



California Public Utilities Commission
Division of Water and Audits

Financial Audit of
Meyers Water Company, Inc.
Financial Statements
For the Years Ended December 31, 2011 and 2012

February 27, 2014



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
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Meyers Water Company, Inc.
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 Meyers Water Company, Inc. (MWC) as of December 31, 2011 and 2012, and the related income statements for the years then ended. MWC'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 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 concerning MWC'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 Contributions In Aid of Construction (CIAC) and Accumulated Amortization of Contributions as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Meyers Water Company, Inc. as of 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 data of CIAC and Accumulated Amortization of Contributions, 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 MWC. 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
Meyers Water Company, Inc.
For the Years Ended December 31, 2011 and 2012**

Balance Sheets

	As of December 31 for the Year	
	2012	2011
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$113,809	\$113,809
Accumulated Depreciation of Water Plant	<u>(92,097)</u>	<u>(87,630)</u>
Net Utility Plant	21,712	26,179
UTILITY PLANT ACQUISITION ADJUSTMENTS		
Water Plant Acquisition Adjustments (Note 1)	69,074	69,074
Accumulated Depreciation of Non-water Utility Property	<u>(37,991)</u>	<u>(33,386)</u>
Net Utility Plant Acquisition Adjustments	31,083	35,688
CURRENT AND ACCRUED ASSETS		
Cash	28,812	33,653
Other Current Assets (Note 1)	<u>512</u>	<u>512</u>
Total Current Assets	<u>29,324</u>	<u>34,165</u>
Total Assets	<u>\$82,119</u>	<u>\$96,032</u>
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	77,500	77,500
Retained Earnings	<u>(16,510)</u>	<u>(7,110)</u>
Total Capitalization	60,990	70,390
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	1,616	1,749
Customer Deposits	741	941
Taxes Accrued	2,683	1,064
Other Current Liabilities	<u>118</u>	<u>4,921</u>
Total Current and Accrued Liabilities	5,158	8,675
CONTRIBUTION IN AID OF CONSTRUCTION		
Contributions In Aid of Construction (Note 2)	24,000	24,000
Accumulated Amortization of Contributions (Note 2)	<u>(8,029)</u>	<u>(7,033)</u>
Net Contributions In Aid of Construction	<u>15,971</u>	<u>16,967</u>
Total Capitalization and Liabilities	<u>\$82,119</u>	<u>\$96,032</u>

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

Income Statements

	For the Year of	
	2012	2011
OPERATING REVENUES		
Unmetered Water Revenue (Note 1)	\$68,616	\$68,769
Other Water Revenue	<u>1,210</u>	<u>2,082</u>
Total Operating Revenues	69,826	70,851
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	3,587	2,621
Other Volume Related Expenses	40	0
Employee Labor	7,800	7,150
Materials	680	173
Contract Work	2,834	5,585
Transportation Expense	2,583	2,640
Other Plant Maintenance Expenses	<u>358</u>	<u>42</u>
Total Plant Operation and Maintenance Expense	17,882	18,211
Administrative and General Expenses		
Office Salaries	9,300	8,450
Management Salaries	9,920	9,600
Uncollectible Accounts Expense	51	500
Office Services and Rentals	3,600	3,600
Office Supplies and Expenses	1,377	2,650
Professional Services	2,931	2,390
Insurance	3,074	3,100
Regulatory Commission Expense	1,030	1,032
General Expenses (Note 1)	<u>1,097</u>	<u>1,133</u>
Total Administrative and General Expenses	<u>32,380</u>	<u>32,455</u>
Total Operating Expenses	50,262	50,666
Depreciation Expense (Note 1)	3,471	3,297
Taxes Other Than Income Taxes	4,510	3,882
State Corporate Income Tax Expense (Note 3)	903	1,179
Federal Corporate Income Tax Expense (Note 3)	<u>1,397</u>	<u>1,824</u>
Total Operating Revenue Deductions	60,543	60,848
Total Utility Operating Income	9,283	10,003
Non-utility Income (Note 1)	(635)	(731)
Miscellaneous Non-utility Expense (Note 1)	<u>6,605</u>	<u>5,005</u>
Total Other Income and Deductions	5,970	4,274
Net Income	<u>\$3,313</u>	<u>\$5,729</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	(\$7,110)	\$15,942
CREDITS:		
Net Income	3,313	5,729
Total Credits	3,313	5,729
DEBITS:		
MWC Adjustment to Retained Earnings (Footnote 1)	(12,713)	0
UAFCB Adjustment to Accumulated Depreciation of Non-water Utility Property (Footnote 2)	0	(28,781)
Total Debits	(12,713)	(28,781)
Retained Earnings, End of Year	(\$16,510)	(\$7,110)

