



California Public Utilities Commission
Division of Water and Audits

**Financial Audit of
Fulton Water Company
Financial Statements**

For the Years Ended December 31, 2015 and 2014

April 25, 2017



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
Kayode Kajopaiye, Raymond Yin, KieuChinh Tran, Bixia Ye and Jeffrey Walter**

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

Table of Contents

	<u>Page Number</u>
Independent Auditor's Report.....	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
Appendix C.....	C-1
Appendix D.....	D-1

Independent Auditor's Report

Craig A. Fox, President
Fulton Water Company (FWC), Inc.
P.O. Box 1709,
Carnelian Bay, CA 96140

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 Fulton Water Company (FWC), Inc., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income for the years then ended. The Statements of Retained Earnings and Statements of Cash Flows are not presented in this report due to lack of sufficient verifiable and reliable financial data.

Management's Responsibility for the Financial Statements

FWC'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 financial statements be prepared 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 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 FWC's financial statements based on the 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 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 judgment, 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 Adverse Opinion

As described in Notes 1, 2 and 3, FWC could not substantiate the balances of various major accounts in FWC's reported Balance Sheets and Income Statements presented in the 2015 and 2014 Annual Reports. These accounts include, but are not limited to, Accounts Receivable, Other Paid-in Capital, Other Current Liabilities, and Contributions in Aid of Construction. These accounts were reported in the Balance Sheets and Income Statements as described in Note 1. We were unable to verify the reported balances of those accounts even with additional audit procedures. For the accounts of Water Plant in Service, Cash, Accumulated Deferred Income Taxes – ACRS Depreciation, and Depreciation Expenses, FWC provided supporting documents but they were not sufficient enough for UAFCB to verify the accuracy and propriety of those balances. FWC submitted supporting documents for accounts including Accrued Taxes, Unmetered Water Revenue, Management Salaries, Federal Income Tax Expense, and 2014 Non-Utility Income; however, UAFCB found that the reported amounts in those accounts were generally materially misstated. UAFCB's audit adjustments presented in Appendixes C and D of this report reflect the results of our audit. Therefore, we believe that the reported financial statements taken as a whole are materially misstated.

Adverse Opinion

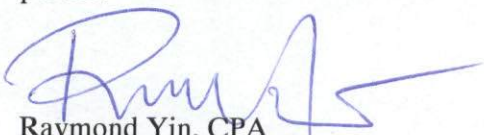
In our opinion, because of the significance of the matters discussed in the preceding paragraphs under "Basis for Adverse Opinion," the financial statements referred above do not present fairly, in accordance with the USOA and accounting principles generally accepted in the United States of America (GAAP), the financial positions of FWC as of December 31, 2015 and 2014. The Statements of Retained Earnings and Statements of Cash Flows for the years then ended are not presented in this report due to lack of sufficient verifiable and reliable financial data.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. FWC originally recorded its financial transactions on cash basis of accounting. Through adjusting journal entries, FWC's consultant converted cash basis to accrual basis of accounting to comply with the reporting requirements of the USOA. As described in Note 1 to the financial statements, the USOA for Water Utilities prescribes the basis of the accounting requirements, 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.

Restriction on Use

Our report is intended solely for the information and use by the Commission and Fulton Water Company, Inc. and is not intended and should not be used by anyone other than these specified parties.



