



California Public Utilities Commission
Division of Water and Audits

Financial Audit
of
Spreckels Water Company
Financial Statements
For the Years Ended December 31, 2013 and 2014
U – 215 -W

February 3, 2016



Acknowledgement

The following Commission Staff contributed to the completion of this audit report:
Kayode Kajopaiye, Bernard Ayanruoh, Vic Khai Duong, Nancy Gonzalez and
Beverly Sligh

**Audit of Financial Statements of
Spreckels Water Company
For the Years Ended December 31, 2013 and 2014**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

**Report of Independent Auditors****The Board of Directors****Spreckels Water Company (SWC)****Report on the Financial Statements**

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission audited the accompanying financial statements of Spreckels Water Company, which comprise the balance sheets as of December 31, 2013 and 2014, and the related statements of income and the retained earnings for the years then ended, and prepared the cash flows and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Spreckels Water Company's management is responsible for the preparation and fair presentation of the financial statements presented in the 2013 and 2014 annual reports filed with the Commission in accordance with the accounting requirements of the California Public Utilities Commission as set forth in the Uniform System of Accounts for Water Utilities, described in Note 1. 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

The responsibility of the UAFCB is to express an opinion on Spreckels Water Company's financial statements based on the 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.

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.

Opinion

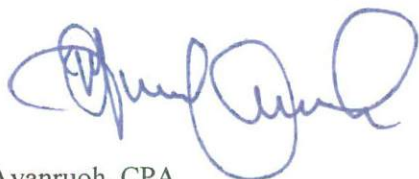
In our opinion, subject to the outcome of on-going additional analysis being performed by UAFCB's Finance Section to determine the propriety of the company's recorded balances for Water Plant in Service, Depreciation, Other Paid-in Capital and Long-Term Debt, as described in Note 1, the financial statements referred to above present fairly, in all material respects, the financial position of Spreckels Water Company as of December 31, 2013 and 2014, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

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 Spreckels Water Company on the basis of the accounting requirements of the California Public Utilities Commission as set forth in the Uniform System of Accounts 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 Spreckels Water Company. 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 | |
|--|--------------------------------|--------------------|
| | 2014 | 2013 |
| ASSETS | | |
| UTILITY PLANT | | |
| Water Plant in Service (Note 1) | \$2,748,831 | \$2,467,629 |
| Water Plant Construction Work in Progress (CWIP) | 107,884 | 94,163 |
| Accumulated Depreciation of Water Plant (Note 1) | (663,236) | (481,474) |
| Net Utility Plant | <u>\$2,193,479</u> | <u>\$2,080,318</u> |
| CURRENT AND ACCRUED ASSETS | | |
| Cash | 29,483 | 129,613 |
| Accounts Receivable - Customers | 31,003 | 30,991 |
| Total Current Assets | 60,486 | 160,604 |
| Total Assets | <u>\$2,253,965</u> | <u>\$2,240,922</u> |
| OWNERS EQUITY AND LIABILITIES | | |
| CURRENT AND ACCRUED LIABILITIES | | |
| Other Current Liabilities | <u>6,299</u> | <u>4,285</u> |
| Total Current and Accrued Liabilities | <u>6,299</u> | <u>4,285</u> |
| PROPRIETARY CAPITAL | | |
| Common Stock | 1,000 | 1,000 |
| Other Paid-in Capital (Note 1) | 1,959,101 | 1,959,101 |
| Retained Earnings (Note 1) | (688,830) | (580,158) |
| Total Corporate Capital and Retained Earnings | <u>\$1,271,271</u> | <u>\$1,379,943</u> |
| LONG-TERM DEBT | | |
| Long-Term Debt (Note 2) | <u>976,395</u> | <u>856,694</u> |
| Total Long-Term Debt | <u>976,395</u> | <u>856,694</u> |
| Total Liabilities and Other Credits | <u>\$2,253,965</u> | <u>\$2,240,922</u> |

(The accompanying notes and summary of audit adjustments are an integral part of these Financial Statements)

