



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

**Financial Audit of  
Agate Bay Water Company  
Financial Statements**

**For the Years Ended December 31, 2013 and 2014**

**July 7, 2016**



**Acknowledgement**

The following Commission Staff contributed to the completion of this audit report:  
Kayode Kajopaiye, Raymond Yin, and Khai Duong

**Audit of Financial Statements of  
Agate Bay Water Company  
For the Years Ended December 31, 2013 and 2014**

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



## **Report of Independent Auditors**

Lenore Davis, President  
Agate Bay Water Company  
5424 Treeside Dr.  
Carmichael, CA 95608

### **Report on the Financial Statements**

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) has audited the accompanying financial statements of Agate Bay Water Company (ABWC), which are comprised of the balance sheets as of December 31, 2013 and 2014, and the related statements of income, retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

ABWC's management is responsible for the preparation and fair presentation of the financial statements presented in the 2013 and 2014 annual reports filed with the Commission. The Commission requires that the statements be in accordance with the accounting requirements of the Commission as set forth in the Uniform System of Accounts (USOA) for Water Utilities, as described in Note 1 to the Notes to the Financial Statements attached herein. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

The responsibility of the UAFCB is to express an opinion on ABWC's financial statements based on our audits. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, except for Beginning Retained Earning as of January 1, 2013, and the Long-Term Debt balances as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Agate Bay Water Company as of December 31, 2013 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting requirements of the Commission as set forth in the USOA for Water Utilities, described in Note 1.

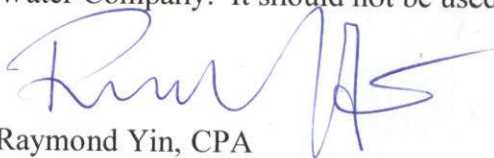
As described in Note 2, UAFCB does not express an opinion on Long-Term Debt balances due to ABWC's non-compliance with Uniform Standards of Accounts (USOA) and Public Utilities Code, Section 818. UAFCB also does not express an opinion on the beginning balance of Retained Earnings as of January 1, 2013, because ABWC was unable to provide adequate, verifiable supporting documentation for it.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements of ABWC were originally prepared on a modified cash basis of accounting but were adjusted partially to accrual basis of accounting as required by the USOA or Generally Accepted Accounting Principles (GAAP). The conversion of modified cash basis of accounting to accrual basis of accounting on the reported financial statements was achieved via audit adjustments by the UAFCB.

### **Use of Report**

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



Raymond Yin, CPA  
Program and Project Supervisor  
Utility Audit, Finance and Compliance Branch

**Audit of Financial Statements of  
Agate Bay Water Company  
For the Years Ended December 31, 2013 and 2014**

**Balance Sheets**

|   | As of December 31 for<br>the Year |                         |
|---|-----------------------------------|-------------------------|
|   | 2014                              | 2013                    |
| <b>ASSETS</b>   |                                   |                         |
| <b>UTILITY PLANT</b>                                  |                                   |                         |
| Water Plant in Service (Note 1)                       | \$1,390,322                       | \$1,270,832             |
| Accumulated Depreciation of Water Plant (Note 1)      | <u>(619,797)</u>                  | <u>(588,140)</u>        |
| <i>Net Utility Plant</i>                              | 770,525                           | 682,692                 |
| <b>CURRENT AND ACCRUED ASSETS</b>                     |                                   |                         |
| Cash  | 87,905                            | 1,525                   |
| Material and Supplies                                 | 5,926                             | 5,926                   |
| Other Current Assets                                  | 17,606                            | 9,501                   |
| Receivables from Associated Companies                 | <u>548</u>                        | <u>0</u>                |
| <i>Total Current Assets</i>                           | 111,985                           | 16,952                  |
| <b>Total Assets (rounded)</b>                         | <u><b>\$882,510</b></u>           | <u><b>\$699,644</b></u> |
| <b>CAPITALIZATION AND LIABILITIES</b>                 |                                   |                         |
| <b>CORPORATE CAPITAL AND SURPLUS</b>                  |                                   |                         |
| Common Stock  | \$45,734                          | \$45,734                |
| Retained Earnings (Note 3)                            | <u>159,765</u>                    | <u>144,603</u>          |
| <i>Total Capitalization</i>                           | 205,499                           | 190,337                 |
| <b>LONG-TERM DEBT</b>                                 |                                   |                         |
| Long Term Debt (Note 2)                               | 328,775                           | 155,755                 |
| <b>OTHER CREDITS</b>                                  |                                   |                         |
| Accumulated Deferred Income Taxes-ACRS                | 347,099                           | 347,099                 |
| <b>OTHER CURRENT LIABILITIES</b>                      |                                   |                         |
| Short-Term Notes Payable                              | 0                                 | 5,242                   |
| Accrued Taxes   | <u>1,137</u>                      | <u>1,211</u>            |
| <i>Total Other Current Liabilities</i>                | 1,137                             | 6,453                   |
| <b>Total Capitalization and Liabilities (rounded)</b> | <u><b>\$882,510</b></u>           | <u><b>\$699,644</b></u> |

