



California Public Utilities Commission
Utility Audit, Finance and Compliance Branch

Financial Audit of
Kenwood Village Water Company
Financial Statements

For the Years Ended December 31, 2016 and 2015

January 19, 2018



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
Raymond Yin, Sharmin Wellington, Bixia Ye and Xiaowen Zhao**

**Audit of Financial Statements of
Kenwood Village Water Company
For the Years Ended December 31, 2016 and 2015**

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PUBLIC UTILITIES COMMISSION

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Independent Auditor's Report

James B. Downey, President
Kenwood Village Water Company (KVWC)
4982 Sonoma Highway,
Santa Rosa, CA 95409

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 Kenwood Village Water Company (KVWC), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income for the years then ended.

Management's Responsibility for the Financial Statements

KVWC's management is responsible for the preparation and fair presentation of the financial statements in accordance with the Uniform System of Accounts (USOA) for Class B, C, and D water utilities adopted and prescribed by the Commission, and accounting principles generally accepted in the United States of America, as described in Note (2) in the Notes to the Financial Statements attached herein. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

The responsibility of the UAFCB is to express an opinion on KVWC's financial statements based on the 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 from 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 judgment, 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 accounting 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 adverse audit opinion.

Basis for Adverse Opinion

The basis for adverse opinion is not due to the extent of UAFCB's audit adjustments, but is based on the fact that UAFCB could not determine the account balances due to KVWC did not provide sufficient supporting documents requested by UAFCB to substantiate them. These account balances, when considered individually or in aggregate, were material to the financial statements as a whole. As described in Note (2) in the Notes to the Financial Statements, KVWC could not substantiate the balances of various major accounts in KVWC's reported Balance Sheets and Income Statements reported in its 2016 and 2015 Annual Reports. These accounts include Water Plant in Service, Accumulated Depreciation of Water Plant, Accumulated Amortization of Contributions, Depreciation Expense, Other Credits, Accumulated Deferred Income Taxes, Retained Earnings, and affiliated cash transactions with KVWC's owner and parent company. UAFCB could not determine the audited balances of these accounts due to the lack of historical information and the lack of sufficient supporting documentation. UAFCB believes that the effects on the reported financial statements taken as a whole are materially misstated.

Adverse Opinion

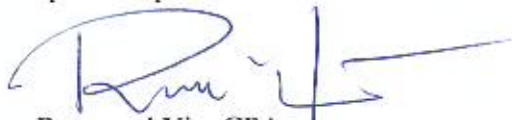
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly the financial positions, and results of operations of KVWC as of December 31, 2016 and 2015 in accordance with the USOA for Class B, C, and D water utilities, and accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note (2) in the Notes to the Financial Statements, which describes the basis of accounting. As described in the note, the financial statements should be prepared by KVWC on the basis of the USOA for Class B, C, and D water utilities, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Commission. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use by the Commission and Kenwood Village Water Company and is not intended to be and should not be used by anyone other than these specified parties.



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

**Audit of Financial Statements of
Kenwood Village Water Company
For the Years Ended December 31, 2016 and 2015**

Balance Sheets

	As of December 31 for the Year	
	2016	2015
ASSETS		
UTILITY PLANT		
Water Plant in Service ¹	\$1,218,431	\$1,199,055
SDWBA Plant	426,091	426,091
Water Plant Construction Work in Progress	300	300
Accumulated Depreciation of Water Plant ¹	(328,148)	(301,183)
Accumulated Amortization of SDWBA Loan	(426,091)	(426,091)
Net Utility Plant	890,583	898,172
CURRENT AND ACCRUED ASSETS		
Cash ²	14,267	6,033
Special Deposits	3,876	4,824
Accounts Receivable – Customers	33,525	25,871
Materials and Supplies	3,496	2,352
Other Current Assets	2,533	3,406
Total Current and Accrued Assets	57,697	42,486
Total Assets	\$948,280	\$940,658
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Retained Earnings ¹	\$675,737	\$655,565
Total Capitalization	675,737	655,565
LONG TERM DEBT		
Long Term Debt	0	4,605
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	15,620	14,722
Customer Deposits	250	400
Total Current and Accrued Liabilities	15,870	15,122
DEFERRED CREDITS		
Other Credits ¹	(6,656)	(5,706)
Total Deferred Credits	(6,656)	(5,706)
CONTRIBUTION IN AID OF CONSTRUCTION		
Contributions In Aid of Construction	376,332	375,382
Accumulated Amortization of Contributions ¹	(113,003)	(104,310)
Net Contributions In Aid of Construction	263,329	271,072
Total Capitalization and Liabilities	\$948,280	\$940,658

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

¹ The amount balance incorporated UAFCB's audit adjustments. However, UAFCB could not attest to the amounts for these accounts as described in the Notes to the Financial Statements, which were the bases for the adverse opinion.