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

**Reported Financial Statements of
Fulton Water Company
For the Years Ended December 31, 2015 and 2014**

Balance Sheets*

	As of December 31 for the Year	
	2015	2014
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$3,500,090	\$3,361,137
Water Plant Held for Future Use	76,140	68,775
Accumulated Depreciation of Water Plant (Note 1)	<u>(1,506,869)</u>	<u>(1,453,750)</u>
Net Utility Plant	2,069,361	1,976,162
INVESTMENTS		
Other Investments	3,482	3,482
CURRENT AND ACCRUED ASSETS		
Cash	23,996	90
Accounts Receivable – Customers	137,873	115,093
Other Current Assets	<u>31,655</u>	<u>42,035</u>
Total Current and Accrued Assets	193,524	157,218
Deferred Charges	110	8,292
Total Assets	<u>\$2,266,477</u>	<u>\$2,145,154</u>
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	\$44,000	\$44,000
Other Paid-in Capital	51,665	51,665
Retained Earnings	<u>1,520,953</u>	<u>1,431,546</u>
Total Capitalization	1,616,618	1,527,211
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	6,000	14,722
Accrued Taxes	45,775	13,395
Other Current Liabilities	<u>270,577</u>	<u>284,913</u>
Total Current and Accrued Liabilities	322,352	313,030
DEFERRED CREDITS		
Advances for Construction	65,854	70,577
Accumulated Deferred Income Taxes – ACRS Depreciation	<u>246,881</u>	<u>218,996</u>
Total Deferred Credits	312,735	289,573
CONTRIBUTION IN AID OF CONSTRUCTION		
Contributions In Aid of Construction (Note 3)	16,962	16,962
Accumulated Amortization of Contributions (Note 3)	<u>(2,190)</u>	<u>(1,622)</u>
Net Contributions In Aid of Construction	14,772	15,340
Total Capitalization and Liabilities	<u>\$2,266,477</u>	<u>\$2,145,154</u>

Balance Sheet Footnote:

*These amounts represent the reported or unaudited ending balances of FWC's Balance Sheets in the Annual Reports submitted to the Commission for the years ended December 31, 2015 and 2014, respectively. UAFCB has rendered an adverse opinion on FWC's financial statements because they do not present fairly the financial positions of the company as of December 31, 2015 and 2014.

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

Income Statements**

	For the Year of	
	2015	2014
OPERATING REVENUES		
Unmetered Water Revenue	\$782,690	\$756,322
Fire Protection Revenue	5,320	3,568
Other Water Revenue	<u>585</u>	<u>520</u>
Total Operating Revenues (Note 1)	788,595	760,410
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	47,664	65,247
Other Volume Related Expenses	4,275	4,866
Employee Labor	55,968	36,230
Materials	27,214	17,838
Contract Work	13,713	8,746
Transportation Expenses	16,535	22,012
Other Plant Maintenance Expenses	<u>10,395</u>	<u>15,854</u>
Total Plant Operation and Maintenance Expense	175,764	170,793
Administrative and General Expenses		
Office Salaries	86,833	99,600
Management Salaries	101,400	80,600
Employee Pensions and Benefits	38,694	53,023
Office Services and Rentals	24,000	23,500
Office Supplies and Expenses	25,930	20,695
Professional Services	11,625	13,336
Insurance	19,709	20,028
Regulatory Commission Expense	1,620	913
General Expenses	<u>9,758</u>	<u>19,311</u>
Total Administrative and General Expenses	319,569	331,006
Total Operating Expenses	495,333	501,799
Depreciation Expense (Note 1)	113,561	107,401
Taxes Other Than Income Taxes	38,934	37,239
State Corporate Income Tax Expense	11,660	10,553
Federal Corporate Income Tax Expense	<u>30,144</u>	<u>25,692</u>
Total Operating Revenue Deductions	689,632	682,684
Total Utility Operating Income	98,963	77,726
OTHER INCOME AND DEDUCTIONS		
Non-utility Income	1,720	34,839
Miscellaneous Non-Utility Expense	8,763	4,860
Interest Expense	<u>2,513</u>	<u>1,565</u>
Total Other Income and Deductions	(9,556)	28,414
Net Income	<u>\$89,407</u>	<u>\$106,140</u>

Income Statements Footnote:

**These amounts represent the reported and unaudited ending balances of FWC's Income Statements in the Annual Reports submitted to the Commission for the years ended December 31, 2015, and 2014, respectively. UAFCB has rendered an adverse opinion on FWC's financial statements because they do not present fairly the results of operations of the company for Years 2015 and 2014.

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

Statements of Retained Earnings

Statements of Retained Earnings Footnote:

No audited Statements of Retained Earnings for the years ended December 31, 2015 and 2014, were prepared by the UAFCB due to lack of sufficient verifiable and reliable financial data for the audit period.

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

Statements of Cash Flows

Statements of Cash Flows Footnote:

No audited Statements of Cash Flows for the years ended December 31, 2015 and 2014, were prepared by the UAFCB due to lack of sufficient verifiable and reliable financial data for the audit period.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Fulton Water Company, Inc. (FWC) was incorporated in the State of California in 1961. FWC, Inc. is a Class C water company serving approximately 920 unmetered residential customers. FWC serves two noncontiguous service areas next to Lake Tahoe, about two miles north of Tahoe City in Placer County of California.

