



**California Public Utilities Commission**  
*Utility Audit, Finance and Compliance Branch*

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

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
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## **Independent Auditor's Report**

James B. Downey, President  
Penngrove Water Company (PWC)  
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 Penngrove Water Company (PWC), 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**

PWC'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 PWC'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 PWC 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, PWC could not substantiate the balances of various major accounts in PWC's reported Balance Sheets and Income Statements reported in its 2016 and 2015 Annual Reports. These accounts include Water Plant in Service, Contributions in Aid of Construction, Accumulated Depreciation of Water Plant, Accumulated Amortization of Contributions, Depreciation Expense, Other Credits, Accumulated Deferred Income Taxes, Retained Earnings, and affiliated cash transactions with PWC'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 matters discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly the financial positions, results or operations of PWC 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 PWC 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 Pennngrove 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  
Penngrove Water Company  
For the Years Ended December 31, 2016 and 2015**

**Balance Sheets**

	<b>As of December 31 for the Year</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water Plant in Service <sup>1</sup>	\$5,328,228	\$5,040,294
Accumulated Depreciation of Water Plant <sup>1</sup>	(1,478,926)	(1,361,567)
<b>Net Utility Plant</b>	<u>3,849,302</u>	<u>3,678,727</u>
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash <sup>2</sup>	33,282	14,076
Special Deposits <sup>3</sup>	212,762	224,550
Accounts Receivable – Customers	93,287	93,985
Materials and Supplies	5,319	5,488
Other Current Assets	10,766	13,673
<b>Total Current and Accrued Assets</b>	<u>355,416</u>	<u>351,772</u>
<b>Total Assets</b>	<u>\$4,204,718</u>	<u>\$4,030,499</u>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CORPORATE CAPITAL AND SURPLUS</b>		
Retained Earnings <sup>1</sup>	\$2,285,596	\$2,123,421
<b>Total Capitalization</b>	<u>2,285,596</u>	<u>2,123,421</u>
<b>LONG TERM DEBT</b>		
Long-term Debt	0	10,746
<b>CURRENT AND ACCRUED LIABILITIES</b>		
Accounts Payable	50,267	44,069
Customer Deposits	1,925	2,715
<b>Total Current and Accrued Liabilities</b>	<u>52,192</u>	<u>46,784</u>
<b>DEFERRED CREDITS</b>		
Advances for Construction	8,566	9,347
Other Credits <sup>1</sup>	54,812	55,954
<b>Total Deferred Credits</b>	<u>63,378</u>	<u>65,301</u>
<b>CONTRIBUTION IN AID OF CONSTRUCTION</b>		
Contributions In Aid of Construction <sup>1</sup>	2,638,843	2,561,927
Accumulated Amortization of Contributions <sup>1</sup>	(835,291)	(777,680)
<b>Net Contributions In Aid of Construction</b>	<u>1,803,552</u>	<u>1,784,247</u>
<b>Total Capitalization and Liabilities</b>	<u>\$4,204,718</u>	<u>\$4,030,499</u>

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

<sup>1</sup> 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.

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

<sup>3</sup> The Special Deposits balance is derived from PWC's bank statements. Due to PWC's poor internal control, UAFCB could not verify whether the balances related solely to PWC's facilities fees.

