



**Financial Audit of Bakman Water Company
Financial Statements
For the Year Ended December 31, 2017**

Utility Audit, Finance and Compliance Branch
January 22, 2019



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Thanks to:

Raymond Yin, Sharmin Wellington, and Khai Duong

**Audit of Financial Statements of
Bakman Water Company
For the Year Ended December 31, 2017**

Table of Contents

Page Number

Report of Independent Auditors.....	ii
Balance Sheets	1
Income Statements	2
Statements of Retained Earnings	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	5
Appendix A.....	A-1
Appendix B.....	B-1

PUBLIC UTILITIES COMMISSION

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Report of Independent Auditors

Mr. Richard Bakman, President
Bakman Water Company
P.O. Box 7965,
Fresno, CA 93747

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 Bakman Water Company (BWC), 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

BWC'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 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 BWC'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 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 as of December 31, 2017.

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 Bakman Water Company 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 of BWC were originally prepared on the basis of the accounting requirements of the California Public Utilities Commission as set forth in 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. 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 Bakman Water Company. 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
Bakman Water Company
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 (Excluding SDWBA) (Note 1)	\$9,723,984	\$8,664,839
Water Plant in Service – SDWBA	615,300	615,300
Accumulated Depreciation of Water Plant (Note 1)	<u>(4,743,560)</u>	<u>(4,423,843)</u>
Net Utility Plant	<u>\$5,595,724</u>	<u>\$4,856,296</u>
CURRENT AND ACCRUED ASSETS		
Cash	58,818	114,983
Accounts Receivable – Customers	59,826	280,037
Other Current Assets	<u>1,080,081</u>	<u>560,103</u>
Total Current and Accrued Assets	<u>1,198,725</u>	<u>955,123</u>
Total Assets	<u>\$6,794,449</u>	<u>\$5,811,419</u>
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	\$67,100	\$67,100
Other Paid-in Capital	120,039	120,039
Retained Earnings (Note 1)	<u>(955,510)</u>	<u>(973,220)</u>
Total Capitalization	<u>(768,371)</u>	<u>(786,081)</u>
LONG-TERM DEBT		
Long-term Debt (Note 1)	64,266	0
CURRENT AND ACCRUED LIABILITIES		
Payables to Affiliated Companies	4,248	0
Accounts Payable	186,131	95,017
Accrued Taxes	7,906	5,075
Other Current Liabilities	<u>559,842</u>	<u>537,013</u>
Net current and accrued liabilities	<u>758,127</u>	<u>637,105</u>
CONTRIBUTION IN AID OF CONSTRUCTION		
Contribution in Aid of Construction (Note 2)	8,356,994	7,403,891
Accumulated Amortization of Contribution	<u>(1,616,567)</u>	<u>(1,443,496)</u>
Net Contribution in Aid of Construction	<u>6,740,427</u>	<u>5,960,395</u>
Total Capitalization and Liabilities	<u>\$6,794,449</u>	<u>\$5,811,419</u>

(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 BWC on its 2016 Annual Report.

Income Statements

	For the Year of	
	2017	2016 ²
OPERATING REVENUES		
Unmetered Water Revenue	\$873,459	\$1,021,541
Fire Protection Revenue	109,321	107,327
Irrigation Revenue	103,592	91,610
Metered Water Revenue	1,003,693	744,100
Other Water Revenue	<u>1,614</u>	<u>556</u>
Total Operating Revenues (Note 1)	2,091,679	1,965,134
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Purchase Water	49,528	45,255
Power	362,591	356,068
Employee Labor	269,917	240,256
Materials	21,579	34,267
Contract Work	9,066	11,253
Transportation Expense	63,869	55,811
Other Plant Maintenance Expenses	<u>102,952</u>	<u>96,392</u>
Total Plant Operation and Maintenance Expense	879,502	839,302
Administrative and General Expenses		
Office Salaries	215,720	191,928
Management Salaries	141,502	141,501
Employee Pensions and Benefits	205,079	210,662
Uncollectible Accounts Expense	4,290	14,330
Office Services and Rentals	132,858	121,487
Office Supplies and Expenses	118,782	98,550
Professional Services	88,133	86,261
Insurance	38,705	42,215
Regulatory Commission Expense	9,278	7,050
General Expenses	<u>123,227</u>	<u>64,857</u>
Total Administrative and General Expenses	<u>1,077,574</u>	<u>978,841</u>
Total Operating Expenses	1,957,076	1,818,143
Depreciation Expense (Note 1)	146,646	143,383
Taxes Other Than Income Taxes	74,544	66,969
State Corporate Income Tax Expense	7,173	5,875
Federal Corporate Income Tax Expense	<u>16,334</u>	<u>4,901</u>
Total Operating Revenue Deductions	2,201,773	2,039,271
Total Utility Operating Income (Loss)	(110,094)	(74,137)
OTHER INCOME AND DEDUCTIONS		
Interest Expense	<u>(1,240)</u>	<u>(5)</u>
Total Other Income and Deductions	(1,240)	(5)
Net Income (Loss)	<u><u>(\$111,334)</u></u>	<u><u>(\$74,142)</u></u>

