



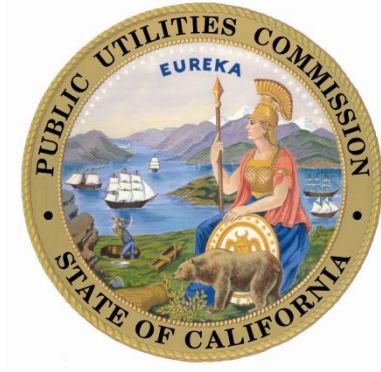
California Public Utilities Commission
Division of Water and Audits

Financial Audit of
Easton Estates Water Company
U-38-W

Financial Statements

For the Years Ended December 31, 2011, and 2010

December 14, 2012



Acknowledgement

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

**Audit of Financial Statements of
Easton Estates Water Company
U-38-W
For the Years Ended December 31, 2011, and 2010**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Independent Auditor's Report

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) has audited the accompanying balance sheets of Easton Estates Water Company (EEWC) as of December 31, 2011, and 2010, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. EEWC's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2011 and 2010 annual reports filed with the Commission.
2. Conformity with accounting requirements of the Commission as set forth in the Uniform System of Accounts for Class D water utilities, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The responsibility of the UAFCB is to express an opinion on EEWC's financial statements as a whole based on its 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. Accordingly, the audit included examining, on a test basis, evidence concerning EEWC's compliance with the Commission's accounting and reporting requirements and performing such procedures as we considered necessary in the circumstances. The UAFCB believes that its audit provides a reasonable basis for an opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Easton Estates Water Company as of December 31, 2011, and 2010, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

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

Kayode Kajopaiye, Chief
Utility Audit, Finance and Compliance Branch

**Audit of Financial Statements of
Easton Estates Water Company
U-38-W
For the Years Ended December 31, 2011, and 2010**

Balance Sheets

	As of December 31 for the Year	
	2011	2010
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$ 386,341	\$ 372,178
Accumulated Depreciation of Water Plant	196,913	186,984
Net Utility Plant	189,428	185,194
CURRENT AND ACCRUED ASSETS		
Cash	55,271	61,012
Accounts Receivable – Customers	8,522	7,074
Other Current Assets (Note 5) (Appendix A)	<u>1,978</u>	<u>1,382</u>
Total Current and Accrued Assets	<u>65,771</u>	<u>69,468</u>
Total Assets and Deferred Charges	\$ <u>255,199</u>	\$ <u>254,662</u>
CORPORATE CAPITAL AND SURPLUS		
Common Stock	\$ 27,200	\$ 27,200
Retained Earnings	<u>97,546</u>	<u>92,558</u>
Total Corporate Capital and Retained Earnings	124,746	119,758
LONG-TERM DEBT		
Long-Term Debt (Note 2)	113,730	119,932
CURRENT AND ACCRUED LIABILITIES		
Current Liabilities	<u>16,723</u>	<u>14,972</u>
Total Current and Accrued Liabilities		
Total Liabilities and Other Credits	\$ <u>255,199</u>	\$ <u>254,662</u>

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

Income Statements

As of December 31 for the Year	
2011	2010

OPERATING REVENUES

Unmetered Water Revenue (Note 1)	\$ 67,392	\$ 66,242
Metered Water Revenue	2,570	2,795
Other Water Revenue	<u>316</u>	<u>264</u>
Total Operating Revenues	\$ 70,278	\$ 69,301

OPERATING EXPENSES

Plant Operation and Maintenance Expenses		
Power	6,514	7,003
Contract Work	7,362	7,151
Materials	<u>520</u>	<u>307</u>
Total Plant Operation and Maintenance Expense	14,396	14,461

Administrative and General Expenses

Uncollectible Accounts Expense	403	37
Office Services and Rentals	7,590	6,600
Office Supplies and Expenses	7,269	6,392
Professional Services	16,883	15,429
Insurance	2,413	2,305
Regulatory Commission Expense	846	872
General Expenses (Note 5) (Appendix A)	597	1,120
Total Administrative and General Expenses	<u>36,001</u>	<u>32,755</u>
Total Operating Expenses	50,397	47,216

Depreciation Expense (Note 1)	4,008	3,649
SDWBA Loan Amortization Expense (Note 2)	6,288	6,287
Taxes Other Than Income Taxes	165	192
State Corporate Income Tax Expense (Note 3)	<u>800</u>	<u>800</u>
Total Operating Revenue Deductions	61,658	58,144

Total Utility Operating Income and Deductions	8,620	11,157
Total Other Income and Deductions	<u>(3,632)</u>	<u>(4,131)</u>
Net Income	\$ <u>4,988</u>	\$ <u>7,026</u>

