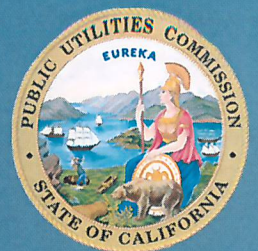




**Financial Audit of Yosemite Spring Park Utility Company
Financial Statements
For the Year Ended December 31, 2016**

Utility Audit, Finance and Compliance Branch
July 27, 2018



A digital copy of this report can be found at:
<http://www.cpuc.ca.gov/utilityaudits/>

Thanks to:
Raymond Yin, Sharmin Wellington, Gelila Berhane, and Aaron Louie

**Audit of Financial Statements of
Yosemite Spring Park Utility Company
For the Year Ended December 31, 2016**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Report of Independent Auditors

Marie Touitou, President
Yosemite Spring Park Utility Company
30250-B Yosemite Spring Parkway
Coarsegold, California 93614

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 Yosemite Spring Park Utility Company (YSPUC), which are comprised of the balance sheet as of December 31, 2016, 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

YSPUC's management is responsible for the preparation and fair presentation of the financial statements presented in the 2016 annual report 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 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 YSPUC'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 Retained Earnings, UAFCB could not attest to the balance of Retained Earnings as of December 31, 2016. Therefore, UAFCB does not express any opinion on that balance.

Qualified Opinion

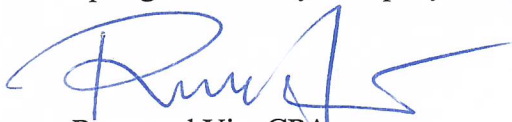
In our opinion, except for the balance of Retained Earnings as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Yosemite Spring Park Utility Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in accordance with the accounting requirements of the Commission as set forth in the USOA for 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 YSPUC on the basis of the accounting requirements of the California Public Utilities Commission as set forth in the USOA for 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 Yosemite Spring Park Utility 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
Yosemite Spring Park Utility Company
For the Year Ended December 31, 2016**

Balance Sheets

	As of December 31, for the Year	
	2016	2015¹
ASSETS		
UTILITY PLANT		
Water Plant in Service (Excluding SDWBA & Prop 50)	\$9,427,442	\$8,730,186
Construction Work in Progress - Water Plant	176,589	350,204
Accumulated Depreciation of Water Plant	(5,800,698)	(5,512,380)
Net Utility Plant (Note 1)	<u>3,803,333</u>	<u>3,568,010</u>
CURRENT AND ACCRUED ASSETS		
Cash	2,047,647	1,830,928
Accounts Receivable - Customers	154,308	135,640
Materials and Supplies	51,544	52,154
Other Current Assets	71,275	2,239
Total Current and Accrued Assets	<u>2,324,774</u>	<u>2,020,961</u>
Total Assets	<u><u>\$6,128,107</u></u>	<u><u>\$5,588,971</u></u>
LIABILITIES AND OTHER CREDITS		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	\$80,000	\$80,000
Other Paid-in Capital	4,975,811	4,487,552
Retained Earnings (Note 1)	250,204	187,307
Total Corporate Capital and Surplus	<u>5,306,015</u>	<u>4,754,859</u>
LONG-TERM DEBT		
Long-term Debt	375,193	626,543
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	124,476	14,267
Short-term Notes Payable	152,133	0
Customer Deposits	663	663
Other Current Liabilities	169,627	192,639
Total Current and Accrued Liabilities	<u>446,899</u>	<u>207,569</u>
Total Equity and Liabilities	<u><u>\$6,128,107</u></u>	<u><u>\$5,588,971</u></u>

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

¹ The amounts for the year ended December 31, 2015, were reported by YSPUC. These amounts have not been audited by UAFCB.

