



California Public Utilities Commission
Division of Water and Audits

**Financial Audit of
Bakman Water Company
Financial Statements**

For the Years Ended December 31, 2010, 2009 and 2008

February 10, 2014



**The following Commission Staff contributed to the completion of this audit report:
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Independent Auditor's Report

The Utility Audit, Finance and Compliance (Staff, UAFCB) of the California Public Utilities Commission (CPUC, Commission) has audited the accompanying balance sheets of BAKMAN Water Company (BWC) as of December 31, 2010, 2009, and 2008, and the related income statements, statements of retained earnings, and statements of cash flows for the years then ended. BWC's management is responsible for:

1. Completeness and correctness of the financial statements presented in the 2010, 2009 and 2008 annual reports filed with the Commission.
2. Conformity with accounting requirements of the Commission as set forth in the Uniform System of Accounts (USOA) for Class B, C and 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 BWC'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 BWC'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, except for the balances of some expenses accounts as described in the following paragraph, the financial statements referred to above presents fairly, in all material respects, the financial position of BAKMAN Water Company as of December 31, 2010, 2009, and 2008, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

As explained in the Notes to Financial Statements, due to insufficient supporting documentation for contract work, transportation and employee pension and benefits expenses, the UAFCB does not express any opinion on those balances.

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

Bernard Ayanruoh, CPA
Program and Project Supervisor
Utility Audit, Finance and Compliance Branch

Balance Sheets

		As of December 31 for the Year		
		2010	2009	2008
ASSETS				
UTILITY PLANT				
Water Plant in Service (Note 1)		\$7,126,826	\$7,047,214	\$6,984,328
Accumulated Depreciation of Water Plant		<u>(2,815,545)</u>	<u>(2,560,782)</u>	<u>(2,307,496)</u>
Net Utility Plant		4,311,281	4,486,432	4,676,832
CURRENT AND ACCRUED ASSETS				
Cash		156,130	241,179	81,540
Special Accounts		0	0	3,660
Accounts Receivable – Customers		213,473	188,511	163,910
Receivables-Associated Companies		0	2,476	14,312
Other Current Assets		<u>20,910</u>	<u>4,100</u>	<u>2,550</u>
Total Current and Accrued Assets		<u>390,513</u>	<u>436,266</u>	<u>265,972</u>
Total Assets		<u>\$4,701,794</u>	<u>\$4,922,698</u>	<u>\$4,942,804</u>
CAPITALIZATION AND LIABILITIES				
CORPORATE CAPITAL AND SURPLUS				
Common Stock		\$67,100	\$67,100	\$67,100
Other Paid in Capital		120,039	120,039	120,039
Retained Earnings		<u>(226,002)</u>	<u>(113,403)</u>	<u>(103,850)</u>
Total Corporate Capital and Retained Earnings		(38,863)	73,736	83,289
LONG-TERM DEBT				
Long-Term Debt (Note 2)		17,121	31,534	53,989
CURRENT AND ACCRUED LIABILITIES				
Accounts Payable		8,005	25,479	29,928
Other Current Liabilities		<u>7,766</u>	<u>19,591</u>	<u>6,526</u>
Total Current and Accrued Liabilities		15,771	45,070	36,454
CONTRIBUTION IN AID OF CONSTRUCTION				
Contribution In Aid of Construction (Note 1)		5,447,547	5,412,286	5,309,410
Accumulated Amortization of Contributions		<u>(739,782)</u>	<u>(639,928)</u>	<u>(540,338)</u>
Net Contribution In Aid of Construction		<u>4,707,765</u>	<u>4,772,358</u>	<u>4,769,072</u>
Total Capitalization and Liabilities		<u>\$4,701,794</u>	<u>\$4,922,698</u>	<u>\$4,942,804</u>

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

Income Statements

	For the Year Ended		
	2010	2009	2008
OPERATING REVENUES (Note 3)			
Flat Rate Water Revenue	\$1,353,466	\$1,356,512	\$1,350,415
Metered Water Revenue	298,713	265,620	229,788
Fire Protection Water Revenue	102,158	101,373	101,620
Other Water Revenue	<u>0</u>	<u>0</u>	<u>11,506</u>
Total Operating Revenues	1,754,337	1,723,505	1,693,329
OPERATING EXPENSES			
Plant Operation and Maintenance Expense (Note 4)			
Power Purchase	351,252	327,848	307,409
Employee Labor	182,826	120,109	112,997
Materials	23,875	29,581	40,813
Contract Work	51,327	139,829	137,135
Transportation Expenses	82,175	75,954	92,049
Other Plant Maintenance Expenses	<u>107,911</u>	<u>104,512</u>	<u>32,303</u>
Total Plant Operation and Maintenance	799,366	797,833	722,706
Administrative and General Expenses (Note 5)			
Office Salaries	139,544	133,426	133,732
Management Salaries	141,500	83,100	83,100
Employee Pensions and Benefits	171,619	105,570	81,239
Office Services and Rentals	132,840	132,840	132,840
Office Supplies and Expenses	79,249	80,240	63,765
Professional Services	52,966	50,175	41,982
Insurance	81,931	68,971	52,331
Regulatory Commission Expense	7,909	5,027	8,391
General Expenses (Notes 4, 5)	<u>49,437</u>	<u>60,485</u>	<u>77,481</u>
Total Administrative and General Expenses	856,995	719,834	674,861
Depreciation Expense (Note 1)	154,909	153,696	154,721
Federal Income Tax Expense	592	10,251	4,255
Taxes Other Than Income Taxes	52,000	43,272	39,493
State Corporate Income Tax Expense	<u>1,718</u>	<u>6,422</u>	<u>800</u>
Total Operating Revenue	1,865,580	1,731,308	1,596,836
Deductions			
Total Utility Operating Income	(111,243)	(7,803)	96,493
Net Non-Utility Income	0	185	20
Interest Expense	(1,356)	(1,935)	(1,521)
Net Income	<u>(\$112,599)</u>	<u>(\$9,553)</u>	<u>\$94,992</u>

