



**California Public Utilities Commission**  
*Division of Water and Audits*

**Financial Audit of**  
**Bass Lake Water Company**  
**U-190-W**

**Financial Statements**

**For the Years Ended December 31, 2010, 2009 and 2008**

**December 5, 2012**



## **Acknowledgement**

**The following Commission Staff contributed to the completion of this audit report:  
Kayode Kajopaiye, Bernard Ayanruoh, Raymond Yin, and Fred Tamse.**

**Audit of Financial Statements of  
Bass Lake Water Company  
U-190-W  
For the Years Ended December 31, 2010, 2009 and 2008**

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## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



## Independent Auditor's Report

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) has audited the accompanying balance sheets of Bass Lake Water Company (BLWC) as of December 31, 2010, 2009 and 2008, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. BLWC's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2010, 2009 and 2008 annual reports filed with the Commission.
2. Conformity with accounting requirements of the Commission as set forth in the Uniform System of Accounts for Class B, C, and D water utilities, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

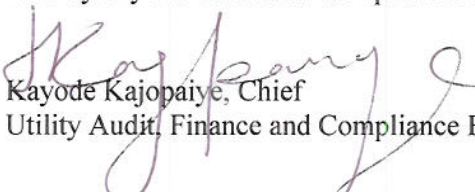
The responsibility of the UAFCB is to express an opinion on BLWC's financial statements as a whole based on its audit.

The audit was conducted 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. Accordingly, the audit included examining, on a test basis, evidence concerning BLWC's compliance with the Commission's accounting and reporting requirements and performing such procedures as we considered necessary in the circumstances. The UAFCB believes that its audit provides a reasonable basis for an opinion.

In our opinion, except for the balances of Accumulated Depreciation of Water Plant in Services as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Bass Lake Water Company as of December 31, 2010, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

BLWC's recorded annual accumulated depreciation balances were based on the accelerated method of depreciation specified by the United States Internal Revenue Service (IRS). However, BLWC's Annual Reports accumulated depreciation balances were based on California's straight-line depreciation method. Because of the inconsistency in the method of depreciation, comparison of accumulated depreciation between the General Ledger and Annual Report created a difference of \$95,787 as of December 31, 2010. Due to the lack of sufficient supporting documentation on the historical depreciation of Water Plant in Service, the UAFCB could not attest to the differences and balances of Accumulated Depreciation of Water Plant in Service as of December 31, 2010, 2009 and 2008.

The report is intended solely for the information and use by the Commission and BLWC. It should not be used by anyone other than the specified parties.

  
Kayode Kajopaiye, Chief  
Utility Audit, Finance and Compliance Branch



**Audit of Financial Statements of  
Bass Lake Water Company  
U-190-W  
For the Years Ended December 31, 2010, 2009 and 2008**

**Balance Sheets**

	As of December 31 for the Years		
	2010	2009	2008
<b>ASSETS</b>			
<b>UTILITY PLANT</b>			
Water Plant in Service (Notes 1 and 5)	\$2,145,702	\$2,125,359	\$2,674,390
Accumulated Depreciation of Water Plant (Notes 1 and 5)	(826,319)	(773,754)	(1,138,955)
Construction Work in Progress (Note 1)	<u>235,048</u>	<u>229,454</u>	<u>206,854</u>
Net Utility Plant	1,554,431	1,581,059	1,742,289
<b>CURRENT AND ACCRUED ASSETS</b>			
Cash	153,200	113,356	39,820
Special Accounts (Note 1)	20,992	0	175,336
Accounts Receivable – Customers	178,646	160,317	214,184
Materials and Supplies	4,000	4,000	4,000
Other Current Assets	<u>40,029</u>	<u>25,667</u>	<u>29,476</u>
Total Current and Accrued Assets	<u>396,867</u>	<u>303,340</u>	<u>462,816</u>
<b>Total Assets and Deferred Charges</b>	<u>\$1,951,298</u>	<u>\$1,884,399</u>	<u>\$2,205,105</u>
<b>CORPORATE CAPITAL AND SURPLUS</b>			
Common Stock	\$ 49,100	\$ 49,100	\$ 49,100
Retained Earnings	(641,970)	(690,359)	(559,505)
Other Paid-In Capital (Note 3)	<u>1,219,177</u>	<u>1,030,900</u>	<u>1,030,900</u>
Total Corporate Capital and Retained Earnings	626,307	389,641	520,495
<b>LONG-TERM DEBT</b>			
Long-Term Debt (Note 2)	566,878	14,103	148,446
Advances from Associated Companies	0	727,603	776,937
<b>CURRENT AND ACCRUED LIABILITIES</b>			
Accounts Payable	31,701	28,274	24,196
Short-term Notes Payable	0	0	21,348
Accrued Interest	0	0	26,251
Accrued Taxes	<u>461</u>	<u>0</u>	<u>0</u>
Total Current and Accrued Liabilities	32,162	28,274	71,795
<b>DEFERRED CREDITS</b>			
Contribution In Aid of Construction	2,000	2,000	0
Advances for Construction (Note 4)	362,749	374,113	385,476
Accumulated Depreciation – Non-utility Property	1,471	0	0
Other Credits	<u>359,731</u>	<u>348,665</u>	<u>301,956</u>
Net Deferred Credits	<u>725,951</u>	<u>724,778</u>	<u>687,432</u>
<b>Total Capital, Liabilities &amp; Other Credits</b>	<u>\$1,951,298</u>	<u>\$1,884,399</u>	<u>\$2,205,105</u>