## Income Statements

	For the Year of	
	2016	2015
<b>OPERATING REVENUES</b>		
Unmetered Water Revenue	\$33	\$287
Fire Protection Revenue	3,179	3,297
Metered Water Revenue	1,181,637	1,074,337
Other Water Revenue	2,225	2,705
<b>Total Operating Revenues</b>	1,187,074	1,080,626
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Purchased Water	182,001	165,876
Power	14,181	13,088
Other Volume Related Expenses	681	1,386
Employee Labor	102,095	99,592
Materials	15,255	24,395
Contract Work	10,907	19,981
Transportation Expenses	6,335	7,946
Other Plant Maintenance Expenses	4,908	3,488
<b>Total Plant Operation and Maintenance Expense</b>	336,363	335,752
<b>Administrative and General Expenses</b>		
Office Salaries	65,716	65,906
Management Salaries	123,108	101,605
Employee Pensions and Benefits	78,238	79,420
Uncollectible Accounts Expense	4,766	2,953
Office Services and Rentals	15,689	15,235
Office Supplies and Expenses	18,764	17,971
Professional Services	8,768	12,860
Insurance	15,422	14,945
Regulatory Commission Expense	13,803	15,696
General Expenses	4,896	2,471
Expenses Capitalized	(15,379)	(4,184)
<b>Net Administrative and General Expenses</b>	333,791	324,878
<b>Total Operating Expenses</b>	670,154	660,630
Depreciation Expense <sup>1</sup>	65,055	59,888
Taxes Other Than Income Taxes	39,324	37,629
State Corporate Income Tax Expense	36,456	28,489
Federal Corporate Income Tax Expense	127,821	97,828
<b>Total Operating Revenue Deductions</b>	938,810	884,464
<b>Total Utility Operating Income</b>	248,264	196,162
<b>OTHER INCOME AND DEDUCTIONS</b>		
Non-utility Income	153	146
Interest Expense	(293)	(347)
<b>Total Other Income and Deductions</b>	(140)	(201)
<b>Net Income</b>	\$248,124	\$195,961

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

<sup>1</sup> The Depreciation Expenses were reported by PWC 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
<b>Retained Earnings, Beginning of Year</b>	\$2,123,421	\$2,148,284
<b>CREDITS:</b>		
Net Income <sup>1</sup>	248,124	195,961
UAFCB Adjustment to Interest Expense	0	347
UAFCB Adjustment to Accounts Payable	6,671	10,969
UAFCB Adjustment to Advances for Construction	852	854
UAFCB Adjustment to Contributions in Aid of Construction	816	1,669
UAFCB Adjustment to Other Credits	52,785	20,754
UAFCB Adjustment to Purchased Water	0	2,723
UAFCB Adjustment to Employee Labor	0	770
UAFCB Adjustment to Other Current Assets	10,766	13,673
UAFCB Adjustment to Employee Pensions and Benefits	5,053	1,480
UAFCB Adjustment to Insurance	1,717	0
UAFCB Adjustment to Regulatory Commission Expense	13,803	15,696
UAFCB Adjustment to State Corporate Income Tax	3,764	2,847
UAFCB Adjustment to Federal Corporate Income Tax	8,069	6,428
<b>Total Credits</b>	<b>352,420</b>	<b>274,171</b>
<b>DEBITS:</b>		
2016 Annual Report reflected an immaterial variances	(31)	0
UAFCB Cumulative Adjustment to Beginning Balance <sup>2</sup>	(41,297)	(191,905)
UAFCB Adjustment to Water Plant in Service	(3,684)	(2,017)
UAFCB Adjustment to Accumulated Amortization of Contributions	(12,538)	0
UAFCB Adjustment to Other Credits	(107,597)	(76,708)
UAFCB Adjustment to Non-utility Income	(153)	(146)
UAFCB Adjustment to Metered Water Revenue	(14,304)	(16,393)
UAFCB Adjustment to Other Water Revenue	(2,225)	(2,705)
UAFCB Adjustment to Purchased Water	(1,786)	0
UAFCB Adjustment to Materials	0	(1,895)
UAFCB Adjustment to Transportation Expense	(2,876)	(4,714)
UAFCB Adjustment to Management Salaries	0	(2,120)
UAFCB Adjustment to Taxes Other than Income Taxes	(3,754)	(431)
<b>Total Debits</b>	<b>(190,245)</b>	<b>(299,034)</b>
<b>Retained Earnings, End of Year<sup>3</sup></b>	<b>\$2,285,596</b>	<b>\$2,123,421</b>

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

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

<sup>2</sup> 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:	\$ 2,156,985
	Less: PWC reported net income in 2015:	<u>200,606</u>
	Retained Earnings as of 01/01/2015 supposed to be:	1,956,379
	Retained Earnings as of 01/01/2015 reported:	<u>2,148,284</u>
	UAFCB Cumulated Adjustments to 2015 beginning balance:	<u>(\$191,905)</u>
b.	Retained Earnings as of 12/31/2016 reported:	\$2,341,755
	Less: PWC reported net income in 2016:	<u>259,631</u>
	Retained Earnings as of 01/01/2016 supposed to be:	2,082,124
	Retained Earnings as of 12/31/2015 - As Audited	<u>2,123,421</u>
	UAFCB Cumulated Adjustments to 2016 beginning balance:	<u>(\$41,297)</u>

