



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

**Financial Audit of  
Graeagle Water Company  
Financial Statements**

**For the Years Ended December 31, 2016 and 2015**

**November 22, 2017**



## **Acknowledgement**

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

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

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



## **Report of Independent Auditors**

Daniel E. West, President  
Graeagle Water Company, Inc.  
7431 Highway 89  
Graeagle, CA 96103

### **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 Graeagle Water Company (GWC), which are comprised of the balance sheets as of December 31, 2016 and 2015, 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**

GWC's management is responsible for the preparation and fair presentation of the financial statements presented in the 2016 and 2015 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 GWC'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 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 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 Other Paid-in Capital and Retained Earnings, UAFCB could not attest to the balances of these accounts as of December 31, 2016 and 2015. Therefore, UAFCB does not express any opinion on these balances.

### **Qualified Opinion**

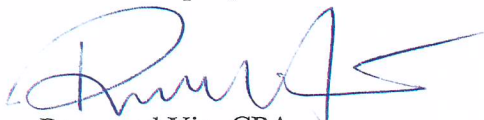
In our opinion, except for the balances of Other Pain-in Capital and Retained Earnings as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of GWC as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting requirements of the Commission as set forth in the USOA for Water Utilities, as 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 GWC on the basis of the accounting requirements of the USOA, 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 Graeagle 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  
Graeagle 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		\$ 2,414,754	\$ 2,333,260
Accumulated Depreciation of Water Plant		(1,156,744)	(1,099,418)
<b>Net Utility Plant (Note 1)</b>		<u>1,258,010</u>	<u>1,233,842</u>
<b>CURRENT AND ACCRUED ASSETS</b>			
Cash		95,213	23,735
Accounts Receivable		55,377	49,921
Other Current Assets		1,380	2,166
Deferred Charges		547	732
<b>Total Current and Accrued Assets</b>		<u>152,517</u>	<u>76,554</u>
<b>Total Assets</b>		<u>\$1,410,527</u>	<u>\$1,310,396</u>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CORPORATE CAPITAL AND SURPLUS</b>			
Common Stock		\$ 168,730	\$ 168,730
Other Paid-in Capital		117,488	117,488
Retained Earnings		899,086	697,198
<b>Total Corporate Capital and Surplus (Note 1)</b>		<u>1,185,304</u>	<u>983,416</u>
<b>LONG-TERM DEBT</b>			
Long-term Debt (Note 1)		26,520	37,021
<b>CURRENT AND ACCRUED LIABILITIES</b>			
Accounts Payable		93,151	182,265
Short-term Notes Payable (Note 1)		15,574	15,574
<b>Total Current and Accrued Liabilities</b>		<u>108,725</u>	<u>197,839</u>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>			
Contributions in Aid of Construction (Note 1)		149,024	149,024
Accumulated Amortization of Contributions		(59,046)	(56,904)
<b>Net Contributions In Aid of Construction</b>		<u>89,978</u>	<u>92,120</u>
<b>Total Equity and Liabilities</b>		<u>\$1,410,527</u>	<u>\$1,310,396</u>

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

## Income Statements

	For the Year	
	2016	2015
<b>OPERATING REVENUES</b>		
Unmetered Water Revenue	\$215,763	\$209,386
Fire Protection Revenue	8,586	11,975
Irrigation Revenue	45,116	40,736
Metered Water Revenue	408,783	310,195
Other Water Revenue	2,445	1,420
<b>Total Revenue (Note 1)</b>	680,693	573,712
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Power	8,570	8,714
Other Volume Related Expenses	6,394	4,137
Materials	2,971	3,271
Contract Work	128,309	145,024
Transportation Expenses	15,179	15,892
Other Plant Maintenance Expenses	1,879	4,839
<b>Total Plant Operation and Maintenance Expenses</b>	163,302	181,877
<b>Administrative and General Expenses</b>		
Office Salaries	89,985	98,028
Management Salaries	77,440	62,568
Uncollectible Accounts Expense	0	367
Office Services and Rentals	14,940	14,940
Office Supplies and Expenses	7,372	5,519
Professional Services	15,820	13,198
Insurance	2,956	3,594
Regulatory Commission Expense	8,304	10,326
General Expenses	10,143	9,604
<b>Total Administrative and General Expenses</b>	226,960	218,144
<b>Total Operating Expenses</b>	390,262	400,021
Depreciation Expense (Note 1)	55,183	52,662
Taxes Other Than Income Taxes	27,510	24,585
State Corporate Income Tax Expense	1,989	800
<b>Total Operating Revenue Deductions</b>	74,682	78,047
<b>Total Utility Operating Income (Loss)</b>	606,011	495,665
<b>OTHER INCOME AND DEDUCTIONS</b>		
Non-utility Income	74	64
Miscellaneous Non-utility Expense	(185)	(185)
Interest Expense	(2,434)	(3,108)
<b>Total Other Income and Deductions</b>	(2,545)	(3,229)
<b>Net Income (Loss)</b>	\$203,204	\$ 92,415