*(The accompanying notes are an integral part of these Financial Statements)*

## Income Statements

	For the Years Ended		
	2010	2009	2008
<b>OPERATING REVENUES</b>			
Unmetered Water Revenue (Note 1)	\$654,702	\$636,926	\$527,156
Metered Water Revenue (Note 1)	71,252	70,635	60,213
Other Water Revenue (Note 1)	<u>5,737</u>	<u>505</u>	<u>150</u>
<b>Total Operating Revenues</b>	<b>731,691</b>	<b>708,066</b>	<b>587,519</b>
<b>OPERATING EXPENSES</b>			
<b>Plant Operation and Maintenance Expenses</b>			
Power	17,231	16,457	16,764
Other Volume Related Expenses	29,673	26,733	31,047
Employee Labor	211,300	212,441	177,429
Materials	21,758	28,370	22,564
Contract Work	73,955	74,603	86,265
Transportation Expenses	<u>13,750</u>	<u>10,387</u>	<u>13,129</u>
<b>Total Plant Operation and Maintenance Expense</b>	<b>367,667</b>	<b>368,991</b>	<b>347,198</b>
<b>Administrative and General Expenses</b>			
Office Salaries	0	0	0
Management Salaries	36,923	48,923	33,231
Employee Pensions and Benefits	33,562	31,879	30,287
Uncollectible Accounts Expense	276	764	510
Office Services and Rentals	18,245	17,926	16,418
Office Supplies and Expenses	8,951	12,295	11,112
Professional Services (Note 1)	18,000	17,500	16,800
Insurance	57,376	50,998	24,704
Regulatory Commission Expense	2,249	8,570	3,926
General Expenses	<u>10,998</u>	<u>18,986</u>	<u>9,129</u>
<b>Total Administrative and General Expenses</b>	<b>186,580</b>	<b>207,841</b>	<b>146,117</b>
Expenses Capitalized	<u>0</u>	<u>0</u>	<u>0</u>
<b>Net Administrative and General Expenses</b>	<b>186,580</b>	<b>207,841</b>	<b>146,117</b>
<b>Total Operating Expenses</b>	<b>554,247</b>	<b>576,832</b>	<b>493,315</b>
Depreciation Expense (Note 1)	54,819	54,439	54,381
SDWBA Loan Amortization Expense (Note 5)	0	5,277	15,828
Taxes Other Than Income Taxes	31,687	33,071	25,497
State Corporate Income Tax Expense	<u>800</u>	<u>800</u>	<u>800</u>
<b>Total Operating Revenue Deductions</b>	<b>641,553</b>	<b>670,419</b>	<b>589,821</b>
<b>Total Utility Operating Income</b>	<b>90,138</b>	<b>37,647</b>	<b>(2,302)</b>
Total Other Income and Deductions	<u>(40,278)</u>	<u>(22,871)</u>	<u>(18,566)</u>
<b>Net Income</b>	<b>\$ <u>49,860</u></b>	<b>\$ <u>14,776</u></b>	<b>\$ <u>(20,868)</u></b>

*(The accompanying notes are an integral part of these Financial Statements)*

## Statements of Retained Earnings

	For the Year of		
	2010	2009	2008
<b>Retained Earnings, Beginning of Year</b>	\$(690,359)	\$(559,505)	\$(539,118)
<b>CREDITS:</b>			
Net Income	49,860	14,776	0
Other	<u>0</u>	<u>(161,078)</u>	<u>481</u>
<b>Total Credits</b>	49,860	(146,302)	481
<b>DEBITS:</b>			
Net Loss	0	0	(20,868)
Other	<u>(1,471)</u>	<u>15,448</u>	<u>0</u>
<b>Total Debits</b>	(1,471)	15,448	(20,868)
<b>Retained Earnings, End of Year</b>	<u>\$(641,970)</u>	<u>\$(690,359)</u>	<u>\$(559,505)</u>