<sup>3</sup> 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
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income <sup>1</sup>	\$248,124	\$195,961
<b>Adjustments to Reconcile Net Income to Cash</b>		
<b>Provided by Operating Activities</b>		
Depreciation	117,359	117,523
Decrease (Increase) in Special Deposits	11,788	(42,458)
Decrease (Increase) in Accounts Receivable	698	1,338
Decrease (Increase) in Materials and Supplies	169	(3,837)
Decrease (Increase) in Other Current Assets	2,907	(13,673)
Increase (Decrease) in Accounts Payable	6,198	(19,322)
Increase (Decrease) in Customer Deposits	(790)	970
Increase (Decrease) in Other Credits	(1,142)	55,954
Decrease (Increase) in Advances for Construction	(781)	(1,641)
UAFCB Adjustment to Retained Earnings <sup>2</sup>	(44,621)	(28,919)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>339,909</b>	<b>261,896</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Plant Additions	(287,934)	(63,822)
Increase (Decrease) in Contributions in Aid of Construction	76,916	33,307
Decrease (Increase) in Accumulated Amortization of Contributions	(57,611)	(62,039)
<b>Net Cash Provided (Used) for Investing Activities</b>	<b>(268,629)</b>	<b>(92,554)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-term Debt	(10,746)	(4,170)
<b>Net Cash Provided (Used) for Financing Activities</b>	<b>(10,746)</b>	<b>(4,170)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>60,534</b>	<b>165,172</b>
<b>UAFCB Cumulated Adjustment to Beginning Balance of Retained Earnings<sup>3</sup></b>	<b>(41,328)</b>	<b>(191,905)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>14,076</b>	<b>40,809</b>
<b>CASH AT END OF YEAR</b>	<b>\$33,282</b>	<b>\$14,076</b>

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

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

<sup>2</sup> UAFCB's adjustments to Retained Earnings were (\$44,621) and (\$28,919) for 2016 and 2015, respectively.

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

## Notes to Financial Statements

### (1) Introduction of Penngrove Water Company (PWC)

PWC is a Class C water company with approximately 800 active meters and service connections. PWC has two districts, Penngrove and Canon Manor, and both of the two districts are located in Sonoma County of California. PWC and its sister company, Kenwood Village Water Company (KVWC), are subsidiaries of Altos Sonoma Corporation (ASC). PWC and KVWC 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 70% and 30% to PWC and KVWC, respectively, in their Annual Reports filed with the Commission.

### (2) Summary of Significant Accounting Policies

PWC 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. PWC 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. PWC reported \$5,331,912 and \$5,042,311 for WPIS in its 2016 and 2015 Annual Reports, respectively.

PWC 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. PWC 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 PWC 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," PWC did not submit any additional document to support its statement. UAFCB does not consider PWC's assertions alone as adequate supporting documents.

Our review of the plant additions recorded in 2012, 2014, 2015 and 2016, revealed that PWC failed to accurately record its plant assets. PWC 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.

Due to insufficient supporting documents and the recording errors of WPIS described in the preceding paragraphs, auditor could not verify the audited 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. PWC reported \$2,639,659 and \$2,563,596 for CIAC in its 2016 and 2015 Annual Reports, respectively. UAFCB noted that PWC's CIAC account had the same accounting issues as described in WPIS account. In addition, UAFCB found PWC improperly handled its facilities fees as discussed in Note (2) (c) below. Consequently, UAFCB could not attest to the CIAC account balances.

**(c) 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 PWC did not comply with the Commission's requirement regarding facilities fees, as described in the following paragraphs.

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. PWC 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.