Income Statements

| | For the Year of | |
|---|--------------------|--------------------|
| | 2014 | 2013 |
| OPERATING REVENUES | | |
| Metered Water Revenue | \$290,954 | \$286,056 |
| Total Operating Revenues (Note 3) | \$290,954 | \$286,056 |
| OPERATING EXPENSES | | |
| Plant Operation and Maintenance Expenses | | |
| Power | 41,707 | 31,484 |
| Materials | 9,716 | 13,566 |
| Contract Work | 101,137 | 99,942 |
| Other Plant Maintenance Expenses | 10,063 | 37,296 |
| Total Plant Operation and Maintenance Expenses | \$162,623 | \$182,288 |
| Administrative and General Expenses | | |
| Office Services and Rentals | 0 | 1,422 |
| Office Supplies and Expenses | 1,552 | 1,592 |
| Professional Services | 15,790 | 3,672 |
| Regulatory Commission Expense | 392 | 7,271 |
| General Expenses | 390 | 964 |
| Total Administrative and General Expenses | \$18,124 | \$14,921 |
| Depreciation Expense (Note 1) | 181,762 | 176,259 |
| Taxes Other Than Income Taxes | 37,117 | 23,015 |
| Total Operating Revenue Deductions | \$399,626 | \$396,483 |
| Total Utility Operating Income | (108,672) | (110,427) |
| Non-Utility Income | 0 | 0 |
| Interest Expense | 0 | 0 |
| Total Other Income and Deductions | 0 | 0 |
| Net Loss (rounded) | (\$108,672) | (\$110,427) |

(The accompanying notes and summary of audit adjustments are an integral part of these Financial Statements)

Statements of Retained Earnings

| | For the Year of | |
|--|--------------------|--------------------|
| | 2014 | 2013 |
| Retained Earnings, Beginning of Year (Note 1) | (\$580,158) | \$(469,733) |
| CREDITS: | | |
| Net Loss (rounded) | (\$108,672) | (\$100,427) |
| UAFCB (Rounding Adjustment) | 0 | 2 |
| Total Credits | (\$688,830) | (\$580,158) |
| DEBITS: | | |
| Dividends for the period | 0 | 0 |
| Total Debits | 0 | 0 |
| Retained Earnings, End of Year (rounded) | <u>(\$688,830)</u> | <u>(\$580,158)</u> |

(The accompanying notes and summary of audit adjustments are an integral part of these Financial Statements)

Statements of Cash Flows

| | For the Year of | |
|---|------------------|------------------|
| | 2014 | 2013 |
| Cash Flow Operating Activities: | | |
| Net Loss | (\$108,672) | (\$110,427) |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities | | |
| Depreciation and Amortization (Note 1) | 181,762 | 176,259 |
| Increase (Decrease) in Other Current Liabilities | 2,014 | 784 |
| Increase (Decrease) in Accounts Receivable | (12) | (6,172) |
| Net Cash Provided by Operating Activities | <u>75,092</u> | <u>60,444</u> |
| Cash Flows from Investing Activities: | | |
| Decrease (Increase) in Net Plant Additions (Note 1) | (281,202) | (153,176) |
| Decrease (Increase) in Construction Work in Progress (Note 1) | (13,721) | (18,338) |
| Net Cash Used for Investing Activities | <u>(294,923)</u> | <u>(171,514)</u> |
| Cash Flow from Financing Activities: | | |
| Increase (Decrease) in Long-Term Debt (Note 2) | 119,700 | 84,239 |
| SWC Adjustments to Retained Earnings (rounding) (Note 1) | 0 | 2 |
| Net Cash Used for Financing Activities | <u>119,700</u> | <u>84,241</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (\$100,130) | (\$26,829) |
| Cash at Beginning of Year | <u>\$129,613</u> | <u>\$156,442</u> |
| Cash at End of Year | <u>\$29,483</u> | <u>\$129,613</u> |

(The accompanying notes and summary of audit adjustments are an integral part of these Financial Statements)

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Spreckels Water Company (SWC), a Class D water utility under the State of California Public Utilities Commission's (Commission) jurisdiction, is owned by Tanimura and Antle Supply Company (TASCO), a California Corporation that produces agricultural services and products in the Salinas area. SWC's customers are metered customers. SWC water utility currently serves approximately 306 metered customers in the immediate vicinity of the unincorporated town of Spreckels, located about 4 ½ miles southwest of the City of Salinas in Monterey County.

SWC has prepared the accompanying Balance Sheets and Income Statements 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 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 SWC 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 SWC's Balance Sheets and Income Statements.

(a) Water Plant in Service (WPIS)

Water Plant in Service (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.

On September 6, 2007, TASCO was authorized by the Commission to purchase and take control of Spreckels Water Company. TASCO paid \$210,000 for Spreckels Water Company. When SWC filed its 2007 Annual Report, the company should have used the historical costs of WPIS prior to the purchase which was \$97,876 instead of the acquisition price of \$210,000.

In 2008, Standard Pacific Homes, a developer, paid Tanimura & Antle \$750,000 for a well identified as Well #3. Subsequently, Standard Pacific Homes transferred Well No. 3 to Spreckels Water Company, a subsidiary of TASCO, pursuant to the fire flow provision agreement between the parties. The well and adjacent land values were integrated into SWC water system but not recorded into SWC's books.

UAFCB's Finance Section is currently reviewing SWC's recorded WPIS and related depreciation amounts, along with any related impacts on Other Paid-in Capital and/or Retained Earnings, for periods prior to January 1, 2013 in conjunction with the company's filing requesting Commission's approval to issue Long-Term Debt obligation.