*(The accompanying notes are an integral part of these Financial Statements)*



## Statements of Cash Flows

	For the Year of		
	2010	2009	2008
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Net Income (Loss)	\$49,860	\$14,776	\$(20,868)
<b>Adjustments to Reconcile Net Income to Cash Provided by Operating Activities</b>			
Depreciation	52,565	54,439	54,381
Depreciation – Non-Utility Properties	1,471	0	0
SDWBA Loan Amortization Expense	0	5,277	15,828
Adjustment to SDWBA Loan amortization Expense	0	10,553	0
Decrease (Increase) in Accounts Receivable	(18,329)	53,867	(204,736)
Decrease (Increase) in Special Accounts	(20,992)	175,336	(20,014)
Decrease (Increase) in Other Current Assets	(14,362)	3,809	(17,070)
Increase (Decrease) in Accounts Payable	3,427	4,078	(4,731)
Increase (Decrease) in Accrued Taxes	461	0	0
Increase (Decrease) in Other Credits	11,066	46,709	301,475
Increase (Decrease) in Advances from Associated Companies	(727,603)	(49,334)	393,008
Increase (Decrease) in Advances from Construction	(11,364)	(11,363)	(11,363)
<b>Net Cash Provided by Operating Activities</b>	<u>(723,660)</u>	<u>293,371</u>	<u>506,778</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net Plant Additions	(20,343)	(5,006)	(326,146)
Increase (Decrease) in Construction Work in Progress	(5,594)	(22,600)	(114,636)
Increase (Decrease) in Contributions In Aid of Construction	0	2,000	0
<b>Net Cash Used for Investing Activities</b>	<u>(25,937)</u>	<u>(25,606)</u>	<u>(440,782)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase (Decrease) in Accrued Interest	0	(26,251)	(3,296)
Increase (Decrease) in Long -Term Debt	552,775	(134,343)	(28,182)
Increase (Decrease) in Short -Term Debt	0	(21,348)	13,524
Increase (Decrease) in Paid-In Capital	188,277	0	0
Adjustment to Retained Earnings	(1,471)	(27,063)	481
<b>Net Cash Used for Financing Activities</b>	<u>739,581</u>	<u>(209,005)</u>	<u>(17,473)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	39,844	73,536	27,655
<b>CASH AT BEGINNING OF YEAR</b>	<u>113,356</u>	<u>39,820</u>	<u>12,165</u>
<b>CASH AT END OF YEAR</b>	<u>\$153,200</u>	<u>\$113,356</u>	<u>\$ 39,820</u>

*(The accompanying notes are an integral part of these Financial Statements)*



## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Bass Lake Water Company (BLWC) was incorporated in the State of California on March 2, 1959. BLWC is a Class C water utility and serves approximately 955 flat rate, 44 metered customers, and 59 fire hydrants in Mt. Diablo Base and Meridian-Madera County in California.

BLWC has prepared the accompanying Balance Sheets, Income Statements, and Statements of Retained Earnings on the basis of accounting set forth in the Uniform System of Accounts for Class B, C, and D Water Utilities adopted and prescribed by the California Public Utilities Commission (Commission), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis of accounting, certain transactions, such as adjustments of certain operating expenses, revenues and depreciation related to prior years are recorded directly in the statements of retained earnings. Accounting principles generally accepted in the United States of America would require such transactions to be recorded in the income statements. A Statement of Cash Flows is not required by the Commission when BLWC files its annual reports with the Commission. Therefore, the accompanying Statements of Cash Flows were compiled by the UAFCB based on the financial information in BLWC's Balance Sheets and Income Statements.

#### (a) Utility Plant

Utility plant is recorded at original cost when it is first constructed or purchased. Retired utility plant is removed from utility plant accounts at cost and charged against accumulated depreciation.

#### (b) Depreciation & Accumulated Depreciation

Depreciation expenses reflected in BLWC's General Ledger (G/L) is computed using an accelerated method specified by the United States Internal Revenue Service (IRS). BLWC developed an annual depreciation schedule to support the depreciation expenses using straight-line composite rates to depreciate all of its water plant assets for ratemaking purposes and for reporting the depreciation expense in its Annual Reports filed with the Commission. The depreciation average composite rate was 2.55% for Years 2010, 2009 and 2008.

