



California Public Utilities Commission
Utility Audit, Finance and Compliance Branch

**Financial Audit of
Cazadero Water Company
Financial Statements**

For the Years Ended December 31, 2015 and 2014

October 4, 2017



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
Kayode Kajopaiye, Raymond Yin, Sharmin Wellington and Stanton Puck**

**Audit of Financial Statements of
Cazadero Water Company
For the Years Ended December 31, 2015 and 2014**

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PUBLIC UTILITIES COMMISSION

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Report of Independent Auditors

James M. Berry, President
Cazadero Water Company (CWC)
P.O. Box 423
Cazadero, CA 95421

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 Cazadero Water Company (CWC), which are comprised of the balance sheets as of December 31, 2015 and 2014, and the related statements of income, retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

CWC's management is responsible for the preparation and fair presentation of the financial statements presented in the 2015 and 2014 annual reports filed with the Commission. The Commission requires that the statements be in accordance with the accounting requirements of the Commission as set forth in the Uniform System of Accounts (USOA) for Water Utilities, as described in Note 1 to the Notes to the Financial Statements attached herein. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

The responsibility of the UAFCB is to express an opinion on CWC's financial statements based on our audit. The audit was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, except for the balances of Retained Earnings as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Cazadero Water Company as of December 31, 2015 and 2014, the results of its operations and its cash flows for the years then ended, in accordance with the accounting requirements of the Commission as set forth in the USOA for Water Utilities, described in Note 1.

Due to the lack of historical information on Retained Earnings, UAFCB could not attest to the balances of the Retained Earnings account as of December 31, 2015 and 2014. Therefore, UAFCB does not express any opinion on this balance.

Basis of Accounting

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

Use of Report

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



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

**Audit of Financial Statements of
Cazadero Water Company
For the Years Ended December 31, 2015 and 2014**

Balance Sheets

	As of December 31 for the Year	
	2015	2014
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$184,955	\$184,955
Accumulated Depreciation of Water Plant (Note 1)	<u>(55,014)</u>	<u>(53,349)</u>
Net Utility Plant	129,941	131,606
CURRENT AND ACCRUED ASSETS		
Cash	8,566	16,326
Accounts Receivable – Customers (Note 1)	11,701	19,148
Accumulated Provision for Uncollectible Accounts (Note 1)	(23,990)	(13,033)
Materials and Supplies	<u>1,157</u>	<u>1,157</u>
Total Current and Accrued Assets	<u>(2,566)</u>	<u>23,598</u>
Total Assets	<u>\$127,375</u>	<u>\$155,204</u>
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Common Stock (Note 1)	\$11,115	\$11,115
Other Paid-in Capital (Note 1)	79,085	79,085
Retained Earnings (Note 1)	<u>16,293</u>	<u>33,679</u>
Total Corporate Capital and Surplus	106,493	123,879
LONG-TERM DEBT		
Long-term Debt (Note 1)	19,000	29,500
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	1,409	0
Other Current Liabilities (Note 1)	<u>473</u>	<u>1,825</u>
Total Current and Accrued Liabilities	<u>1,882</u>	<u>1,825</u>
Total Equity and Liabilities	<u>\$127,375</u>	<u>\$155,204</u>

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

Income Statements

	For the Year of	
	2015	2014
OPERATING REVENUES		
Unmetered Water Revenue	\$1,606	\$1,606
Metered Water Revenue	<u>77,475</u>	<u>78,218</u>
Total Revenue Received (Note 1)	79,081	79,824
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	4,537	4,992
Employee Labor	3,831	3,133
Materials	8,494	6,321
Contract Work	0	300
Transportation Expenses	4,590	4,775
Other Plant Maintenance Expenses	<u>3,400</u>	<u>1,604</u>
Total Plant Operation and Maintenance Expenses	24,852	21,125
Administrative and General Expenses		
Office Salaries	1,562	1,749
Management Salaries	18,893	19,929
Uncollectible Accounts Expense (Note 1)	22,265	13,033
Office Supplies and Expenses	3,212	4,053
Professional Services	13,685	13,613
Insurance	2,051	1,827
General Expenses	<u>5,057</u>	<u>1,529</u>
Total Administrative and General Expenses	66,725	55,733
Total Operating Expenses	91,577	76,858
Depreciation Expense (Note 1)	1,665	1,665
Taxes Other Than Income Taxes	1,210	1,340
State Corporate Income Tax Expense	<u>800</u>	<u>800</u>
Total Operating Revenue Deductions	<u>95,252</u>	<u>80,663</u>
Net Income (Loss)	<u>(\$16,171)</u>	<u>(\$839)</u>

