



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

**Financial Audit of**  
**North Gualala Water Company**  
**U-38-W**

**Financial Statements**

**For the Years Ended December 31, 2010, 2009 and 2008**

**May 2, 2012**



## **Acknowledgement**

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

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North Gualala Water Company  
U-38-W  
For the Years Ended December 31, 2010, 2009 and 2008**

**Table of Contents**

|                                       | <b><u>Page Number</u></b> |
|---------------------------------------|---------------------------|
| Independent Auditor's Report.....     | ii                        |
| Balance Sheets .....                  | 1                         |
| Income Statements .....               | 2                         |
| Statements of Retained Earnings ..... | 3                         |
| Statements of Cash Flows.....         | 4                         |
| Notes to Financial Statements.....    | 5                         |

## 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 North Gualala Water Company (NGWC) as of December 31, 2010, 2009, and 2008, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. NGWC's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2010, 2009 and 2008 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 C water utilities, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

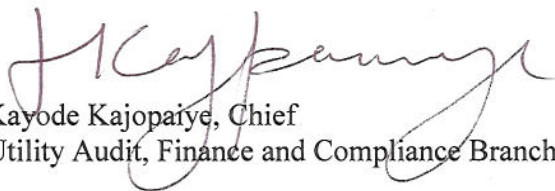
The responsibility of the UAFCB is to express an opinion on NGWC's financial statements as a whole based on its audit.

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 NGWC'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 Accumulated Amortization 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 North Gualala Water Company as of December 31, 2010, 2009 and 2008, 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 amortization of CIAC, the UAFCB could not attest to the balances of Accumulated Amortization of CIAC as of December 31, 2010, 2009 and 2008. Therefore, UAFCB does not express any opinion on those balances.

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

  
Kayode Kajopaiye, Chief  
Utility Audit, Finance and Compliance Branch

**Audit of Financial Statements of  
North Gualala Water Company  
U-38-W  
For the Years Ended December 31, 2010, 2009 and 2008**

**Balance Sheets**

|  | As of December 31 for the Year |                            |                            |
|--|--------------------------------|----------------------------|----------------------------|
|  | 2010                           | 2009                       | 2008                       |
| <b>ASSETS</b>  |                                |                            |                            |
| <b>UTILITY PLANT</b>                                 |                                |                            |                            |
| Water Plant in Service (Note 1)                      | \$ 7,665,660                   | \$ 7,599,224               | \$ 7,312,121               |
| Accumulated Depreciation of Water Plant              | <u>2,871,675</u>               | <u>2,685,658</u>           | <u>2,531,279</u>           |
| <b>Net Utility Plant</b>                             | <b>4,793,985</b>               | <b>4,913,566</b>           | <b>4,780,842</b>           |
| <b>CURRENT AND ACCRUED ASSETS</b>                    |                                |                            |                            |
| Cash   | 97,063                         | 14,158                     | 86,319                     |
| Special Accounts (Note 1)                            | 334,706                        | 420,261                    | 354,006                    |
| Accounts Receivable – Customers                      | 64,948                         | 67,096                     | 70,540                     |
| Materials and Supplies                               | 17,690                         | 10,743                     | 10,174                     |
| Other Current Assets                                 | <u>0</u>                       | <u>0</u>                   | <u>0</u>                   |
| <b>Total Current and Accrued Assets</b>              | <b>514,407</b>                 | <b>512,258</b>             | <b>521,039</b>             |
| Deferred Charges (Note 1)                            | <u>810,208</u>                 | <u>861,016</u>             | <u>761,198</u>             |
| <b>Total Assets and Deferred Charges</b>             | <b><u>\$ 6,118,600</u></b>     | <b><u>\$ 6,286,840</u></b> | <b><u>\$ 6,063,079</u></b> |
| <b>CORPORATE CAPITAL AND SURPLUS</b>                 |                                |                            |                            |
| Common Stock   | \$ 500                         | \$ 500                     | \$ 500                     |
| Retained Earnings                                    | <u>1,371,913</u>               | <u>1,379,104</u>           | <u>1,265,352</u>           |
| <b>Total Corporate Capital and Retained Earnings</b> | <b>1,372,413</b>               | <b>1,379,604</b>           | <b>1,265,852</b>           |
| <b>LONG-TERM DEBT</b>                                |                                |                            |                            |
| Long-Term Debt (Note 2)                              | 3,668,599                      | 3,758,575                  | 3,658,382                  |
| <b>CURRENT AND ACCRUED LIABILITIES</b>               |                                |                            |                            |
| Accounts Payable                                     | 26,436                         | 73,220                     | 34,199                     |
| Customer Deposits                                    | 10,160                         | 10,800                     | 8,550                      |
| Accrued Interest                                     | 27,262                         | 36,605                     | 36,859                     |
| Other Current Liabilities                            | <u>10,973</u>                  | <u>1,461</u>               | <u>511</u>                 |
| <b>Total Current and Accrued Liabilities</b>         | <b>74,831</b>                  | <b>122,086</b>             | <b>80,119</b>              |
| <b>CONTRIBUTION IN AID OF CONSTRUCTION</b>           |                                |                            |                            |
| Contribution In Aid of Construction (Note 3)         | 1,591,819                      | 1,570,680                  | 1,565,875                  |
| Accumulated Amortization of Contributions (Note 3)   | <u>589,062</u>                 | <u>544,105</u>             | <u>507,149</u>             |
| <b>Net Contribution In Aid of Construction</b>       | <b><u>1,002,757</u></b>        | <b><u>1,026,575</u></b>    | <b><u>1,058,726</u></b>    |
| <b>Total Liabilities and Other Credits</b>           | <b><u>\$ 6,118,600</u></b>     | <b><u>\$ 6,286,840</u></b> | <b><u>\$ 6,063,079</u></b> |