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

## Income Statements

|  | For the Year of |                  |
|--|-----------------|------------------|
|  | 2014            | 2013             |
| <b>OPERATING REVENUES</b>                            |                 |                  |
| Unmetered Water Revenue                              | \$373,534       | \$373,534        |
| Fire Protection Revenue                              | 1,591           | 1,591            |
| Metered Water Revenue                                | <u>0</u>        | <u>0</u>         |
| <b>Total Operating Revenues (Note 1)</b>             | <u>375,125</u>  | <u>375,125</u>   |
| <b>OPERATING EXPENSES</b>                            |                 |                  |
| <b>Plant Operation and Maintenance Expenses</b>      |                 |                  |
| Power  | 23,287          | 25,097           |
| Other Volume Related Expenses                        | 7,126           | 10,110           |
| Employee Labor                                       | 45,244          | 31,423           |
| Materials  | 2,953           | 5,608            |
| Contract Work  | 11,436          | 22,108           |
| Transportation Expenses                              | 13,384          | 8,752            |
| Other Plant Maintenance Expenses                     | <u>26,692</u>   | <u>20,976</u>    |
| <b>Total Plant Operation and Maintenance Expense</b> | <u>130,122</u>  | <u>124,074</u>   |
| <b>Administrative and General Expenses</b>           |                 |                  |
| Office Salaries                                      | 15,000          | 0                |
| Management Salaries                                  | 0               | 19,165           |
| Employee Pensions and Benefits                       | 8,911           | 9,867            |
| Office Services and Rentals                          | 23,358          | 23,039           |
| Office Supplies and Expenses                         | 2,895           | 3,052            |
| Professional Services                                | 24,138          | 5,642            |
| Insurance  | 9,614           | 13,087           |
| Regulatory Commission Expense                        | 9,442           | 8,628            |
| General Expenses                                     | <u>4,980</u>    | <u>276</u>       |
| <b>Total Administrative and General Expenses</b>     | <u>98,338</u>   | <u>82,756</u>    |
| <b>Total Operating Expenses</b>                      | <u>228,460</u>  | <u>206,830</u>   |
| Depreciation Expense (Note 1)                        | 31,657          | 38,919           |
| Taxes Other Than Income Taxes                        | 8,506           | 7,178            |
| State Corporate Income Tax Expense                   | <u>2,002</u>    | <u>1,161</u>     |
| <b>Total Operating Revenue Deductions</b>            | <u>270,625</u>  | <u>254,088</u>   |
| <b>Total Utility Operating Income</b>                | 104,500         | 121,037          |
| Interest Expense                                     | <u>12,924</u>   | <u>10,832</u>    |
| <b>Total Other Income and Deductions</b>             | <u>12,924</u>   | <u>10,832</u>    |
| <b>Net Income</b>                                    | <u>\$91,576</u> | <u>\$110,205</u> |