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

Statements of Retained Earnings

	For the Year of	
	2015	2014
Retained Earnings, Beginning of Year	\$33,679	\$43,188
CREDITS:		
Other Water Revenue	0	232
UAFCB Cumulative Adjustment to Beginning Balance ¹	<u>21,935</u>	<u>0</u>
Total Credits	21,935	232
DEBITS:		
Net Loss	(16,171)	(839)
Receivables from Associated Companies	(8,952)	(8,902)
Accumulated Provision for Uncollectible Accounts	(13,033)	0
Office Supplies and Expense	(500)	0
Difference in Reported Retained Earnings ²	<u>(665)</u>	<u>0</u>
Total Debits	(39,321)	(9,741)
Retained Earnings, End of Year	<u>\$16,293</u>	<u>\$33,679</u>

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

¹ This amount represents the cumulative adjustment of unreconciled amount of Retained Earnings between the 2014 Annual Report and the audited amount. See below:

Retained Earnings as of 12/31/2014 - As Reported	\$55,614
Retained Earnings per Auditor's Analysis as of 12/31/2014	<u>33,679</u>
Retained Earnings - Reported vs Audited Amount	<u>\$21,935</u>

² This amount represents the cumulative adjustment of unreconciled amount of Retained Earnings between the 2014 and 2015 Annual Reports:

Retained Earnings as of 12/31/2015 - As Reported	\$65,743
Retained Earnings as of 12/31/2014 - As Reported	<u>55,614</u>
Reported Difference	10,129
Net Income for 2015 - per Annual Report	<u>10,794</u>
Difference in Reported Retained Earnings	<u>(\$665)</u>

Statements of Cash Flows

	For the Year of	
	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	(\$16,171)	(\$839)
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation	1,665	1,665
Decrease (Increase) in Accounts Receivable	7,447	2,039
Decrease (Increase) in Receivables from Associated Companies	0	3,453
Increase (Decrease) in Accumulated Provision for Uncollectible Accounts	10,957	13,033
Increase (Decrease) in Accounts Payable	1,409	0
Increase (Decrease) in Other Current Liabilities	<u>(1,352)</u>	<u>(24,817)</u>
Net Cash Provided (Used) by Operating Activities	3,955	(5,466)
CASH FLOWS FROM INVESTING ACTIVITIES:		
UAFCB Adjustment to Retained Earnings	(550)	(8,670)
2014 Annual Report Retained Earnings Reported Error	<u>(665)</u>	<u>(0)</u>
Net Cash Provided (Used) for Investing Activities	(1,215)	(8,670)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-term Debt	<u>(10,500)</u>	<u>29,500</u>
Net Cash Provided (Used) for Financing Activities	(10,500)	29,500
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,760)	15,364
CASH AT BEGINNING OF YEAR	<u>16,326</u>	<u>962</u>
CASH AT END OF YEAR	<u>\$8,566</u>	<u>\$16,326</u>

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Cazadero Water Company (CWC) is a privately-owned Class D water company serving approximately 150 customers in Cazadero, Sonoma County, California.

CWC has been incorporated in the State of California since March 12, 2008.

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

(a) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A and Appendix B present the net financial impact resulting from UAFCB's audit adjustments for years 2015 and 2014, respectively. Appendix C and Appendix D summarize the UAFCB audit adjustments for Years 2015 and 2014, respectively.

(b) Water Plant in Service

Utility plant is recorded at original cost when first constructed or purchased. Retired utility plant assets are removed from utility plant accounts at cost and charged against accumulated depreciation.

(c) Accumulated Depreciation and Depreciation Expense of Water Plant

Depreciation is computed utilizing two depreciation conventions, based on asset type, for tax purposes. These are the straight-line and double-declining balance bases. In reporting for the depreciation expense for ratemaking purposes and in its Annual Reports filed with the Commission, a composite rate of 0.9% for 2015 and 2014 was used. This rate was established by a Commission letter dated March 6, 1987.

(d) Revenues

CWC had 150 metered and two (2) flat rate customers in both 2015 and 2014. CWC computed its water revenues based on tariffs approved by the Commission.

(e) Accounts Receivable

CWC did not record Accounts Receivable on its general ledger; however, they did report the receivables on the Annual Reports. In 2015, CWC reduced its Accounts Receivable by \$11,308 due to the amount was determined to be uncollectible.

(f) Accumulated Provision for Uncollectible Accounts

CWC's general ledger did not reflect Provision for Uncollectible or Accounts Receivable accounts. These accounts were reflected on CWC billing register, which is kept separate from the general ledger. In 2015 and 2014, audit adjustments of \$10,957, and \$13,033, respectively, were made to reflect uncollectible Accounts Receivable.