Statement of Retained Earnings Footnotes:

- (1) MWC distributed dividends of \$12,713 to its shareholders on April 16, 2012.
- (2) Based on a 15-year amortization period, UAFCB adjusted \$28,781 for the accumulated amortization of Water Plant Acquisition Adjustments covering a period of six years and three months from the acquisition date of September 23, 2004 to December 31, 2010.

(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)	\$3,313	\$5,729
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation (Footnote 1)	3,471	3,297
Decrease (Increase) in Accounts Receivable (Footnote 2)	0	416
Decrease (Increase) in Other Current Assets (Footnote 3)	0	27
Increase (Decrease) in Current Liabilities (Footnote 4)	0	(5,556)
Increase (Decrease) in Accounts Payable (Footnote 5)	(133)	1,749
Increase (Decrease) in Customer Deposits (Footnote 6)	(200)	941
Increase (Decrease) in Taxes Accrued (Footnote 7)	1,619	1,064
Increase (Decrease) in Other Current Liabilities (Footnote 8)	<u>(4,803)</u>	<u>4,921</u>
Net Cash Provided by Operating Activities	3,267	12,588
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions (Footnote 9)	0	(8,695)
Increase (Decrease) in Water Plant Construction Work in Progress (Footnote 9)	0	4,077
Increase (Decrease) in Accumulated Depreciation of Non-water Utility Property (Footnote 10)	<u>4,605</u>	<u>33,386</u>
Net Cash Used for Investing Activities	4,605	28,768
CASH FLOWS FROM FINANCING ACTIVITIES:		
UAFCB Adjustments to Retained Earnings (Footnote 11)	<u>(12,713)</u>	<u>(28,781)</u>
Net Cash Used for Financing Activities	(12,713)	(28,781)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,841)	12,575
CASH AT BEGINNING OF YEAR	<u>33,653</u>	<u>21,078</u>
CASH AT END OF YEAR	<u><u>\$28,812</u></u>	<u><u>\$33,653</u></u>

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

Statement of Cash Flow Footnotes:

- (1) The depreciation expenses of \$3,297 and \$3,471 in 2011 and 2012, respectively, which did not include the Accumulated Amortization of Contributions of \$996.
- (2) MWC reclassified the credit balances of \$336 and \$1,268 from Accounts Receivable to Accounts Payable in 2011 and 2012, respectively. As a result, these reclassifications caused a cash inflow of \$416 in 2011 and \$0 in 2012 to the Accounts Receivable.
- (3) Prepaid insurance premiums were \$539, \$512 and \$512 in 2010, 2011 and 2012, respectively. As a result, cash flow changes were \$27 in 2011 and \$0 in 2012 to the Other Current Assets account.

