017,040</u>
<b>GENERAL EXPENSES</b>		
Business taxes and licenses	\$ 37,255	31,696
Directors' fees and expenses	45,594	44,684
Insurance	281,716	255,125
Legal and professional	43,670	53,510
Membership dues	15,145	26,412
Miscellaneous	(342)	(1,466)
Payroll taxes	79,629	76,562
Retirement plan	58,000	50,000
Property taxes	9,380	97,628
Total general expenses	<u>\$ 570,047</u>	<u>634,151</u>
<b>ADMINISTRATIVE EXPENSES</b>		
Computer billing, hardware and software	\$ 31,495	29,242
Miscellaneous, primarily bank fees	47,243	46,967
Office outside services	29,286	21,027
Postage	34,374	35,142
Repairs and maintenance	10,235	9,106
Salaries, including paid time off	530,494	529,232
Supplies	5,985	6,484
Utilities	28,438	31,110
Total administrative expenses	<u>\$ 717,550</u>	<u>708,310</u>