Income Statements

	For the Year of	
	2016	2015 ²
OPERATING REVENUES		
Metered Water Revenue (Note 1)	\$1,683,488	\$1,600,270
Other Water Revenue	2,115	0
Total Operating Revenues	1,685,603	1,600,270
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	279,819	304,000
Other Volume Related Expenses	28,456	13,623
Employee Labor	394,902	436,567
Materials	328	26,702
Contract Work	14,866	16,350
Transportation Expenses	52,017	46,978
Other Plant Maintenance Expenses	83,886	87,655
Total Plant Operation and Maintenance Expense	854,274	931,875
Administrative and General Expenses		
Employee Pensions and Benefits	41,554	4,275
Uncollectible Accounts Expense	0	7,141
Office Services and Rentals	15,900	26,300
Office Supplies and Expenses	32,355	10,579
Professional Services	24,385	21,505
Insurance	59,187	81,520
Regulatory Commission Expense	8,720	15,106
General Expenses	112,534	186,930
Total Administrative and General Expenses	294,635	353,356
Total Operating Expenses	1,148,909	1,285,231
Depreciation Expense	305,867	241,066
Taxes Other Than Income Taxes	69,397	64,494
State Corporate Income Tax Expense	5,193	2,995
Total Operating Revenue Deductions	1,529,366	1,593,786
Total Utility Operating Income	156,237	6,484
OTHER INCOME AND DEDUCTIONS		
Non-utility Income	57,869	42,261
Miscellaneous Non-utility Expense	(9,253)	0
Interest Expense	(6,271)	(2,466)
Total Other Income and Deductions	42,345	39,795
Net Income	\$198,582	\$46,279

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

² The amounts for the year ended December 31, 2015, were reported by YSPUC. These amounts have not been audited by UAFCB.

Statements of Retained Earnings

	For the Year of	
	2016 ³	2015 ⁴
Retained Earnings, Beginning of Year	\$187,307	\$141,028
CREDITS:		
Net Income	198,582	46,279
Total Credits	198,582	46,279
DEBITS:		
UAFCB Adjustment to Metered Water Revenue	(57,707)	0
UAFCB Adjustment to Office Supplies and Expenses	(4,937)	0
UAFCB Adjustment to General Expenses	(72,135)	0
UAFCB Adjustment to Interest Expense	(906)	0
Total Debits	(135,685)	0
Retained Earnings, End of Year	\$250,204	\$187,307

³ The Retained Earnings balances were not audited but were the results of UAFCB compiled audit adjustments and Net Income for 2016. UAFCB could not attest to the accuracy of the Retained Earnings balances due to lack of historical information on the account.

⁴ The amounts for the year ended December 31, 2015, were reported by YSPUC. These amounts have not been audited by UAFCB.

Statements of Cash Flows

	For the Year of	
	2016	2015 ⁵
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income	\$198,582	\$46,279
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation ⁶	288,318	199,691
Decrease (Increase) in Accounts Receivable - Customers	(18,668)	14,312
Decrease (Increase) in Materials and Supplies	610	(1,085)
Decrease (Increase) in Other Current Assets	(69,036)	3,563
Increase (Decrease) in Accounts Payable	110,209	(96,875)
Increase (Decrease) in Short-term Notes Payable	152,133	0
Increase (Decrease) in Other Current Liabilities	(23,012)	85,898
Net Cash Provided by Operating Activities	639,136	251,783
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Deletions (Additions)	(697,256)	(1,086,595)
Net Plant Deletions (Additions) - Construction Work in Progress	173,615	(350,204)
UAFCB Cumulative Adjustments to Retained Earnings ⁷	(135,685)	0
Net Cash Used for Investing Activities	(659,326)	(1,436,799)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-term Debt	(251,350)	626,543
Increase (Decrease) in Other Paid-in Capital	488,259	404,877
Net cash used for Financing Activities	236,909	1,031,420
NET INCREASE AND (DECREASE) IN CASH AND CASH EQUIVALENTS	216,719	(153,596)
CASH AT BEGINNING OF YEAR	1,830,928	1,984,524
CASH AT END OF YEAR	\$2,047,647	\$1,830,928

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

⁵ The amounts for the year ended December 31, 2015, were reported by YSPUC. These amounts have not been audited by UAFCB.

⁶ For the purpose of Statements of Cash Flows, UAFCB included \$288,318 and \$199,691 Depreciation of Water Plants from the depreciation expenses for Years 2016 and 2015, respectively.

⁷ For Year 2016, the total UAFCB debit adjustment of \$(135,685) to Retained Earnings represented the cumulative effect of UAFCB's adjustments to the Retained Earning for Year 2016.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Yosemite Spring Park Utility Company (YSPUC) is a Class C water utility that provides water service in the unincorporated community of Yosemite Lakes Park, approximately five miles south of Coarsegold, Madera County. Yosemite Spring Park Utility Company currently serves 1,893 metered-rate customers.