FWC originally recorded its financial transactions on cash basis of accounting. Through adjusting journal entries, FWC's consultant converted cash basis to accrual basis of accounting to comply with the reporting requirements of the Uniform System of Accounts (USOA) for Water Utilities. The USOA adopted by the California Public Utilities Commission (the CPUC or Commission) prescribes the comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). 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. GAAP would require such transactions to be recorded in the statements of income.

The Statements of Cash Flows is not required by the Commission when FWC files its Annual Reports with the Commission. Generally, UAFCB would compile the Statements of Cash Flows based on the Utility's Balance Sheets and Income Statements reported to the Commission. However, UAFCB rendered an adverse opinion on FWC's financial statements for Years Ended December 31, 2015, and 2014, respectively. As such, UAFCB was unable to compile and present the audited Statements of Retained Earnings and Statements of Cash Flows of FWC for the years being audited in this audit report.

(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 the details of UAFCB's proposed audit adjustments for Years 2015 and 2014, respectively. These adjustments are not all-inclusive because UAFCB was unable to determine the audited amounts for various accounts and transactions due to lack of supporting documents.

(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 based on estimated cost and charged against accumulated depreciation.

Due to the lack of sufficient supporting documentation on the historical data of the Utility Plant and its additions, the Commission staff could not reasonably determine the ending balances of the Utility Plant as of December 31, 2015 and 2014. The company also capitalized several personal expense items as well as the costs of incidental repairs

and maintenance in its Plant Additions for the year being audited. GAAP requires companies to records these repairs as expenses on the company's financial statements and tax documents. The business or accounting entity principle states that a business entity is separate from its owners. Revenue and expenses for the business should be kept separate from personal expenses. If these expenses were not capitalized, the Utility Plant would have been substantially different from the reported amounts. Although the effects of this matter on the financial statements could not be reasonably determined, they are presumed to be material.

(c) Depreciation of Water Plant

Depreciation was computed using a separate rate for each class of asset. Those rates range from 2% to 14% with varying service life for each class of asset.

FWC does not maintain a detailed and separate depreciation schedule for each of its utility plant assets, including original costs, acquisition dates, accumulative depreciation or amortization, retirement of assets, and depreciation expenses. According to the requirements in the USOA, Account 282, the Utility is required to maintain plant and depreciation records grouped by year of installation and service life. The reported depreciation expenses should relate directly to the valuation of the utility plant assets. If these items were depreciated properly and tracked separately by FWC, the Accumulated Depreciation of Water Plant and Depreciation Expenses referred to above would have been substantially different from the reported amounts. Although the effects of this matter on the financial statements could not be reasonably determined, they are presumed to be material.

(d) Revenues

FWC obtained more than ninety-nine percent (99%) of its revenues from unmetered flat rate service to its customers. The remaining portion of its revenues was from fire protection service and other income. FWC computed its water revenues based on tariffs approved by the Commission. However, UAFCB found that FWC overcharged its customers totaling \$4,277 in 2014 because FWC double-charged the PUC Fees to its customers with ¾" pipes. Similarly, FWC overcharged its customers \$119 in 2015. Based on its review of additional documents submitted by FWC after the exit meeting, UAFCB found that FWC has refunded its customers \$3,881 during the January 1, 2017 to March 31, 2017 billing period. Therefore, the remaining amount that FWC should refund its customers is \$515 ($\$4,277 + \$119 - \$3,881 = \515).

(e) Other Paid-In Capital (OPIC)

FWC's OPIC account was carried at \$51,665 on the Utility's Balance Sheets as of December 31, 2015 and 2014. However, UAFCB was unable to obtain sufficient appropriate audit evidence about this carrying amount. UAFCB found that FWC reported \$51,665 and \$68,080 for the OPIC account in its 2009 and 2008 Annual Reports, respectively. As FWC changed the 2008 OPIC balance without justification in 2009, UAFCB determined that the historical 2008 OPIC balance of \$68,080 would be a more appropriate amount. Thus, UAFCB proposed to adjust the 2015 and 2014 reported OPIC balances to \$68,080.