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

Statements of Retained Earnings

	For the Year of	
	2011	2010
Retained Earnings, Beginning of Year	\$ 92,558	\$ 85,532
CREDITS:		
Net Income	<u>4,988</u>	<u>7,026</u>
Total Credits	<u>4,988</u>	<u>7,026</u>
Retained Earnings, End of Year	\$ <u>97,546</u>	\$ <u>92,558</u>

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

Statements of Cash Flows

	For the Year of	
	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ 4,988	\$ 7,026
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities		
Depreciation	4,008	3,649
SDWBA Loan Amortization Expense	6,288	6,287
Decrease (Increase) in Accounts Receivable	(1,448)	246
Decrease (Increase) in Other Current Assets	(596)	(62)
Increase (Decrease) in Other Current Liabilities	<u>1,751</u>	<u>4,692</u>
Net Cash Provided by Operating Activities	14,991	21,838
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions	(14,163)	(6,610)
Cash used for Retirements during year	<u>(367)</u>	<u>(2,154)</u>
Net Cash Used for Investing Activities	(14,530)	(8,764)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Debt – SDWBA Loan	<u>(6,202)</u>	<u>(15,910)</u>
Net Cash Used for Financing Activities	(6,202)	(15,910)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,741)	(2,836)
CASH AT BEGINNING OF YEAR	<u>61,012</u>	<u>63,848</u>
CASH AT END OF YEAR	\$ <u>55,271</u>	\$ <u>61,012</u>

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Easton Estates Water Company (EEWC) was incorporated in the State of California on June 2, 1960. EEWC is a Class D water utility and serves approximately 106 unmetered and 1 metered customers in Fresno, California.

EEWC has prepared the accompanying Balance Sheets, Income Statements, and Statements of Retained Earnings on the basis of accounting set forth in the Uniform System of Accounts for Class B, C, and D Water Utilities adopted and prescribed by the California Public Utilities Commission (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 operating expenses, revenues and depreciation related to prior years are recorded directly in the statement of retained earnings. Accounting principles generally accepted in the United States of America would require such transactions to be recorded in the income statements. A Statement of Cash Flows is not required by the Commission when EEWC files its annual reports with the Commission. Therefore, the accompanying Statements of Cash Flows were compiled by the UAFCB based on the financial information in EEWC's Balance Sheets and Income Statements.

(a) Utility Plant

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

(b) Depreciation

Depreciation is computed on various straight-line rates to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission. These rates are determined according to the type of plant which is to be depreciated. For Years 2011 and 2010, straight-line rates were used with lives of 10, 20, 25, 30, 35, and 40 years.

(c) Revenues

Almost all of EEWC's customers are unmetered and are billed on a bi-monthly basis. EEWC computes its water revenues based on tariffs approved by the Commission.

(2) Long-term Debts

As of December 31, 2011, EEWC has the following long-term debts:

<u>Description</u>	<u>Outstanding Balance As of December 31, 2010</u>
Notes Payable – 1994 SDWBA Loan	\$110,879.60
Notes Payable – to Shareholders	<u>\$2,850.56</u>
Total Long-Term Debt	<u>\$113,730.16</u>

(a) 1994 SDWBA Loan

In March 1994, EEWC obtained a loan from the State Department of Water Resources (DWR) pursuant to the Safe Drinking Water Bond Act to finance plant for the purpose of complying with the Act. The original borrowings consist of a secured \$180,892.12 loan principal, which carries an annual interest rate of 3.1775% and is to be amortized over 31.5 years.

(b) Loan to Shareholders

EEWC owes a loan payable to its owner and sole shareholder, Francis Ferraro, in the amount of \$2,850.56 for both years ending December 31, 2011 and 2010. This loan is owed to the owner, but has no scheduled date for repayment. The company secretary indicated that the balance should be paid back to the company in a near-term timeframe. However, there is no other information available with which to corroborate it.

(3) Income Taxes

EEWC has not paid any federal income taxes during the calendar years 2011 and 2010, due to its income level. EEWC paid \$800 of State Corporate Franchise taxes each calendar year in 2011 and 2010.

(4) Annual Reports

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

(5) Adjustments to Financial Statements

(a) General Expenses

Two items amounting to \$501 recorded as General Expenses for the year ending December 31, 2011 were determined to actually belong to the year ending December 31, 2012, and are thus prepaid expenses (or Other Current Assets) for 2011.

A California Department of Health bill for small water system annual fees for \$636 was for the period July 1, 2011 through June 30, 2012. Therefore, half of this amount (\$318) was prepaid for 2012. Also, a Costco annual membership for \$200 paid in December 2011 for the following 12 months was therefore prepaid for 11 months belonging to 2012. The prepaid amount was \$183.

Financial Audit of Easton Estates Water Company Financial Statements
For the Years Ended December 31, 2011, and 2010

Appendix A

Account Number	Description	As Reported	UAFCB Audit Adjustment	As Audited
1174	Other Current Assets	\$1,477	\$501	\$1,978