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

## Statements of Retained Earnings

	For the Year	
	2016	2015
<b>Retained Earnings, Beginning of Year</b>	\$697,198	\$658,862
<b>CREDITS:</b>		
Net Income	203,204	92,415
UAFCB Adjustment to Prepaid Insurance and Insurance Expense	1,476	00
UAFCB Adjustment to Long-term Debt	646	00
UAFCB Adjustment to General Expenses	690	00
UAFCB Adjustment to Beginning Balance <sup>1</sup>	1,627	00
<b>Total Credits</b>	207,643	92,415
<b>DEBITS:</b>		
Prior Period Adjustment – As Reported	00	(482)
Distributions to Shareholders – As Reported	(2,600)	(46,800)
UAFCB Adjustment to Cash	00	(865)
UAFCB Adjustment to Materials and Supplies	(734)	(734)
UAFCB Adjustment to Other Current Assets – Pre-2000 dam repair	(2,194)	(2,194)
UAFCB Adjustment to Regulatory Commission Expenses	00	(3,004)
UAFCB Adjustment to Long-term Debt Interest Expense	(227)	00
<b>Total Debits</b>	(5,755)	(54,079)
<b>Retained Earnings, End of Year</b>	\$899,086	\$697,198

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

<sup>1</sup> This amount represents the difference in Retained Earnings at January 1, 2016, between the audited amount and the reported amount:

Retained Earnings at 1/1/2016 – As Audited	\$697,198
Retained Earnings at 1/1/2016 – As Reported	<u>698,825</u>
Variance - UAFCB Cumulative Adjustments to Beginning Balance	<u>\$1,627</u>



## Statements of Cash Flows

	<b>For the Year</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$203,204	\$92,415
<b>Adjustments to Reconcile Net Income to Cash:</b>		
<b>Provided by Operating Activities</b>		
Depreciation	57,326	39,031
Decrease (Increase) in Special Deposits	00	49,686
Decrease (Increase) in Accounts Receivable	(5,456)	(23,193)
Decrease (Increase) in Materials and Supplies	00	734
Decrease (Increase) in Other Current Assets	786	2,046
Increase (Decrease) in Deferred Charges	185	185
Increase (Decrease) in Accounts Payable	(89,114)	(56)
Increase (Decrease) in Short-term Notes Payable	00	15,574
<b>Net Cash Provided (Used) by Operating Activities</b>	166,931	176,422
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Plant Deletions (Additions)	(81,494)	(79,061)
Increase (Decrease) in Contributions in Aid of Construction	00	(17,708)
Increase (Decrease) in Accumulated Amortization of Contributions	(2,142)	13,631
UAFCB Cumulative Adjustment to Retained Earnings	(1,316)	(54,079)
<b>Net Cash Provided (Used) for Investing Activities</b>	(84,952)	(137,217)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-term Debt	(10,501)	(30,067)
<b>Net Cash Provided (Used) for Financing Activities</b>	(10,501)	(30,067)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	71,478	9,138
<b>CASH AT BEGINNING OF YEAR</b>	23,735	14,597
<b>CASH AT END OF YEAR</b>	\$95,213	\$23,735

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

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Graeagle Water Company (GWC) is a privately-owned Class C water company serving approximately 950 active connections in the Graeagle area, Plumas County, California. All water is sourced from stream of Gray Eagle Creek.

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 and gains on the sale of property rights, 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.

#### (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 audit adjustments by the Utility Audit, Finance and Compliance Branch (UAFCB) for years 2016 and 2015, respectively. Appendix C and Appendix D summarize the UAFCB detailed audit adjustments for Years 2016 and 2015, 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 on a straight-line composite rate of 2.42% (equivalent to a 41.3 years depreciation period) in order to depreciate all plant assets for ratemaking purposes and for reporting the depreciation expense in GWC's Annual Reports filed with the Commission.