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

## Income Statements

|  | For the Year of           |                         |                           |
|--|---------------------------|-------------------------|---------------------------|
|  | 2010                      | 2009                    | 2008                      |
| <b>OPERATING REVENUES</b>                            |                           |                         |                           |
| Metered Water Revenue (Note 1)                       | \$ 904,880                | \$ 944,723              | \$ 782,750                |
| Other Water Revenue                                  | <u>13,738</u>             | <u>14,306</u>           | <u>13,378</u>             |
| <b>Total Operating Revenues</b>                      | <b>\$918,618.008</b>      | <b>959,029</b>          | <b>796,128</b>            |
| <b>OPERATING EXPENSES</b>                            |                           |                         |                           |
| <b>Plant Operation and Maintenance Expenses</b>      |                           |                         |                           |
| Power  | 72,871                    | 67,446                  | 69,098                    |
| Other Volume Related Expenses                        | 1,733                     | 2,791                   | 2,966                     |
| Employee Labor                                       | 96,525                    | 149,656                 | 97,140                    |
| Materials  | 12,985                    | 21,035                  | 17,032                    |
| Contract Work  | 20,754                    | 27,799                  | 15,595                    |
| Transportation Expenses                              | <u>35,936</u>             | <u>80,833</u>           | <u>26,668</u>             |
| <b>Total Plant Operation and Maintenance Expense</b> | <b>240,804</b>            | <b>349,560</b>          | <b>228,499</b>            |
| <b>Administrative and General Expenses</b>           |                           |                         |                           |
| Office Salaries                                      | 71,624                    | 54,568                  | 53,026                    |
| Management Salaries                                  | 70,233                    | 62,578                  | 58,612                    |
| Employee Pensions and Benefits (Note 4)              | 46,365                    | 29,487                  | 31,714                    |
| Uncollectible Accounts Expense                       | 1,217                     | 353                     | 104                       |
| Office Services and Rentals                          | 6,000                     | 6,000                   | 6,000                     |
| Office Supplies and Expenses                         | 38,316                    | 34,677                  | 29,989                    |
| Professional Services (Note 1)                       | 105,687                   | 79,390                  | 25,921                    |
| Insurance  | 21,368                    | 25,806                  | 25,688                    |
| Regulatory Commission Expense                        | 9,128                     | 11,101                  | 8,633                     |
| General Expenses                                     | <u>20,404</u>             | <u>13,457</u>           | <u>17,503</u>             |
| <b>Total Administrative and General Expenses</b>     | <b>390,342</b>            | <b>317,417</b>          | <b>257,190</b>            |
| Expenses Capitalized                                 | <u>(10,636)</u>           | <u>(119,381)</u>        | <u>0</u>                  |
| <b>Net Administrative and General Expenses</b>       | <b><u>379,706</u></b>     | <b><u>198,036</u></b>   | <b><u>257,190</u></b>     |
| <b>Total Operating Expenses</b>                      | <b>620,510</b>            | <b>547,596</b>          | <b>485,689</b>            |
| Depreciation Expense (Note 1)                        | 39,369                    | 55,571                  | 55,140                    |
| SDWBA Loan Amortization Expense                      | 108,856                   | 105,973                 | 102,946                   |
| Taxes Other Than Income Taxes                        | 58,492                    | 64,592                  | 53,668                    |
| State Corporate Income Tax Expense (Note 5)          | <u>800</u>                | <u>800</u>              | <u>800</u>                |
| <b>Total Operating Revenue Deductions</b>            | <b>828,027</b>            | <b>774,532</b>          | <b>698,243</b>            |
| <b>Total Utility Operating Income</b>                | <b>90,591</b>             | <b>184,497</b>          | <b>97,885</b>             |
| Total Other Income and Deductions                    | <u>(106,570)</u>          | <u>(107,701)</u>        | <u>(108,746)</u>          |
| <b>Net Income</b>                                    | <b><u>\$ (15,979)</u></b> | <b><u>\$ 76,796</u></b> | <b><u>\$ (10,861)</u></b> |