BLWC's accumulated depreciation recorded in its G/L does not agree with those reported in the Annual Reports filed with the Commission due to the differences in depreciation methods used as discussed in the preceding paragraph. Actual difference between the recorded accumulated depreciation in the G/L and the Annual Report is \$95,787 as of December 31, 2010.

**(c) Construction Work in Progress (CWIP)**

BLWC has three (3) CWIP projects with total balance of \$235,048 as of December 31, 2010. The projects relate to the following:

CWIP Water Rights	\$26,377
CWIP New Filter Plant	189,536
CWP Pines Townhome Well	<u>19,135</u>
Total	<u>\$235,048</u>

**(d) Special Accounts**

The special account balances represent the cash balances for special surcharges collected by BLWC for the purpose of funding the repayments of the Safe Drinking Water Bond Act (SDWBA) loan. BLWC opened a separate bank account with Yosemite Bank for SDWBA collections.

**(e) Revenues**

BLWC has metered and unmetered (i.e., flat rate) customers. Metered customers are billed for their usage on a quarterly basis. Unmetered customers are billed on a semi-annual basis. BLWC computes its water revenues based on tariffs approved by the Commission.

**(f) Professional Service Expense**

This account represents the expenses reclassified from Office Salaries relating to accounting services rendered by two employees of Bass Lake Realty. UAFCB made the reclassification in BLWC's Income Statements for the years 2010, 2009 and 2008 to properly reflect the nature of such expenses. UAFCB advised BLWC to start using this account in 2012 to properly record the Professional Service expenses.

**(2) Long-term Debts**

As of December 31, 2010, BLWC has the following long-term debts:

Description	Outstanding Balance As of December 31, 2010
Notes Payable – January 2010 – Plumas Bank - Loan A	\$321,274
Notes Payable – January 2010 – Plumas Bank - Loan B	235,081
Notes Payable – 2006 Ford F350	<u>10,523</u>
Total Long-Term Debt	<u>\$566,878</u>

**(a) January 2010 Plumas Bank Loan A**

On January 22, 2010, BLWC obtained a loan from Plumas Bank as authorized by the Commission's Resolution W-4800, dated October 29, 2009, to repay BLWC's parent company for funds advanced in 2001. The term of the note is for 10 years maturing on



January 22, 2020, with an original loan amount of \$344,593 at an annual interest rate of 7.190%.

**(b) January 2010 Plumas Bank Loan B**

On January 22, 2010, BLWC obtained a loan from Plumas Bank as authorized by the Commission's Resolution W-4800, dated October 29, 2009, to repay BLWC's parent company for funds advanced in 2001. The term of the note is for 15 years maturing on January 22, 2025, with an original loan amount of \$244,067 at an annual interest rate of 7.690%.

**(c) Notes Payable – 2006 Ford F350**

As of December 31, 2010, BLWC has an outstanding balance of \$10,523 notes payable to Ford Credit for a 2006 Ford F350. The loan was originated on July 18, 2008, with an amount of \$18,704. This loan will mature on August 1, 2013.

**(3) Other Paid-In Capital**

Included in this account were loans from The Pines Resorts of California (Pines Resorts), the parent company of BLWC, related to capital projects and operations that were converted to Other Paid-In Capital. Analysis of the account revealed that there were two long-term notes payable to Pines Resorts. The first long-term note payable amounting to \$852,827 was never re-paid to Pines Resorts. Instead, it was converted to and recorded as "Other Paid-In Capital" in BLWC's G/L.

In addition, BLWC borrowed from Pines Resorts \$776,937 for capital projects and operations supported by a second long-term note payable. In 2009, BLWC requested the Commission's authorization to borrow \$588,660 from Plumas Bank to repay part of the note payable to Pines Resorts. By Resolution W-4800, dated October 29, 2009, the Commission approved BLWC's request and authorized the borrowing of \$588,660 to repay Pines Resorts (See Notes 2(a) and 2(b) above). Because the amount approved by the Commission was smaller than the debt to Pines Resorts, the difference of \$188,277 was recorded as "Other Paid-In Capital" by BLWC in 2010. As of December 31, 2010, the "Other Paid-in Capital" account has a balance of \$1,219,177.

**(4) Advances for Construction:**

As of December 31, 2010, BLWC has a total outstanding balance of \$362,749 related to Advances for Construction. This total outstanding balance consists of eight (8) advances from four (4) companies. The advances were used to improve the infrastructure of BLWC. Six of those advances totaling \$267,057 are to be repaid over 40 years from the inception dates of those advances with the last maturity date in June 2043. The remaining two (2) advances totaling \$95,691 are scheduled to be repaid beginning in Year 2013 with the last maturity date in Year 2030.

