



California Public Utilities Commission
Division of Water and Audits

**Financial Audit of
Hat Creek Water Company
Financial Statements**

For the Years Ended December 31, 2014 and 2015

October 28, 2016



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
Kayode Kajopaiye, Raymond Yin and Beverly Sligh**

**Audit of Financial Statements of
Hat Creek Water Company
For the Years Ended December 31, 2014 and 2015**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Report of Independent Auditors

John Parrish, Owner
Hat Creek Water Company, LLC
43000 Mountain House Road
Old Station, CA 96071

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 Hat Creek Water Company (HCWC), which are comprised of the balance sheets as of December 31, 2015 and 2014, and the related statements of income, retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

HCWC's management is responsible for the preparation and fair presentation of the Financial Statements presented in the 2015 and 2014 annual reports 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 to 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

The responsibility of the UAFCB is to express an opinion on HCWC's financial statements based on our audits. 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, except for the balances of Retained Earnings as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Hat Creek Water Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting requirements of the Commission as set forth in the USOA for Water Utilities, described in Note 1.

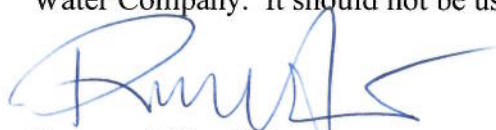
Due to the lack of historical information on Retained Earnings, UAFCB could not attest to the balances of this account as of December 31, 2015 and 2014. Therefore, UAFCB does not express any opinion on those balances.

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 HCWC 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 Hat Creek Water Company. It should not be used by anyone other than the specified parties.



Raymond Yin, CPA
Program and Project Supervisor
Utility Audit and Compliance Branch

Balance Sheets

	As of December 31 for the Year	
	2015	2014
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$39,041	\$39,041
Water Plant in Service – Prop. 50 (Note 2)	929,138	916,774
Accumulated Depreciation of Water Plant	<u>(39,041)</u>	<u>(39,041)</u>
Net Utility Plant	929,138	916,774
CURRENT AND ACCRUED ASSETS		
Cash (Note 1)	25,963	17,070
Cash – Miscellaneous Special Deposits – Prop. 50 (Note 1)	<u>0</u>	<u>8,718</u>
Total Current Assets	25,963	25,788
Total Assets	<u>\$955,101</u>	<u>\$942,562</u>
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Other Paid-in Capital	8,374	2,911
Retained Earnings	<u>17,589</u>	<u>14,159</u>
Total Capitalization	25,963	17,070
CONTRIBUTION IN AID OF CONSTRUCTION		
Reserve for Depreciation of Utility Plant – Prop. 50	18,583	0
Contributions – Publicly Grant-Funded Plant – Prop. 50 (Note 4)	929,138	925,492
Accumulated Amortization of Contributions – Prop. 50 (Note 3)	<u>(18,583)</u>	<u>0</u>
Net Contributions In Aid of Construction – Prop. 50	<u>929,138</u>	<u>925,492</u>
 Total Capitalization and Liabilities	 <u>\$955,101</u>	 <u>\$942,562</u>

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

Income Statements

	For the Year of	
	2015	2014
OPERATING REVENUES		
Metered Water Revenue	\$26,147	\$20,946
Other Water Revenue	<u>182</u>	<u>1,648</u>
Total Operating Revenues (Note 1)	26,329	22,594
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	2,428	2,486
Materials	489	4,417
Contract Work	2,806	1,812
Transportation Expense	971	1,118
Other Plant Maintenance Expenses	<u>2,037</u>	<u>0</u>
Total Plant Operation and Maintenance Expense	8,731	9,833
Administrative and General Expenses		
Management Salaries	4,800	4,800
Office Supplies and Expense	2,626	5,096
Professional Services	1,036	8,442
Insurance	2,604	2,539
General Expense	<u>2,742</u>	<u>4,400</u>
Total Administrative and General Expenses	<u>13,808</u>	<u>25,277</u>
Total Operating Expenses	22,539	35,110
Depreciation Expense (Note 1)	0	1,172
Taxes Other Than Income Taxes	3,181	2,156
State Corporate Income Tax Expense	<u>800</u>	<u>800</u>
Total Operating Revenue Deductions	26,520	39,238
Net Loss	<u>(\$191)</u>	<u>(\$16,644)</u>

