



STATE OF CALIFORNIA

**Financial Audit of Sierra City Water Works, Inc.
Financial Statements
For the Year Ended December 31, 2017**

Utility Audit, Finance and Compliance Branch
February 15, 2019



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<http://www.cpuc.ca.gov/utilityaudits/>

Thanks to:
Raymond Yin, Sharmin Wellington and Xiaowen Zhao

**Audit of Financial Statements of
Sierra City Water Works, Inc
For the Year Ended December 31, 2017**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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Report of Independent Auditors

Winabeth Smith, President
Sierra City Water Works, Inc. (SCWW)
732 Butler Street
Grass Valley, CA 95945

Report on the Financial Statements

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) was engaged to audit the accompanying financial statements of Sierra City Water Works, Inc. (SCWW), which are comprised of the balance sheets as of December 31, 2017, and the related statements of income, retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

SCWW'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 1 in 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

The responsibility of the UAFCB is to express an opinion on SCWW's financial statements based on conducting the audit 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 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.

Basis for Qualified Opinion

Due to the lack of historical information on Retained Earnings, UAFCB could not attest to the balance of Retained Earnings as of December 31, 2017. Therefore, UAFCB does not express an opinion on the balance of Retained Earnings balances as of December 31, 2017.

Qualified Opinion

In our opinion, except for the balances of Retained Earnings as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Sierra City Water Works, Inc. as of December 31, 2017, and the results of its operations and its cash flows for the year then ended, in accordance with the accounting requirements as set forth by the Commission in the USOA for Class B, C, and D Water Utilities described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared by SCWW on the basis of the accounting requirements of the California Public Utilities Commission as set forth in the Uniform System of Accounts 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. Our opinion is not modified with respect to this matter.

Use of Report

The report is intended solely for the information and use by the Commission and Sierra City Water Works, Inc. It should not be used by anyone other than the specified parties.

Raymond Yin

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

**Audit of Financial Statements of
Sierra City Water Works, Inc.
For the Years Ended December 31, 2017**

Balance Sheets

	As of December 31, for the Year	
	2017	2016¹
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$274,067	\$271,605
Accumulated Depreciation of Water Plant (Note 1)	(217,721)	(208,260)
Net Utility Plant	56,346	63,345
CURRENT AND ACCRUED ASSETS		
Cash	4,424	20,736
Special Deposits	11,274	0
Materials and Supplies	4,000	4,000
Other Current Assets	1,458	0
Total Current and Accrued Assets	21,156	24,736
Total Assets	\$77,502	\$88,081
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	\$1,000	\$1,000
Retained Earnings (Note 1)	44,525	27,104
Total Corporate Capital and Surplus	45,525	28,104
LONG-TERM DEBT		
Long-term Debt (Note 1)	17,647	45,647
DEFERRED CREDITS		
Advances for Construction	14,330	14,330
Total Deferred Credits	14,330	14,330
Total Equity and Liabilities	\$77,502	\$88,081

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

¹ The year ended December 31, 2016 amounts were not audited; these amounts were provided by SCWW on its 2016 Annual Report.

Income Statements

	For the Year of	
	2017	2016¹
OPERATING REVENUES		
Unmetered Water Revenue	\$14,918	\$16,090
Fire Protection Revenue	1,699	\$1,775
Metered Water Revenue	44,331	34,770
Total Operating Revenues (Note 1)	60,948	52,635
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Other Volume Related Expenses	619	782
Materials	1,148	606
Contract Work	1,432	225
Transportation Expenses	6,208	7,365
Other Plant Maintenance Expenses	448	400
Total Plant Operation and Maintenance Expenses	9,855	9,378
Administrative and General Expenses		
Office Salaries	0	3,914
Management Salaries	12,678	6,318
Office Services and Rentals	830	0
Office Supplies and Expenses	2,423	1,141
Professional Services	2,927	3,188
Insurance	2,413	2,479
Regulatory Commission Expense	711	0
General Expenses	866	1,019
Total Administrative and General Expenses	22,848	18,059
Total Operating Expenses	32,703	27,437
Depreciation Expense (Note 1)	9,461	9,228
Taxes Other Than Income Taxes	2,850	1,777
State Corporate Income Tax Expense	800	800
Total Operating Revenue Deductions	45,814	39,242
Total Utility Operating Income (Loss)	15,134	13,393
OTHER INCOME AND DEDUCTIONS		
Non-utility Income	2	2
Total Other Income and Deductions	2	2
Net Income (Loss)	\$15,136	\$13,395 ²

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

¹ The year ended December 31, 2016 amounts were not audited; these amounts were provided by SCWW on its 2016 Annual Report.

² The reported Net Income of \$24,862 on the 2016 Annual Report has a mathematical error of \$11,467 (difference between \$24,862 as reported Net Income and \$13,395 as re-computed).