In addition, although PWC deposited the facilities fees into a special trust bank account, it often borrowed those monies for normal operational purposes, or vice versa. In other words, PWC leveraged the facilities fees for normal business operations rather than dedicating those funds for constructing plant assets. Even though PWC asserted that it repaid them subsequently, UAFCB could not verify that PWC fully repaid them because PWC's repayments did not correspond directly to the amounts it borrowed. Due to the poor internal control over the facilities fees bank account, even though the reported Special Deposits balance as of 12/31/2016 and 12/31/2015 were derived from PWC's facilities fees' bank statements, UAFCB could not verify whether the balances of Special Deposits related solely to facilities fees and therefore could not attest to the Special Deposits account for facilities fees and CIAC account.

**(d) 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. PWC reported depreciation expense of \$65,055 and \$59,888 for 2016 and 2015, respectively; however, UAFCB could not verify these amounts due to the reasons described in the following paragraph.

PWC could not provide the depreciation schedule to UAFCB for review. PWC stated that 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 PWC 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, were materially misstated.

**(e) Income Tax Expense**

Federal or State income taxes for the current calendar year are charged to this tax expense account. PWC 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**

PWC and KVWC were allocated 70% and 30% of the total balance of Cash in their annual reports, respectively. PWC did not report or disclose cash transactions with its owner and/or ASC. PWC and KVWC together paid the owner or parent company totaling \$440,000 in 2016, and totaling \$350,000 in 2015. These payments were recorded in PWC'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 instances where PWC did not record cash received from its owner or parent company. For example, UAFCB found a repayment check for the Oak Street Main project in the amount of \$145,360.05 in 2016 from its parent company to PWC. However, there were no accounting journal entries to record the transaction, or a description of its nature. In another instance, UAFCB noted that in 2016, the owner or parent company paid off the long-term debt of a vehicle loan reported in PWC's 2015 Annual Report. However, PWC did not disclose that transaction. Therefore, UAFCB could not verify the cash withdrawals or deposits between PWC 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**

PWC did not report the Accumulated Deferred Income Taxes – ACRS Depreciation and Accumulated Deferred Income Taxes – Other in its annual reports. PWC stated that it used different depreciation methods in the annual report and its income tax returns. Because PWC did not provide UAFCB its records pertaining to the 2016 and 2015 federal and state income tax returns, and PWC 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**

PWC 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 PWC 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 PWC 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, PWC is required to file an annual report with the Commission every year. For the years being audited, PWC 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
<b><u>Net Financial Impact on Balance Sheets Items:</u></b>							
1, 2	A	2	c	101	Water Plant in Service		\$3,684
5	A	30	c	141	Accounts Receivable - Customers		4,199
16, 18, 20	A	34	c	174	Other Current Assets	\$10,766	
1-4, 6-16, 18-24	A	44	c	215	Retained Earnings	44,621	
6	A	57	c	231	Accounts Payable	6,671	
7	A	67	c	252	Advances for Construction	852	
3, 9, 24	A	68	c	253	Other Credits		54,812
8	A	78	c	271	Contributions in Aid of Construction	816	
10	A	79	c	272	Accumulated Amortization of Contributions		12,538
<b><u>Net Financial Impact on Income Statements Items:</u></b>							
19	B	5	c	408	Taxes Other Than Income Taxes		\$3,754
21	B	6	c	409	State Corporate Income Tax Expense	\$3,764	
22	B	7	c	410	Federal Corporate Income Tax Expense	8,069	
4	B	10	c	421	Non-Utility Income		153
11	B-1	13	b	470	Metered Water Revenue		14,304
12	B-1	21	b	480	Other Water Revenue		2,225
13	B-2	1	b	610	Purchased Water		1,786
14	B-2	8	b	660	Transportation Expenses		2,876
15	B-2	14	b	674	Employee Pensions and Benefits	5,053	
5	B-2	15	b	676	Uncollectible Accounts Expense	4,199	
17	B-2	16	b	678	Office Services and Rentals	980	
17	B-2	17	b	681	Office Supplies and Expenses		980
18	B-2	19	b	684	Insurance	1,717	
23	B-2	20	b	688	Regulatory Commission Expense	13,803	