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

Statements of Retained Earnings

	For the Year of	
	2015	2014
Retained Earnings, Beginning of Year	\$14,159	\$0
CREDITS:		
Net Loss – As Reported	191	6,581
UAFCB Audit Adjustment to Retained Earnings	<u>95,671</u>	<u>24,222</u>
Total Credits	95,862	30,803
DEBITS:		
Net Loss -- As Audited	(191)	(16,644)
UAFCB Audit Adjustment to Accumulated Depreciation of Water Plant	(78,082)	0
UAFCB Cumulative Adjustments to Beginning Retained Earnings (See Footnote 1)	<u>(14,159)</u>	<u>0</u>
Total Debits	(92,432)	(16,644)
Retained Earnings, End of Year	<u>\$17,589</u>	<u>\$14,159</u>

Statements of Retained Earnings Footnote:

(1) This amount represents the cumulative adjustments to the reporting beginning balance of Retained Earnings as of January 1, 2015. Detailed computation is shown below:

Retained Earnings as of 12/31/2014 - As Reported	\$0
Retained Earnings as of 11/2/31/2014 - As Audited	<u>14,159</u>
Variance – UAFCB Cumulative Audit Adjustments to Beginning Balance	<u>(\$14,159)</u>

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

Statements of Cash Flows

	For the Year of	
	2015	2014
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Loss	(\$191)	(\$16,644)
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities		
Depreciation	0	1,172
Decrease/(Increase) in Special Deposits - Prop. 50	8,718	(8,718)
Decrease in Materials and Supplies	<u>0</u>	<u>1,491</u>
Net Cash Provided by Operating Activities	8,527	(22,699)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Additions	(12,364)	20,036
Increase in Water Plant in Service - Prop. 50	0	(916,774)
Decrease in Accumulated Amortization of Contributions - Prop. 50	0	(1,172)
Increase in Contributions - Prop. 50	<u>3,646</u>	<u>925,492</u>
Net Cash Used for Investing Activities	(8,718)	27,582
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase Other Paid-in Capital	5,463	2,911
Adjustments to Retained Earnings	<u>3,621</u>	<u>(6,226)</u>
Net Cash Used for Financing Activities	9,084	(3,315)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,893	1,568
CASH AT BEGINNING OF YEAR	<u>17,070</u>	<u>15,502</u>
CASH AT END OF YEAR	<u>\$25,963</u>	<u>\$17,070</u>

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

In May of 1993, Hat Creek Water Company (HCWC) filed with the California Secretary of State as a Limited Liability Corporation (LLC). HCWC is a Class D water utility that serves 63 residential and commercial customers in the communities of Old Station and Hat Creek in Shasta County area. HCWC obtained its water supply from the north slope of Mount Lassen, Modoc Plateau and two-spring feed lakes, Rising River Lake and Crystal Lake.

The Company prepared the accompanying financial statements on the basis of accounting set forth in the Uniform System of Accounts for Water Utilities adopted and prescribed by the California Public Utilities Commission (the CPUC or 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, 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 and Appendix B present the net financial impact resulting from UAFCB's audit adjustments for Years 2015 and 2014, respectively. Appendix C and Appendix D summarize UAFCB's detailed audit adjustments for Years 2015 and 2014, respectively.

(b) Water Plant in Service

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

(c) Depreciation of Water Plant

Depreciation is computed using a composite rate of 3% (equivalent to depreciating the plant assets over approximately 33 years) to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission.

(d) Cash

The Cash account represents Cash on Hand and Cash in Bank. HCWC's Cash in Bank includes three accounts: Operating Checking Account, Improvement Savings Account, and Prop. 50 Grant Checking Account.

The Cash – Miscellaneous Special Deposits – Prop. 50 represents the year-end cash balances of the Prop. 50 grant funded by the State of California. Per the Funding Agreement between the State of California and HCWC, HCWC was required to setup a

separate account to deposit and disburse Prop. 50 grant funds for constructing the water utility plant.

