



California Public Utilities Commission
Division of Water and Audits

Financial Audit of
Del Oro Water Company
Lime Saddle District
Financial Statements

For the Years Ended December 31, 2010 and 2011

April 18, 2013



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
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Del Oro Water Company
Lime Saddle District
For the Years Ended December 31, 2010 and 2011**

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PUBLIC UTILITIES COMMISSION

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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 Del Oro Water Company – Lime Saddle District (LSD) as of December 31, 2010 and 2011, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. LSD's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2010 and 2011 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 LSD'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 LSD'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 Contributions In Aid of Construction (CIAC) as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Del Oro Water Company - Lime Saddle District as of December 31, 2010 and 2011, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

Due to the lack of sufficient supporting documentation on the historical classification of CIAC, the UAFCB could not attest to the balances of these accounts as of December 31, 2010 and 2011. Therefore, UAFCB does not express any opinion on those balances.

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

Bernard Ayanruoh
Program and Project Supervisor
Utility Audit, Finance and Compliance Branch

**Audit of Financial Statements of
Del Oro Water Company
Lime Saddle District
For the Years Ended December 31, 2010 and 2011**

Balance Sheets

	As of December 31 for the Year	
	2011	2010
ASSETS AND DEFERRED CHARGES		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$1,452,330	\$1,451,989
Water Plant Construction Work in Progress (CWIP) (Note 1)	1,370,690	564,713
Accumulated Depreciation of Water Plant	(776,841)	(734,576)
Water Plant Acquisition Adjustments	<u>(152,695)</u>	<u>(161,731)</u>
Net Utility Plant	1,893,484	1,120,395
CURRENT AND ACCRUED ASSETS		
Cash	75,646	405,114
Special Accounts (Note 1)	275,051	216,782
Accounts Receivable – Customers	21,601	14,517
Receivables from Associated Companies	61,164	12,541
Other Current Assets	<u>5,234</u>	<u>4,061</u>
Total Current and Accrued Assets	438,696	653,015
Deferred Charges (Note 1)	<u>29,102</u>	<u>24,097</u>
Total Assets and Deferred Charges	<u>\$2,361,282</u>	<u>\$ 1,797,507</u>
LIABILITIES AND OTHER CREDITS		
CORPORATE CAPITAL AND SURPLUS		
Other Paid-in Capital	351,667	74,660
Retained Earnings	<u>143,292</u>	<u>378,078</u>
Total Corporate Capital and Retained Earnings	494,959	452,738
LONG-TERM DEBT		
Long-Term Debt (Note 2)	1,105,432	588,494
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	37,426	78,584
Customer Deposits	1,198	1,535
Payables to Associated Companies (Note 4)	3,150	9,937
Accrued Interest	22,109	23,337
Other Current Liabilities	<u>1,401</u>	<u>1,356</u>
Total Current and Accrued Liabilities	65,284	114,749
DEFERRED CREDITS		
Advances for Construction	20,171	18,540
Other Credits	<u>301,278</u>	<u>229,164</u>
Total Deferred Credits	321,449	247,704
CONTRIBUTION IN AID OF CONSTRUCTION		
Contribution In Aid of Construction (CIAC) (Note 3)	704,914	704,914
Accumulated Amortization of Contributions (Note 3)	<u>(330,756)</u>	<u>(311,092)</u>
Net Contribution In Aid of Construction	<u>374,158</u>	<u>393,822</u>
Total Liabilities and Other Credits	<u>\$2,361,282</u>	<u>\$1,797,507</u>

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

Income Statements

	For the Year of	
	2011	2010
OPERATING REVENUES		
Metered Water Revenue (Note 1)	\$311,443	\$294,129
Other Water Revenue	<u>1,301</u>	<u>977</u>
Total Operating Revenues	312,744	295,106
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Purchased Water	171,757	131,830
Power	27,883	26,558
Other Volume Related Expenses	2,217	2,967
Employee Labor	16,944	15,663
Materials	1,498	865
Contract Work	1,510	2,277
Transportation Expenses	4,371	3,466
Other Plant Maintenance Expenses	<u>0</u>	<u>61</u>
Total Plant Operation and Maintenance Expense	226,180	183,687
Administrative and General Expenses		
Office Salaries (Note 1)	21,392	20,828
Management Salaries (Note 1)	5,643	5,751
Employee Pensions and Benefits (Note 1)	8,348	7,923
Uncollectible Accounts Expense/(Recovery)	394	(227)
Office Services and Rentals (Note 1)	5,164	4,916
Office Supplies and Expenses (Note 1)	10,134	8,843
Professional Services	2,227	5,171
Insurance	5,015	5,688
Regulatory Commission Expense	0	2,139
General Expenses	<u>4,337</u>	<u>9,168</u>
Total Administrative and General Expenses	62,654	70,200
Expenses Capitalized	<u>0</u>	<u>0</u>
Net Administrative and General Expenses	<u>62,654</u>	<u>70,200</u>
Total Operating Expenses	288,834	253,887
Depreciation Expense (Note 1)	20,382	29,420
Taxes Other Than Income Taxes	9,540	8,568
State Corporate Income Tax Expense (Note 5)	0	0
Federal Corporate Income Tax Expense (Note 5)	<u>0</u>	<u>0</u>
Total Operating Revenue Deductions	318,756	291,875
Total Utility Operating Income	(6,012)	3,231
Non-Utility Income	1,148	1,387
Interest Expense	<u>(16,732)</u>	<u>(5,240)</u>
Total Other Income and Deductions	(15,584)	(3,853)
Net Income	<u><u>\$(21,596)</u></u>	<u><u>\$(622)</u></u>

