



California Public Utilities Commission
Division of Water and Audits

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

December 5, 2014



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
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Magalia 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 – Magalia District (MD) 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. MD'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 MD'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 MD'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 Acquisition Adjustment and 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 – Magalia District as 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 Acquisition Adjustment and 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 MD. 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
Magalia 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) | \$887,420 | \$874,043 |
| Water Plant Construction Work in Progress (CWIP) (Note 1) | 263,242 | 223,193 |
| Accumulated Depreciation of Water Plant | (401,238) | (360,160) |
| Water Plant Acquisition Adjustment (Note 1) | <u>(58,184)</u> | <u>(56,025)</u> |
| Net Utility Plant | 691,240 | 681,051 |
| CURRENT AND ACCRUED ASSETS | | |
| Cash | 141,208 | 119,060 |
| Special Accounts (Note 1) | 16,683 | 9,769 |
| Accounts Receivable – Customers | 13,780 | 11,993 |
| Material and Supplies | 745 | 745 |
| Other Current Assets | 529 | 984 |
| Total Current and Accrued Assets | 172,945 | 142,551 |
| Deferred Charges (Note 1) | <u>672</u> | <u>0</u> |
| Total Assets and Deferred Charges | <u>\$864,857</u> | <u>\$823,601</u> |
| LIABILITIES AND OTHER CREDITS | | |
| CORPORATE CAPITAL AND SURPLUS | | |
| Other Paid-in Capital | 344,466 | 326,160 |
| Retained Earnings | <u>117,338</u> | <u>134,818</u> |
| Total Corporate Capital and Retained Earnings | 461,804 | 460,978 |
| LONG-TERM DEBT | | |
| Long-Term Debt (Note 2) | 217,300 | 188,643 |
| CURRENT AND ACCRUED LIABILITIES | | |
| Accounts Payable | 4,468 | 4,487 |
| Customer Deposits | 1,663 | 1,480 |
| Payables to Associated Companies | 0 | 1,529 |
| Other Current Liabilities | <u>3,523</u> | <u>674</u> |
| Total Current and Accrued Liabilities | 9,654 | 8,170 |
| DEFERRED CREDITS | | |
| Advances for Construction | 18,731 | 18,731 |
| Other Credits | <u>63,611</u> | <u>49,903</u> |
| Total Deferred Credits | 82,342 | 68,634 |
| CONTRIBUTION IN AID OF CONSTRUCTION | | |
| Contribution In Aid of Construction (CIAC) (Note 3) | 138,204 | 138,204 |
| Accumulated Amortization of Contributions | <u>(44,447)</u> | <u>(41,028)</u> |
| Net Contribution In Aid of Construction | 93,757 | 97,176 |
| Total Liabilities and Other Credits | <u>\$864,857</u> | <u>\$823,601</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) | \$175,531 | \$169,938 |
| Other Water Revenue | <u>5,185</u> | <u>2,848</u> |
| Total Operating Revenues | 180,716 | 172,786 |
| OPERATING EXPENSES | | |
| Plant Operation and Maintenance Expenses | | |
| Purchased Water | 30,027 | 15,389 |
| Power | 16,766 | 15,591 |
| Employee Labor | 13,347 | 12,719 |
| Materials | 997 | 1,762 |
| Contract Work | 1,025 | 1,476 |
| Transportation Expenses | 3,120 | 3,274 |
| Other Plant Maintenance Expenses | <u>1,728</u> | <u>1,721</u> |
| Total Plant Operation and Maintenance Expense | 67,010 | 51,932 |
| Administrative and General Expenses | | |
| Office Salaries | 17,284 | 16,059 |
| Management Salaries | 4,311 | 4,236 |
| Employee Pensions and Benefits | 6,639 | 6,267 |
| Uncollectible Accounts Expense/(Recovery) | 66 | 239 |
| Office Services and Rentals | 4,338 | 4,298 |
| Office Supplies and Expenses | 7,756 | 7,206 |
| Professional Services | 548 | 680 |
| Insurance | 4,374 | 3,785 |
| General Expenses | <u>2,955</u> | <u>2,443</u> |
| Total Administrative and General Expenses | 48,271 | 45,213 |
| Net Administrative and General Expenses | <u>48,271</u> | <u>45,213</u> |
| Total Operating Expenses | 115,281 | 97,145 |
| Depreciation Expense | 16,791 | 16,435 |
| Taxes Other Than Income Taxes | <u>4,379</u> | <u>4,354</u> |
| Total Operating Revenue Deductions | 21,170 | 20,789 |
| Total Utility Operating Income | 44,265 | 54,852 |
| Non-Utility Income | 303 | 579 |
| Interest Expense | <u>(4,502)</u> | <u>(2,881)</u> |
| Total Other Income and Deductions | (4,199) | (2,302) |
| Net Income | <u>\$40,066</u> | <u>\$52,550</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 | \$(134,818) | \$(271,300) |
| CREDITS: | | |
| Net Income | 40,066 | 52,548 |
| UAFCB Adjustment to Accumulated Depreciation Water Plant | <u>0</u> | <u>23,027</u> |
| Total Credits | 40,066 | 75,575 |
| DEBITS: | | |
| UAFCB Adjustment to Accumulated Depreciation Water Plant | 8,192 | 0 |
| Dividends for the period | <u>34,520</u> | <u>212,057</u> |
| Total Debits | 42,712 | 212,057 |
| Retained Earnings, End of Year (rounded) | <u><u>\$(132,172)</u></u> | <u><u>\$(134,818)</u></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) | \$40,066 | \$52,549 |
| Adjustments to Reconcile Net Income to Cash | | |
| Provided by Operating Activities | | |
| Depreciation | 18,051 | 17,695 |
| Decrease (Increase) in Special Accounts | (6,914) | 0 |
| Decrease (Increase) in Accounts Receivable | (1,787) | 1,820 |
| Decrease (Increase) in Other Current Assets | 455 | (184) |
| Decrease (Increase) in Deferred Charges | (672) | 0 |
| Increase (Decrease) in Accounts Payable | (19) | 2,240 |
| Increase (Decrease) in Customer Deposits | 183 | 0 |
| Increase (Decrease) in Current Liabilities | 2,849 | 0 |
| Increase (Decrease) in Other Credits | <u>13,708</u> | <u>0</u> |
| Net Cash Provided by Operating Activities | \$65,920 | \$74,120 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net Plant Additions | (13,377) | (2,744) |
| Increase (Decrease) in Water Plant CWIP ¹ | (40,049) | 0 |
| Water Plant Acq. Adj. | 2,159 | 2,159 |
| Accumulated Amort. Of Contributions | <u>(3,419)</u> | <u>(3,419)</u> |
| Net Cash Used for Investing Activities | \$(54,686) | \$(4,004) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Increase (Decrease) in Long-Term Debt ² | 28,657 | 0 |
| Increase (Decrease) in Payables to Associated Companies | (1,529) | 0 |
| Increase (Decrease) in Other Paid In Capital ³ | 18,306 | 0 |
| DOWC Adjustments to Retained Earnings – Dividends and others | <u>(34,520)</u> | <u>(212,057)</u> |
| Net Cash Used for Financing Activities | \$10,914 | \$(212,057) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | \$22,148 | \$(141,940) |
| CASH AT BEGINNING OF YEAR | \$119,060 | \$261,000 |
| CASH AT END OF YEAR (rounded) | <u>\$141,208</u> | <u>\$119,060</u> |