## 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
<b><u>Net Financial Impact on Balance Sheets Items:</u></b>							
1	A	2	c	101	Water Plant in Service		\$2,017
4	A	30	c	141	Accounts Receivable - Customers		2,758
18, 20, 22	A	34	c	174	Other Current Assets	\$13,673	
1-3, 5-18, 20-25	A	44	c	215	Retained Earnings	28,919	
6	A	57	c	231	Accounts Payable	10,969	
7	A	67	c	252	Advances for Construction	854	
2, 9	A	68	c	253	Other Credits		55,954
8	A	78	c	271	Contributions in Aid of Construction	1,669	
<b><u>Net Financial Impact on Income Statements Items:</u></b>							
21	B	5	c	408	Taxes Other Than Income Taxes		\$431
23	B	6	c	409	State Corporate Income Tax Expense	\$2,847	
24	B	7	c	410	Federal Corporate Income Tax Expense	6,428	
3	B	10	c	421	Non-Utility Income		146
5	B	12	c	427	Interest Expense	347	
10	B-1	13	b	470	Metered Water Revenue		16,393
11	B-1	21	b	480	Other Water Revenue		2,705
12	B-2	1	b	610	Purchased Water	2,723	
13	B-2	5	b	630	Employee Labor	770	
14	B-2	6	b	640	Materials		12,742
14	B-2	7	b	650	Contract Work	10,847	
15	B-2	8	b	660	Transportation Expenses		4,714
16	B-2	13	b	671	Management Salaries		2,120
17	B-2	14	b	674	Employee Pensions and Benefits	1,480	
4	B-2	15	b	676	Uncollectible Accounts Expense	2,758	
19	B-2	16	b	678	Office Services and Rentals	980	
19	B-2	17	b	681	Office Supplies and Expenses		980
25	B-2	20	b	688	Regulatory Commission Expense	15,696	

## Appendix C

### Summary of Audit Adjustments for Year 2016

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	44	c	215	Retained Earnings	\$1,667	
	A	2	c	101	Water Plant In Service <i>To adjust the reported 2016 additions of Water Plant in Service to agree with PWC's records.</i>		\$1,667
2	A	44	c	215	Retained Earnings	\$2,017	
	A	2	c	101	Water Plant In Service <i>To adjust the reported Water Plant in Service to reflect 2015 audit findings.</i>		\$2,017
3	A	44	c	215	Retained Earnings	\$51,643	
	A	68	c	253	Other Credits <i>To record the liabilities for the collection of facilities fees.</i>		\$51,643
4	A	44	c	215	Retained Earnings	\$153	
	B	10	c	421	Non-utility Income <i>To record the interest revenue from PWC's facilities fees account.</i>		\$153
5	B-2	15	b	676	Uncollectible Accounts Expense	\$4,199	
	A	30	c	141	Accounts Receivable - Customers <i>To remove the uncollectable amount from the reported Accounts Receivable.</i>		\$4,199
6	A	57	c	231	Accounts Payable	\$6,671	
	A	44	c	215	Retained Earnings <i>To adjust the reported Accounts Payable to agree with the audited amount.</i>		\$6,671
7	A	67	c	252	Advances for Construction	\$852	
	A	44	c	215	Retained Earnings <i>To adjust the reported Advances for Construction to agree with the audited amount.</i>		\$852



