



**California Public Utilities Commission**  
*Utility Audit, Finance and Compliance Branch*

**Financial Audit of**  
**Del Oro Water Company**  
**Stirling Bluffs District**  
**Financial Statements**  
**For the Years Ended December 31, 2016 and 2015**

**December 22, 2017**



## **Acknowledgement**

**The following Commission Staff contributed to the completion of this audit report:  
Kayode Kajopaiye, Raymond Yin, Sharmin Wellington and Jeffrey Walter**

**Audit of Financial Statements of  
Del Oro Water Company  
Stirling Bluffs District  
For the Years Ended December 31, 2016 and 2015**

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



## **Report of Independent Auditors**

Robert S. Fortino  
Chief Executive Officer - Director  
Del Oro Water Company - Stirling Bluffs District  
Drawer 5172  
Chico, CA 95927

### **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 Del Oro Water Company - Stirling Bluffs District (SBD), which are comprised of the balance sheets as of December 31, 2016 and 2015, 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**

SBD's management is responsible for the preparation and fair presentation of the financial statements presented in the 2016 and 2015 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 in 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 misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

The responsibility of the UAFCB is to express an opinion on SBD's financial statements based on our 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 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.

### **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 Del Oro Water Company - Stirling Bluffs District (SBD) as of December 31, 2016 and 2015, 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.

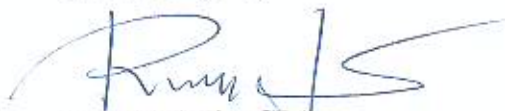
Due to the lack of historical information on Retained Earnings, UAFCB could not attest to the balances of this account as of December 31, 2016 and 2015. Therefore, UAFCB does not express any opinion on those balances.

### **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 SBD 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 Del Oro Water Company - SBD. It should not be used by anyone other than the specified parties.



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

**Audit of Financial Statements of  
Del Oro Water Company  
Stirling Bluffs District  
For the Years Ended December 31, 2016 and 2015**

**Balance Sheets**

	<b>As of December 31 for the Year</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water Plant in Service (Note 1)	\$302,382	\$296,762
Water Plant in Service – Prop 50 (Note 1)	1,178,850	1,178,850
Accumulated Depreciation of Water Plant (Note 1)	(107,974)	(99,137)
Accumulated Amortization of Prop 50 (Note 1)	(34,383)	(4,912)
<b>Net Utility Plant</b>	1,338,875	1,371,563
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash	89,922	105,051
Accounts Receivable	2,538	1,244
Receivables from Associated Companies	3,063	3,536
Other Current Assets	1,623	3,532
Deferred Charges	5	5
<b>Total Current and Accrued Assets</b>	97,151	113,368
<b>Total Assets</b>	\$1,436,026	\$1,484,931
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CORPORATE CAPITAL AND SURPLUS</b>		
Other Paid-in Capital	\$102,070	\$102,070
Retained Earnings	170,627	191,307
<b>Total Corporate Capital and Surplus</b>	272,697	293,377
<b>CURRENT AND ACCRUED LIABILITIES</b>		
Accounts Payable	4,301	6,510
Customer Deposits	199	664
Other Current Liabilities	5,599	1,654
<b>Total Current and Accrued Liabilities</b>	10,099	8,828
<b>DEFERRED CREDITS</b>		
Other Credits	120	145
Advances for Construction	8,643	8,643
<b>Total Deferred Credits</b>	8,763	8,788
<b>CONTRIBUTIONS IN PUBLICLY GRANT-FUNDED PLANT</b>		
Contributions – Publicly Grant-Funded Plant (PGFP)-Prop 50	1,178,850	1,178,850
Accumulated Amortization of Contributions – PGFP- Prop 50	(34,383)	(4,912)
<b>Net Contributions in Publicly Grant-Funded Plant</b>	1,144,467	1,173,938
<b>Total Equity and Liabilities</b>	\$1,436,026	\$1,484,931

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

## Income Statements

	For the Year of	
	2016	2015
<b>OPERATING REVENUES</b>		
Irrigation Revenue	\$851	\$1,007
Metered Water Revenue	116,474	102,643
Approved Total Surcharge Revenue	1,283	15,247
Other Water Revenue	2,300	1,895
<b>Total Operating Revenue</b>	120,908	120,792
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Purchased Water	31,339	22,690
Power	17,653	16,382
Other Volume Related Expenses	351	594
Employee Labor	9,525	8,190
Materials	1,433	1,240
Contract Work	635	630
Transportation Expenses	2,484	1,999
Other Plant Maintenance Expenses	1,447	2,113
<b>Total Plant Operation and Maintenance Expenses</b>	64,867	53,838
<b>Administrative and General Expenses</b>		
Office Salaries	11,597	11,226
Management Salaries	2,671	2,296
Employee Pensions and Benefits	4,655	4,060
Uncollectible Accounts Expense	0	95
Office Services and Rentals	3,532	3,611
Office Supplies and Expenses	4,803	5,057
Professional Services	354	784
Insurance	4,994	4,623
General Expenses	1,565	2,154
<b>Total Administrative and General Expenses</b>	34,171	33,906
<b>Total Operating Expenses</b>	99,038	87,744
Depreciation Expense	8,837	6,383
Taxes Other Than Income Taxes	3,754	1,603
<b>Total Operating Revenue Deductions</b>	111,629	95,730
<b>Total Utility Operating Income</b>	9,279	25,062
<b>OTHER INCOME AND DEDUCTIONS</b>		
Non-utility Income	40	204
<b>Total Other Income and Deductions</b>	40	204
<b>Net Income</b>	\$9,319	\$25,266