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

² The year ended December 31, 2016 amounts were not audited; these amounts were provided by BWC on its 2016 Annual Report.

Statements of Retained Earnings

	For the Year of	
	2017	2016 ³
Retained Earnings, Beginning of Year	(\$973,220)	(\$1,026,583)
CREDITS:		
Billings on Balancing Accounts (Note 1)	129,044	127,508
Total Credits	129,044	127,508
DEBITS:		
Net Loss	(111,334)	(74,142)
Total Debits	(111,334)	(74,142)
Retained Earnings, End of Year	<u>(\$955,510)</u>	<u>(\$973,217)</u>

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

³ The year ended December 31, 2016 amounts were not audited; these amounts were provided by BWC on its 2016 Annual Report.

Statements of Cash Flows

	For the Year of	
	2017	2016⁴
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	(\$111,334)	(\$74,142)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities		
Depreciation and Amortization	319,717	305,579
Amortization of Contributions	(173,071)	(162,196)
Decrease (Increase) in Accounts Receivable - Customers	220,211	41,157
Decrease (Increase) in Other Current Assets	(519,979)	(24,077)
Decrease (Increase) in Payables to Affiliated Companies	4,248	0
Increase (Decrease) in Accounts Payable	91,115	(86,742)
Increase (Decrease) in Accrued Taxes	7,906	0
Increase (Decrease) in Other Current Liabilities	<u>17,755</u>	<u>7,715</u>
Net Cash Provided by Operating Activities	(143,432)	7,294
CASH FLOWS FROM INVESTING ACTIVITIES:		
Balancing Account Revenue Credit (Note 1)	129,044	127,508
Net Plant Additions	(1,059,146)	(379,640)
Increase in Contributions in Aid of Construction	<u>953,103</u>	<u>330,270</u>
Net Cash Used for Investing Activities	23,001	78,138
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-term Debt	<u>64,266</u>	<u>(5,400)</u>
Net Cash Used for Financing Activities	64,266	(5,400)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(56,165)	80,032
CASH AT BEGINNING OF YEAR	<u>114,983</u>	<u>34,954</u>
CASH AT END OF YEAR	<u>\$58,818</u>	<u>\$114,983⁵</u>

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

⁴ The year ended December 31, 2016 amounts were not audited; these amounts were provided by BWC on its 2016 Annual Report.

⁵ BWC reported a cash balance of \$114,983 as of December 31, 2017, in the Balance Sheets of its 2017 Annual Report. The running total of cash balance as of December 31, 2017 based on the Statements of Cash Flows compiled by UAFCB is \$114,986. A rounding variance of \$3 was noted. For presentation purposes, the \$3 rounding variance was adjusted in the Statements of Cash Flows to agree with the amount of \$114,983 reported in the Balance Sheet as of December 31, 2017.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Bakman Water Company (BWC) is a class B water utility located in Fresno, California. BWC was incorporated in March 1961 by Richard Bakman. The Annual Report showed BWC had 2,356 metered rate and 176 flat rate service connections in 2017. Richard Bakman is the President and his son Shaymus Bakman is the Manager of BWC.

The financial statements of BWC were prepared 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, would 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 BWC files 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 BWC Balance Sheets and Income Statements. Likewise, the Statement of Cash Flows for 2016 was compiled by UAFCB based on the 2016 reported financial information of BWC Balance Sheets and Income Statements.

(a) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A present the net financial impact resulting from UAFCB's audit adjustments for the Year 2017. Appendix B summarize the UAFCB's detailed audit adjustments for Year 2017.