² The Cash balance is derived from KVWC's bank statements, which contain several unidentified transactions. UAFCB could not verify whether the Cash balance related solely to KVWC's business activities.

Income Statements

	For the Year of	
	2016	2015
OPERATING REVENUES		
Unmetered Water Revenue	\$22	\$0
Fire Protection Revenue	1,060	1,060
Metered Water Revenue	353,724	333,865
Approved Total Surcharge Revenue(s)	19,013	1,457
Other Water Revenue	1,140	1,135
Total Operating Revenues	374,959	337,517
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Purchased Water	7,485	5,096
Power	12,645	14,389
Other Volume Related Expenses	618	885
Employee Labor	43,714	32,733
Materials	5,265	4,659
Contract Work	5,269	9,635
Transportation Expenses	2,715	3,406
Other Plant Maintenance Expenses	789	695
Total Plant Operation and Maintenance Expense	78,500	71,498
Administrative and General Expenses		
Office Salaries	28,164	28,228
Management Salaries	52,761	43,545
Employee Pensions and Benefits	33,531	34,037
Uncollectible Accounts Expense	0	195
Office Services and Rentals	6,724	6,529
Office Supplies and Expenses	8,042	7,709
Professional Services	4,292	6,233
Insurance	6,609	6,405
Regulatory Commission Expense	4,490	5,009
General Expenses	1,878	1,059
Net Administrative and General Expenses	146,491	138,949
Total Operating Expenses	224,991	210,447
Depreciation Expense ¹	18,752	18,384
Taxes Other Than Income Taxes	12,246	12,067
State Corporate Income Tax Expense	10,507	8,527
Federal Corporate Income Tax Expense	25,505	18,147
Total Operating Revenue Deductions	292,001	267,572
Total Utility Operating Income	82,958	69,545
OTHER INCOME AND DEDUCTIONS		
Interest Expense	(117)	(160)
Total Other Income and Deductions	(117)	(160)
Net Income	\$82,841	\$69,785

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

¹ The Depreciation Expenses were reported by KVWC in its annual reports. UAFCB could not attest to the Depreciation Expenses as described in the Notes to the Financial Statements, which was one of the bases for the adverse opinion.

Statements of Retained Earnings

	For the Year of	
	2016	2015
Retained Earnings, Beginning of Year	\$655,565	\$631,111
CREDITS:		
Net Income ¹	82,841	69,785
UAFCB Adjustment to Accounts Payable	0	398
UAFCB Adjustment to Other Credits	6,656	5,706
UAFCB Adjustment to Employee Labor	0	330
UAFCB Adjustment to Materials	342	0
UAFCB Adjustment to Employee Pensions and Benefits	2,166	595
UAFCB Adjustment to Other Current Assets	2,533	3,406
UAFCB Adjustment to Taxes Other than Income Taxes	0	704
UAFCB Adjustment to Insurance	736	0
UAFCB Adjustment to Regulatory Commission Expense	4,490	5,009
Total Credits	99,764	85,933
DEBITS:		
UAFCB Cumulative Adjustment to Beginning Balance ²	(40,725)	(30,522)
UAFCB Adjustment to Water Plant in Service	(943)	(943)
UAFCB Adjustment to Accounts Payable	(300)	0
UAFCB Adjustment to Approved Total Surcharge Revenue(s)	0	(1,457)
UAFCB Adjustment to Metered Water Revenue	(4,010)	(1,008)
UAFCB Adjustment to Other Water Revenue	(1,140)	(1,135)
UAFCB Adjustment to Power Expense	(1,921)	0
UAFCB Adjustment to Transportation Expense	(1,232)	(2,020)
UAFCB Adjustment to Management Salaries	0	(908)
UAFCB Adjustment to State Corporate Income Tax	(3,504)	(2,462)
UAFCB Adjustment to Federal Corporate Income Tax	(25,817)	(21,024)
Total Debits	(79,592)	(61,479)
Retained Earnings, End of Year³	\$675,737	\$655,565

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

¹ The Net Income is unaudited because it includes the reported/unaudited Depreciation Expense.

