



California Public Utilities Commission
Division of Water and Audits

**Financial Audit
of
Pierpoint Springs Water Company
Financial Statements
For the Years Ended December 31, 2011 and 2012**

June 18, 2014



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
Kayode Kajopaiye, Bernard Ayanruoh, Khai Duong and Joyce de Rossett**

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For the Years Ended December 31, 2011 and 2012**

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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 financial statements of Pierpoint Springs Water Company (PSWC), which comprise the statement of assets and equity – cash basis as of December 31, 2011 and 2012 and the related statements of activities and changes in net income – cash basis for the years then ended.

PSWC Water Company's management is responsible for the preparation and fair presentation of the financial statements presented in the 2011 and 2012 annual reports filed with the Commission in accordance with the cash basis of cash receipts and disbursements described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances.

The responsibility of the UAFCB is to express an opinion on PSWC'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 supporting the amounts and disclosure in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The UAFCB believes that its audit provides a reasonable basis for an opinion.

As described in Note 1, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than the Uniform System of Accounts for Class B, C and D water utilities and other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – cash basis of PSWC Water Company as of December 31, 2011 and 2012, and its statements of activities and changes in net assets – cash basis for the years then ended, on the basis of accounting described in Note 1.

The report is intended solely for the information and use by the Commission and PSWC. 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
Pierpoint Springs Water Company (PSWC)
For the Years Ended December 31, 2011 and 2012**

Statement of Assets and Equity– Cash Basis

	As of December 31 for the Year	
	2012	2011
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$71,819	\$71,819
Accumulated Depreciation of Water Plant (Note 1)	<u>(59,722)</u>	<u>(58,222)</u>
Net Utility Plant	12,097	13,597
 CURRENT AND ACCRUED ASSETS		
Cash (Note 1)	31,039	26,619
Materials and Supplies	<u>550</u>	<u>620</u>
Total Current Assets	31,589	27,239
 Total Assets	 <u>\$43,686</u>	 <u>\$40,836</u>
 OWNERS EQUITY		
PROPRIETARY CAPITAL		
Total Owners' Equity	<u>\$43,686</u>	<u>\$40,836</u>

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

**Statement of Activities and Changes in Net Income – Cash Basis
 For The Years Ended December 31, 2011 and 2012**

	For the Year of	
	2012	2011
OPERATING REVENUES		
Unmetered Water Revenue	\$36,022	\$36,967
Irrigation Revenue	133	0
Other Water Revenue	<u>20</u>	<u>16</u>
Total Operating Revenues	36,175	36,983
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	3,880	3,597
Other Volume Related Expenses	1,066	895
Materials	1,116	131
Contract Work	1,681	855
Transportation Expense	2,307	4,459
Other Plant Maintenance Expenses	0	689
Office Salaries	1,500	1,000
Management Salaries	1,500	2,000
Employee Pensions and Benefits (Note 1)	<u>7,583</u>	<u>2,896</u>
Total Plant Operation and Maintenance Expense	20,633	16,522
Administrative and General Expenses		
Office Supplies and Expenses	666	620
Professional Services	635	295
Insurance	2,491	2,445
Regulatory Commission Expense	561	554
General Expenses	<u>479</u>	<u>744</u>
Total Administrative and General Expenses	4,832	4,658
Depreciation Expense (Note 1)	1,500	1,500
Taxes Other Than Income Taxes	727	796
State Corporate Income Tax Expense	300	200
Federal Income Tax Expense	<u>2,860</u>	<u>2,500</u>
Total Operating Revenue Deductions	<u>30,852</u>	<u>26,176</u>
Total Utility Operating Income	5,323	10,807
Net Income (Increase in Net Assets)	<u>\$5,323</u>	<u>\$10,807</u>

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

Notes to Financial Statements

(1)– Summary of Significant Accounting Policies and Organization

The summary of significant accounting policies of Pierpoint Springs Water Company (PSWC) (a cash basis Class D Water Utility) is presented to assist in understanding PSWC’s financial statements. The financial statements and notes are the representation of PSWC’s ownership (management) who is responsible for the integrity and objectivity of the financial statements.

Nature of Operations

PSWC is a local water company in Tulare County that provides unmetered water service connections to 81 residences, two commercial, an irrigation site and 13 fire hydrants. PSWC started operations in the sixties and has two wells, three storage tanks and connections. The owners are responsible for the maintenance and upkeep of the operations. There are no employees. The most recent General Rate Case was approved by Resolution W-4855 on December 2, 2010.

Basis of Accounting

The financial statements of PSWC are prepared on a cash basis which is a comprehensive basis of accounting other than Uniform System of Accounts (USOA) or Generally Accepted Accounting Principles (GAAP). The basis of presentation differs from USOA or accounting principles accepted by the United States of America in that certain revenues are recognized when received rather than when earned and certain expenses as well as purchase of assets are recognized when paid rather than when the obligation is incurred. Consequently, no provision has been made for accounts receivable, accounts payable and other accruals of income, expense, assets or liabilities.

(a) Water Plant in Service (WPIS)

Utility Plant is recorded at original cost when first constructed or purchased. No assets are retired in 2011 or 2012.

(b) Cash

Cash includes one Bank Account with CitiBank. Excluding unpaid checks, the Cash balance is \$26,619 in 2011 and \$31,039 in 2012.

(c) Employee Pension and Benefits

Employee Pensions and Benefits – In 2012, PSWC paid \$5,583 for health insurance which was omitted on the Annual Report filed with the Commission. UAFCB included \$5,583 for health insurance in 2012.

(d) Depreciation Expense

WPIS is a depreciable asset that is subject to a 2% composite annual depreciation rate which results to an annual depreciation expense of \$1,500. However, PSWC has not recognized depreciation expense for any of the assets since inception. UAFCB has recalculated what the accumulated depreciation should have been at the end of December 31, 2012 and adjusted the WPIS accordingly. As a result, the accumulated depreciation expense for 2011 and 2012 are \$58,222 and \$59,722 respectively.

(2) -Annual Reports

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