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

¹ Excluded \$223,193 of SRF expenditures in 2011 since this amount was not paid from the main MD cash account.

² Excluded \$188,643 of a SDWSRF loan in 2011 since the loan activities were not accounted for in the main cash account.

³ Excluded \$44,319 of Del Oro capital contributions in 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 Magalia District (MD) that provides water service to 268 customers in 2011 and 275 customers in 2012.

MD 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 MD 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 MD'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.

MD is participating in a Regional Intertie Project to modify the existing lake intake from Lake Oroville and increase its overall water production capability. MD'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. The composite rate was 3.13% for Year 2011 and 2012.

(c) Special Accounts

The special account balances represent the cash balances for special surcharges collected by MD 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) Acquisition adjustment:

Acquisition adjustment represents the difference between net book costs and set rate base to be adjusted over the life of the plant to properly reflect the depreciation of the plant over its useful life.

Due to the lack of sufficient supporting documentation on the historical cost of Acquisition Adjustment and related accounts, the Commission staff could not attest to these balances as of December 31, 2011 and 2012. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by MD in its annual report filed with the Commission.

Notes to Financial Statements (Continued)

(f) Revenues

All MD’s customers are metered and they are billed on a monthly basis. MD 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, (8) Accounting, (9) Insurance. Allocated corporate administrative expenses from DOWC to MD in 2011 and 2012 were \$ 52,188 and \$ 54,950, respectively.

(2) Long-term Debts

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

| <u>Description</u> | <u>Outstanding Balance As of December 31, 2012</u> |
|----------------------------------|--|
| Notes Payable – 2008 SDWSRF Loan | <u>\$217,300</u> |
| Total Long-Term Debt | <u>\$217,300</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. MD’s share of the loan is 5% 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. MD’s allocated share of the total loan disbursed was \$217,300. As of December 31, 2012, DOWC contributed \$1,507,034 toward the total project funding. MD’s allocated share of the equity contribution is \$45,942.

Notes to Financial Statements (Continued)

(3) Contributions In Aid of Construction (CIAC) and Accumulated Amortization of CIAC

CIAC represent 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 MD 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. DOWC's pays all subsidiaries state corporate income taxes due through PPD State Franchise tax return.

(6) Annual Reports

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