² These amounts represent the cumulative adjustments to the reported beginning balance of Retained Earnings as of January 1, 2015 and 2016. Detailed computation is shown below:

a.	Retained Earnings as of 12/31/2015 reported:	\$646,998
	Less: PWC reported Net Income in 2015:	<u>46,409</u>
	Retained Earnings as of 01/01/2015 should be:	600,589
	Retained Earnings as of 01/01/2015 reported:	<u>631,111</u>
	UAFCB Cumulated Adjustments to 2015 Beginning Balance	<u>(30,522)</u>
b.	Retained Earnings as of 12/31/2016 reported:	\$665,325
	Less: PWC reported net income in 2016:	<u>50,485</u>
	Retained Earnings as of 01/01/2016 should be:	614,840
	Retained Earnings as of 12/31/2015 - As Audited:	<u>655,565</u>
	UAFCB Cumulative Adjustment to 2016 Beginning Balance	<u>\$(40,725)</u>

³ The ending balances were not audited balances but they incorporated the results of UAFCB aggregated audit adjustments and net incomes for 2015 and 2016. UAFCB could not attest to the Retained Earnings account for the years being audited in this audit report as described in the Notes to the Financial Statements.

Statements of Cash Flows

	For the Year of	
	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income ¹	\$82,841	\$69,785
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation	26,965	27,055
Decrease (Increase) in Special Deposits	948	5,702
Decrease (Increase) in Accounts Receivable	(7,654)	2,701
Decrease (Increase) in Materials and Supplies	(1,144)	2,460
Decrease (Increase) in Other Current Assets	873	(3,406)
Increase (Decrease) in Accounts Payable	898	(4,217)
Increase (Decrease) in Customer Deposits	(150)	150
Increase (Decrease) in Other Credits	(950)	(5,706)
UAFCB Adjustment to Retained Earnings ²	(21,944)	(14,809)
Net Cash Provided (Used) by Operating Activities	80,683	79,715
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions	(19,376)	(55,535)
Increase (Decrease) in Contributions in Aid of Construction	950	5,865
Decrease (Increase) in Accumulated Amortization of Contributions	(8,693)	(8,671)
Net Cash Provided (Used) for Investing Activities	(27,119)	(58,341)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-term Debt	(4,605)	(1,488)
Net Cash Provided (Used) for Financing Activities	(4,605)	(1,488)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,959	19,886
UAFCB Cumulated Adjustment to Beginning Balance of Retained Earnings ³	(40,725)	(30,522)
CASH AT BEGINNING OF YEAR	6,033	16,669
CASH AT END OF YEAR	\$14,267	\$6,033

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

¹ The Net Income is unaudited because it includes the reported/unaudited Depreciation Expense.

² UAFCB's adjustments to Retained Earnings were (\$21,944) and (\$14,809) for 2016 and 2015, respectively.

³ "UAFCB Cumulated Adjustments to 2016 and 2015 beginning balance of Retained Earnings" represented those unreported transactions.

Notes to Financial Statements

(1) Introduction of Kenwood Village Water Company (KVWC)

KVWC is a Class D water company with approximately 310 active meters and service connections. KVWC is located in Sonoma County of California. KVWC and its sister company, Penngrove Water Company (PWC), are subsidiaries of Altos Sonoma Corporation (ASC). KVWC and PWC share the same office space and accounting records. Based on the relative numbers of active service connections in each water utility, some of their combined account balances were allocated 30% and 70% to KVWC and PWC, respectively, in their Annual Report filed with the Commission.

(2) Summary of Significant Accounting Policies

KVWC is required to prepare the financial statements in accordance with the Uniform System of Accounts (USOA) for Class B, C, and D water utilities. The USOA adopted by the California Public Utilities Commission (Commission) prescribes the comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The following accounts show the differences between the USOA and GAAP. KVWC failed to comply with the USOA in many of their accounts.

(a) Water Plant in Service (WPIS)

WPIS is a special Property, Plant and Equipment account for water utilities required by the USOA. It shall include the original cost of all water plant owned and used by the utility in providing water service. KVWC reported \$1,216,908 and \$1,199,998 for WPIS in its 2016 and 2015 Annual Reports, respectively.