(b) Depreciation

Depreciation is computed on a straight-line basis to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission.

(c) Water Plant Construction Work in Progress (CWIP)

Currently, SWC is in the process of building a new Well for Pump Station No. 4. This project began in 2011 and the estimated completion date is April 2016. Most of this project's expenditures are initially recorded in Water Plant Construction Work in Progress (CWIP).

(d) Other Paid in Capital

Between 2007 and 2010, SWC's parent company TASC0 transferred \$1,749,101 Equity to Spreckels Water Company. However, Spreckels Water Company does not have written authorization from the Board of Directors to increase equity. SWC or TASC0 did not seek Commission's approval before making the transfer. UAFCB's Finance Section is currently reviewing this information in conjunction with the company's belated filing requesting Commission's approval to issue Long-Term Debt.

(2) Long-Term Debts

In SWC's 2014 and 2013 annual reports, SWC reported Long-Term Debt (USOA #224) in the amounts of \$976,395 and \$856,694 respectively, obtained from its parent as a non-interest bearing debt.

Public Utilities Commission (PUC) § 818 requires a public utility, in addition to other requirements of law, to secure Commission approval to issue stocks, bonds, notes or other evidence of indebtedness payable to periods of more than twelve (12) months. Section 818 also requires that the loan proceeds not be used in whole or in part for operating expenses or charged against income.

SWC neither requested nor received Commission authorization for the debt it reported as Long-Term Debt in its annual reports. Currently, SWC is working with UAFCB's, Finance Section to obtain approval through an Advice Letter so that SWC can be in compliance with PUC § 818.

(3) Revenues

SWC had 306 metered customers in 2013 and 2014. The recorded operating revenue comprised of revenues from water usage billed to all customers, including water usage by TASC0's affiliates based on approved tariffs by the Commission. The monthly billing and collection of revenues was contracted out to an independent third party. In 2013, the total water usage billed was 118,230 units. Out of the total water usage billed, the usage billed to TASC0 was 47,056 units or 40%. In 2014, the total water usage billed was 93,038 units. The total usage billed to TASC0 was 46,054 units or 50%.

(4) Annual Reports

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

California Public Utilities Commission
 Division of Water and Audits
 Utility Audit, Finance and Compliance Branch

Spreckels Water Company
 Summary of Audit Adjustments
 FYE: 12/31/2013

| Audit Adjustment Number | Annual Report | | | A/R Account Number | Description | DR | CR |
|-------------------------|---------------|------|--------|--------------------|--|----------|----------|
| | Schedule | Line | Column | | | | |
| 1 | F | 18 | 4 | 650 | Contract Work | | |
| | F | 17 | 4 | 640 | Materials | \$ 5,045 | |
| | | | | | To properly record/reclass Materials to Contract Work account. | | \$ 5,045 |
| 2 | F | 27 | 4 | 689 | Professional Services | \$ 3,672 | |
| | F | 20 | 4 | 664 | Other Plant Maintenance Expenses | | \$ 3,672 |
| | | | | | To properly record/reclass Other Plant Maintenance to Professional Services. | | |
| 3 | F | 34 | 4 | 408 | Taxes Other Than Income Taxes - County of Monterey | \$ 4,668 | |
| | F | 34 | 4 | 408 | Taxes Other Than Income Taxes - CA Dept of Public Health | \$ 1,956 | |
| | F | 29 | 4 | 688 | Regulatory Commission Expense | | \$ 6,624 |
| | | | | | To properly classify expenses into the correct account. | | |

California Public Utilities Commission
 Division of Water and Audits
 Utility Audit, Finance and Compliance Branch

Spreckels Water Company
 Summary of Audit Adjustments
 FYE: 12/31/2014

| Audit Adjustment Number | Annual Report | | | A/R Account Number | Description | DR | CR |
|-------------------------|---------------|------|--------|--------------------|---|-----------|-----------|
| | Schedule | Line | Column | | | | |
| 1 | F | 27 | 4 | 682 | Professional Services | \$ 12,825 | |
| | F | 20 | 4 | 664 | Other Plant Maintenance Expenses To reclass Other Plant Maintenance Expenses to Professional Services. | | \$ 12,825 |
| 2 | F | 34 | 4 | 408 | Taxes Other Than Income Taxes | \$ 13,484 | |
| | F | 29 | 4 | 688 | Regulatory Commission Expenses To reclass expenses to the correct account. | | \$ 13,484 |
| 3 | F | 27 | 4 | 682 | Professional Services | \$ 2,965 | |
| | F | 30 | 4 | 689 | General Expenses To reclass General Expenses to Professional Services. | | \$ 2,965 |