Statements of Retained Earnings

	For the Year of	
	2017	2016 ¹
Retained Earnings, Beginning of Year	\$27,104	\$6,956
CREDITS:		
Net Income	15,136	13,395 ²
UAFCB adjustment for reporting error on 2016 Annual Report	0	6,753 ³
UAFCB Adjustment to Long-term Debt	6,000	0
Total Credits	21,136	20,148
DEBITS:		
UAFCB Cumulative Adjustment to Beginning Balance ⁴	(3,715)	0
Total Debits	(3,715)	0
Retained Earnings, End of Year	\$44,525	\$27,104

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

¹ The year ended December 31, 2016 amounts were not audited; these amounts were provided by SCWW on its 2016 Annual Report.

² The 2016 Annual Report Net Income of \$24,862 included a mathematical error of \$11,467 (\$24,862-\$13,395).

³ The 2016 Annual Report contained the following reporting error:

Retained Earnings as of 12/31/2016 – As Reported:	\$27,104
Less: SCWW net income in 2017 – As re-computed:	13,395
Retained Earnings as of 01/01/2017 – As re-computed:	13,709
Retained Earnings as of 01/01/2016 - As reported:	6,956
UAFCB Adjustment for reporting error on 2016 Annual Report	\$6,753

⁴ These amounts represent the cumulative adjustments to the reported beginning balance of Retained Earnings as of January 1, 2017. Detailed computation is shown below:

Retained Earnings as of 12/31/2017 reported:	\$37,067
Less: SCWW reported net income in 2017:	13,678
Retained Earnings as of 01/01/2017 supposed to be:	23,389
Retained Earnings as of 01/01/2017 reported:	27,104
UAFCB Cumulated Adjustments to 2017 beginning balance according to the reported information	(\$3,715)

UAFCB did not audit the Retained Earnings account for years ended December 31, 2017 and 2016. See Note 1 to the Audited Financial Statements on Page 7 for detail explanation.

Statements of Cash Flows

	For the Year of	
	2017	2016¹
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$15,136	\$13,395 ²
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation (Note 1)	9,461	9,228
Decrease (Increase) in Other Current Assets	(1,458)	0
Increase (Decrease) in Accounts Payable	0	(74,400)
UAFCB Adjustments to Retained Earnings	6,000	0
Net Cash Provided (Used) by Operating Activities	29,139	(51,777)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions	(2,462)	(1,057)
Net Cash Provided (Used) for Investing Activities	(2,462)	(1,057)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-term Debt	(28,000)	45,647
Net Cash Provided (Used) for Financing Activities	(28,000)	45,647
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,323)	(7,187)
UAFCB CUMULATED ADJUSTMENTS TO BEGINNING BALANCE OF RETAINED EARNINGS	(3,715)	6,753
CASH AT BEGINNING OF YEAR	20,736	21,170
CASH AT END OF YEAR	\$15,698	\$20,736

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

¹ The year ended December 31, 2016 amounts were not audited; these amounts were provided by SCWW on its 2016 Annual Report.

² The 2016 Annual Report Net Income of \$24,862 included a mathematical error of \$11,467 (\$24,862-\$13,395).

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Sierra City Water Works, Inc. (SCWW) is a Class D water utility that serves 77 metered and 16 flat rate customers in the City of Sierra, Sierra County with a water system that has a total storage capacity of approximately 42,000 gallons.

The Company has prepared the accompanying financial statements on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities adopted and prescribed by the Commission, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis of accounting, certain transactions, such as adjustments of certain estimated operating expenses related to prior years have been recorded directly in the statements of retained earnings. Accounting principles generally accepted in the United States of America would require such transactions to be recorded in the statement of income.

The Statements of Cash Flows are not required by the Commission when SCWW filed its Annual Reports with the Commission. Therefore, the accompanying Statement of Cash Flows for 2017 was compiled by UAFCB based on the 2017 audited financial information of SCWW Balance Sheets and Income Statements. Likewise, the Statement of Cash Flows for 2016 was compiled by UAFCB based on the 2016 reported or unaudited financial information of SCWW Balance Sheets and Income Statements.

(a) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A presents the net financial impact resulting from audit adjustments by Utility Audit, Finance and Compliance Branch (UAFCB) for the Year 2017. Appendix B summarizes the UAFCB detail audit adjustments for the Year 2017.

(b) Water Plant in Service

Utility plant is recorded at original cost when first constructed or purchased. SCWW did not maintain a detail list of water plant assets except for the tax depreciation schedule. Retired utility plant assets are removed from utility plant accounts based on original cost.

(c) Accumulated Depreciation and Depreciation Expense of Water Plant

The depreciation expense is computed on a straight-line composite rate of 4% (equivalent to a 25 years depreciation period) in order to depreciate all plant assets for ratemaking purposes and for reporting the depreciation expense in SCWW's Annual Reports filed with the Commission. When a plant is retired, Accumulated Depreciation account is charged with the costs of removal of retired plant, and credited with the salvage value, sales price or other amounts recovered from plant retired.