(f) Accounts Receivable

FWC's Accounts Receivable balances were carried at \$137,873 and \$115,093 on the Utility's Balance Sheet as of December 31, 2015 and 2014, respectively. These carrying amounts represented over 46 percent of the company's sale revenues for one billing period. At the beginning of 2014 and 2015, FWC's accounting records carried large abnormal credit balances because FWC used cash basis of accounting. At the end of the said years, the consultant made several adjusting journal entries to bring the Accounts Receivable balances to the reported amounts in FWC's Annual Reports. The consultant submitted only his own analysis and adjustments when UAFCB requested detailed supporting documents for his adjustments. UAFCB was unable to rely on those documents or satisfy ourselves through other auditing procedures concerning the accuracy of the reported balances of Accounts Receivable as of December 31, 2015 and 2014. As a result, UAFCB was unable to determine whether the consultant's adjusting journal entries were accurate or necessary. Although the effects of this matter on the financial statements could not be reasonably determined, they are presumed to be material.

(g) Other Current Liabilities

FWC's Other Current Liabilities accounts were carried at \$270,577 and \$284,913 on the Balance Sheets as of December 31, 2015 and 2014, respectively. These carrying amounts represented over 30 percent of the company's annual sale revenues. After the critical review of the statement provided by FWC's tax CPA, the analysis developed by the consultant, and the evaluation of FWC's internal control, its industry, and financial information, UAFCB was unable to rely on the provided documentation or obtain sufficient appropriate audit evidence about the balances of Other Current Liabilities as of December 31, 2015 and 2014. Consequently, UAFCB was unable to determine whether any of the consultant's adjustments to this account were necessary. Although the effects of this matter on the financial statements could not be reasonably determined, they are presumed to be material.

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

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.

Due to lack of sufficient verifiable and reliable supporting documentation on the historical data of CIAC and Accumulated Amortization of Contributions, UAFCB could not reasonably determine the ending balances of the CIAC and Accumulated Amortization of Contributions as of December 31, 2015 and 2014. Therefore, we do not express an opinion on the accuracy of such balances reported by FWC in its 2015 and 2014 Annual Reports filed with the Commission, respectively.

(3) Related Party Transactions

FWC had several significant transactions with businesses and individuals controlled by the officers and directors of FWC during the audit period. Owners' activities were comingled with business activities. In many instances, the owners used the same credit cards for personal and business purposes. UAFCB was unable to determine or separate business and personal expenditures based on the available records furnished to the Commission staff. Additionally, personal expenses were capitalized as Utility Plant as discussed in Note 1. GAAP requires that business activities must be kept separate from personal activities of the business owners. Because of FWC's departures from those accounting practices, the net income and the utility plant assets were not presented fairly in the financial statements filed with the Commission. Had the owners separated its personal activities from the business, many accounts in the accompanying financial statements would have been substantially different. Although the effects of this matter on the financial statements could not be reasonably determined, they are presumed to be material.

(4) Unreliable Accounting Records

FWC's management uses cash basis of accounting to record the majority of its transactions. At the end of the years, the consultant made various adjusting journal entries on his own records before preparing FWC's Annual Reports filed with the Commission. These adjustments were not provided to FWC or updated in its accounting records. UACB found that FWC's accounting records did not agree with the amounts reported in its 2015 and 2014 Annual Reports. In addition, various accounts reported in FWC's Annual Reports were missing in FWC's accounting records. During the audit, FWC was unable to provide sufficient appropriate audit evidence about multiple elements of the financial statements. UAFCB determined that FWC's accounting records may have carried incorrect beginning and ending balances from year to year. As a result of these matters, UAFCB was unable to obtain sufficient appropriate audit evidence to verify the balances of several major accounts reported in FWC's Balance Sheets. Although the effects of this matter on the financial statements could not be reasonably determined, they are presumed to be material.

(5) Annual Reports

Per California Public Utilities Code, Sections 581, 582, and 584, FWC is required to file an Annual Report with the Commission every year. For the years being audited, FWC has timely filed its 2015 and 2014 Annual Reports with the Commission. However, UAFCB noted incomplete and/or incorrect information in multiple schedules (Specifically, Schedules D-1, D-4, D-5, and D-7) of FWC's Annual Reports.