(b) Water Plant in Service

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

(c) Depreciation and Accumulated Depreciation of Water Plant

Depreciation is computed using a straight-line composite rate of 3.81% or over 26.2 years to depreciate all of its plant assets for ratemaking purposes and for reporting the depreciation expense in its Annual Reports filed with the Commission. The composite rate of 3.81% was approved by the Commission in Advice Letter 58 filed April 1, 2004.

(d) Corporate Capital

BWC reported Common Stock of \$67,100 and Other Paid-in Capital of \$120,039.

(e) Retained Earnings

UAFCB could not attest to the accuracy of the Retained Earnings balances due to the lack of historical information. Expressing an opinion on the Retained Earnings balances as of December 31, 2017, would require auditing the Retained Earnings from the inception of the company. Due to limitation of our audit scope, we cannot express an opinion on those balances. BWC reported in the 2017 Annual Report that there were billings on balancing account of \$129,044 credit to the Retained Earnings. Refer to the section of Balancing and Memorandum Accounts below.

(f) Long-term Debt

BWC reported Long-term Debt balance of \$64,266 pertaining to a vehicle loan on the 2017 Annual Report.

(g) Revenues

BWC's revenues are mainly obtained from providing metered rate and unmetered rate water services to its customers. In 2017, the unmetered revenue of \$873,459 and metered revenue of \$1,003,693 were around 42% and 48% of the total operating revenues of \$2,091,679, respectively. BWC billed its customers on tariffs approved by the Commission.

(h) Balancing and Memorandum Accounts

The Commission authorized Class B, C, and D water utilities to establish memorandum accounts to track changes in purchased water, purchased power, and pump tax per Resolution W-4467. Resolution W-4467 also authorized Class C and D water and sewer utilities to establish memorandum accounts to track unanticipated changes, beyond the utility's control in payroll, payroll taxes, and that portion of contract work that is for operation and maintenance of the plant facilities. The recovery of expenses booked to Class B, C, and D memorandum accounts may be requested by advice letter at any time or may be considered for recovery in the utility's general rate case.

BWC's Purchase Power Balancing Account surcharge is \$4.35 per customer per month for 36 months effective June 2016. In advice letter (AL) 76 BWC requested Purchase Power Balancing Account due to increases in power provider's rates. In May 2007, Resolution W-4640 recommends that BWC establish a Purchase Water Memorandum Account. In addition, BWC reported a Water Quality Balancing Account authorized by resolution W-4698.

(2) Contributions in Aid of Construction (CIAC) and Accumulated Amortization

CIAC represents nonrefundable contributions of cash or property received from various parties for purposes of constructing additions to utility plant. Depreciation applicable to such contributed plant is charged against the CIAC account rather than to depreciation expense until the amount applicable to such properties has been completely amortized.

(3) Related Party Transactions

BWC transactions include several affiliated entities: Bakman Ranch, RT Diversified Inc., Sunnyside Investments, and Van Ness Investments. Transactions include sharing operating

expenses and assets such as rents, and bank cards. BWC leases land from Bakman Ranch, BWC leases office space on Belmont Avenue from Van Ness Investments, and BWC leases shop space on Tulare from RT Diversified Inc. Affiliated parties' leases account for about \$133,000 per its 2017 general ledger.

(4) Annual Reports

Per California Public Utilities Code, Sections 581, 582, and 584, water utilities are required to file an annual report with the Commission every year. For the year being audited, BWC 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 Adj. No.	Annual Report				Description	For the Year 2017	
	Sch.	Line	Col.	Acct No.		Debit	Credit

Net Financial Impact on Balance Sheets Items:

1	A	32	c	141	Accounts Receivable – Customers		\$510,316
1	A	36	c	174	Other Current Assets	\$510,316	
2	A	16	c	230	Payables to Affiliated Companies		4,248
2	A	17	c	231	Accounts Payable	4,248	

Net Financial Impact on Income Statements Items:

None.

Appendix B

Summary of Audit Adjustments for Year 2017

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	36	c	174	Other Current Assets	\$510,316	
	A	32	c	141	Accounts Receivables - Customers		\$510,316
					<i>To reclassify the receivables not from customers to Other Current Assets account.</i>		
2	A	17	c	231	Accounts Payable	\$4,248	
	A	16	c	230	Payables to Affiliated Companies		\$4,248
					<i>To reclassify the payables to the affiliated companies from Accounts Payable to the correct account.</i>		