KVWC did not provide the supporting documents to support the original costs for most of its plant assets; and it could not explain how the retired utility plant assets were accounted for or removed from utility plant accounts including Accumulated Depreciation of Water Plant. KVWC did not distinguish between repair costs and the replacement cost; thereby capitalizing the repair costs. UAFCB noticed that several invoices indicated for repair services but KVWC asserted that they were replacement costs rather than repair costs. However, except for its own written description, which states that "Almost all service renewals start with a leak report, and that's what we say when we call the contractor. Once they are on site, and it is excavated and evaluated, we may or may not proceed with a renewal. Our operators are well qualified to make this determination. If they have any doubts they consult with the manager," KVWC did not submit any additional document beyond its statement. UAFCB does not consider KVWC's assertions alone as adequate supporting documents.

Our review of the plant additions recorded in 2012, 2014, 2015 and 2016, revealed that KVWC failed to accurately record its plant assets. KVWC recorded the same assets repeatedly in some instances and did not remove some of its retired assets from the utility plant account. The duplicate recording of the same asset and not removing the retired assets from the accounting records caused the overstatement of WPIS balances.

In addition, we noted some plant assets were misclassified among plant subaccounts.

KVWC incurred significant expense for mapping services from an external individual. In addition, KVWC could not provide the contract agreement and/or Tax Form 1099 to support the services as contracted services from this individual. KVWC stated that it did not have any contract or agreement with this individual. The only supporting document provided by KVWC was a written description and handwritten time records without the individual's signature for the work performed. Our review of plant additions in 2012, 2014, 2015 and 2016 disclosed that KVWC reported a total of \$45,358 for the mapping service provided by this individual. Due to insufficient supporting documents and the recording errors of WPIS described in the preceding paragraphs, auditor could not verify the audit amounts of WPIS account.

(b) Contributions in Aid of Construction (CIAC)

CIAC is a non-refundable contribution of cash or plant facilities donated to the water utility to assist its construction of plant. KVWC's audited CIAC accounts were \$370,467 and \$369,517 as of December 31, 2016 and 2015, respectively.

(c) Accumulated Depreciation of Water Plant, Accumulated Amortization of Contributions and Depreciation Expense

USOA requires water utilities to use the straight-line remaining life method in the calculation of annual depreciation of water plant. Depreciation applicable to contributed plant should be charged against the CIAC account rather than to depreciation expense until the amount applicable to such plant has been completely amortized. KVWC reported depreciation expenses of \$18,752 and \$18,384 for 2016 and 2015 respectively; however, UAFCB could not verify these amounts due to the reasons described in the following paragraph.

KVWC could not provide the depreciation schedules to UAFCB for review. KVWC stated they used the single composite depreciation rate for the Annual Report from year to year. The USOA does not allow this methodology for a water utility with annual revenue over \$100,000. There is no indication that the Commission granted KVWC an exception to the rule. Therefore, UAFCB determined that the reported amounts of the Accumulated Depreciation of Water Plant, Accumulated Amortization of Contributions, and Depreciation Expense, are materially misstated.

(d) Special Deposits for Facilities Fees and Other Credits

The facilities fees are required to be deposited into a separate account. They should only be used for plant additions and recorded into Contributions in Aid of Construction account. UAFCB found that KVWC did not comply with the Commission's requirement regarding facilities fees, as described in the following paragraph.

The Commission's Standard Practice U-28-W requires facilities fees be recorded as debits to Account 132 – Special Deposits, and as credits to Account 253 – Other Credits. When plant is replaced using funds from these deposits, a debit would be made to the appropriate plant account and Account 253 – Other Credits, and a credit made to Account 271 – Contributions in Aid of Construction and Account 132 – Special

Deposits. The balance of the Other Credits account should reflect the balance of facilities fees after adjustments for interest. KVWC failed to use double-journal-entry accounting system to record its transactions, resulting in the Other Credits account not being booked. Consequently, UAFCB could not attest to Other Credit account.

(e) Income Tax Expense

Federal or State income taxes for the current calendar year are charged to this tax expense account. KVWC failed to provide its records pertaining to the Federal and State taxes to support the State and Federal Corporate Income Tax Expense.

(f) User Fees

Water utilities should include the User Fees into the water service billings charged to their customers and record the total billed amounts as their operating revenue. Payments of User Fees to the Commission should be recorded into the Regulatory Commission Expense account when payments are due.