(e) Revenues

All of HCWC 63 customers are metered. HCWC's metered revenues consist of service charges based on water usage and water rates by meter sizes. The revenues are billed and received bi-monthly. HCWC also receives other revenues from hook-up fees, late fees and Not Sufficient Fund (NSF) fees. HCWC computed its water revenues based on tariffs approved by the Commission.

(2) Water Plant in Service – Prop. 50

Water Plant in Service – Prop. 50 represents the utility plant constructed using publicly granted-funds. Once the utility plant is constructed and fully operational, the value of the plant is recorded to this account. The depreciation of Water Plant in Service – Prop. 50 is recorded in the Reserve for Depreciation of Utility Plant – Prop. 50 account.

(3) Accumulated Amortization of Contributions - Publicly Grant-Funded Plant - Prop. 50

The Accumulated Amortization of Contributions - Publicly Grant-Funded Plant - Prop. 50 is a valuation account, applied against balances in Account 266.0, Contributions – Publicly Grant-Funded Plant – Prop. 50. Per Commission Decision (D.) 06-03-015, depreciation on Proposition 50 grant-funded plant is recorded as a Debit to Account 266.1 (Accumulated Amortization of Contributions Publicly Grant Funded) and a Credit Account 250 (Reserve for Depreciation of Utility Plant). The depreciation amount accrued each year shall be calculated in the same way as non-contributed plant.¹

(4) Contributions – Publicly Grant-Funded Plant – Prop. 50

HCWC was awarded a Prop 50 grant up to \$1 million from California Health and Human Services and the Department of Public Health to assist in financing HCWC's new water plant system to meet safe drinking water standards. The purpose of the grant was to design and construct HCWC's Water Treatment Plant. The construction began in 2012 and was completed in May 2015.

(5) Annual Reports

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

¹ D.06-03-015, page 13.

Appendix A

Summary of Net Financial Impact Resulting from UACB's Audit Adjustments for Year 2015

The following is a summary of net financial impact resulting from UACB's audit adjustments for Year 2015.

Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct No.		Debit	Credit
<u>Net Financial Impact on Balance Sheets Items:</u>							
1	A	3	4	101.2	Water Plant in Service – Prop. 50	\$12,364	
2	A	8	4	108	Accumulated Depreciation of Water Plant		\$78,082
3	A	15	4	131	Cash	17,589	
4	A	29	4	211	Other Paid-in Capital		8,374
2, 3, 5, 6	A	30	4	215	Retained Earnings		95,671
4	A	31	4	218	Proprietary Capital	8,374	
5	A	39	4	250	Reserve for Depreciation of Utility Plant – Prop. 50	10,091	
1	A	43	4	266.0	Contributions-Publicly Grant-Funded Plant-Prop. 50		12,364
6	A	44	4	266.1	Accumulated Amortization of Contributions – Publicly Grant-Funded Plant - Prop. 50	67,991	
<u>Net Financial Impact on Income Statements Items:</u>							
7, 8	F	34	4	408	Taxes Other Than Income Taxes		\$269
8	F	18	4	650	Contract Work	\$2,241	
7	F	27	4	682	Professional Services	158	
7	F	30	4	689	General Expense		2,130

Appendix B

Summary of Net Financial Impact Resulting from UACB's Audit Adjustments for Year 2014

The following is a summary of net financial impact resulting from UACB's audit adjustments for Year 2014.

Audit Adj. No.	Annual Report				Description	For the Year 2014	
	Sch.	Line	Col.	Acct No.		Debit	Credit
<u>Net Financial Impact on Balance Sheets Items:</u>							
1	A	15	4	131	Cash	\$14,159	
2	A	16	4	131.3	Cash – Miscellaneous Special Deposits – Prop. 50	8,718	
3	A	29	4	211	Other Paid-in Capital		\$2,911
1, 6, 7	A	30	4	215	Retained Earnings		24,222
3	A	31	4	218	Proprietary Capital	2,911	
4	A	39	4	250	Reserve for Depreciation of Utility Plant – Prop. 50	28,674	
2	A	43	4	266.0	Contributions – Publicly Grant Funded Plant – Prop. 50		8,718
4	A	44	4	266.1	Accumulated Amortization of Contributions – Public Grant-Funded Plant – Prop. 50		28,674
<u>Net Financial Impact on Income Statements Items:</u>							
5	F	34	4	408	Taxes Other Than Income Taxes	\$1,956	
6	F	26	4	681	Office Supplies and Expense	1,621	
7	F	27	4	682	Professional Services	8,442	
5	F	30	4	689	General Expense		\$1,956