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

## Statements of Retained Earnings

|  | For the Year of  |                  |
|--|------------------|------------------|
|  | 2014             | 2013             |
| <b>Retained Earnings, Beginning of Year</b>                  | \$144,603        | \$89,601         |
| <b>CREDITS:</b>  |                  |                  |
| UAFCB Audit Adjustment to Retained Earnings                  | 66,900           | 4,754            |
| UAFCB Memorandum Adjustment to correct reporting error       | 0                | 60,000           |
| Net Income   | <u>91,576</u>    | <u>110,205</u>   |
| <b>Total Credits</b>   | 158,476          | 174,959          |
| <b>DEBITS:</b>   |                  |                  |
| UAFCB Audit Adjustment to Depreciation Expense               | (63,314)         | 0                |
| Other Debit - Rounding Adjustment by Agate Bay Water Company | 0                | 43               |
| Dividends  | <u>(80,000)</u>  | <u>(120,000)</u> |
| <b>Total Debits</b>  | (143,314)        | (119,957)        |
| <b>Retained Earnings, End of Year</b>                        | <u>\$159,765</u> | <u>\$144,603</u> |

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



## Statements of Cash Flows

|   | For the Year of  |                  |
|---|------------------|------------------|
|   | 2014             | 2013             |
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>   |                  |                  |
| Net Income  | \$91,576         | \$110,205        |
| <b>Adjustments to Reconcile Net Income to Cash<br/>Provided by Operating Activities</b> |                  |                  |
| Depreciation and Amortization   | 31,657           | 38,919           |
| Increase in Other Current Assets  | (8,105)          | 0                |
| Increase in Receivables from Associated Companies                                       | (548)            | 0                |
| Decrease in Accrued Taxes   | (74)             | (166)            |
| <b>Net Cash Provided by Operating Activities</b>  | <u>114,506</u>   | <u>148,958</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                  |
| Net Plant Additions   | (119,490)        | 23,884           |
| <b>Net Cash Used for Investing Activities</b>   | <u>(119,490)</u> | <u>23,884</u>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                  |                  |
| Increase (Decrease) in Short-Term Notes Payable   | (5,241)          | 5,241            |
| Adjustment in Retained Earnings <sup>1</sup>  | 3,586            | (10,502)         |
| Increase (Decrease) in Long-Term Debt   | 173,020          | (46,356)         |
| Dividends   | (80,000)         | (120,000)        |
| <b>Net Cash Used for Financing Activities</b>   | <u>91,365</u>    | <u>(171,617)</u> |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                         | <u>86,381</u>    | <u>1,225</u>     |
| <b>CASH AT BEGINNING OF YEAR</b>  | <u>1,525</u>     | <u>300</u>       |
| <b>CASH AT END OF YEAR (Rounded)</b>  | <u>\$87,905</u>  | <u>\$1,525</u>   |

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

<sup>1</sup> Adjustment does not include any non-cash item such as depreciation.

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Agate Bay Water Company (ABWC) was incorporated in April of 1962. ABWC is a Class C water utility that provides water service to the Agate Bay View and Agate Bay Shore subdivisions on the northwest shore of North Lake Tahoe, located within Placer County.

The financial statements of ABWC were originally prepared on a modified cash basis of accounting but were adjusted partially to accrual basis of accounting as required by the Uniform System of Accounts (USOA) or Generally Accepted Accounting Principles (GAAP). The conversion of modified cash basis of accounting to accrual basis of accounting on the reported financial statements was achieved via audit adjustments by the Utility Audit, Finance and Compliance Branch (UAFCB). The Statements of Retained Earnings and Statements of Cash Flows are not required by the Commission when ABWC files its Annual Reports with the Commission. Therefore, the accompanying Statements of Retained Earnings and Statements of Cash Flows were compiled by UAFCB based on the audited financial information of ABWC's Balance Sheets and Income Statements.

#### (a) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A and Appendix B present the net financial impact resulting from UAFCB's audit adjustments for Years 2014 and 2013, respectively. Appendix C and Appendix D summarize the detail UAFCB audit adjustments for Years 2014 and 2013, respectively.

#### (b) Water Plant in Service

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

#### (c) Depreciation of Water Plant

Depreciation is computed using a straight-line composite rate of 2.7% (equivalent to depreciating the plant assets over approximately 37 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. Depreciation Expense was misreported in 2014 resulting in a misstatement of Net Income.

#### (d) Revenues

ABWC revenues are obtained from flat rate service to its customers on an annual basis. In addition, a small portion of ABWC revenue is from private fire protection service. ABWC computed its water revenues based on tariffs approved by the Commission.

#### (e) Dividends

On its amended 2013 Annual Report filed with the Commission, ABWC incorrectly reported a \$60,000 dividend instead of the \$120,000 it actually disbursed during the

year. UAFCB made a memorandum adjustment to reflect what ABWC recorded in its General Ledger.

