FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

For the Years Ended
December 31, 2024 and 2023

EGAN & EGAN

LAS FLORES WATER COMPANY

DECEMBER 31, 2024 AND 2023

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, 2024 and 2023, 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, 2024 and 2023, 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.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the Company sustained losses due to the Eaton Canyon Wildfire. Our opinion is not modified with respect to that matter.

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 11 to 12 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 & Egan

September 29, 2025

LAS FLORES WATER COMPANY

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2024 AND 2023

		2024	2023
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$	870,462	1,162,140
Accounts receivable, net		243,983	188,316
Materials & supplies		24,087	24,087
Prepaid expenses		11,128	12,797
Total current assets		1,149,660	1,387,340
UTILITY PLANT, net		2,120,521	2,048,623
OTHER ASSETS		1,000	1,000
	$	3,271,181	3,436,963
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current portion of note payable	$	56,776	54,040
Installment contract payable		111,371	-
Accounts payable		40,046	6,956
Accrued liabilities		268,457	42,716
Total current liabilities		476,650	103,712
NOTE PAYABLE, less current portion		22,425	79,136
Total liabilities		499,075	182,848
STOCKHOLDERS' EQUITY			
Capital stock - authorized			
5,000 shares, $100 par value		366,675	366,675
Paid in capital		240,002	240,002
Retained earnings		2,165,429	2,647,438
Total stockholders' equity		2,772,106	3,254,115
	$	3,271,181	3,436,963

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

LAS FLORES WATER COMPANY

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
REVENUES		
Water sales	$ 2,031,479	1,734,237
Leased water sales	203,400	-
Total revenues	2,234,879	1,734,237
OPERATING AND MAINTENANCE EXPENSES		
Source of supply	1,188,706	680,134
Pumping & purification	236,101	136,653
Distribution	170,317	141,520
Total direct costs	1,595,124	958,307
Gross profit	639,755	775,930
OVERHEAD EXPENSES		
Commercial	29,303	37,948
Administrative	655,231	443,823
General	170,544	156,433
Depreciation	173,475	145,765
Total overhead expenses	1,028,553	783,969
Loss before other income (expense) and provision for income taxes	(388,798)	(8,039)
OTHER INCOME (EXPENSE)		
Interest expense	(5,442)	(8,058)
Other (expense) income	(91,485)	55,610
Interest income	4,516	241
	(92,411)	47,793
(Loss) income before provision for income taxes	(481,209)	39,754
PROVISION FOR INCOME TAXES	800	800
Net (loss) income	$ (482,009)	38,954

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, 2024 AND 2023

	NUMBER OF SHARES	AMOUNT	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE January 1, 2023	3,556.50	$ 366,675	240,002	2,608,484	3,215,161
Net income				38,954	38,954
BALANCE December 31, 2023	3,556.50	366,675	240,002	2,647,438	3,254,115
Net loss				(482,009)	(482,009)
BALANCE December 31, 2024	3,556.50	$ 366,675	240,002	2,165,429	2,772,106

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, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (482,009)	38,954
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation	173,475	145,765
Changes in assets and liabilities:		
Receivables	(55,667)	(17,414)
Materials and supplies	-	2,291
Prepaid expenses	1,669	(1,273)
Accounts payable	33,090	(76,034)
Accrued liabilities	225,741	1,496
Total adjustments	378,308	54,831
Net cash (used) provided by operating activities	(103,701)	93,785
NET CASH USED BY INVESTING ACTIVITIES		
Purchases of utility plant	(245,373)	(15,899)
NET CASH USED BY FINANCING ACTIVITIES		
Proceeds from note payable	136,429	-
Payments of notes payable	(79,033)	(51,416)
Net cash provided (used) by financing activities	57,396	(51,416)
Net (decrease) increase in cash and cash equivalents	(291,678)	26,470
CASH AND CASH EQUIVALENTS, Beginning of year	1,162,140	1,135,670
CASH AND CASH EQUIVALENTS, End of year	$ 870,462	1,162,140
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
Interest	$ 5,442	8,085
Income taxes	$ 800	800

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

LAS FLORES WATER COMPANY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

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, 2024 and 2023.