**(5) Safe Drinking Water Bond Act (SDWBA) Loans:**

BLWC had two SDWBA loans from the California Department of Water Resources (DWR) to improve the company's infrastructure. The first SDWBA loan in the amount

of \$309,000 was authorized by the Commission on November 20, 1979, through Decision (D.) 91036. The second SDWBA loan in the amount of \$245,000 was authorized by the Commission on April 18, 1984, through D.84-04-046. Both SDWBA loans were originally scheduled to be paid off over 35 years. However, BLWC paid off both loans on April 28, 2009, prior to their respective due dates. As a result, the Water Plant In Service of \$554,037 and the related Accumulated Depreciation of Water Plant were retired from the audited financial statements for the Years 2009 and 2010.

**(6) Annual Reports**

Per California Public Utilities Code, Sections 581, 582, and 584, BLWC is required to file an annual report with the Commission every year. For the years being audited, BLWC has complied with these requirements.



Bass Lake Water Company  
**Summary of Audit Adjustments**  
 FYE: 12/31/2010

Audit Adjustment Number	Annual Report (AR)			AR Account Number	Description	DR	CR
	Schedule	Line	Column				
1	B-2	18	b	682	Professional Services	\$18,000	
	B-2	12	b	670	Office Salaries To reclassify professional expenses that were improperly booked as office salaries for proper cost finding.		\$18,000
2	B-2	21	b	689	General Expenses	\$289	
	B-2	14	b	674	Employee Pensions and Benefits To reclassify expenses relating to employee events, gifts, etc. that were incorrectly booked as Employee Pensions and Benefits.		\$289
3	A	6	c	108	Accumulated Depreciation of Water Plant	\$451,299	
	A	4	c	215	Retained Earnings	102,738	
				105	Water Plant In Service To retire SDWBA Improvements - Water Plant In Service from the Working Trial Balance because the SDWBA loans were paid off on April 28, 2009.		\$554,037
4	A	4	c	215	Retained Earnings	\$15,829	
	B	4	c	407	SDWBA Loan Amortization Expense To correct BLWC's recording of SDWBA loan amortization expense since the SDWBA loans had been paid off in April 2009 to conform with CPUC's Uniform System of Accounts for Class B, C, and D Water Utilities.		\$15,829

Bass Lake Water Company  
**Summary of Audit Adjustments**  
 FYE: 12/31/2009

Audit Adjustment Number	Annual Report (AR)		AR Account Number	Description	DR	CR
	Schedule	Line				
1	B-2	18	682	Professional Services	\$17,500	
	B-2	12	670	Office Salaries To reclassify professional expenses that were improperly booked as office salaries for proper cost finding.		
2	B-2	21	689	General Expenses	\$1,182	
	B-2	14	674	Employee Pensions and Benefits To reclassify expenses relating to employee events, gifts, etc. that were incorrectly booked as Employee Pensions and Benefits.		
3	A	6	108	Accumulated Depreciation of Water Plant	\$435,470	
	A	4	215	Retained Earnings		
	A	1	105	Water Plant In Service To retire SDWBA Improvements - Water Plant In Service from the Working Trial Balance because the SDWBA loans were paid off on April 28, 2009.		
4	B	12	427	Interest Expense	\$26,251	
	B	4	407	SDWBA Loan Amortization Expense		
	A	4	215	Retained Earnings To adjust reported SDWBA loan interest and SDWBA loan amortization expense to reflect actual amounts per BLWC's records.		
					\$554,037	\$10,553 15,698

Bass Lake Water Company  
**Summary of Audit Adjustments**  
 FYE: 12/31/2009

Audit Adjustment Number	Annual Report (AR)		AR Account Number	Description	DR	CR
	Schedule	Line				
5	A	4	215	Retained Earnings	\$42,511	
	B-1	5	460	SDWBA Surcharge		\$37,599
	B-1	17	470	SDWBA Surcharge - Metered		4,912

To correct BLWC's booking of SDWBA surcharges.

Bass Lake Water Company  
**Summary of Audit Adjustments**  
 FYE: 12/31/2008

Audit Adjustment Number	Annual Report (AR)		AR Account Number	Description	DR	CR
	Schedule	Line				
1	B-2	22	682	Professional Services	\$16,800	
	B-2	16	670	Office Salaries To reclassify professional expenses that were improperly booked as office salaries for proper cost finding.		
2	B-2	25	689	General Expenses	\$1,087	
	B-2	18	674	Employee Pensions and Benefits To reclassify expenses relating to employee events, gifts, etc. that were incorrectly booked as Employee Pensions and Benefits.		