



California Public Utilities Commission
Division of Water and Audits

**Financial Audit of
Del Oro Water Company
Paradise Pines District
Financial Statements**

For the Years Ended December 31, 2011 and 2012

December 10, 2013



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
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Paradise Pines District
For the Years Ended December 31, 2011 and 2012**

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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 – Paradise Pines District (PPD) as of December 31, 2011 and 2012, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. PPD's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2011 and 2012 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 PPD'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 PPD'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 - Paradise Pines District as of December 31, 2011 and 2012, 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, 2011 and 2012. Therefore, UAFCB does not express any opinion on those balances.

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

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

**Audit of Financial Statements of
Del Oro Water Company
Paradise Pines District
For the Years Ended December 31, 2011 and 2012**

Balance Sheets

	As of December 31 for the Year	
	2012	2011
ASSETS AND DEFERRED CHARGES		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$6,822,891	\$6,770,815
Water Plant Construction Work in Progress (CWIP) (Note 1)	3,703,423	3,138,460
Accumulated Depreciation of Water Plant	<u>(4,399,124)</u>	<u>(4,208,889)</u>
Net Utility Plant	6,127,190	5,700,386
CURRENT AND ACCRUED ASSETS		
Cash	137,576	61,375
Special Accounts (Note 1)	984,784	757,023
Accounts Receivable – Customers	137,546	117,442
Receivables from Associated Companies (Note 4)	57,755	58,106
Material and Supplies	7,157	7,157
Other Current Assets	<u>12,384</u>	<u>(514)</u>
Total Current and Accrued Assets	1,337,202	1,000,589
Deferred Charges (Note 1)	<u>137,969</u>	<u>122,892</u>
Total Assets and Deferred Charges	<u>\$7,602,361</u>	<u>\$ 6,823,867</u>
LIABILITIES AND OTHER CREDITS		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	21,820	21,820
Other Paid-in Capital	3,342,330	3,081,770
Retained Earnings	<u>(444,476)</u>	<u>(348,532)</u>
Total Corporate Capital and Retained Earnings	2,919,674	2,755,058
LONG-TERM DEBT		
Long-Term Debt (Note 2)	3,042,200	2,641,003
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	40,662	44,716
Customer Deposits	28,997	18,337
Payables to Associated Companies (Note 4)	13,242	5,906
Accrued Taxes	4,825	4,420
Other Current Liabilities	<u>48,870</u>	<u>46,257</u>
Total Current and Accrued Liabilities	136,596	119,636
DEFERRED CREDITS		
Advances for Construction	165,252	165,426
Other Credits	<u>1,215,233</u>	<u>1,010,146</u>
Total Deferred Credits	1,380,485	1,175,572
CONTRIBUTION IN AID OF CONSTRUCTION		
Contribution In Aid of Construction (CIAC) (Note 3)	1,785,738	1,785,738
Accumulated Amortization of Contributions (Note 3)	<u>(1,662,332)</u>	<u>(1,653,140)</u>
Net Contribution In Aid of Construction	<u>123,406</u>	<u>132,598</u>
Total Liabilities and Other Credits	<u>\$7,602,361</u>	<u>\$6,823,867</u>