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.

(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 2016. Appendix B presents the UAFCB detail audit adjustments for the year 2016.

(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 based on estimated cost and charged against accumulated depreciation. The Water Plant in Service's Depreciation Schedule balance did not reconcile to the Annual Report balance. This was due to a system error where an asset disposal was not captured in the Depreciation Schedule. This transaction was recorded with proper adjustment in YSPUC's General Ledger.

(c) Accumulated Depreciation and Depreciation Expense of Water Plant

Depreciation was 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 expenses in YSPUC's Annual Reports filed with the Commission. Depreciation rate should normally fall within the range from 2.0% to 3.5% pursuant to the Commission's Standard Practice (SP) U-04-SM, Paragraph No. 22. YSPUC used a 4% composite depreciation rate that was outside the normal depreciation range without obtaining proper approval from the Commission.

(d) Operating Water Revenue

YSPUC customers are metered and billed on a monthly basis. YSPUC computed its metered water revenues based on tariffs approved by the Commission.

(e) Retained Earnings

UAFCB could not attest to the accuracy of the Retained Earnings balance due to lack of historical information on them. Expressing an opinion on the Retained Earnings Balance as of December 31, 2016 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 that balance.

(2) Annual Reports

Per California Public Utilities Code, Sections 581, 582, and 584, YSPUC is required to file an annual report with the Commission every year. For the year being audited, YSPUC 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 Adjustment Number	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct. No.		Debit	Credit

Net Financial Impact on Balance Sheets Items:

2,3,6,8	A	44	C	215	Retained Earnings	\$135,685	
1	A	53	C	224	Long-term Debt	152,133	
1	A	58	C	232	Short-term Notes Payable		\$152,133

Net Financial Impact on Income Statements Items:

7	B	10	C	421	Non-utility Income	\$2,115	
8	B	12	C	427	Interest Expense		\$906
2	B-1	14	B	470.1	Metered Water Revenue		57,707
7	B-1	21	B	480	Other Water Revenue		2,115
4	B-2	14	C	674	Employee Pensions and Benefits	33,086	
5	B-2	17	B	681	Office Supplies and Expense	12,442	
4,5,6	B-2	21	C	689	General Expenses		122,600

Appendix B

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	53	C	224	Long-term Debt	\$152,133	
	A	58	C	232	Short-term Notes Payable <i>To reclassify Long-term Debt to Short-term Notes Payable Account for current portion of debt.</i>		\$152,133
2	A	44	C	215	Retained Earnings	\$57,707	
	B-1	14	B	470.1	Metered Water Revenue - Single-family Residential <i>To adjust Metered Water Revenue to agree with the audited amount.</i>		\$57,707
3	B-2	44	C	215	Retained Earnings	\$4,937	
	B-2	17	C	681	Office Supplies and Expenses <i>To adjust Office Supplies and Expenses to agree with the audited amount.</i>		\$4,937
4	B-2	14	C	674	Employee Pensions and Benefits	\$33,086	
	B-2	21	C	689	General Expenses <i>To reclassify General Expenses to Employee Pensions and Benefits Account.</i>		\$33,086
5	B-2	17	C	681	Office Supplies and Expenses	\$17,379	
	B-2	21	C	689	General Expenses <i>To reclassify General Expenses to Office Supplies and Expenses Account.</i>		\$17,379
6	A	44	C	215	Retained Earnings	\$72,135	
	B-2	21	C	689	General Expenses <i>To adjust administrative fees to agree with the audited amount.</i>		\$72,135
7	B	10	C	421	Non-utility Income	\$2,115	
	B-1	21	B	480	Other Water Revenue <i>To reclassify the partial amount of Non-utility Income to Other Water Revenue Account.</i>		\$2,115

Financial Audit of Yosemite Spring Park Utility Company Financial Statements
 For the Year Ended December 31, 2016

Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
8	A	44	C	215	Retained Earnings	\$906	
	B	12	C	427	Interest Expense		\$906
					<i>To adjust Interest Expense to agree with the audited amount.</i>		