#### (d) Common Stock/Other Paid-in Capital

GWC was incorporated in the State of California on July 1, 1988. The Commission approved 33,746 common shares at a par value of \$5.00 per share, with a total value of \$168,730. Also, the company has reported \$117,488 in Other Paid-In Capital.

UAFCB could not attest to the accuracy of the beginning balances of Other Paid-In Capital due to lack of historical information on them. Expressing an opinion on the account balances as of December 31, 2016 and 2015 would require auditing the account 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.

**(e) Retained Earnings**

UAFCB could not attest to the accuracy of the beginning balances of Retained Earnings due to lack of historical information on them. Expressing an opinion on the Retained Earnings balances as of December 31, 2016 and 2015 would require auditing the account 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.

**(f) Long-term Debt/Short-term Notes Payable**

The loan principal payment amounts due to Plumas Bank beyond the immediate 12 months are classified as long-term, while the principal payment amounts due within the immediate 12 months are classified as short-term obligations.

**(g) Contributions in Aid of Construction**

Contributions in Aid of Construction (CIAC) balances represent nonrefundable contributions of cash or property the company received from various parties in connection with the construction or extension of its water system. Depreciation applicable to such contributed plant is charged against the CIAC account rather than to depreciation expense until the amount applicable to such plant has been completely amortized.

**(h) Revenues**

GWC's water service revenues include unmetered water (flat rate) revenue, fire protection service revenue, irrigation water revenue, and metered water revenue, which together accounts for over 99.6% of total water service revenues. The other water revenues comprise of late fees, reconnection charges, etc. Customers are billed on a bi-monthly basis. GWC billed its ratepayers based on tariffs approved by the Commission and computed its water service revenues on accrual basis of accounting.

**(2) Annual Reports**

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

## Appendix A

### Summary of Net Financial Impact Resulting from UAFCB's 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

**Net Financial Impact on Balance Sheets Items:**

6	A	2	C	101	Water Plant in Service		\$17,708
1,7	A	11	C	108	Accumulated Depreciation of Water Plant	\$18,490	
2	A	33	C	151	Materials and Supplies		734
3,9	A	34	C	174	Other Current Assets		814
2,3,5,8, 9,10	A	44	C	215	Retained Earnings	343	
4,5	A	53	C	224	Long-term Debt	16,220	
4	A	58	C	232	Short-term Notes Payable		15,574
6	A	78	C	271	Contributions in Aid of Construction	17,708	
7	A	79	C	272	Accumulated Amortization of Contributions		16,882

**Net Financial Impact on Income Statements Items:**

1	B	3	C	403	Depreciation Expense		\$1,608
8	B	12	C	427	Interest Expense		227
9	B-2	19	B	684	Insurance (Expense)	\$96	
10	B-2	21	B	689	General Expenses	690	

## Appendix B

### 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:

10	A	2	C	101	Water Plant in Service		\$17,708
11	A	11	C	108	Accumulated Depreciation of Water Plant	\$16,328	
1	A	27	C	131	Cash		865
2	A	33	C	151	Materials and Supplies		734
3,6,9	A	34	C	174	Other Current Assets		28
1, 2, 3, 7, 8	A	44	C	215	Retained Earnings	6,797	
4	A	53	C	224	Long-term Debt	15,574	
4	A	58	C	232	Short-term Notes Payable		15,574
10	A	78	C	271	Contributions in Aid of Construction	17,708	
11	A	79	C	272	Accumulated Amortization of Contributions		16,328

#### Net Financial Impact on Income Statements Items:

5	B-1	57	B	678	Office Services and Rentals	\$9,960	
5	B-2	34	B	681	Office Supplies and Expenses		\$9,960
6	B-2	19	B	684	Insurance (Expense)		1,476
7,8	B-2	20	B	688	Regulatory Commission Expenses		3,004
9	B-2	21	B	689	General Expenses		690

