



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

**Financial Audit  
of  
Slide Inn Water Company  
Financial Statements**

**For the Years Ended December 31, 2011 and 2012**

**June 25, 2014**



## **Acknowledgement**

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

**Audit of Financial Statements of  
Slide Inn Water Company  
For the Years Ended December 31, 2011 and 2012**

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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 financial statements of Slide Inn Water Company (SIWC), which comprise the statement of financial position – modified cash basis as of December 31, 2011 and 2012 and the related statements of activities and changes in net income – modified cash basis for the years then ended.

SIWC Water Company's management is responsible for the preparation and fair presentation of the financial statements presented in the 2011 and 2012 annual reports filed with the Commission in accordance with the modified cash basis of cash receipts and disbursements described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances.

The responsibility of the UAFCB is to express an opinion on SIWC'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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than the Uniform System of Accounts for Class B, C and D water utilities and other than generally accepted accounting principles.

In our opinion, except for the Water Plant in Service and related Depreciation accounts, as well as Taxes other than Income Taxes 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 – modified cash basis of SIWC Water Company as of December 31, 2011 and 2012, and its statements of activities and changes in net income – modified cash basis for the years then ended, on the basis of accounting described in Note 1.

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

The report is intended solely for the information and use by the Commission and SIWC. 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  
Slide Inn Water Company (SIWC)  
For the Years Ended December 31, 2011 and 2012**

**Statement of Financial Position— Modified Cash Basis**

|  | <b>As of December 31 for the Year</b> |                         |
|--|---------------------------------------|-------------------------|
|  | <b>2012</b>                           | <b>2011</b>             |
| <b>ASSETS</b>                                    |                                       |                         |
| <b>UTILITY PLANT</b>                             |                                       |                         |
| Water Plant in Service (Note 1)                  | \$344,927                             | \$344,927               |
| Accumulated Depreciation of Water Plant (Note 1) | <u>(178,604)</u>                      | <u>(173,475)</u>        |
| <b>Net Utility Plant</b>                         | 166,323                               | 171,452                 |
| <b>CURRENT AND ACCRUED ASSETS</b>                |                                       |                         |
| Cash   | <u>694</u>                            | <u>2,243</u>            |
| <b>Total Current Assets</b>                      | 694                                   | 2,243                   |
| <b>Total Assets</b>                              | <u><b>\$167,017</b></u>               | <u><b>\$173,695</b></u> |
| <b>OWNERS EQUITY AND LIABILITIES</b>             |                                       |                         |
| <b>LONG-TERM DEBT</b>                            |                                       |                         |
| Long-term Debt (Note 2)                          | 35,463                                | 39,222                  |
| <b>PROPRIETARY CAPITAL (Note 1)</b>              |                                       |                         |
|  | 131,554                               | 134,473                 |
| <b>Total Owners' Equity and Liabilities</b>      | <u><b>\$167,017</b></u>               | <u><b>\$173,695</b></u> |

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

**Statement of Activities and Changes in Net Income – Modified Cash Basis  
 For The Years Ended December 31, 2011 and 2012**

|  | <b>For the Year of</b>  |                          |
|--|-------------------------|--------------------------|
|  | <b>2012</b>             | <b>2011</b>              |
| <b>OPERATING REVENUES</b>                            |                         |                          |
| Unmetered Water Revenue                              | \$49,161                | \$46,452                 |
| Metered Water Revenue                                | <u>9,497</u>            | <u>10,209</u>            |
| <b>Total Operating Revenues</b>                      | <b>58,658</b>           | <b>56,661</b>            |
| <b>OPERATING EXPENSES</b>                            |                         |                          |
| <b>Plant Operation and Maintenance Expenses</b>      |                         |                          |
| Contract Work  | 16,800                  | 19,231                   |
| Transportation Expense                               | 4,579                   | 6,428                    |
| Other Plant Maintenance Expenses                     | <u>4,928</u>            | <u>4,695</u>             |
| <b>Total Plant Operation and Maintenance Expense</b> | <b>26,307</b>           | <b>30,354</b>            |
| <b>Administrative and General Expenses</b>           |                         |                          |
| Office Supplies and Expenses                         | 683                     | 696                      |
| Professional Services                                | 5,910                   | 5,565                    |
| Insurance  | 2,233                   | 2,233                    |
| Interest Expense (Note 2)                            | 1,864                   | 2,093                    |
| General Expenses                                     | <u>17,439</u>           | <u>17,623</u>            |
| <b>Total Administrative and General Expenses</b>     | <b>28,129</b>           | <b>28,210</b>            |
| Depreciation Expense (Note 1)                        | 5,129                   | 6,481                    |
| Taxes Other Than Income Taxes (Note 1)               | 4,687                   | 3,523                    |
| State Corporate Income Tax Expense                   | <u>800</u>              | <u>847</u>               |
| <b>Total Operating Revenue Deductions</b>            | <b><u>65,052</u></b>    | <b><u>69,415</u></b>     |
| <b>Total Utility Operating Loss</b>                  | <b>(6,394)</b>          | <b>(12,754)</b>          |
| <b>Net Loss ( Change in Net Assets)</b>              | <b><u>\$(6,394)</u></b> | <b><u>\$(12,754)</u></b> |