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

Statements of Retained Earnings

	For the Year Ended		
	2010	2009	2008
Retained Earnings, Beginning of Year	(\$113,403)	(\$103,850)	(\$106,535)
CREDITS:			
Net Income	0	0	94,992
Adjustment to Power Expense	<u>0</u>	<u>0</u>	<u>33,499</u>
Total Credits	0	0	128,491
DEBITS:			
Net Loss	112,599	9,553	0
Adjustment to Yearly R/E	0	0	10,030
Adjustment to Revenue	<u>0</u>	<u>0</u>	<u>115,776</u>
Total Debits	112,599	9,553	125,806
Retained Earnings, End of Year	<u>(\$226,002)</u>	<u>(\$113,403)</u>	<u>(\$103,850)</u>

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

Statements of Cash Flows

	For the Year of		
	2010	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES:			
Net Income (Loss)	(\$112,599)	(\$9,553)	\$94,992
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities –			
Depreciation and amortization	154,909	153,696	154,721
Decrease (Increase) in Accounts Receivable	(24,966)	(24,601)	54,504
Decrease (Increase) in Special Accounts	0	3,660	0
Decrease (Increase) in Other Current Assets	(16,810)	(1,550)	1,350
Decrease(Increase)in Receivables from Associated Companies	2,476	11,836	(14,312)
Increase (Decrease) in Customer Deposits	0	0	(31,226)
Increase (Decrease) in Accounts Payable	(17,470)	(4,449)	(153,727)
Increase (Decrease) in Other Current Liabilities	<u>(11,825)</u>	<u>13,065</u>	<u>1,202</u>
Net Cash Provided by Operating Activities	(26,285)	142,104	107,504
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase (Decrease) in Net Plant Additions	(79,612)	(62,886)	(46,026)
Increase (Decrease) in Contribution In Aid of Construction	<u>35,261</u>	<u>102,876</u>	<u>19,884</u>
Net Cash Used for Investing Activities	(44,351)	39,990	(26,142)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (Decrease) in Long-Term Debt	(14,413)	(22,455)	(20,847)
Increase (Decrease) in Adjustment to Retained Earnings	<u>0</u>	<u>0</u>	<u>(92,308)</u>
Net Cash Used for Financing Activities	(14,413)	(22,455)	(113,155)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(85,049)	159,639	(31,793)
CASH AT BEGINNING OF YEAR	<u>241,179</u>	<u>81,540</u>	<u>113,333</u>
CASH AT END OF YEAR	<u>\$156,130</u>	<u>\$241,179</u>	<u>\$81,540</u>

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Bakman Water Company (BWC) was incorporated in the State of California on March 29, 1961. BWC is a Class B water utility in Fresno, California serving more than 2,500 customers in 2010.

BWC 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 statements 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 BWC 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 BWC'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 of Water Plant

Depreciation is computed on a straight-line composite rate to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission. The composite rate was 3.81% for the 3 Years.

(c) Contributions In-Aid of Construction (CIAC) and Accumulated Amortization of CIAC

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.

(2) Long-term Debt

As of December 31, 2010, BWC has a long-term debt balance of \$17,121 for an outstanding note payable related to a 2008 truck.

Previously in 2010, another loan for a GMAC vehicle was paid off.

(3) Revenues

BWC had 2,127 flat rate customers and 429 metered customers in 2010, 2,097 flat rate customers and 335 metered customers in 2009, 2,076 flat rate and 260 metered in 2008. BWC computes its water revenues based on tariffs approved by the Commission.

(4) Plant Operations and Maintenance Expenses

Due to insufficient supporting documentation for some of the Plant and Maintenance Expenses including Contract Work and Transportation, the Commission staff could not adequately attest to these balances as of December 31, 2010, 2009 and 2008. Therefore, UAFCB does not express an opinion on the accuracy of these accounts as reported by BWC in its Annual Reports filed with the Commission.

(5) Administrative and General Expenses

Due to insufficient supporting documentation for some of the Administrative and General Expenses including Employee Benefits and Pensions, the Commission staff could not adequately attest to these balances as of December 31, 2010, 2009 and 2008. Therefore, UAFCB does not express an opinion on the accuracy of these accounts as reported by BWC in its Annual Reports filed with the Commission.

A General Expenses sub-account "Billing Expense-Vendor Billing (Without Bills)" is used to reclassify Contract Work, Transportation and Employee Benefits and Pensions Expenses without proper documentation or supporting invoices. Billing Expense-Vendor Billing has a balance of \$35,712 for 2008, \$14,450 for 2009, and \$17,718 for 2010.

(6) Annual Reports

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