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

## Statements of Retained Earnings

|  | For the Year of     |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | 2010                | 2009                | 2008                |
| <b>Retained Earnings, Beginning of Year</b>              | \$ 845,795          | \$ 778,719          | \$ 780,956          |
| <b>CREDITS:</b>  |                     |                     |                     |
| Net Income   | 0                   | 76,796              | 0                   |
| Prior Period Adjustments to Material Inventory           | 5,645               | 0                   | 0                   |
| Prior Period Adjustment to Depreciation Expenses         | <u>544,105</u>      | <u>544,105</u>      | <u>507,149</u>      |
| <b>Total Credits</b>                                     | 549,7500            | 620,901             | 507,149             |
| <b>DEBITS:</b>   |                     |                     |                     |
| Net Loss   | (15,979)            | 0                   | (10,861)            |
| Prior Period Adjustment to Contingency Plan Expense      | (7,653)             | (7,653)             | (7,653)             |
| Prior Period Adjustment to General Expense               | 0                   | (11,848)            | (4,239)             |
| Prior Period Adjustment to Professional Services Expense | <u>0</u>            | <u>(1,015)</u>      | <u>0</u>            |
| <b>Total Debits</b>                                      | (23,632)0           | (20,516)            | (22,753)0           |
| <b>Retained Earnings, End of Year</b>                    | <u>\$ 1,371,913</u> | <u>\$ 1,379,104</u> | <u>\$ 1,265,352</u> |

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

## Statements of Cash Flows

|   | For the Year of  |                   |                   |
|---|------------------|-------------------|-------------------|
|   | 2010             | 2009              | 2008              |
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>   |                  |                   |                   |
| Net Income (Loss)   | \$ (15,979)      | \$ 76,796         | \$ (10,861)       |
| <b>Adjustments to Reconcile Net Income to Cash Provided by Operating Activities</b> |                  |                   |                   |
| Depreciation  | 39,369           | 55,571            | 55,140            |
| SDWBA Loan Amortization Expense <sup>1</sup>  | 101,691          | 98,808            | 95,781            |
| Decrease (Increase) in Accounts Receivable  | 2,148            | 3,444             | (23,187)          |
| Decrease (Increase) in Materials and Supplies                                       | (6,947)          | (569)             | (374)             |
| Decrease (Increase) in Other Current Assets   | 0                | 0                 | (1,011)           |
| Decrease (Increase) in Deferred Charges   | 50,808           | (99,818)          | (90,257)          |
| Increase (Decrease) in Accounts Payable   | (46,784)         | 39,021            | 1,243             |
| Increase (Decrease) in Customer Deposits  | (640)            | 2,250             | (405)             |
| Increase (Decrease) in Current Liabilities  | 9,512            | 950               | 511               |
| Adjustment to Reconciliation Item <sup>2</sup>                                      | (212)            | 0                 | 0                 |
| <b>Net Cash Provided by Operating Activities</b>                                    | <u>132,966</u>   | <u>176,453</u>    | <u>26,580</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                   |                   |
| Net Plant Additions <sup>3</sup>  | (57,436)         | (287,103)         | (62,455)          |
| Increase (Decrease) in Contributions In Aid of Construction                         | <u>21,139</u>    | <u>4,805</u>      | <u>15,252</u>     |
| <b>Net Cash Used for Investing Activities</b>                                       | <u>(36,297)</u>  | <u>(282,298)</u>  | <u>(47,203)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                  |                   |                   |
| Increase (Decrease) in Accrued Interest   | (9,343)          | (254)             | (965)             |
| Increase (Decrease) in Long-Term Debt   | (13,000)         | 199,000           | 0                 |
| Increase (Decrease) in Long-Term Debt – SDWBA Loan                                  | (76,976)         | (98,807)          | (95,781)          |
| Adjustment to Retained Earnings   | <u>0</u>         | <u>0</u>          | <u>(11,892)</u>   |
| <b>Net Cash Used for Financing Activities</b>                                       | <u>(99,319)</u>  | <u>99,939</u>     | <u>(108,638)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                         | <u>(2,650)</u>   | <u>(5,906)</u>    | <u>(129,261)</u>  |
| <b>CASH AT BEGINNING OF YEAR</b>  | <u>434,419</u>   | <u>440,325</u>    | <u>569,586</u>    |
| <b>CASH AT END OF YEAR</b>  | <u>\$431,769</u> | <u>\$ 434,419</u> | <u>\$ 440,325</u> |

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

<sup>1</sup> Excluded \$7,165 SDWBA loan administration fee, which was reported as part of the SDWBA loan amortization expenses in NGWC's Annual Reports.