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

Income Statements

	For the Year of	
	2012	2011
OPERATING REVENUES		
Metered Water Revenue (Note 1)	\$2,038,135	\$1,655,448
Approved Total Surcharge Revenue	105,710	12,556
Other Water Revenue	<u>92,935</u>	<u>70,838</u>
Total Operating Revenues	2,236,780	1,738,842
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Purchased Water	125,621	127,680
Power	320,466	271,939
Other Volume Related Expenses	2,051	983
Employee Labor (Note 1)	227,869	221,597
Materials	40,199	38,765
Contract Work	24,822	24,212
Transportation Expenses (Note 1)	53,265	57,033
Other Plant Maintenance Expenses	<u>2,567</u>	<u>5,355</u>
Total Plant Operation and Maintenance Expense	796,860	747,564
Administrative and General Expenses		
Office Salaries (Note 1)	295,077	279,768
Management Salaries (Note 1)	73,602	73,800
Employee Pensions and Benefits (Note 1)	126,125	121,614
Uncollectible Accounts Expense/(Recovery)	2,905	322
Office Services and Rentals (Note 1)	72,623	71,530
Office Supplies and Expenses (Note 1)	102,441	102,390
Professional Services	24,508	17,835
Insurance	51,434	42,937
Regulatory Commission Expense	0	0
General Expenses	<u>12,215</u>	<u>12,773</u>
Total Administrative and General Expenses	760,930	722,969
Expenses Capitalized	<u>0</u>	<u>0</u>
Net Administrative and General Expenses	<u>760,930</u>	<u>722,969</u>
Total Operating Expenses	1,557,790	1,470,533
Depreciation Expense (Note 1)	146,612	131,550
Taxes Other Than Income Taxes	100,273	98,806
State Corporate Income Tax Expense (Note 5)	800	800
Federal Corporate Income Tax Expense (Note 5)	<u>0</u>	<u>0</u>
Total Operating Revenue Deductions	247,685	231,156
Total Utility Operating Income	431,305	37,153
Non-Utility Income	339	1,643
Interest Expense	<u>(61,296)</u>	<u>(37,250)</u>
Total Other Income and Deductions	(60,957)	(35,607)
Net Income	<u>\$370,348</u>	<u>\$1,546</u>

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

Statements of Retained Earnings

	For the Year of	
	2012	2011
Retained Earnings, Beginning of Year	\$(348,532)	\$(511,640)
CREDITS:		
Net Income	370,348	1,546
UAFCB Adjustment to Accounts Payable	0	37,870
UAFCB Adjustment to Accumulated Amortization of Contributions	1,030	0
UAFCB Adjustment to Accumulated Depreciation Water Plant	0	523,291
Total Credits	371,378	562,707
DEBITS:		
UAFCB Adjustment to Accumulated Depreciation Water Plant	(35,459)	0
UAFCB Adjustment to Accumulated Amortization of Contributions	0	(25,767)
DOWC Adjustment - Dividends	(431,863)	(373,832)
Total Debits	(467,322)	(399,599)
Retained Earnings, End of Year (rounded)	<u>\$(444,476)</u>	<u>\$(348,532)</u>

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

Statements of Cash Flows

	For the Year of	
	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$370,348	\$1,546
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities		
Depreciation	146,612	131,550
Decrease (Increase) in Special Accounts	(130,966)	(154,680)
Decrease (Increase) in Accounts Receivable	(20,104)	(17,598)
Decrease (Increase) in Receivables from Associated Companies	351	50,161
Decrease (Increase) in Other Current Assets	(12,898)	5,819
Decrease (Increase) in Deferred Charges	(15,077)	(208,663)
Increase (Decrease) in Accounts Payable	(4,054)	(12,436)
Increase (Decrease) in Customer Deposits	10,660	1,737
Accrued taxes	406	3
Increase (Decrease) in Current Liabilities	2,613	3,430
Increase (Decrease) in Other Credits	<u>205,087</u>	<u>200,827</u>
Net Cash Provided by Operating Activities	552,978	1,696
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions	(52,076)	(478,037)
Increase (Decrease) in Water Plant CWIP ¹	0	456,748
Increase (Decrease) in Contributions In Aid of Construction	(174)	(174)
Increase (Decrease) in Advances for Construction	<u>0</u>	<u>0</u>
Net Cash Used for Investing Activities	(52,250)	(21,463)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Accrued Interest	0	0
Increase (Decrease) in Long-Term Debt ²	0	0
Increase (Decrease) in Payables to Associated Companies	7,336	(22,581)
Increase (Decrease) in Other Paid In Capital ³	0	288,202
DOWC Adjustments to Retained Earnings – Dividends and others	<u>(431,863)</u>	<u>(339,165)</u>
Net Cash Used for Financing Activities	(424,527)	(73,544)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,201	(93,311)
CASH AT BEGINNING OF YEAR	<u>61,375</u>	<u>154,686</u>
CASH AT END OF YEAR (rounded)	<u>\$137,576</u>	<u>\$61,375</u>

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

¹ Excluded \$3,699,534 and \$ 3,134,570 of SRF expenditures in 2012 and 2011 since these amounts were not paid from the main PPD cash account.