Appendix A

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

The following is a summary of net financial impact resulting from UAFCB'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>							
5	A	19	c	121	Non-Utility Property and Other Assets	\$15,635	
1, 2	A	27	c	131	Cash	3,841	
3-6, 23	A	34	c	174	Other Current Assets		\$7,997
7	A	43	c	211	Other Paid-in Capital		16,415
2-4, 6-15, 17, 19, 22, 25-29	A	44	c	215	Retained Earnings	33,550	
1, 8	A	57	c	231	Accounts Payable		15,611
8-11	A	61	c	236	Accrued Taxes	43,195	
12	A	78	c	271	Contributions in Aid of Construction	16,962	
13	A	79	c	272	Accumulated Amortization of Contributions		2,190
<u>Net Financial Impact on Income Statements Items:</u>							
26	B	6	c	409	State Corporate Income Tax Expense		\$4,276
27	B	7	c	410	Federal Corporate Income Tax Expense		26,423
16, 18, 21, 24	B	11	c	426	Miscellaneous Non-Utility Expense	\$65,148	
28, 29	B	12	c	427	Interest Expense		2,229
14	B-1	7	b	460	Unmetered Water Revenue		6,428
15, 16	B-2	5	b	630	Employee Labor		8,982
18	B-2	8	b	660	Transportation Expenses		4,678
19	B-2	9	b	664	Other Plant Maintenance Expense		3,000
20	B-2	12	b	670	Office Salaries		86,833
20, 21	B-2	13	b	671	Management Salaries	46,833	
22, 23	B-2	14	b	674	Employee Pensions and Benefits		20,061
24	B-2	16	b	678	Office Services and Rentals		12,880
25	B-2	17	b	681	Office Supplies and Expenses		3,154
17	B-2	6	b	640	Materials		4,007

Appendix B

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

The following is a summary of net financial impact resulting from UAFCB'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>							
6	A	19	c	121	Non-Utility Property and Other Assets	\$19,525	
1, 2, 3	A	27	c	131	Cash	9,106	
4-6, 22, 23	A	34	c	174	Other Current Assets	502	
7	A	43	c	211	Other Paid-in Capital		\$16,415
2, 4, 5, 7, 9, 11-14, 17, 20, 25-35	A	44	c	215	Retained Earnings	19,700	
1, 3, 8, 9, 10	A	57	c	231	Accounts Payable		7,612
10, 11	A	61	c	236	Accrued Taxes	11,791	
12	A	78	c	271	Contributions in Aid of Construction	16,962	
13	A	79	c	272	Accumulated Amortization of Contributions		1,622
<u>Net Financial Impact on Income Statements Items:</u>							
27	B	6	c	409	State Corporate Income Tax Expense		\$4,523
28	B	7	c	410	Federal Corporate Income Tax Expense		18,250
29-34	B	10	c	421	Non-Utility Income	\$28,828	
15,16, 21, 24	B	11	c	426	Miscellaneous Non-Utility Expense	74,488	
35	B	12	c	427	Interest Expense		156
14	B-1	7	b	460	Unmetered Water Revenue		27,870
15, 19	B-2	5	b	630	Employee Labor		14,350
16	B-2	8	b	660	Transportation Expenses		9,758
17	B-2	9	b	664	Other Plant Maintenance Expense		1,584
18	B-2	12	b	670	Office Salaries		99,600
18-21	B-2	13	b	671	Management Salaries	61,000	
22, 23	B-2	14	b	674	Employee Pensions and Benefits		16,598
8, 24	B-2	16	b	678	Office Services and Rentals		15,380
25	B-2	17	b	681	Office Supplies and Expenses		2,442
26	B-2	21	b	689	General Expenses		5,742

Appendix C

Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	27	c	131	Cash	\$3,652	
	A	57	c	231	Accounts Payable		\$3,652
<i>To reverse FWC's adjusting JE to agree with the audited amount.</i>							
2	A	27	c	131	Cash	\$189	
	A	44	c	215	Retained Earnings		\$189
<i>To adjust outstanding checks to agree with the audited amount.</i>							
3	A	34	c	174	Other Current Assets	\$1,915	
	A	44	c	215	Retained Earnings	2,756	
	A	34	c	174	Other Current Assets		\$2,756
	A	44	c	215	Retained Earnings		1,915
<i>To adjust the Other Current Assets to agree with the audited amount.</i>							
4	A	34	c	174	Other Current Assets	\$3,482	
	A	44	c	215	Retained Earnings		\$3,482
<i>To adjust the Other Current Assets to agree with the audited amount.</i>							
5	A	19	c	121	Non-Utility Property and Other Assets	\$15,635	
	A	34	c	174	Other Current Assets		\$15,635
<i>To adjust the Other Current Assets to agree with the audited amount.</i>							
6	A	34	c	174	Other Current Assets	\$3,759	
	A	44	c	215	Retained Earnings		\$3,759
<i>To include the overpayment of income tax into the current asset account.</i>							