(g) Common Stock/Other Paid-in Capital

CWC was incorporated in the State of California in March 2008. At the time of the incorporation, Common Stock was recorded at \$11,115. In 2009, Common Stock was increased by an additional \$16,885. However, there was no corresponding increase to the number of shares of stock issued. Therefore, this additional contribution should have been recorded as Other Paid-in Capital. An adjustment was made for 2015 and 2014 to increase Other Paid-in Capital by \$16,885 while decreasing Common Stock by the same amount.

(h) Long-term Debt/Other Current Liabilities

The Other Current Liabilities represented current balances of an existing loan to CWC by the principal shareholder, J. Berry. Adjustments were made in 2015 and 2014 to establish a Long-term Debt account by reclassifying \$19,000 and \$29,500, respectively, from Other Current Liabilities.

(i) Uncollectible Accounts Expense

CWC did not record accounts receivables deemed to be doubtful or uncollectible. These amounts remained on the books to perpetuity. In 2015 and 2014, audit adjustments were made to the account by \$22,265 and \$13,033, respectively, due to amounts originating in Accounts Receivable for which ability to collect was considered at least doubtful.

(j) Retained Earnings

UAFCB could not attest to the accuracy of the Retained Earnings balances due to lack of historical information on them. Expressing an opinion on the Retained Earnings Balances as of December 31, 2015 and 2014 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.

An adjustment of \$665 was made in the Statements of Cash Flows to account for the difference between the reported Retained Earnings balances of \$65,743 and \$55,614 in the 2015 and 2014 Annual Reports, respectively. When comparing this difference of \$10,129 to the reported net income of \$10,794 for 2015, it resulted in a variance of \$665. Thus, it necessitates the audit adjustment.

(2) Annual Reports

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

Appendix A

Summary of Net Financial Impact Resulting from UAFCB's 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

Net Financial Impact on Balance Sheets Items:

11, 5	A	18	D	141	Accounts Receivable-Customers		\$15,099
1, 12	A	20	D	143	Accumulated Provision for Uncollectible Accounts		23,990
2	A	19	D	142	Receivables from Associated Companies		8,952
3	A	27	D	201	Common Stock	\$16,885	
3	A	29	D	211	Other Paid-in Capital		16,885
4	A	38	D	241	Other Current Liabilities	19,000	
4	A	32	D	224	Long-term Debt		19,000
7, 9,	A	33	D	231	Accounts Payable		1,409
2,8,12	A	30	D	215	Retained Earnings	22,485	

Net Financial Impact on Income Statements Items:

5	F	5	D	470	Metered Water Revenue		\$52,412
5	F	7	D	480	Other Water Revenue	\$57,809	
5	F	2	D	460	Unmetered Water Revenue		1,606
6	F	22	D	671	Management Salaries	18,893	
6	F	16	D	630	Employee Labor		18,893
7	F	19	D	660	Transportation Expenses	935	
1, 11	F	24	D	676	Uncollectible Accounts Expense	22,265	
8, 10	F	26	D	681	Office Supplies and Expense	1,115	
9, 10	F	30	D	689	General Expense		9,162
10	F	17	D	640	Materials	8,021	

Appendix B

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

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

Audit Adj. No.	Annual Report				Description	For the Year 2014	
	Sch.	Line	Col.	Acct No.		Debit	Credit
<u>Net Financial Impact on Balance Sheets Items:</u>							
7	A	20	D	143	Accumulated Provision for Uncollectible Accounts		\$13,033
1	A	19	D	142	Receivables from Associated Companies		8,902
2	A	27	D	201	Common Stock	\$16,885	
2	A	29	D	211	Other Paid-in Capital		16,885
3	A	38	D	241	Other Current Liabilities	29,500	
3	A	32	D	224	Long-term Debt		29,500
1, 8	A	30	D	215	Retained Earnings	8,670	
<u>Net Financial Impact on Income Statements Items:</u>							
4	F	7	D	480	Other Water Revenue	\$60,375	
4	F	5	D	470	Metered Water Revenue		\$58,537
4	F	2	D	460	Unmetered Water Revenue		1,606
5	F	22	D	671	Management Salaries	19,929	
5	F	16	D	630	Employee Labor		19,929
6	F	17	D	640	Materials	5,578	
6	F	18	D	650	Contract Work	300	
7	F	24	D	676	Uncollectible Accounts Expense	13,033	
6	F	26	D	681	Office Supplies and Expense	1,486	
6	F	30	D	689	General Expense		7,364