## **(2) Long-Term Debt**

In its 2013 and 2014 annual reports, ABWC reported Long-Term Debt (USOA Account 224) of \$155,756 and \$328,744, respectively.

Public Utility Code (PUC), Section 818 requires that a public utility, in addition to other requirements of law, to secure Commission approval to issue stocks, bonds, notes or other evidence of *indebtedness* payable at periods of more than twelve (12) months. PUC Section 818 also requires that the loan proceeds not to be used in whole or in part for operating expenses or charges against income.

ABWC has not requested nor received Commission authorization for the Long-Term Debt it reported in its 2013 and 2014 Annual Reports. To correct its omission and to comply with the requirements of PUC Section 818 and USOA, ABWC should file a Tier 3 Advice Letter with the Commission to seek authorization for the long-term debt incurred. The filing must indicate the terms and conditions of the loan, the purpose of the use of proceeds, and if the utility assets were encumbered.

## **(3) Retained Earnings**

The beginning balance of Retained Earnings as of January 1, 2013 per ABWC's General Ledger was \$149,644. ABWC reported a debit balance of \$104,438 for Retained Earnings as of December 31, 2012 in its 2012 Annual Report. Subsequently, ABWC reported as of January 1, 2013, a Retained Earnings balance of \$89,601 in its revised 2013 Annual Report filed with the Commission on November 13, 2014. A discrepancy of \$194,039 was noted. ABWC did not provide adequate, verifiable supporting documentation to explain the noted difference. UAFCB was not able to verify the accuracy of these reported Retained Earnings amounts due to limitation on current audit scope and time constraints.

## **(4) Annual Reports**

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

## Appendix A

### Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustments for Year 2014

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2014.

| Audit Adj. No.   | Annual Report |       |      |          | Description                                   | For the Year 2014 |          |
|--|---------------|-------|------|----------|---|-------------------|----------|
|  | Sch.          | Line. | Col. | Acct No. |   | Debit             | Credit   |
| <b><u>Net Financial Impact on Balance Sheets Items:</u></b>    |               |       |      |          |   |                   |          |
| 3, 5   | A             | 34    | 5    | 174      | Other Current Assets                          | \$8,106           |          |
| 1, 4   | A             | 44    | 5    | 215      | Retained Earnings                             |                   | \$66,900 |
| 5  | A             | 58    | 5    | 232      | Short-Term Notes Payable                      |                   | 6,606    |
| <b><u>Net Financial Impact on Income Statements Items:</u></b> |               |       |      |          |   |                   |          |
| 4  | B             | 3     | 5    | 403      | Depreciation Expense                          | \$63,314          |          |
| 1  | B-2           | 2     | 4    | 460.1    | Unmetered Revenue – Single-Family Residential | 3,586             |          |
| 2  | B-2           | 9     | 4    | 664      | Other Plant Maintenance Expense               |                   | \$9,170  |
| 3  | B-2           | 17    | 4    | 681      | Office Supplies and Expenses                  |                   | 1,500    |
| 2  | B-2           | 20    | 4    | 688      | Regulatory Commission Expenses                | 9,170             |          |

## Appendix B

### Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustments for Year 2013

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2013.

| Audit Adj. No.   | Annual Report |       |      |          | Description                                     | For the Year 2013 |          |
|--|---------------|-------|------|----------|---|-------------------|----------|
|  | Sch.          | Line. | Col. | Acct No. |   | Debit             | Credit   |
| <b><u>Net Financial Impact on Balance Sheets Items:</u></b>    |               |       |      |          |   |                   |          |
| 1, M1  | A             | 44    | 5    | 215      | Retained Earnings                               |                   | \$4,754  |
| <b><u>Net Financial Impact on Income Statements Items:</u></b> |               |       |      |          |   |                   |          |
| 4  | B             | 4     | 5    | 407      | SDWBA Loan Amortization Expense                 |                   | \$10,832 |
| 4  | B             | 12    | 5    | 427      | Interest Expense                                | \$10,832          |          |
| 1  | B-2           | 2     | 4    | 460.1    | Unmetered Revenues -- Single-Family Residential | 4,754             |          |
| 2, 3   | B-2           | 9     | 4    | 664      | Other Plant Maintenance Expenses                | 4,495             |          |
| 3  | B-2           | 16    | 4    | 678      | Office Services and Rentals                     |                   | 13,123   |
| 2  | B-2           | 20    | 4    | 688      | Regulatory Commission Expense                   | 8,628             |          |

