



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

**Financial Audit of**  
**Sequoia Crest Water Company**  
**U-264-W**

**Financial Statements**

**For the Years Ended March 31, 2011 and 2010**

**March 21, 2013**



## **Acknowledgement**

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

**Audit of Financial Statements of  
Sequoia Crest Water Company  
U-264-W  
For the Years Ended March 31, 2011 and 2010**

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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 Sequoia Crest Water Company (Sequoia Crest) as of March 31, 2011, and 2010, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. Sequoia Crest's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2011 and 2010 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 Sequoia Crest'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 Sequoia Crest'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, the financial statements referred to above present fairly, in all material respects, the financial position of Sequoia Crest Water Company as of March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

The report is intended solely for the information and use by the Commission and Sequoia Crest. 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  
Sequoia Crest Water Company  
U-264-W  
For the Years Ended March 31, 2011 and 2010**

**Balance Sheets**

	As of March 31 for the Year	
	2011	2010
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water Plant in Service (Note 1)	\$155,832	\$155,832
SDWBA Plant (Note 1)	115,249	115,249
Accumulated Depreciation of Water Plant (Note 1)	(140,801)	(136,128)
Accumulated Amortization of SDWBA Loan (Note 1)	<u>(15,118)</u>	<u>(9,071)</u>
Net Utility Plant	115,162	125,882
 <b>CURRENT AND ACCRUED ASSETS</b>		
Cash	43,532	39,814
Special Accounts (Note 1)	18,708	15,228
Accounts Receivable – Customers	73,046	70,699
Other Current Assets	<u>6,344</u>	<u>8,048</u>
Total Current Assets	<u>141,630</u>	<u>133,789</u>
<b>Total Assets</b>	<u><u>256,792</u></u>	<u><u>259,671</u></u>
 <b>CORPORATE CAPITAL AND SURPLUS</b>		
Common Stock	4,020	4,020
Retained Earnings	143,902	141,935
Other Paid-In Capital	<u>31</u>	<u>31</u>
Total Corporate Capital and Retained Earnings	147,953	145,986
 <b>LONG-TERM DEBT</b>		
Long-Term Debt (Note 2)	108,700	113,685
 <b>CURRENT AND ACCRUED LIABILITIES</b>		
Other Current Liabilities	<u>139</u>	<u>0</u>
Total Current Liabilities	139	0
 <b>Total Capital and Liabilities</b>	 <u><u>\$256,792</u></u>	 <u><u>\$259,671</u></u>

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

## Income Statements

	<b>For the Year Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Unmetered Water Revenue (Note 1)	\$45,217	\$46,095
SDWBA/SRF Surcharge Revenue (Note 1)	11,791	12,020
<b>Total Operating Revenues</b>	57,008	58,115
<b>OPERATING EXPENSES</b>		
Purchased Power	3,558	3,482
Contract Work	9,416	7,033
Other Plant Maintenance Expense	13,066	7,827
Uncollectible Account Expense	0	721
Professional Services	4,995	3,995
Insurance	2,357	4,127
Regulatory Commission Expense	821	0
General Expense	4,816	4,988
<b>Total Operating Expenses</b>	39,029	32,173
Depreciation Expense (Note 1)	4,673	4,673
SDWBA Loan Amortization Expense (Note 1)	6,047	6,047
Taxes Other Than Income Taxes	1,189	1,275
State Income Tax Expense	800	800
Federal Income Tax Expense	709	1,194
<b>Total Operating Revenue Deductions</b>	13,418	13,989
<b>Total Utility Operating Income</b>	4,561	11,953
Non-utility Income -- Interest	14	19
Interest Expense	2,666	2,722
<b>Net Income</b>	\$1,909	\$9,250

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

## Statements of Retained Earnings

	For the Year Ended March 31	
	2011	2010
<b>Retained Earnings, Beginning of Year</b>	\$141,935	\$110,398
<b>CREDITS:</b>		
Net Income	1,909	9,250
Other - Sequoia Crest Adjustment	0	61
Other - UAFCB Audit Adjustments	58	32,386
<b>Total Credits</b>	1,967	41,697
<b>DEBITS:</b>		
Net Loss	0	0
Other - UAFCB Audit Adjustments	0	(10,160)
<b>Total Debits</b>	0	(10,160)
<b>Retained Earnings, End of Year</b>	<u>\$143,902</u>	<u>\$141,935</u>

