



California Public Utilities Commission
Division of Water and Audits

**Financial Audit
of
Meadowbrook Water Company
Financial Statements
For the Years Ended December 31, 2012 and 2013**

January 30, 2015



Acknowledgement

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

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For the Years Ended December 31, 2012 and 2013**

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PUBLIC UTILITIES COMMISSION

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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 Meadowbrook Inn Water Company (MWC), which comprise the balance sheet as of December 31, 2012 and 2013 and the related income statements, statement of retained earnings and statement of cash flows for the years then ended.

MWC Water Company's management is responsible for:

1. Completeness and correctness of the financial statements presented in 2012 and 2013 annual reports filed with the Commission,
2. Conformity with accounting requirements of the Commission as set forth in the Uniform System of Accounts (USOA) 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 MWC'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.

In our opinion, except for the Water Plant in Service and related Depreciation accounts, as described in the following paragraph and in Note 1, the financial statements referred to above present fairly, in all material respects, the financial position of MWC Water Company as of December 31, 2012 and 2013, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

As explained in the Notes to the Financial Statements, due to insufficient supporting documentation for Water Plant in Service and related Depreciation, the UAFCB does not express any opinion on those balances.

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

A handwritten signature in black ink, appearing to read "Bernard Ayanruoh".

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

**Audit of Financial Statements of
Meadowbrook Water Company (MWC)
For the Years Ended December 31, 2012 and 2013**

Balance Sheets

	As of December 31 for the Year	
	2013	2012
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$2,712,741	\$2,655,339
Construction Work in Progress	0	123,278
Accumulated Depreciation of Water Plant (Note 1)	<u>(495,804)</u>	<u>(674,312)</u>
Net Utility Plant	2,216,937	2,104,305
CURRENT AND ACCRUED ASSETS		
Cash	(2,927)	(3,680)
Special Accounts	1,886	3,749
Accounts Receivable – Customers	63,070	68,314
Materials and Supplies	5,000	5,000
Other Current Assets	<u>10,394</u>	<u>18,107</u>
Total Current and Accrued Assets	<u>77,423</u>	<u>91,490</u>
Total Assets	<u>\$2,294,360</u>	<u>\$2,195,795</u>
OWNERS EQUITY AND LIABILITIES		
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable (Note 2)	68,989	3,860
Other Current Liabilities	<u>5,078</u>	<u>6,223</u>
Total Current and Accrued Liabilities	<u>74,067</u>	<u>10,083</u>
PROPRIETARY CAPITAL		
Common Stock	100,000	100,000
Retained Earnings	<u>1,710,936</u>	<u>1,669,721</u>
Total Corporate Capital and Retained Earnings	<u>1,810,936</u>	<u>1,769,721</u>
CONTRIBUTION IN AID OF CONSTRUCTION		
Contribution in Aid of Construction (Note 1)	585,299	577,399
Accumulated Amortization of Contributions (Note 1)	<u>(175,942)</u>	<u>(161,408)</u>
Net Contribution in Aid of Construction	<u>409,357</u>	<u>415,991</u>
Total Capitalization and Liabilities	<u>\$2,294,360</u>	<u>\$2,195,795</u>

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

Income Statements

	For the Year Ended	
	2013	2012
OPERATING REVENUES (Note 4)		
Metered Revenue	\$896,851	\$890,274
Other Water Revenue	<u>20,141</u>	<u>23,030</u>
Total Operating Revenues	\$916,992	\$913,304
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	81,223	69,444
Other Volume Related Expenses	2,593	0
Employee Labor	69,274	74,569
Materials	24,618	9,783
Contract Work	11,385	8,340
Transportation Expense	22,009	22,507
Other Plant Maintenance Expenses	<u>49,320</u>	<u>42,419</u>
Total Plant Operation and Maintenance Expenses	\$260,422	\$227,062
Administrative and General Expenses		
Office Salaries and Wages	120,374	96,406
Management Salaries and Wages	123,859	116,426
Employee Pensions and Benefits	55,571	45,893
Office Services and Rentals	44,469	13,012
Office Supplies and Expenses	26,473	25,916
Professional Services	13,696	15,389
Insurance	33,634	26,299
Regulatory Commission Expense	13,910	13,392
Uncollectible Accounts Expense	6,544	0
General Expenses	13,135	14,146
Expenses Capitalized	<u>(10,041)</u>	<u>0</u>
Total Administrative and General Expenses	\$441,624	\$366,879
Depreciation Expense (Note 1)	51,161	48,683
Taxes Other Than Income Taxes	37,770	34,602
State Corporate Income Tax Expense	<u>3,755</u>	<u>2,654</u>
Total Operating Revenue Deductions	\$794,732	\$679,880
Total Utility Operating Income	\$122,260	\$233,424
Gain on Sale of Assets	655	0
Interest Expense	<u>(250)</u>	<u>(20)</u>
Net Income	<u>\$122,665</u>	<u>\$233,404</u>