Financial Audit of Fulton 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.			
7	A	44	c	215	Retained Earnings	\$16,415	
	A	43	c	211	Other Paid-in Capital		\$16,415
					<i>To adjust the balance of Other Paid-in Capital account to agree with year 2008 balance.</i>		
8	A	61	c	236	Accrued Taxes	\$23,226	
	A	57	c	231	Accounts Payable		\$11,959
	A	44	c	215	Retained Earnings		11,267
					<i>To reclassify PUC Fee Payable to agree with USOA rules and with the audited amount.</i>		
9	A	61	c	236	Accrued Taxes	\$20,915	
	A	44	c	215	Retained Earnings		\$20,915
					<i>To adjust the balance of Accrued Taxes account to agree with the audited amount.</i>		
10	A	61	c	236	Accrued Taxes	\$597	
	A	44	c	215	Retained Earnings		\$597
					<i>To adjust the balance of Accrued Taxes account to agree with the audited amount.</i>		
11	A	44	c	215	Retained Earnings	\$1,542	
	A	61	c	236	Accrued Taxes		\$1,542
					<i>To adjust the balance of Accrued Taxes account to agree with the audited amount.</i>		
12	A	78	c	271	Contributions in Aid of Construction	\$16,962	
	A	44	c	215	Retained Earnings		\$16,962
					<i>To adjust the balance of Contributions in Aid of Construction account to agree with the audited amount.</i>		
13	A	44	c	215	Retained Earnings	\$2,190	
	A	79	c	272	Accumulated Amortization of Contributions		\$2,190
					<i>To adjust the balance of Accumulated Amortization of Contributions in conjunction with the audit adjustment #12</i>		

Financial Audit of Fulton 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.			
14	A	44	c	215	Retained Earnings	\$6,428	
	B-1	7	b	460	Unmetered Water Revenue		\$6,428
					<i>To adjust the Unmetered Water Revenue according with the Sales Records.</i>		
15	A	44	c	215	Retained Earnings	\$1,392	
	B-2	5	b	630	Employee Labor		\$1,392
					<i>To reclassify the Employee Labor Expense to agree with the audited amount.</i>		
16	B	11	c	426	Miscellaneous Non-Utility Expense	\$7,590	
	B-2	5	b	630	Employee Labor		\$7,590
					<i>To reclassify the Employee Labor Expense to agree with the audited amount.</i>		
17	A	44	c	215	Retained Earnings	\$4,007	
	B-2	16	b	640	Materials		\$4,007
					<i>To adjust the balance of Materials expense to agree with the audited amount.</i>		
18	B	11	c	426	Miscellaneous Non-Utility Expense	\$4,678	
	B-2	8	b	660	Transportation Expenses		\$4,678
					<i>To adjust the balance of Transportation Expenses account to agree with the audited amount.</i>		
19	A	44	c	215	Retained Earnings	\$3,000	
	B-2	9	b	664	Other Plant Maintenance Expense		\$3,000
					<i>To adjust the balance of Other Plant Maintenance Expense account to agree with the audited amount.</i>		
20	B-2	13	b	671	Management Salaries	\$86,833	
	B-2	12	b	670	Office Salaries		\$86,833
					<i>To reclassify Office Salaries to Management Salaries to agree with the audited amount.</i>		
21	B	11	c	426	Miscellaneous Non-Utility Expense	\$40,000	
	B-2	13	b	671	Management Salaries		\$40,000
					<i>To adjust the balance of Management Salaries account to agree with the audited amount.</i>		