(d) Operating Water Revenues

SCWW revenue is derived from unmetered service (flat rate), public fire protection service, and metered service to its customers. For 2017, SCWW's water service revenue from unmetered service, public fire protection service, and metered water service were approximately 24%, 3%, and 73% of total water service revenue, respectively. SCWW computed its water revenues based on tariffs approved by the Commission.

(e) Retained Earnings

UAFCB could not attest to the accuracy of the Retained Earnings balances due to the lack of historical information on them. Expressing an opinion on the Retained Earnings Balances as of December 31, 2017 would require auditing the Retained Earnings balances from the inception of the company. Due to limitation of our audit scope, we cannot and do not express an opinion on those balances. UAFCB did not audit SCWW's financial data for year 2016 due to scope limitation. Nonetheless, UAFCB noted mathematical errors in the Balance Sheets and Income Statements reported in SCWW's 2016 Annual Report. For presentation purposes, UAFCB adjusted those reporting errors in the audited Statements of Retained Earnings and Statements of Cash Flows presented in this report.

(f) Long-term Debt

SCWW long-term debt outstanding balance was \$17,647 is comprise of a loan from the president to SCWW for SCWW fire district expansion project. SCWW did not obtain Commission's prior approval for the long-term debt as required per the Public Utilities (PU) Code, Section 818. PU Code, Section 818 states in-part "*no public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue.*"

(g) Facility Fees

Facilities fees were originally approved for smaller water companies and smaller districts of larger water companies by Decision 91-04-068, which stated "*a Class C or Class D utility, or a Class A or Class B utility district or subsidiary serving 2,000 or fewer connections, may accept from individual customers amounts in contribution as a facilities fee pursuant to tariffs approved by the Commission.*"

Resolution No. W-4110, September 3, 1998, authorized "*all Class D water utilities to file an advice letter to make effective Schedule F (Appendix A), or to charge lower rates based on the same proportional meter size. To provide accountability of the funds, any utility filing to implement the authorized facilities fees is required to place the funds in an interest-bearing account and to show the balances in its annual report to the Commission. Fund balances should be listed as debits to (for Class D companies) Account 132, Special Deposits, and as credits to Account 253, Other Credits.*"

SCWW reported Facility Fees of \$11,274 under Account 131 - Cash rather than

Account 132 - Special Deposits. Therefore, the amount of \$11,274 should be excluded from Account 131 - Cash, which should be reclassified to Account 132 - Special Deposits.

(2) **Annual Reports**

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

Appendix A

Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustments for Year 2017

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2017:

Audit Adjustment Number	Annual Report				Description	For the Year 2017	
	Sch.	Line	Col.	Acct. No.		Debit	Credit

Net Financial Impact on Balance Sheets Items:

1	A	30	C	131	Cash		\$11,274
1	A	31	C	132	Special Deposits	\$11,274	
6	A	36	C	174	Other Current Assets	1,458	
2	A	6	C	215	Retained Earnings		6,000
2	A	13	C	224	Long-term Debt	6,000	

Net Financial Impact on Income Statements Items:

3	B-2	10	B	640	Materials		\$1,432
3,4	B-2	11	B	650	Contract Work		688
5	B-2	18	B	670	Office Salaries		4,240
4,5	B-2	19	B	671	Management Salaries	\$6,360	
6	B-2	25	B	684	Insurance	1,042	
6	B-2	27	B	689	General Expense		2,500

Appendix B

Summary of Audit Adjustments for Year 2017

Audit Adj. No.	Annual Report				Description	For the Year 2017	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
1	A	31	C	132	Special Deposits	\$11,274	
	A	30	C	131	Cash		\$11,274
					<i>To reclassify Cash to Special Deposits.</i>		
2	A	13	C	224	Long-term Debt	\$6,000	
	A	6	C	215	Retained Earnings		\$6,000
					<i>To adjust Long-term Debt to agree with the audited amount.</i>		
3	B-2	11	B	650	Contract Work	\$1,432	
	B-2	10	B	640	Materials		\$1,432
					<i>To reclassify Materials to Contract Work to agree with the audited amount.</i>		
4	B-2	19	B	671	Management Salaries	\$2,120	
	B-2	11	B	650	Contract Work		\$2,120
					<i>To reclassify Principal Officer's salary from Contract Work to Management Salaries.</i>		
5	B-2	19	B	671	Management Salaries	\$4,240	
	B-2	18	B	670	Office Salaries		\$4,240
					<i>To reclassify President's salaries from Office Salaries to Management Salaries.</i>		
6	B-2	25	B	684	Insurance	\$1,042	
	A	36	C	174	Other Current Assets	1,458	
	B-2	27	B	689	General Expense		\$2,500
					<i>To reclassify insurance expense to Insurance and Other Current Assets.</i>		