Appendix C

Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	3	4	101.2	Water Plant in Service - Prop. 50	\$12,364	
	A	43	4	266.0	Contributions – Publicly Grant-Funded Plant - Prop. 50 <i>To adjust the reported Water Plant in Service - Prop. 50 to agree with the company's records.</i>		\$12,364
2	A	30	4	215	Retained Earnings	\$78,082	
	A	8	4	108	Accumulated Depreciation of Water Plant <i>To adjust the Accumulated Depreciation of Water Plant to agree with the audited amount.</i>		\$78,082
3	A	15	4	131	Cash	\$17,589	
	A	30	4	215	Retained Earnings <i>To properly include Operating checking and Undeposited Cash in the Cash account.</i>		\$17,589
4	A	31	4	218	Proprietary Capital	\$8,374	
	A	29	4	211	Other Paid-in Capital <i>To reclassify Proprietary Capital to Other Paid-in Capital because HCWC is a corporation.</i>		\$8,374
5	A	39	4	250	Reserve for Depreciation of Utility Plant - Prop. 50	\$10,091	
	A	30	4	215	Retained Earnings <i>To adjust the reported Reserve for Depreciation of Utility Plant - Prop. 50 to agree with the audited amount.</i>		\$10,091
6	A	44	4	266.1	Accumulated Amortization of Contributions - Publicly Grant-Funded Plant - Prop. 50	\$67,991	
	A	30	4	215	Retained Earnings <i>To adjust the reported Accumulated Amortization of Contributions – Publicly Grant-Funded Plant - Prop. 50 to agree with the audited amount.</i>		\$67,991
7	F	34	4	408	Taxes Other Than Income Taxes	\$1,972	
	F	27	4	682	Professional Services	158	
	F	30	4	689	General Expenses <i>To properly classify Taxes Other Than Income Taxes and Professional Services expenses per USOA guidelines.</i>		\$2,130

Report of Independent Auditors
 Financial Audit of Hat Creek Water Company Financial Statements
 For the Years Ended December 31, 2015 and 2014

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
8	F	18	4	650	Contract Work	\$2,241	
	F	34	4	408	Taxes Other Than Income Taxes		\$2,241
					<i>To properly reclassify Consumer Confidence Report and Water Testing expenses to Contract Work.</i>		

Appendix D
Summary of Audit Adjustments for Year 2014

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	15	4	131	Cash	\$14,159	
	A	30	4	215	Retained Earnings <i>To properly include Improvement and Undeposited cash to the Cash account to agree with the company's records per the audited amount in Year 2014.</i>		\$14,159
2	A	16	4	131.3	Cash – Miscellaneous Special Deposits - Prop. 50	\$8,718	
	A	43	4	266.0	Contributions--Publicly Grant-Funded Plant - Prop.50 <i>To properly record Prop. 50 Special Deposits.</i>		\$8,718
3	A	31	4	218	Proprietary Capital	\$2,911	
	A	29	4	211	Other Paid-in Capital <i>To reclassify Proprietary Capital to Other Paid-in Capital because HCWC is a corporation.</i>		\$2,911
4	A	39	4	250	Reserve for Depreciation of Utility Plant Prop. 50	\$28,674	
	A	44	4	266.1	Accumulated Amortization of Contributions – Publicly Grant-Funded Plant - Prop. 50 <i>To properly adjust the Reserve for Depreciation of Utility Plant Prop. 50 account.</i>		\$28,674
5	F	34	4	408	Taxes Other Than Income Taxes	\$1,956	
	F	30	4	689	General Expense <i>To reclassify Shasta County assessments to Taxes to Other Than Income Taxes.</i>		\$1,956
6	F	26	4	681	Office Supplies and Expenses	\$1,621	
	F	30	4	215	Retained Earnings <i>To include telephone expenses omitted in the Annual Report.</i>		\$1,621
7	F	27	4	682	Professional Services	\$8,442	
	A	30	4	215	Retained Earnings <i>To include Professional Expenses omitted in the Annual Report.</i>		\$8,442