(d) Accounts Receivable - Management has determined that no allowance for credit losses is required at December 31, 2024 and 2023 as balances become a lien on the member's property. The stock certificate is collateral for the accounts receivable.

(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:

	Years
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. Water lease rights are recognized in accordance with the lease period.

(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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

(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.

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, 2024 and 2023, the contributions were $27,096 and $21,065, respectively.

NOTE 3 - UTILITY PLANT

Utility plant consists of:

		2024	2023
Land	$	36,236	36,236
Buildings		842,530	842,530
Maps and surveys & engineering		73,003	73,003
Wells, tunnels & reservoirs		785,750	785,750
Distribution system		3,128,981	3,065,176
Furniture & fixtures		6,415	10,871
Trucks		185,049	121,154
Equipment		335,285	196,863
Construction in progress		-	-
Total utility plant		5,393,249	5,131,583
Less accumulated depreciation		(3,272,728)	(3,082,960)
Utility plant, net	$	2,120,521	2,048,623

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.

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, 2024 and 2023, 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.

Future principal payments are as follows:

Year		
2025	$	56,776
2026		22,425
	$	79,201

The Company entered into an installment contract for $136,429 to acquire a case loader backhoe. The backhoe was destroyed by the Eaton Canyon Fire. The insurance proceeds paid the loan during 2025. Accordingly, the loan was classified as a current liability.

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, 2024 and 2023, 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. The Company establishes accruals for legal matters when potential loss associated with an action becomes probable and the amount of loss can be reasonably estimated. The litigation accrual is recorded to other (expense) accrual.

NOTE 8 – SUBSEQUENT EVENTS AND LIQUIDITY

The Company has evaluated subsequent events through the date the financial statements were available to be issued, September 29, 2025. The Company's facilities were partially destroyed by the Eaton Canyon Wildfire. Approximately 90% of the stockholder's of the Company suffered total destruction of the properties the Company served. Accordingly, the ability to provide water was seriously impacted and ongoing revenues from the provision of water have been curtailed.

The Company has determined that insurance proceeds will be insufficient to replace its destroyed facilities. They Bylaws of the Company provide for assessments which can be levied by the Board of Directors for the installation, depreciation, maintenance, betterment and operation of the pipelines and water system owned by the Company.

The Company has incurred a significant loss of its revenue base. The Company will require additional financing from either governmental grants or assessments or its stockholders. Without the financing a substantial doubt regarding the Company's ability to continue as a going concern exists.

There can be no assurances, however, that adequate additional funding will be available on favorable terms, or at all. If such funds are not available in the future, the Company may be required to terminate its operations, all of which could have a material adverse effe1ct on the Company.

The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SUPPLEMENTARY SCHEDULES

SCHEDULE I

LAS FLORES WATER COMPANY

OPERATING AND MAINTENANCE EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2024

	SOURCE	PUMPING	DISTRIBUTION
Labor	$	36,199	69,287
Purchased water	1,175,304		
Purification			3,264
Utilities		183,608	
Watermaster	12,986		
Monitoring and pipeline repairs		16,294	
Supplies and other	416		97,766
Total	$ 1,188,706	236,101	170,317

SCHEDULE II

LAS FLORES WATER COMPANY

OVERHEAD EXPENSE

FOR THE YEAR ENDED DECEMBER 31, 2023

		COMMERCIAL	ADMINISTRATIVE	GENERAL
Labor	$	19,476	196,610	70,510
Labor, paid time off			41,122	
Director's fees			3,800	
Supplies			8,020	11,133
Insurance			164,891	
Professional & legal			170,493	
Taxes - Payroll, licenses and property			43,199	
Bank charges				1,432
Postage		9,827		
Pension			27,096	
Repairs and maintenance				56,051
Miscellaneous				31,418
Total	$	29,303	655,231	170,544