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

## Statements of Cash Flows

	For the Year Ended March 31	
	2011	2010
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$1,909	\$9,250
<b>Adjustments to Reconcile Net Income to Cash Provided by Operating Activities</b>		
Depreciation	4,673	4,673
SDWBA Loan Amortization Expense	6,047	6,047
Decrease (Increase) in Accounts Receivable	(2,347)	(19,378)
Decrease (Increase) in Other Current Assets	<u>1,704</u>	<u>(1,704)</u>
<b>Net Cash Provided by Operating Activities</b>	10,077	(10,362)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Plant Additions	<u>0</u>	<u>0</u>
<b>Net Cash Used for Investing Activities</b>	0	0
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long -Term Debt	(4,985)	(7,263)
Increase (Decrease) in Other Current Liabilities	139	(1,969)
Adjustment to Retained Earnings	<u>58</u>	<u>298</u>
<b>Net Cash Used for Financing Activities</b>	(4,788)	(8,934)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	7,198	(10,046)
<b>CASH AT BEGINNING OF YEAR</b>	<u>55,042</u>	<u>65,088</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$62,240</u></u>	<u><u>\$55,042</u></u>

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



## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Sequoia Crest Water Company (Sequoia Crest) was incorporated in the State of California on April 1, 1959. Sequoia Crest is a Class D water utility and serves approximately 105 flat rate customers and 25 fire hydrants in Springville in Tulare County in California.

Sequoia Crest 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 (USOA) 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 Sequoia Crest files its annual reports with the Commission. Therefore, the accompanying Statements of Cash Flows were compiled by the Utility Audit, Finance and Compliance Branch (UAFCB) based on the financial information in Sequoia Crest'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. Sequoia Crest did not report the Utility Plant In Service and the Utility Plant funded by the Safe Drinking Water Bond Act (SDWBA) loan separately in its Annual Reports filed with the Commission. To comply with the USOA reporting requirements, the UAFCB identified those amounts and included them as separate line items in the audited financial statements.

#### (b) Depreciation of Water Plant and Amortization of SDWBA Loan

Sequoia Crest used straight-line depreciation method based on the assets' estimated useful lives to depreciate all of its water plant assets. Similar to Utility Plant account, Sequoia Crest did not report the depreciation expense for water plant and the amortization for SDWBA loan separately in its Annual Reports filed with the Commission. To comply with the USOA reporting requirements, UAFCB identified those amounts and included them as separate line items in the audited financial statements.

#### (c) Accumulated Depreciation of Water Plant and Accumulated Amortization of SDWBA Loan

Sequoia Crest did not report the accumulated depreciation of water plant and the accumulated amortization of SDWBA loan separately in its Annual Reports filed with the Commission. To comply with the USOA reporting requirements, UAFCB

identified those amounts and included them as separate line items in the audited financial statements.

**(d) Special Accounts**

The special account balances represent the cash balances for special surcharges collected by Sequoia Crest for the purpose of funding the repayments of the SDWBA loan. Sequoia Crest opened a separate bank account with Bank of America for SDWBA special surcharge collections.

**(e) Water Revenues and SDWBA Surcharge Revenue**

Sequoia Crest has unmetered (i.e., flat rate) customers whom were billed on a quarterly basis based on tariffs approved by the Commission. As a result of the SDWBA loan (discussed in Note 2 below), the Commission authorized Sequoia Crest through Resolution W-4307, dated October 25, 2001, to implement special rate surcharges levied on its ratepayers to help repay the SDWBA loan.

**(2) Long-Term Debt (SDWBA Loan)**

Sequoia Crest's long-term debt consists of one SDWBA loan from the Department of Water Resources (DWR) to improve the company's infrastructure. The planned SDWBA loan in the amount of \$159,108 was authorized by the Commission on October 25, 2001, through Resolution W-4307 and was approved by DWR on November 14, 2003. The actual SDWBA loan of \$120,949 was obtained from the DWR. The SDWBA loan carried a fixed interest rate of 2.32% per annum and was to be amortized over 20 years effective November 1, 2008. As of March 31, 2011, the unamortized balance of the SDWBA loan was \$108,700.

**(3) Annual Reports**

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