Financial Audit of Fulton 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.			
22	A	44	c	215	Retained Earnings	\$18,823	
	B-2	14	b	674	Employee Pensions and Benefits <i>To adjust the reported Health Insurance Expense to agree with the audited amount.</i>		\$18,823
23	A	34	c	174	Other Current Assets	\$1,238	
	B-2	14	b	674	Employee Pensions and Benefits <i>To adjust the reported Health Insurance Expense to agree with the audited amount.</i>		\$1,238
24	B	11	c	426	Miscellaneous Non-Utility Expense	\$12,880	
	B-2	16	b	678	Office Services and Rentals <i>To adjust the Rental Expense to agree with the audited amount.</i>		\$12,880
25	A	44	c	215	Retained Earnings	\$3,154	
	B-2	17	b	681	Office Supplies and Expenses <i>To adjust Office Supplies and Expenses to agree with the audited amount.</i>		\$3,154
26	A	44	c	215	Retained Earnings	\$4,276	
	B	6	c	409	State Corporate Income Tax Expense <i>To adjust the balance of State Corporate Income Tax Expense account to agree with the audited amount.</i>		\$4,276
27	A	44	c	215	Retained Earnings	\$26,423	
	B	7	c	410	Federal Corporate Income Tax Expense <i>To adjust the balance of Federal Corporate Income Tax Expense account to agree with the audited amount.</i>		\$26,423
28	A	44	c	215	Retained Earnings	\$1,979	
	B	12	c	427	Interest Expense <i>To adjust the balance of Interest Expense account to agree with the audited amount.</i>		\$1,979
29	A	44	c	215	Retained Earnings	\$250	
	B	12	c	427	Interest Expense <i>To adjust the balance of Interest Expense account to agree with the audited amount.</i>		\$250

Appendix D

Summary of Audit Adjustments for Year 2014

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	57	c	231	Accounts Payable	\$3,652	
	A	27	c	131	Cash		\$3,652
					<i>To reverse FWC's adjusting JE to agree with the audited amount.</i>		
2	A	27	c	131	Cash	\$189	
	A	44	c	215	Retained Earnings		\$189
					<i>To adjust outstanding checks to agree with the audited amount.</i>		
3	A	27	c	131	Cash	\$12,569	
	A	57	c	231	Accounts Payable		\$12,569
					<i>To adjust outstanding checks to agree with the audited amount.</i>		
4	A	44	c	215	Retained Earnings	\$144	
	A	34	c	174	Other Current Assets		\$144
					<i>To adjust the Other Current Assets to agree with the audited amount.</i>		
5	A	34	c	174	Other Current Assets	\$3,574	
	A	44	c	215	Retained Earnings		\$3,574
					<i>To adjust the Other Current Assets to agree with the audited amount.</i>		
6	A	19	c	121	Non-Utility Property and Other Assets	\$19,525	
	A	34	c	174	Other Current Assets		\$19,525
					<i>To adjust the Other Current Assets to agree with the audited amount.</i>		
7	A	44	c	215	Retained Earnings	\$16,415	
	A	43	c	211	Other Paid-in Capital		\$16,415
					<i>To adjust the Other Paid-in Capital account to agree with the year 2008 balance.</i>		

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
8	A	57	c	231	Accounts Payable	\$6,000	
	B-2	16	b	678	Office Services and Rentals		\$6,000
	B-2	16	b	678	Office Services and Rentals	3,000	
	A	57	c	231	Accounts Payable		3,000
					<i>To reverse the accrued rent to agree with the audited amount.</i>		
9	A	57	c	231	Accounts Payable	\$9,651	
	A	44	c	215	Retained Earnings		\$9,651
					<i>To adjust the Accounts Payable to agree with audited amount.</i>		
10	A	61	c	236	Accrued Taxes	\$11,346	
	A	57	c	231	Accounts Payable		\$11,346
					<i>To reclassify PUC Fee Payable to agree with USOA rules.</i>		
11	A	61	c	236	Accrued Taxes	\$445	
	A	44	c	215	Retained Earnings		\$445
					<i>To adjust the balance of Accrued Taxes account to agree with the audited amount.</i>		
12	A	78	c	271	Contributions in Aid of Construction	\$16,962	
	A	44	c	215	Retained Earnings		\$16,962
					<i>To adjust the balance of Contributions in Aid of Construction due to lack of supporting documentation.</i>		
13	A	44	c	215	Retained Earnings	\$1,622	
	A	79	c	272	Accumulated Amortization of Contributions		\$1,622
					<i>To adjust the Accumulated Amortization of Contributions in conjunction with the audit adjustment #12.</i>		
14	A	44	c	215	Retained Earnings	\$27,870	
	B-1	7	b	460	Unmetered Water Revenue		\$27,870
					<i>To adjust the Unmetered Water Revenue according to the Sales Records.</i>		