Appendix C

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	F	24	D	676	Uncollectible Accounts Expense	\$10,957	
	A	20	D	143	Accumulated Provision for Uncollectible Accounts <i>To reclassify the portion of Accounts Receivable determined to be doubtful in 2015.</i>		\$10,957
2	A	30	D	215	Retained Earnings	\$8,952	
	A	19	D	142	Receivables from Associated Companies <i>To adjust the Receivables from Associated Companies to Retained Earnings, due to inability to determine the collectability of this posted asset.</i>		\$8,952
3	A	27	D	201	Common Stock	\$16,885	
	A	29	D	211	Other Paid-in Capital <i>To reclassify Common Stock portion to Other Paid-in Capital for proper categorization.</i>		\$16,885
4	A	38	D	241	Other Current Liabilities	\$19,000	
	A	32	D	224	Long-term Debt <i>To reclassify the Other Current Liabilities to agree with the USOA guidelines.</i>		\$19,000
5	F	7	D	480	Other Water Revenue	\$57,809	
	F	5	D	470	Metered Water Revenue		\$52,412
	F	2	D	460	Unmetered Water Revenue		1,606
	A	18	D	141	Accounts Receivable - Customers <i>To reclassify Other Water Revenue to agree with the audited amount.</i>		3,791

Financial Audit of Cazadero Water Company Financial Statements
For the Years Ended December 31, 2015 and 2014

Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
6	F	22	D	671	Management Salaries	\$18,893	
	F	16	D	630	Employee Labor <i>To reclassify Employee Labor to Management Salaries per the USOA guidelines.</i>		\$18,893
7	F	19	D	660	Transportation Expenses	\$935	
	A	33	D	231	Accounts Payable <i>To accrue vehicle repairs and gas expense belonging to 2015, but paid in 2016.</i>		\$935
8	A	30	D	215	Retained Earnings	\$500	
	F	26	D	681	Office Supplies and Expense <i>To adjust Office Supplies and Expense for amount not substantiated in WTB or G/L.</i>		\$500
9	F	30	D	689	General Expenses	\$474	
	A	33	D	231	Accounts Payable <i>To accrue license fee partially belonging to 2015.</i>		\$474
10	F	17	D	640	Materials	\$8,021	
	F	26	D	681	Office Supplies and Expense	1,615	
	F	30	D	689	General Expense <i>To reclassify General Expenses to specific expenses per the USOA guidelines.</i>		\$9,636
11	F	24	D	676	Uncollectible Accounts Expense	\$11,308	
	A	18	D	141	Accounts Receivable-Customers <i>To reclassify portion of Accounts Receivable determined to be written-off in 2015.</i>		\$11,308
12	A	30	D	215	Retained Earnings	\$13,033	
	A	20	D	143	Accumulated Provision for Uncollectible Accounts <i>To adjust Retained Earnings for adjustment made to Uncollectible Accounts Expense in 2014.</i>		\$13,033

Appendix D

Summary of Audit Adjustments for Year 2014

Audit Adj. No.	Annual Report				Description	For the Year 2014	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
1	A	30	D	215	Retained Earnings	\$8,902	
	A	19	D	142	Receivables from Associated Companies <i>To adjust the Receivables from Associated Companies to Retained Earnings, to agree with USOA guidelines.</i>		\$8,902
2	A	27	D	201	Common Stock	\$16,885	
	A	29	D	211	Other Paid-in Capital <i>To reclassify Common Stock portion to Other Paid-in Capital for proper categorization.</i>		\$16,885
3	A	38	D	241	Other Current Liabilities	\$29,500	
	A	32	D	224	Long-term Debt <i>To reclassify the Other Current Liabilities to agree with the USOA guidelines.</i>		\$29,500
4	F	7	D	480	Other Water Revenue	\$60,375	
	F	5	D	470	Metered Water Revenue		\$58,537
	F	2	D	460	Unmetered Water Revenue		1,606
	A	30	D	215	Retained Earnings <i>To reclassify Other Water Revenue to agree with the audited amount.</i>		232
5	F	22	D	671	Management Salaries	\$19,929	
	F	16	D	630	Employee Labor <i>To reclassify Employee Labor to Management Salaries per the USOA guidelines.</i>		\$19,929
6	F	17	D	640	Materials	\$5,578	
	F	18	D	650	Contract Work	300	
	F	26	D	681	Office Supplies and Expense	1,486	
	F	30	D	689	General Expense <i>To reclassify General Expenses to specific expenses per the USOA guidelines.</i>		\$7,364
7	F	24	D	676	Uncollectible Accounts Expense	\$13,033	
	A	20	D	143	Accumulated Provision for Uncollectible Accounts <i>To reclassify portion of Accounts Receivable determined to be doubtful in 2014.</i>		\$13,033