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

Statements of Retained Earnings

	For the Year of	
	2011	2010
Retained Earnings, Beginning of Year	\$378,078	\$504,366
CREDITS:		
Net Income	0	0
UAFCB Adjustment to Accumulated Amortization of Contributions	529	15,856
UAFCB Adjustment to Accumulated Depreciation Water Plant	6,288	27,120
Total Credits	6,817	42,976
DEBITS:		
Net Loss	(21,596)	(622)
DOWC Adjustment - Dividends	(220,007)	(168,642)
Total Debits	(241,603)	(169,264)
Retained Earnings, End of Year (rounded)	<u>\$143,292</u>	<u>\$378,078</u>

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

Statements of Cash Flows

	For the Year of	
	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$(21,596)	\$(622)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities		
Depreciation	20,382	29,420
Decrease (Increase) in Special Accounts	(58,269)	(66,632)
Decrease (Increase) in Accounts Receivable	(7,084)	10,034
Decrease (Increase) in Receivables from Associated Companies	(48,623)	14,674
Decrease (Increase) in Other Current Assets	(1,173)	455
Decrease (Increase) in Deferred Charges	(5,005)	(5,494)
Increase (Decrease) in Accounts Payable	(41,158)	42,031
Increase (Decrease) in Customer Deposits	(337)	451
Increase (Decrease) in Current Liabilities	45	22
Increase (Decrease) in Other Credits	<u>72,115</u>	<u>66,524</u>
Net Cash Provided by Operating Activities	(90,703)	90,863
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions	(341)	0
Increase (Decrease) in Water Plant CWIP ¹	(6,174)	277,332
Increase (Decrease) in Contributions In Aid of Construction	0	22,000
Increase (Decrease) in Advances for Construction	<u>1,631</u>	<u>(15,000)</u>
Net Cash Used for Investing Activities	(4,884)	284,332
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Accrued Interest	(1,228)	(1,228)
Increase (Decrease) in Long-Term Debt ²	(5,858)	(5,714)
Increase (Decrease) in Payables to Associated Companies	(6,788)	7,599
Increase (Decrease) in Other Paid In Capital ³	0	50,651
DOWC Adjustments to Retained Earnings - Dividends	<u>(220,007)</u>	<u>(168,642)</u>
Net Cash Used for Financing Activities	(233,881)	(117,334)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(329,468)	257,861
CASH AT BEGINNING OF YEAR	<u>405,114</u>	<u>147,253</u>
CASH AT END OF YEAR (rounded)	<u>\$75,646</u>	<u>\$405,114</u>

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

¹ Excluded \$1,265,243 and \$ 465,440 of SRF expenditures not reported in LSD 2011 and 2010 Annual Reports. These amounts were paid from a non-LSD cash account.

² Excluded \$971,029 and \$448,233 of a SDWSRF loan not reported in LSD 2011 and 2010 Annual Reports. The SDWSRF loan has funded the Regional Intertie Project since 2010 but the loan activities were accounted for in a non-LSD cash account.

³ Excluded \$294,214 and \$17,207 of Del Oro capital contributions to fund the Regional Intertie Project not reported in LSD 2011 and 2010 Annual Reports. The contributions were accounted for in a non-LSD cash account.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Del Oro Water Company (DOWC) was incorporated in the State of California on July 29, 1963. DOWC, a Class B water utility serving customers in Butte County, California purchased the Lime Saddle Community Services District (LSD) providing water service to 313 customers in 1990. The acquisition was approved by the California Public Utilities Commission (Commission) on July 18, 1990, in Decision (D.)90-07-036.

LSD 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 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 LSD 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 LSD'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.

LSD is participating in a Regional Intertie Project to modify the existing lake intake from Lake Oroville and increase its overall water production capability. LSD's share of the SRF project expenditures incurred is recorded in Water Plant Construction Work In Progress.