(g) Affiliated Cash Transactions

KVWC and PWC were allocated 30% and 70% of the total balance of Cash in their Annual Reports, respectively. KVWC did not report or disclose cash transactions with its owner and/or ASC. KVWC and PWC together paid their owner or parent company totaling \$440,000 in 2016, and totaling \$350,000 in 2015. These payments were recorded in KVWC's Cash Distribution journals by crediting the Cash account. However, there were no corresponding offset accounting journal entries used to record those transactions. Likewise, UAFCB found an instance where KVWC did not record cash received from its owner or parent company. UAFCB noted that in 2016, the owner or parent company paid off the long-term debt of a vehicle loan reported in KVWC's 2015 Annual Report. However, KVWC did not disclose that transaction. Therefore, UAFCB could not verify the cash withdrawals or deposits between KVWC and its owner or parent company. UAFCB determined that these unreported cash transactions had material impacts on the financial statements.

(h) Accumulated Deferred Income Taxes – ACRS Depreciation and Accumulated Deferred Income Taxes – Other

KVWC did not report the Accumulated Deferred Income Taxes – ACRS Depreciation and Accumulated Deferred Income Taxes – Other in its accounting records. KVWC stated that it used different depreciation methods in the annual report and its income tax returns. Because KVWC did not provide UAFCB its records pertaining to the 2016 and 2015 federal and state income tax returns, and KVWC used incorrect methodology to compute its annual depreciation accrual in its annual reports, UAFCB could not attest to the Accumulated Deferred Income Taxes – ACRS Depreciation and Accumulated Deferred Income Taxes – Other accounts.

(i) Retained Earnings

KVWC used the Retained Earnings account as a settlement account to balance its Balance Sheets. This practice does not comply with the accounting requirements specified in the USOA and GAAP. This demonstrates that KVWC had not calculated the earnings retained in the business correctly over the years. UAFCB's cumulative

audit adjustments to the 2016 and 2015 reported beginning balances of Retained Earnings represented the cumulative effect of unreported transactions, such as affiliated cash transactions. Thus, UAFCB determined that the reported balances of Retained Earnings as of December 31, 2016 and 2015, respectively, did not reflect the true value of earnings retained in the business.

(3) The Statements of Retained Earnings and Statements of Cash Flows

The Statements of Retained Earnings and Statements of Cash Flows are not required by the Commission when KVWC filed its Annual Reports with the Commission. UAFCB had compiled those Statements based on the Balance Sheets and Income Statements reported to the Commission and UAFCB's proposed audit adjustments.

(4) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A and Appendix B present the net financial impacts on the financial statements resulting from UAFCB's audit adjustments for Years 2016 and 2015, respectively. Appendix C and Appendix D summarize the details of UAFCB's proposed audit adjustments for Years 2016 and 2015, respectively. These adjustments are not all-inclusive because UAFCB was unable to determine the audited amounts for the accounts and transactions discussed in the above notes.

(5) Annual Reports

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

Appendix A

Summary of Net Financial Impact Resulting from Audit Adjustments for Year 2016

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2016.

Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line.	Col.	Acct No.		Debit	Credit
<u>Net Financial Impact on Balance Sheets Items:</u>							
1, 7	A	1	b	101	Water Plant in Service	\$1,523	
10, 12, 13	A	22	b	174	Other Current Assets	2,533	
1-10, 12- 17	A	30	b	215	Retained Earnings	21,944	
2	A	33	b	231	Accounts Payable		\$300
3, 17	A	41	b	253	Other Credits	6,656	
<u>Net Financial Impact on Income Statements Items:</u>							
14	F	35	b	409	State Corporate Income Tax Expense		\$3,504
15	F	36	b	410	Federal Corporate Income Tax Expense		25,817
4	F	5	b	470	Metered Water Revenue		4,010
5	F	7	b	480	Other Water Revenue		1,140
6	F	14	b	615	Power Expense		1,921
7	F	17	b	640	Materials		2,292
7	F	18	b	650	Contract Work	\$168	
8	F	19	b	660	Transportation Expenses		1,232
9	F	23	b	674	Employee Pensions and Benefits	2,166	
11	F	25	b	678	Office Services and Rentals	420	
11	F	26	b	681	Office Supplies and Expenses		420
12	F	28	b	684	Insurance	736	
16	F	29	b	688	Regulatory Commission Expense	4,490	

Appendix B

Summary of Net Financial Impact Resulting from Audit Adjustments for Year 2015

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2015.

Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line.	Col.	Acct No.		Debit	Credit
<u>Net Financial Impact on Balance Sheets Items:</u>							
1	A	1	b	101	Water Plant in Service		\$943
10, 12, 14	A	22	b	174	Other Current Assets	\$3,406	
1-10, 12-17	A	30	b	215	Retained Earnings	14,809	
2	A	33	b	231	Accounts Payable	398	
3	A	41	b	253	Other Credits	5,706	
<u>Net Financial Impact on Income Statements Items:</u>							
13	F	34	b	408	Taxes Other Than Income Taxes	\$704	
15	F	35	b	409	State Corporate Income Tax Expense		\$2,462
16	F	36	b	410	Federal Corporate Income Tax Expense		21,024
4	F	5	b	470	Metered Water Revenue		1,008
4	F	6	b	475	Approved Total Surcharge Revenue(s)		1,457
5	F	7	b	480	Other Water Revenue		1,135
6	F	16	b	630	Employee Labor	330	
7	F	19	b	660	Transportation Expenses		2,020
8	F	22	b	671	Management Salaries		908
9	F	23	b	674	Employee Pensions and Benefits	595	
11	F	25	b	678	Office Services and Rentals	420	
11	F	26	b	681	Office Supplies and Expenses		420
17	F	29	b	688	Regulatory Commission Expense	5,009	

Appendix C

Summary of Audit Adjustments for Year 2016

Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct No.		Debit	Credit
1	A	30	b	215	Retained Earnings	\$943	
	A	1	b	101	Water Plant in Service <i>To adjust the reported Water Plant in Service to reflect 2015 audit findings.</i>		\$943
2	A	30	b	215	Retained Earnings	\$300	
	A	33	b	231	Accounts Payable <i>To adjust the reported Accounts Payable to agree with the audited amount.</i>		\$300
3	A	41	b	253	Other Credits	\$950	
	A	30	b	215	Retained Earnings <i>To record the use of facilities fees for Contributions in Aid of Construction.</i>		\$950
4	A	30	b	215	Retained Earnings	\$4,010	
	F	5	b	470	Metered Water Revenue <i>To adjust the reported Metered Water Revenue to agree with the audited amount.</i>		\$4,010
5	A	30	b	215	Retained Earnings	\$1,140	
	F	7	b	480	Other Water Revenue <i>To record the late charge payments in the Other Water Revenue account.</i>		\$1,140
6	A	30	b	215	Retained Earnings	\$1,921	
	F	14	b	615	Power Expense <i>To adjust the reported Power Expense to reflect the accrual basis accounting.</i>		\$1,921

Financial Audit of Kenwood Village Water Company Financial Statements
For the Years Ended December 31, 2016 and 2015

Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct No.		Debit	Credit
7	A	1	b	101	Water Plant in Service	\$2,466	
	F	18	b	650	Contract Work	168	
	F	17	b	640	Materials		\$2,292
	A	30	b	215	Retained Earnings		342
					<i>To reclassify the repaired work from Materials to Contract Work, and meter expenses from Materials to Water Plant in Service to agree with the audited amount.</i>		
8	A	30	b	215	Retained Earnings	\$1,232	
	F	19	b	660	Transportation Expense		\$1,232
					<i>To remove the payments for long-term debt from the reported Transportation Expense.</i>		
9	F	23	b	674	Employee Pensions and Benefits	\$2,166	
	A	30	b	215	Retained Earnings		\$2,166
					<i>To adjust the reported Employee Pensions and Benefits to agree with the audited amount.</i>		
10	A	22	b	174	Other Current Assets	\$1,360	
	A	30	b	215	Retained Earnings		\$1,360
					<i>To record the prepaid benefits to the Other Current Assets account.</i>		
11	F	25	b	678	Office Services and Rentals	\$420	
	F	26	b	681	Office Supplies and expenses		\$420
					<i>To reclassify the expenses of Office Supplies and Expenses account to Office Services and Rentals account.</i>		
12	F	28	b	684	Insurance	\$736	
	A	22	b	174	Other Current Asset	451	
	A	30	b	215	Retained Earnings		\$1,187
					<i>To record the prepaid insurance expense to Other Current Assets account and adjust the reported Insurance account to agree with the audited amount.</i>		
13	A	22	b	174	Other Current Asset	\$722	
	A	30	b	215	Retained Earnings		\$722
					<i>To record the prepaid property taxes to Other Current Assets.</i>		