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- (4) UAFCB reclassified the total Current Liabilities account balance of \$8,675 to the following accounts in 2011: Accounts Payable, Customer Deposits, Taxes Accrued, and Other Current Liabilities. The reclassification resulted in a cash outflow of \$5,556 in 2011 and \$0 in 2012 because the Current Liabilities account balances were \$5,556 in 2010 and \$0 in 2012.
- (5) UAFCB reclassified \$1,749 from the Current Liabilities account to the Accounts Payable account in 2011, which caused a cash inflow of \$1,749 in 2011. The cash outflow of \$133 in 2012 was due to a returned check by the bank from a customer.
- (6) UAFCB reclassified \$941 from the Current Liabilities account to the Customer Deposits account in 2011 which resulted in a cash inflow of \$941 in 2011. The cash outflow of \$200 in 2012 was due to a refund of \$200 deposit to a customer.
- (7) UAFCB reclassified payroll tax payable of \$1,064 from the Current Liabilities account to the Taxes Accrued account in 2011 which resulted in a cash inflow of \$1,064 in 2011. The cash inflow of \$1,619 in 2012 was due to the 2012 income taxes payable and payroll tax payable.
- (8) A cash inflow of \$4,921 in 2011 and a cash outflow of \$4,803 in 2012 in the Other Current Liabilities account were mainly affected by the 2010 and 2011 income taxes payable of \$4,773. MWC accrued \$4,773 for 2010 and 2011 income taxes provisions in 2011 and paid the accrued income taxes via its shareholders in 2012.
- (9) Plant addition in 2011 was \$8,695 which included the carried forward Water Plant Construction Work in Progress account balance of \$4,077 from 2010.
- (10) UAFCB adjusted \$33,386 and \$4,605 for the Accumulated Amortization of Water Plant Acquisition Adjustments in 2011 and 2012, respectively, to the Accumulated Depreciation of Non-water Utility Property.
- (11) Cash outflow of Retained Earnings in 2011 and 2012 were caused by the Accumulated Amortization of Water Plant Acquisition Adjustment of \$28,781 in 2011 and MWC's dividend distribution of \$12,713 to its shareholders in 2012. Moreover, the cash outflows of \$28,781 and \$12,713 in 2011 and 2012, respectively, did not include the 2011 and 2012 net income of \$5,729 and \$3,313, respectively.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Meyers Water Company, Inc. (MWC) was incorporated in the State of California on January 28, 2004. MWC is a Class D water utility serving 98 flat-rate customers in Ederly Island Subdivisions, located 10 miles south of city of Napa, in Napa County, California. MWC is owned by Jay M. Gardner, Pamela Simonson, Matthew Fullner, and Juell Fullner. The acquisition was approved by the California Public Utilities Commission (Commission) on September 23, 2004, in Decision (D.) 04-09-053.

MWC has prepared the accompanying Balance Sheets and Income Statements 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, depreciation, and amortization 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. The Statement of Retained Earnings and the Statement of Cash Flows were not required by the Commission when MWC filed its annual reports with the Commission. Therefore, the accompanying Statement of Retained Earnings and 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

Utility plant is recorded at original cost when it is first constructed or purchased. Retired utility plants were removed from utility plant accounts at cost and charged against accumulated depreciation.

(b) Water Plant Acquisition Adjustments

Pursuant to D. 04-09-053, the purchase price of MWC was \$77,500 and MWC's net plant value was \$8,426 at acquisition. As a result, the difference of \$69,074 between the purchase price and the recorded rate base was MWC's Water Plant Acquisition Adjustments.

(c) Depreciation of Water Plant

Depreciation is computed on a straight-line weighted average composite rate of 4.15% (equivalent to depreciating the plant assets over 24 years) to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission.

(d) Amortization of Water Plant Acquisition Adjustments

Per D. 04-09-053, the recorded acquisition adjustments cost will be amortized below the line. Based on the Accounting and Reporting Requirements for Public Utilities and Licensees, plant acquisition may be amortized over a period of not more than 15 years.

The accumulated amortization should be recorded in the Accumulated Depreciation of Non-water Utility Property account and the amortization expense was recorded in the Miscellaneous Non-utility Expense account specified in the Commission's Uniform System of Accounts for Class B, C, and D Water Utilities.

(e) Other Current Assets

The Other Current Assets balances represent the proportional prepaid insurance premiums.

(f) Revenues

All MWC's customers are flat-rate residential customers that are billed in advance on a bi-monthly basis. MWC computed its water revenues based on tariffs approved by the Commission.

(g) Non-utility Income

Non-utility income consists primarily of the late fee charges on outstanding balances from MWC's customers.

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

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 lack of sufficient supporting documentation on the historical data of CIAC and Accumulated Amortization of Contributions, the Commission staff could not attest to the balances of CIAC and Accumulated Amortization of Contributions as of December 31, 2011 and 2012. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by MWC in its 2011 and 2012 Annual Reports filed with the Commission.

(3) Income Taxes

Income taxes were computed based on the Commission authorized rates specified in Appendix D of Resolution W-4642 with the federal income tax rate of 15% and the state income tax rate of 8.84%. MWC reported its state income tax of \$1,179 and \$903 in 2011 and 2012, respectively, and reported its federal income tax of \$1,824 and \$1,397 in 2011 and 2012, respectively.

(4) 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.