(b) Depreciation

Depreciation is computed on a straight-line composite rate to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission. The composite rate was 3.138% for Year 2010 and Year 2011.

(c) Special Accounts

The special account balances represent the cash balances for special surcharges collected by LSD for purpose of funding the repayments of the Safe Drinking Water Bond Act/State Revolving Fund (SDWBA/SRF) loan.

(d) Deferred Charges

Deferred Charges consist primarily of deferred legal expenses related to the Regional Intertie Project that might be recovered through future surcharges.

(e) Revenues

All LSD's customers are metered and they are billed on a monthly basis. LSD computes its water revenues based on tariffs approved by the Commission. Per Commission Decision D.86-06-064, Class B water utilities are also authorized to collect up to 50% of fixed costs in the service charge portion in their rate design. Fixed costs are all water system operating expenses less: (1) purchased water, (2) purchased power, (3) uncollectibles, (4) other volume related expenses, and (5) income and franchise taxes.

(f) Allocated Administrative Expenses

The following administrative expenses are initially booked in DOWC’s Paradise Pines District and subsequently allocated to LSD as well as to other water districts within DOWC based on the number of meters in each district: (1) Employee Labor, (2) Transportation Expenses, (3) Office Salaries, (4) Management Salaries, (5) Employee Pensions and Benefits, (6) Office Services and Rentals, (7) Office Supplies and Expenses. Allocated corporate administrative expenses from DOWC to LSD in 2010 and 2011 were \$67,390 and \$71,997, respectively.

(2) Long-term Debts

As of December 31, 2011, LSD has the following Long-term Debts:

<u>Description</u>	<u>Outstanding Balance As of December 31, 2011</u>
Notes Payable – DWR Construction Loan	\$134,403
Notes Payable – 2008 SDWSRF Loan	<u>971,029</u>
Total Long-Term Debt	<u>\$1,105,432</u>

(a) DWR Construction Loan

In April 1979, LSD obtained a loan from the State Department of Water Resources (DWR) to finance plant improvements. The original borrowings consist of a secured \$235,000 loan principal, which carries an annual interest rate of 2.5% and is to be amortized over 40 years.

(b) 2008 SDWSRF Loan

On September 23, 2009, DOWC entered into an agreement with the State Department of Public Health (DPH) for a secured promissory note, up to \$4,465,187, to finance DOWC’s Safe Drinking Water State Revolving Fund (SDWSRF) or the Regional Intertie Project. This loan carries an annual interest rate of 2.28% and is to be repaid over twenty years. LSD’s share of the loan is 25% based on the approved Settlement Agreement between the Commission’s Division of Ratepayer Advocates (DRA) and DOWC in D.08-05-032

According to the loan agreement, DOWC could submit a claim to the DPH to request disbursement of the project funding when DOWC incurs eligible project costs. As of December 31, 2011, DOWC incurred \$4,641,438 total costs for the Regional Intertie Project and has received \$3,884,118 reimbursement from DPH. LSD’s allocated share of the total loan disbursed was \$971,029. As of December 31, 2011, DOWC contributed \$757,320 as equity funding toward the total cost incurred. LSD’s allocated share of the equity funding is \$294,214.

(3) Contributions In Aid of Construction (CIAC) and Accumulated Amortization of CIAC

CIAC represents nonrefundable contributions of cash or property received from various parties for purposes of constructing additions to utility plant. Depreciation applicable to such contributed plant is charged against the CIAC account rather than to depreciation expense until the amount applicable to such properties has been completely amortized.

Due to the lack of sufficient supporting documentation on the historical amortization of CIAC, the Commission staff could not attest to the balances of accumulated amortization of CIAC as of December 31, 2010 and 2011. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by LSD in its Annual Reports filed with the Commission.

(4) Payables to Associated Companies

LSD paid estimated management fees to DOWC during the years 2010 and 2011. DOWC’s actual corporate administrative expenses were proportionally allocated to its districts at year end. LSD’s unpaid balances

between the total payment of estimated management fees during the years and the actual allocated administrative expenses were recorded and reported as Payables to Associated Companies.

(5) Income Taxes

DOWC has not paid any federal income taxes during the calendar years 2010 and 2011, due to its income level but paid \$800 of State Corporate Franchise taxes every calendar year during 2010 and 2011. LSD was not allocated any of DOWC's state corporate income taxes due to immateriality of amount.

(6) Annual Reports

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

Starting in 2011, DOWC is required to report its compliance with the Affiliate Transaction Rules, as adopted by D.10-10-019. DOWC filed its 2011 Affiliate Transaction Report with the Commission in April 2013.