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Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct No.		Debit	Credit
14	A	30	b	215	Retained Earnings	\$3,504	
	F	35	b	409	State Corporate Income Tax Expense		\$3,504
					<i>To adjust the reported State Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		
15	A	30	b	215	Retained Earnings	\$25,817	
	F	36	b	410	Federal Corporate Income Tax Expense		\$25,817
					<i>To adjust the reported Federal Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		
16	F	29	b	688	Regulatory Commission Expense	\$4,490	
	A	30	b	215	Retained Earnings		\$4,490
					<i>To record the payments of User Fees in the Regulatory Commission Expense account.</i>		
17	A	41	b	253	Other Credits	\$5,706	
	A	30	b	215	Retained Earnings		\$5,706
					<i>To adjust the reported Other Credits to reflect the 2015 audit adjustments.</i>		

Appendix D

Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct No.		Debit	Credit
1	A	30	b	215	Retained Earnings	\$943	
	A	1	b	101	Water Plant in Service <i>To adjust the reported 2015 additions of Water Plant in Service to agree with KVWC's records.</i>		\$943
2	A	33	b	231	Accounts Payable	\$398	
	A	30	b	215	Retained Earnings <i>To adjust the reported Accounts Payable to agree with the audited amount.</i>		\$398
3	A	41	b	253	Other Credits	\$5,706	
	A	30	b	215	Retained Earnings <i>To record the use of facilities fees for Contributions in Aid of Construction.</i>		\$5,706
4	A	30	b	215	Retained Earnings	\$2,465	
	F	5	b	470	Metered Water Revenue		\$1,008
	F	6	b	475	Approved Total Surcharge Revenue(s) <i>To adjust the reported Metered Water Revenue to agree with the audited amount.</i>		1,457
5	A	30	b	215	Retained Earnings	\$1,135	
	F	7	b	480	Other Water Revenue <i>To record the late charge payments in the Other Water Revenue account.</i>		\$1,135
6	F	16	b	630	Employee Labor	\$330	
	A	30	b	215	Retained Earnings <i>To adjust an employee's salary to agree with KVWC's tax record in Form W-2.</i>		\$330
7	A	30	b	215	Retained Earnings	\$2,020	
	F	19	b	660	Transportation Expense <i>To remove the payments for long-term debt, from the reported Transportation Expense, and to adjust the reported Transportation Expense to agree with the audited amount.</i>		\$2,020

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Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct No.		Debit	Credit
8	A	30	b	215	Retained Earnings	\$908	
	F	22	b	671	Management Salaries <i>To adjust the manager's salaries to agree with the audited amount.</i>		\$908
9	F	23	b	674	Employee Pensions and Benefits	\$595	
	A	30	b	215	Retained Earnings <i>To adjust the reported Employee Pensions and Benefits to agree with the audited amount.</i>		\$595
10	A	22	b	174	Other Current Assets	\$1,824	
	A	30	b	215	Retained Earnings <i>To record the prepaid benefits to the Other Current Assets account.</i>		\$1,824
11	F	25	b	678	Office Services and Rentals	\$420	
	F	26	b	681	Office Supplies and expenses <i>To reclassify the expenses in the Office Supplies and Expenses account to the Office Services and Rentals account.</i>		\$420
12	A	22	b	174	Other Current Asset	\$990	
	A	30	b	215	Retained Earnings <i>To record the prepaid insurance expense to Other Current Assets Account.</i>		\$990
13	F	34	b	408	Taxes Other Than Income Taxes	\$704	
	A	30	b	215	Retained Earnings <i>To adjust the reported Taxes Other Than Income Taxes to agree with the audited amount.</i>		\$704
14	A	22	b	174	Other Current Asset	\$592	
	A	30	b	215	Retained Earnings <i>To record the prepaid property taxes to Other Current Assets.</i>		\$592
15	A	30	b	215	Retained Earnings	\$2,462	
	F	35	b	409	State Corporate Income Tax Expense <i>To adjust the reported State Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		\$2,462

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Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct No.		Debit	Credit
16	A	30	b	215	Retained Earnings	\$21,024	
	F	36	b	410	Federal Corporate Income Tax Expense <i>To adjust the reported Federal Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		\$21,024
17	F	29	b	688	Regulatory Commission Expense	\$5,009	
	A	30	b	215	Retained Earnings <i>To record the payments of User Fees in the Regulatory Commission Expense account.</i>		\$5,009