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

Statements of Retained Earnings

	For the Year Ended	
	2013	2012
Retained Earnings, Beginning of Year	\$1,669,721	\$1,516,317
CREDITS:		
Net Income	<u>122,665</u>	<u>233,404</u>
Total Credits	122,665	233,404
DEBITS:		
Distributions of Shareholder Contributions	80,000	80,000
Changes to Retained Earnings (Note 3)	<u>1,450</u>	<u>0</u>
Total Debits	81,450	80,000
Retained Earnings, End of Year	<u>\$1,710,936</u>	<u>\$1,669,721</u>

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

Statements of Cash Flows

	For the Year of	
	2013	2012
Cash Flow from Operating Activities		
Net Income	\$122,665	\$233,404
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities -		
Depreciation and amortization	(178,508)	63,118
Decrease (Increase) in Special Accounts	1,863	8,210
Decrease (Increase) in Accounts Receivable	5,244	(2,107)
Decrease (Increase) in Other Current Assets	7,713	(9,778)
Increase (Decrease) in Accounts Payable	65,129	(1,578)
Increase (Decrease) in Accrued Taxes		(374)
Increase (Decrease) in Other Current Liabilities	(1,145)	2,898
Increase (Decrease) in Accumulated Deferred income taxes- ACRS depreciation	<u>0</u>	<u>(805)</u>
Net Cash Provided by Operating Activities	22,961	292,988
Cash Flows from Investing Activities		
Decrease (Increase) in Net Plant Additions	(57,402)	(148,821)
Decrease (Increase) in Construction Work in Progress	123,278	(75,874)
Increase (Decrease) in Contribution in Aid of Construction	7,900	0
Decrease (Increase) in Accumulated Amortization of Contributions	<u>(14,534)</u>	<u>(14,435)</u>
Net Cash Used for Investing Activities	59,242	(239,130)
Cash Flows from Financing Activities		
Increase (Decrease) in Distribution of Shareholder Contributions	(80,000)	(80,000)
Increase (Decrease) in Adjustment to Retained Earnings	(1,450)	0
Net Increase (Decrease) in Cash and Cash Equivalents	\$753	(\$26,142)
Cash at Beginning of Year	<u>\$(3,680)</u>	<u>\$22,462</u>
Cash at End of Year	<u><u>\$(2,927)</u></u>	<u><u>\$(3,680)</u></u>

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies and Organization

Meadowbrook Water Company (MWC) was incorporated in the State of California on July 9, 1979. It was later incorporated as an S Corporation on July 1, 1983. MWC is a Class C utility in Merced, California, serving more than 1,600 customers in 2013.

MWC 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 MWC 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 MWC's Balance Sheets and Income Statements.

(a) Water Plant in Service (WPIS)

Utility Plant is recorded at original cost when first constructed or purchased. In 2012 and 2013, numerous assets were added. There were multiple plant retirements in 2013. No assets were retired in 2012. Water Plant in Service showed a significant difference between amounts reported of \$2,713,741 in 2013, and \$2,655,340 in 2012 versus amounts on its fixed asset and depreciation schedules for those years. Those schedules show amounts for this account at significantly lower figures (\$2,029,734 for 2013, and \$1,874,204 for 2012). The differences are \$684,007 for 2013, and \$781,136 for 2012. Company staff and the outside Accountant were aware of these differences, and were unable to explain them.

Due to the lack of sufficient supporting documentation on WPIS and related depreciation accounts, the Commission staff could not attest to the balances of WPIS and related depreciation accounts as of December 31, 2012 and 2013. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by MWC in its 2012 and 2013 Annual Reports filed with the Commission.

(b) Depreciation of Water Plant

Depreciation is computed on a straight-line composite rate to depreciate all its plant assets for ratemaking purposes and for reporting the depreciation expense in its Annual Reports filed with the Commission. The composite rate was 2.5% for both 2012 and 2013.

(c) 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.

(2) Accounts Payable

Accounts Payable includes all amounts payable by the utility within one year. In 2013, Accounts Payable was adjusted by an increase of \$2,155 over the amount recorded. This was due to a reclassification of Workers' Compensation Liability incorrectly reported as Accrued Interest.

(3) Retained Earnings

This account was decreased by \$1,450 in 2013, due to the reduction of unsubstantiated Other Plant Maintenance Volume Related Expenses.

(4) Revenues

MWC had 1,618 metered customers in 2013, 1,603 metered customers and 1 flat rate customer in 2012. MWC computes its water revenues based on tariffs approved by the Commission.

Metered water revenue for both 2012 and 2013 were reduced by the UAFCB, by \$23,030, and \$20,141, respectively. These amounts consisted of late fees as well as miscellaneous turn- on revenues, and should be included in other water revenues.

(5) Annual Reports

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