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

## Notes to Financial Statements

### (1)– Summary of Significant Accounting Policies and Organization

The summary of significant accounting policies of Slide Inn Water Company (SIWC) (a modified cash basis Class D Water Utility) is presented to assist in understanding SIWC’s financial statements. The financial statements and notes are the representation of SIWC’s ownership (management) who is responsible for the integrity and objectivity of the financial statements.

#### Nature of Operations

SIWC is a local water company in Tuolumne County that provides unmetered water service connections to 106 residences, and metered water service connections to 24 residences, and four commercial. SIWC derives its water from wells, tanks and pumps. The owner is responsible for the maintenance and upkeep of the operations, which is carried out by informal arrangements with hired and trained contractors. There are no employees. The most recent rate increase was approved by Advice Letter No. 14-W on September 2, 2011.

#### Basis of Accounting

The financial statements of SIWC are prepared on a modified cash basis which is a comprehensive basis of accounting other than Uniform System of Accounts (USOA) or Generally Accepted Accounting Principles (GAAP). The basis of presentation differs from USOA or accounting principles accepted by the United States of America in that certain revenues are recognized when received rather than when earned and certain expenses as well as purchase of assets are recognized when paid rather than when the obligation is incurred. Consequently, no provision has been made for accounts receivable, accounts payable and other accruals of income, expense, assets or liabilities. However, similar to financial statements prepared in accordance with USOA and GAAP, these financial statements reflect the capitalized cost of property and equipment and related depreciation.

#### (a) Water Plant in Service (WPIS)

Utility Plant is recorded at original cost when first constructed or purchased. In 2011, a water tank acquired in 1996 for \$25,657 was retired. No assets were retired in 2012. Water Plant in Service showed a significant difference between amounts reported of \$344,927 versus amounts on its depreciation Tax Return schedules (Form 4562). The tax return schedules have amounts for this account at a significantly lower figure (\$205,402). The Bookkeeper and the Tax Accountant did not know the reasons for this, although were aware of this difference.

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, 2011 and 2012. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by SIWC in its 2011 and 2012 Annual Reports filed with the Commission.

#### (b) Depreciation Expense

Per the tax return schedules, WPIS is depreciated on the 150% and 200% declining balance method with accumulated depreciation amounting to \$173,475 in 2011 and \$178,604 in 2012 reported to the Commission. Depreciation Expense of \$6,481 is included in 2011, and \$5,129 in 2012.

**(c) Proprietary Capital and Retained Earnings**

SIWC has recorded historical amounts to its owners' equity in a Retained Earnings Account. SIWC recorded amounts of \$124,473 in 2011 and \$128,080 in 2012. However, since SIWC is a sole proprietorship, it should not be utilizing a Retained Earnings account at all. It should instead record these amounts in a Proprietary Capital account. UAFCB reclassified amounts recorded in Retained Earnings to Proprietary Capital for both audit years. Thus, Retained Earnings has a \$0 audited balance for both years.

**(d) Taxes other than Income Taxes**

SIWC, for both years 2011 and 2012, paid more to this account than its bills substantiated. For 2011, property tax bills totaled \$2,303, and amounts paid totaled \$3,523. In 2012, property tax bills totaled \$2,852, and amounts paid totaled \$4,691. These differences could not be explained and were material in nature. Therefore, UAFCB does not express an opinion on Taxes and other than Income Taxes reported by SIWC in its 2011 and 2012 Annual Reports filed with the Commission.

**(2) – Long-term Debt**

SIWC has long-term debt of \$39,222 in 2011, and \$35,463 in 2012. This is a loan from Porter Cal-Western, issued in 2005, for purchase from that company of a water tank placed into service by SIWC. This loan is for 15 years, and has an interest rate of 4.97% APR for both years.

For 2011, this loan generated interest expense of \$2,093, and \$1,864 for 2012.

**(3) Annual Reports**

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