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
15	B	11	c	426	Miscellaneous Non-Utility Expense	\$4,350	
	B-2	5	b	630	Employee Labor <i>To reclassify the Employee Labor Expense to Miscellaneous Non-Utility Expense.</i>		\$4,350
16	B	11	c	426	Miscellaneous Non-Utility Expense	\$9,758	
	B-2	8	b	660	Transportation Expenses <i>To adjust the balance of Transportation Expenses account to agree with the audited amount.</i>		\$9,758
17	A	44	c	215	Retained Earnings	\$1,584	
	B-2	9	b	664	Other Plant Maintenance Expense <i>To disallow Other Plant Maintenance Expense due to lack of supporting documentation.</i>		\$1,584
18	B-2	13	b	671	Management Salaries	\$99,600	
	B-2	12	b	670	Office Salaries <i>To reclassify Office Salaries to Management Salaries to agree with the audited amount.</i>		\$99,600
19	B-2	13	b	671	Management Salaries	\$10,000	
	B-2	5	b	630	Employee Labor <i>To reverse the accountant's entry to agree with the audited amount.</i>		\$10,000
20	A	44	c	215	Retained Earnings	\$600	
	B-2	13	b	671	Management Salaries <i>To adjust the balance of Management Salaries account to agree with the audited amount.</i>		\$600
21	B	11	c	426	Miscellaneous Non-Utility Expense	\$48,000	
	B-2	13	b	671	Management Salaries <i>To adjust the balance of Management Salaries account to agree with the audited amount.</i>		\$48,000

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
22	A	34	c	174	Other Current Assets	\$1,398	
	B-2	14	b	674	Employee Pensions and Benefits <i>To adjust the reported Health Insurance Expense to agree with the audited amount.</i>		\$1,398
23	A	34	c	174	Other Current Assets	\$15,200	
	B-2	14	b	674	Employee Pensions and Benefits <i>To adjust the reported Health Insurance Expense to agree with the audited amount.</i>		\$15,200
24	B	11	c	426	Miscellaneous Non-Utility Expense	\$12,380	
	B-2	16	b	678	Office Services and Rentals <i>To adjust the Rental Expense to agree with the audited amount.</i>		\$12,380
25	A	44	c	215	Retained Earnings	\$2,442	
	B-2	17	b	681	Office Supplies and Expenses <i>To adjust Office Supplies and Expenses to agree with the audited amount.</i>		\$2,442
26	A	44	c	215	Retained Earnings	\$5,742	
	B-2	21	b	689	General Expenses <i>To adjust the reported General Expense account to agree with the audited amount.</i>		\$5,742
27	A	44	c	215	Retained Earnings	\$4,523	
	B	6	c	409	State Corporate Income Tax Expense <i>To adjust the balance of State Corporate Income Tax Expense account to agree with the audited amount.</i>		\$4,523
28	A	44	c	215	Retained Earnings	\$18,250	
	B	7	c	410	Federal Corporate Income Tax Expense <i>To adjust the balance of Federal Corporate Income Tax Expense account to agree with the audited amount.</i>		\$18,250
29	B	10	c	421	Non-Utility Income	\$49	
	A	44	c	215	Retained Earnings <i>To adjust the balance of Non-Utility Income account to agree with the audited amount.</i>		\$49

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
30	B	10	c	421	Non-Utility Income	\$653	
	A	44	c	215	Retained Earnings <i>To adjust the dividend income from CoBank to agree with the audited amount.</i>		\$653
31	A	44	c	215	Retained Earnings	\$1,073	
	B	10	c	421	Non-Utility Income <i>To adjust the balance of Non-Utility Income account to agree with the audited amount.</i>		\$1,073
32	B	10	c	421	Non-Utility Income	\$1,333	
	A	44	c	215	Retained Earnings <i>To adjust the balance of Non-Utility Income account to agree with the audited amount.</i>		\$1,333
33	B	10	c	421	Non-Utility Income	\$6,788	
	A	44	c	215	Retained Earnings <i>To adjust the balance of Non-Utility Income account to agree with the audited amount.</i>		\$6,788
34	B	10	c	421	Non-Utility Income	\$21,078	
	A	44	c	215	Retained Earnings <i>To adjust the balance of Non-Utility Income account to agree with the audited amount.</i>		\$21,078
35	A	44	c	215	Retained Earnings	\$156	
	B	12	c	427	Interest Expense <i>To adjust the balance of Interest Expense account to agree with the audited amount.</i>		\$156