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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
8	A	78	c	271	Contributions in Aid of Construction	\$816	
	A	44	c	215	Retained Earnings		\$816
					<i>To adjust the reported Contributions in Aid of Construction to agree with PWC's records.</i>		
9	A	68	c	253	Other Credits	\$52,785	
	A	44	c	215	Retained Earnings		52,785
					<i>To record the use of facilities fees for Contributions in Aid of Construction.</i>		
10	A	44	c	215	Retained Earnings	\$12,538	
	A	79	c	272	Accumulated Amortization of Contributions		\$12,538
					<i>To reduce the reported Accumulated Amortization of Contributions by the removed cost.</i>		
11	A	44	c	215	Retained Earnings	\$14,304	
	B-1	13	b	470	Metered Water Revenue		\$14,304
					<i>To adjust the reported Metered Water Revenue to agree with the audited amount.</i>		
12	A	44	c	215	Retained Earnings	\$2,225	
	B-1	21	b	480	Other Water Revenue		\$2,225
					<i>To record the late charge payments in the Other Water Revenue account.</i>		
13	A	44	c	215	Retained Earnings	\$1,786	
	B-2	1	b	610	Purchased Water		\$1,786
					<i>To adjust the reported Purchased Water to reflect the accrual basis accounting.</i>		
14	A	44	c	215	Retained Earnings	\$2,876	
	B-2	8	b	660	Transportation Expense		\$2,876
					<i>To remove the payment for long term debt from the reported Transportation Expense.</i>		
15	B-2	14	b	674	Employee Pensions and Benefits	\$5,053	
	A	44	c	215	Retained Earnings		\$5,053
					<i>To adjust the reported Employee Pensions and Benefits to agree with the audited amount.</i>		

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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
16	A	34	c	174	Other Current Assets	\$3,172	
	A	44	c	215	Retained Earnings		\$3,172
					<i>To record the prepaid benefit to the Other Current Assets account.</i>		
17	B-2	16	b	678	Office Services and Rentals	\$980	
	B-2	17	b	681	Office Supplies and expenses		\$980
					<i>To reclassify the expenses of Office Supplies and Expenses account to Office Services and Rentals account.</i>		
18	B-2	19	b	684	Insurance	\$1,717	
	A	34	c	174	Other Current Asset	1,051	
	A	44	c	215	Retained Earnings		\$2,768
					<i>To record the prepaid Insurance to Other Current Asset Account and adjust the reported Insurance account to agree with the audited amount.</i>		
19	A	44	c	215	Retained Earnings	\$3,754	
	B	5	c	408	Taxes Other Than Income Taxes		\$3,754
					<i>To adjust the reported Taxes Other Than Income Taxes to the audited amount.</i>		
20	A	34	c	174	Other Current Asset	\$6,543	
	A	44	c	215	Retained Earnings		\$6,543
					<i>To record the prepaid property taxes to Other Current Assets.</i>		
21	B	6	c	409	State Corporate Income Tax Expense	\$3,764	
	A	44	c	215	Retained Earnings		\$3,764
					<i>To adjust the reported State Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		
22	B	7	c	410	Federal Corporate Income Tax Expense	\$8,069	
	A	44	c	215	Retained Earnings		\$8,069
					<i>To adjust the reported Federal Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		

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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
23	B-2	20	b	688	Regulatory Commission Expense	\$13,803	
	A	44	c	215	Retained Earnings		\$13,803
<i>To record the payments of User Fees in the Regulatory Commission Expense account.</i>							
24	A	44	c	215	Retained Earnings	\$55,954	
	A	68	c	253	Other Credits		\$55,954
<i>To adjust the reported Other Credits to reflect 2015 audit adjustments.</i>							

## Appendix D

### Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	44	c	215	Retained Earnings	\$2,017	
	A	2	c	101	Water Plant in Service		\$2,017
<i>To adjust the reported 2012 and 2015 additions of Water Plant in Service to agree with PWC's records.</i>							
2	A	44	c	215	Retained Earnings	\$76,708	
	A	68	c	253	Other Credits		\$76,708
<i>To record the liabilities for the collection of facilities fees.</i>							
3	A	44	c	215	Retained Earnings	\$146	
	B	10	c	421	Non-utility Income		\$146
<i>To record the interest revenue from PWC's facilities fees account.</i>							
4	B-2	15	b	676	Uncollectible Accounts Expense	\$2,758	
	A	30	c	141	Accounts Receivable - Customers		\$2,758
<i>To remove the uncollectable amount from Accounts Receivable balance.</i>							
5	B	12	c	427	Interest Expense	\$347	
	A	44	c	215	Retained Earnings		\$347
<i>To record the interest expense for the Long-Term Debt.</i>							
6	A	57	c	231	Accounts Payable	\$10,969	
	A	44	c	215	Retained Earnings		\$10,969
<i>To adjust the reported Accounts Payable to agree with the audited amount.</i>							
7	A	67	c	252	Advances for Construction	\$854	
	A	44	c	215	Retained Earnings		\$854
<i>To adjust the reported Advances for Construction to agree with the audited amount.</i>							