² Excluded \$3,042,200 and \$2,641,003 of a SDWSRF loan in 2012 and 2011 since the loan activities were not accounted for in the main cash account.

³ Excluded \$890,892 and \$630,330 of Del Oro capital contributions in 2012 and 2011 since these amounts have not been accounted for in the main 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 has seventeen (17) water districts including Paradise Pines District (PPD) that provides water service to 4,688 customers in 2011 and 4,695 customers in 2012.

PPD 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 PPD 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 PPD'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.

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

(b) Depreciation

Depreciation is computed on a straight-line basis to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission.

(c) Special Accounts

The special account balances represent the cash balances for special surcharges collected by PPD for purpose of funding the repayments of the Safe Drinking Water Bond Act/State Revolving Fund (SDWBA/SRF) loan and residual balances in the SRF cash account at year end.

(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) Retained Earnings and Dividend Distributions:

DOWC – Paradise Pines District had dividend distributions in both 2011 and 2012 even though PPD reported negative Retained Earnings at the end of both years. Prior to September 1, 2011, under provisions of Sections 500-509 of the Code, companies that do not have accumulated retained earnings may not make distributions to their shareholders, even if the current fair market value of their assets far exceeds the amount of their liabilities. However with California Assembly Bill No. 571 (AB 571) signed into law on September 1, 2011 and made effective January 1, 2012, boards of directors of corporations are free to consider the fair market value of a corporation's assets, instead

of historical carrying costs, when determining whether the corporation has sufficient assets relative to its liabilities to distribute cash or property to its shareholders.

(f) Revenues

All PPD’s customers are metered and they are billed on a monthly basis. PPD 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.

(g) Allocated Administrative Expenses

The following administrative expenses are initially booked in DOWC’s Paradise Pines District and subsequently allocated 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 PPD in 2011 and 2012 were \$851,914 and \$873,614, respectively.

(2) Long-term Debts

As of December 31, 2012 PPD has the following Long-term Debts:

<u>Description</u>	<u>Outstanding Balance As of December 31, 2012</u>
Notes Payable – 2008 SDWSRF Loan	<u>\$3,042,200</u>
Total Long-Term Debt	<u>\$3,042,200</u>

(a) 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. PPD’s share of the loan is 70% 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, 2012, DOWC incurred \$5,519,380 total costs for the Regional Intertie Project and has received \$4,345,999 reimbursement from DPH. PPD’s allocated share of the total loan disbursed was \$3,042,200. As of December 31, 2012, DOWC contributed \$1,507,034 toward the total project funding. PPD’s allocated share of the equity contribution is \$890,892.

(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, 2011 and 2012. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by PPD in its Annual Reports filed with the Commission.

(4) Receivables from and Payables to Associated Companies

All districts paid estimated management fees to DOWC during the years 2011 and 2012. Actual corporate administrative expenses were proportionally allocated to the districts at year end. For districts where the total payment of estimated management fees during the years is greater than the actual allocated administrative expenses, the overpaid balances were recorded and reported as Payables to Associated Companies. For districts where the total payment of estimated management fees is less than the actual allocated administrative expenses, the underpaid balances were reported as Receivables from Associated Companies.

(5) Income Taxes

DOWC has not paid any federal income taxes during the calendar years 2011 and 2012, due to its income level but paid \$800 of State Corporate Franchise taxes every calendar year during 2011 and 2012. PPD was allocated all 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, PPD is required to file an annual report with the Commission every year. For the years being audited, PPD 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 2011/2012 Affiliate Transaction Report with the Commission in April 2013.