<sup>2</sup> This is an adjustment to the immaterial unreconcilable item for Year 2010.

<sup>3</sup> Cash outflow for 2010 Net Plant Additions was reduced by \$9,000, which was the reimbursement NGWC received from Central Valley Cable for the 2009 water main.



## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

North Gualala Water Company (NGWC) was incorporated in the State of California on May 17, 1966. NGWC is a Class C water utility and serves approximately 1,045 metered customers in Gualala and vicinity in California.

NGWC 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 NGWC 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 NGWC'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.

#### (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 2.88% for Year 2010 and 2.40% for Years 2009 and 2008.

#### (c) Special Accounts

The special account balances represent the cash balances for special surcharges collected by NGWC for purpose of funding the repayments of the Safe Drinking Water Bond Act (SDWBA) loan.

#### (d) Deferred Charges

Deferred Charges consist of deferred General Rate Case (GRC) expenses, Contingency Memorandum Account balance, net SDWBA administration fees not yet amortized, and Water Supply Compliance Memorandum Account (WSCMA) balance. NGWC expects to recover these costs through future GRCs.

**(e) Revenues**

All NGWC's customers are metered and they are billed on a monthly basis. NGWC computes its water revenues based on tariffs approved by the Commission.

**(f) Professional Service Expense**

During the six-year period from January 2000 through August 2006, NGWC incurred \$412,288 legal costs to defend its water rights before the State Water Resources Control Board. Through an agreement with the Commission, NGWC was allowed to recover such legal costs by amortizing them at a monthly rate of \$4,322, or \$51,872 per year, until those legal costs are fully amortized. NGWC began amortizing such legal costs in November 2008. The amortization expense of those legal costs is a component of the professional service expense.

**(2) Long-term Debts**

As of December 31, 2010, NGWC has the following long-term debts:

| <u>Description</u>                                 | <u>Outstanding<br/>Balance As of<br/>December 31, 2010</u> |
|--|--|
| Notes Payable – 1996 SDWBA Loan                    | \$3,457,884  |
| Notes Payable – 2010 SDWSRF Loan                   | \$24,715   |
| Notes Payable – Credit line from a commercial bank | <u>\$186,000</u>   |
| Total Long-Term Debt                               | <u>\$3,668,599.009</u>                                     |

**(a) 1996 SDWBA Loan**

In April 2000, NGWC obtained a loan from the State Department of Water Resources (DWR) pursuant to the Safe Drinking Water Bond Act to finance plant for the purpose of complying with the Act. The original borrowings consist of a secured \$4,442,521 loan principal, which carries an annual interest rate of 2.973% and is to be amortized over 35 years.

NGWC was assessed \$222,126 administration fees, or 5% of the SDWBA loan principal. The administration fees loan is interest-free and to be amortized over 31 years.

**(b) 2010 SDWSRF Loan**

On September 23, 2009, NGWC entered into an agreement with the State Department of Public Health (DPH) for a secured promissory note, up to \$500,000, to finance NGWC's Safe Drinking Water State Revolving Fund (SDWSRF) project. This loan carries an annual interest rate of 2.5017% and is to be repaid in five years.

According to the loan agreement, NGWC could submit a claim to the State DPH to request disbursement of the project funding when NGWC incurs eligible project costs.

As of December 31, 2010, NGWC incurred \$24,715 costs for the SDWSRF project and was reimbursed for the said amount by the State.

**(c) Notes Payable**

NGWC has an outstanding balance of \$186,000 on a line of credit account from a commercial bank. The average interest rate on this loan is 5.25% annually.

**(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, 2009, and 2008. Therefore, UAFCB does not express an opinion on such balances reported by NGWC in its Annual Reports filed with the Commission.

**(4) Retirement Plan**

NGWC offers a simple Individual Retirement Arrangement (IRA) plan to its regular full-time employees. This IRA plan is managed by an outside company.

**(5) Income Taxes**

NGWC has not paid any federal income taxes during the calendar years 2010, 2009, and 2008, due to its income level. NGWC paid \$800 of State Corporate Franchise taxes every calendar year from 2008 through 2010.

**(6) Annual Reports**

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