## Appendix C

### Summary of Audit Adjustments for Year 2014

| Audit Adj. No. | Annual Report |      |      |          | Description  | Debit    | Credit   |
|----------------|---------------|------|------|----------|--|----------|----------|
|                | Sch.          | Line | Col. | Acct No. |  |          |          |
| 1              | B-1           | 2    | 4    | 460.1    | Unmetered Revenue – Single-Family Residential  | \$3,586  |          |
|                | A             | 44   | 5    | 215      | Retained Earnings  |          | \$3,586  |
|                |               |      |      |          | <i>To adjust reported Revenues to the accrual basis of accounting.</i>                   |          |          |
| 2              | B-2           | 20   | 4    | 688      | Regulatory Commission Expenses   | \$9,170  |          |
|                | B-2           | 9    | 4    | 664      | Other Plant Maintenance Expenses   |          | \$9,170  |
|                |               |      |      |          | <i>To correctly classify reported CPUC and DHS fees.</i>                                 |          |          |
| 3              | A             | 34   | 5    | 174      | Other Current Assets   | \$1,500  |          |
|                | B-2           | 17   | 4    | 131      | Office Supplies and Expenses   |          | \$1,500  |
|                |               |      |      |          | <i>To properly reflect advance payments for membership dues to CA Water Association.</i> |          |          |
| 4              | B             | 3    | 5    | 403      | Depreciation Expense   | \$63,314 |          |
|                | A             | 4    | 5    | 215      | Retained Earnings  |          | \$63,314 |
|                |               |      |      |          | <i>To correctly report Depreciation Expense.</i>   |          |          |
| 5              | A             | 34   | 5    | 174      | Other Current Assets   | \$6,606  |          |
|                | A             | 58   | 5    | 232      | Short-Term Notes Payable   |          | \$6,606  |
|                |               |      |      |          | <i>To correctly classify reported Short-Term Notes Payable.</i>                          |          |          |

## Appendix D

### Summary of Audit Adjustments for Year 2013

| Audit Adj. No.   | Annual Report |       |      |          | Description  | Debit    | Credit   |
|--|---------------|-------|------|----------|--|----------|----------|
|  | Sch.          | Line. | Col. | Acct No. |  |          |          |
| 1  | B-1           | 2     | 4    | 460.1    | Unmetered Revenue – Single-Family Residential          | \$4,754  |          |
|  | A             | 44    | 5    | 215      | Retained Earnings                                      |          | \$4,754  |
| <i>To adjust reported Revenues to the accrual basis of accounting.</i>       |               |       |      |          |  |          |          |
| 2  | B-2           | 20    | 4    | 688      | Regulatory Commission Expenses                         | \$8,628  |          |
|  | B-2           | 9     | 4    | 664      | Other Plant Maintenance Expenses                       |          | \$8,628  |
| <i>To correctly classify reported CPUC and DHS fees.</i>                     |               |       |      |          |  |          |          |
| 3  | B-2           | 9     | 4    | 688      | Other Plant Maintenance Expenses                       | \$13,123 |          |
|  | B-2           | 10    | 4    | 678      | Office Services and Rentals                            |          | \$13,123 |
| <i>To reclassify Repairs and Maintenance Expenses to the proper account.</i> |               |       |      |          |  |          |          |
| 4  | B             | 12    | 5    | 427      | Interest Expense                                       | \$10,832 |          |
|  | B             | 4     | 5    | 407      | SDWBA Loan Expense                                     |          | \$10,832 |
| <i>To reclassify Interest Expense to the proper account.</i>                 |               |       |      |          |  |          |          |
| M1*  | A-9           | 12    | 3    | 215      | Dividends – Common Stock                               | \$60,000 |          |
|  | A-9           | 1     | 3    | 215      | Retained Earnings – Beginning Balance as of 01/01/2013 |          | \$60,000 |
| <i>To correctly state beginning Retained Earnings and Dividends paid.</i>    |               |       |      |          |  |          |          |

\*This is a memorandum adjustment.