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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
8	A	78	c	271	Contributions In Aid of Construction	\$1,669	
	A	44	c	215	Retained Earnings		\$1,669
					<i>To reduce the reported 2015 additions of Contributions in Aid of Construction to agree with PWC's records.</i>		
9	A	68	c	253	Other Credits	\$20,754	
	A	44	c	215	Retained Earnings		\$20,754
					<i>To record the use of facilities fees for Contributions in Aid of Construction.</i>		
10	A	44	c	215	Retained Earnings	\$16,393	
	B-1	13	b	470	Metered Water Revenue		\$16,393
					<i>To adjust the reported Metered Water Revenue to agree with the audited amount.</i>		
11	A	44	c	215	Retained Earnings	\$2,705	
	B-1	21	b	480	Other Water Revenue		\$2,705
					<i>To record the late charge payments into the Other Water Revenue account.</i>		
12	B-2	1	b	610	Purchased Water	\$2,723	
	A	44	c	215	Retained Earnings		\$2,723
					<i>To adjust the reported Purchased Water to reflect the accrual basis accounting</i>		
13	B-2	5	b	630	Employee Labor	\$770	
	A	44	c	215	Retained Earnings		\$770
					<i>To adjust an employee's salary to agree with PWC's tax record in Form W-2.</i>		
14	A	44	c	215	Retained Earnings	\$1,895	
	B-2	7	b	650	Contract Work	10,847	
	B-2	6	b	640	Materials		\$12,742
					<i>To reclassify the repair work from Materials to Contract Work, and to adjust the reported Materials to agree with the audited amount.</i>		

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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
15	A	44	c	215	Retained Earnings	\$4,714	
	B-2	8	b	660	Transportation Expense <i>To remove the payment for long term debt from the reported Transportation Expense, and to adjust the reported Transportation Expense to reflect the accrual basis accounting.</i>		\$4,714
16	A	44	c	215	Retained Earnings	\$2,120	
	B-2	13	b	671	Management Salaries <i>To adjust the manager's salaries to agree with the audited amount.</i>		\$2,120
17	B-2	14	b	674	Employee Pensions and Benefits	\$1,480	
	A	44	c	215	Retained Earnings <i>To adjust the reported Employee Pensions and Benefits to agree with the audited amount.</i>		\$1,480
18	A	34	c	174	Other Current Assets	\$4,257	
	A	44	c	215	Retained Earnings <i>To record the prepaid benefit to the Other Current Assets account.</i>		\$4,257
19	B-2	16	b	678	Office Services and Rentals	\$980	
	B-2	17	b	681	Office Supplies and expenses <i>To reclassify the expenses of Office Supplies and Expenses account to Office Services and Rentals account.</i>		\$980
20	A	34	c	174	Other Current Asset	\$2,309	
	A	44	c	215	Retained Earnings <i>To record the prepaid Insurance to Other Current Asset Account.</i>		\$2,309
21	A	44	c	215	Retained Earnings	\$431	
	B	5	c	408	Taxes Other Than Income Taxes <i>To adjust the reported Taxes Other Than Income Taxes to agree with the audited amount.</i>		\$431

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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
22	A	34	c	174	Other Current Asset	\$7,107	
	A	44	c	215	Retained Earnings <i>To record the prepaid property taxes to Other Current Assets.</i>		\$7,107
23	B	6	c	409	State Corporate Income Tax Expense	\$2,847	
	A	44	c	215	Retained Earnings <i>To adjust the reported State Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		\$2,847
24	B	7	c	410	Federal Corporate Income Tax Expense	\$6,428	
	A	44	c	215	Retained Earnings <i>To adjust the reported Federal Income Tax Expense to the audited amount that was imputed from the adjusted income before taxes.</i>		\$6,428
25	B-2	20	b	688	Regulatory Commission Expense	\$15,696	
	A	44	c	215	Retained Earnings <i>To record the payments of User Fees in the Regulatory Commission Expense account.</i>		\$15,696