## 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	11	C	108	Accumulated Depreciation of Water Plant	\$1,608	
	B	3	C	403	Depreciation Expense <i>To adjust depreciation expense associated with asset additions to agree with the audited amount.</i>		\$1,608
2	A	44	C	215	Retained Earnings	\$734	
	A	33	C	151	Materials and Supplies <i>To remove pre-2000 Materials and Supplies to agree with the audited amount.</i>		\$734
3	A	44	C	215	Retained Earnings	\$2,194	
	A	34	C	174	Other Current Assets <i>To remove pre-2000 dam repair to agree with the audited amount.</i>		\$2,194
4	A	53	C	224	Long-term Debt	\$15,574	
	A	58	C	232	Short-term Notes Payable <i>To reclassify a portion of Long-Term Debt to agree with the USOA guidelines.</i>		\$15,574
5	A	53	C	224	Long-term Debt	\$646	
	A	44	C	215	Retained Earnings <i>To adjust Long-Term Debt to agree with the audited amount per the bank statement.</i>		\$646

Financial Audit of Graeagle Water Company Financial Statements  
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Audit Adj. No.	Annual Report				Description	For The Year 2016	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
6	A	78	C	271	Contributions in Aid of Construction	\$17,708	
	A	2	C	101	Water Plant in Service <i>To reduce Contributions in Aid of Construction to agree with the audited amount.</i>		\$17,708
7	A	11	C	108	Accumulated Depreciation of Water Plant	\$16,882	
	A	79	C	272	Accumulated Amortization of Contributions <i>To adjust Accumulated Amortization of Contributions (1986-2016) to agree with the audited amount.</i>		\$16,882
8	A	44	C	215	Retained Earnings	\$227	
	B	12	C	427	Interest Expense <i>To adjust Interest Expense to agree with the audited amount per the bank statement.</i>		\$227
9	B-2	19	B	684	Insurance	\$96	
	A	34	C	174	Other Current Assets	1,380	
	A	44	C	215	Retained Earnings <i>To adjust 2016 Insurance expense and Prepaid Insurance to agree with the audited amount.</i>		\$1,476
10	B-2	21	B	689	General Expenses	\$690	
	A	44	C	215	Retained Earnings <i>To apply prepaid membership expense established in 2015 to 2016 membership expense to agree with the audited amount for proper accrual.</i>		\$690

## 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	44	C	215	Retained Earnings	\$865	
	A	27	C	131	Cash		\$865
					<i>To adjust Cash to agree with the audited amount per GWC's relevant bank reconciliation records.</i>		
2	A	34	C	215	Retained Earnings	\$734	
	A	33	C	151	Materials and Supplies		\$734
					<i>To remove pre-2000 Materials and Supplies to agree with the audited amount.</i>		
3	A	44	C	215	Retained Earnings	\$2,194	
	A	34	C	174	Other Current Assets		\$2,194
					<i>To remove pre-2000 dam repair expense to agree with the audited amount.</i>		
4	A	53	C	224	Long-Term Debt	\$15,574	
	A	58	C	232	Short-Term Notes Payable		\$15,574
					<i>To reclassify portion of Long-Term Debt to agree with the USOA's guidelines.</i>		
5	B-2	57	B	678	Office Services and Rentals	\$9,960	
	B-2	34	B	681	Office Supplies and Expenses		\$9,960
					<i>To reclassify Office Supplies and Expenses to agree with the audited amount.</i>		
6	A	34	C	174	Other Current Assets	\$1,476	
	B-2	19	B	684	Insurance		\$1,476
					<i>To establish prepaid insurance expense for 2016 to agree with the audited amount for proper accrual.</i>		
7	A	44	C	215	Retained Earnings	\$2,323	
	B-2	20	B	688	Regulatory Commission Expenses		\$2,323
					<i>To adjust Regulatory Commission Expenses related to 2013-2014 GRC Filing to agree with the audited amount for proper accrual.</i>		



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Audit Adj. No.	Annual Report				Description	For The Year 2015	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
8	A	44	C	215	Retained Earnings	\$681	
	B-2	20	B	688	Regulatory Commission Expenses <i>To adjust Regulatory Commission Expenses due to lack of supporting documentation.</i>		\$681
9	A	34	C	174	Other Current Assets	\$690	
	B-2	21	B	689	General Expenses <i>To reduce 2015 membership expense and to establish prepaid membership expense for 2016 to agree with the audited amount for proper accrual.</i>		\$690
10	A	78	C	271	Contributions in Aid of Construction	\$17,708	
	A	2	C	101	Water Plant in Service <i>To reduce Contributions in Aid of Constructions to agree with the audited amount.</i>		\$17,708
11	A	11	C	108	Accumulated Depreciation of Water Plant	\$16,328	
	A	79	C	272	Accumulated Amortization of Contributions <i>To adjust Accumulated Amortization of Contributions (1985-2015) to agree with the audited amount.</i>		\$16,328