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

## Statements of Retained Earnings

	For the Year of	
	2016	2015
<b>Retained Earnings, Beginning of Year</b>	\$191,307	\$189,232
<b>CREDITS:</b>		
Net Income	9,319	25,266
UAFCB Adjustment to Depreciation Expense	8,336	3,921
UAFCB Adjustment to Accumulated Depreciation of Water Plant	4,883	2,899
<b>Total Credits</b>	22,538	32,086
<b>DEBITS:</b>		
Dividends Paid	(30,000)	(30,011)
UAFCB Cumulative Adjustment to Beginning Balance <sup>1</sup>	(13,218)	0
<b>Total Debits</b>	(43,218)	(30,011)
<b>Retained Earnings, End of Year</b>	\$170,627	\$191,307

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

<sup>1</sup> This amount represents the cumulative adjustments to the reported beginning balance of Retained Earnings as of January 1, 2016. Detail computation is shown below:

Retained Earnings as of 12/31/2015 - As Audited	\$191,307
Less: Retained Earnings as of 12/31/2015 - As Reported	188,408
Variance - UAFCB Cumulative Adjustments from 2015 Audit	(\$2,899)
Retained Earnings as of 12/31/2015 - As Reported	\$188,408
Add: Net Profit as of 12/31/2016 - As Reported	17,655
Retained Earnings as of 12/31/2016 - Based on Reported Profit	\$206,063
Less: Retained Earnings as of 12/31/2016 - As Reported	165,744
UAFCB Cumulated Adjustments to 2016 Beginning Balance	40,319
Dividends Paid	(\$30,000)
Variance - UAFCB Cumulative Adjustments from 2015 Audit (from above)	2,899
UAFCB Cumulative Adjustment to 2016 Beginning Balance	\$13,218



## Statements of Cash Flows

	For the Year of	
	2016	2015
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income	\$9,319	\$25,266
<b>Adjustments to Reconcile Net Income to Cash</b>		
<b>Provided by Operating Activities</b>		
Depreciation	8,837	(437)
Increase (Decrease) in Amortization – Prop 50	29,471	4,912
Decrease (Increase) in Special Deposits	0	20
Decrease (Increase) in Accounts Receivable	(1,294)	821
Decrease (Increase) in Receivables from Associated Companies	473	(461)
Decrease (Increase) in Other Current Assets	1,909	(462)
Decrease (Increase) in Deferred Charges	0	(10,903)
Increase (Decrease) in Accounts Payable	(2,209)	618
Increase (Decrease) in Customer Deposits	(465)	(162)
Increase (Decrease) in Other Current Liabilities	3,945	(689)
Increase (Decrease) in Other Credits	(25)	145
<b>Net Cash Provided (Used) by Operating Activities</b>	49,961	18,668
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Plant Additions	(5,620)	(95,716)
Net Prop – 50 Plant Additions	0	(1,178,850)
Net Construction Plant in Progress Additions	0	1,090,335
Increase (Decrease) in Contributions – Prop 50	0	165,179
Decrease (Increase) in Accumulated Amortization of Contributions – Prop 50	(29,471)	(4,912)
UAFCB Cumulative Adjustments to Retained Earnings	1	6,820
<b>Net Cash Provided (Used) for Investing Activities</b>	(35,090)	(17,144)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends Paid	(30,000)	(30,015)
<b>Net Cash Provided (Used) for Financing Activities</b>	(30,000)	(30,015)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(15,129)	(28,491)
<b>CASH AT BEGINNING OF YEAR</b>	105,051	133,542
<b>CASH AT END OF YEAR</b>	\$89,922	\$105,051

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

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

DOWC is a Class B multi-district water utility providing water service to 18 districts throughout California. Its main office is located in Chico, California. Stirling is located approximately 30 miles northeast of Chico and provides service to approximately 154 metered rate customers in Stirling City and adjoining areas in Butte County, serving about 400 people total. DOWC has been incorporated in the State of California since 1963. It consists of eighteen subsidiaries (referred to as 'Districts') primarily located in Northern California; the main district, Paradise Pines, comprising the bulk of the company's customers.

The Company has prepared the accompanying financial statements on the basis of accounting set forth in the Uniform System of Accounts (USOA) for 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 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 audit adjustments by Utility Audit, Finance and Compliance Branch (UAFCB) for years 2016 and 2015, respectively. Appendix C and Appendix D summarize the UAFCB detail audit adjustments for Years 2016 and 2015, respectively.

#### (b) Water Plant in Service

Utility plant is recorded at original cost when first constructed or purchased. Retired utility plant assets are removed from utility plant accounts based on estimated cost and charged against accumulated depreciation.

#### (c) Water Plant in Service – Proposition 50

Utility plant funded using Proposition 50 grant is recorded at Water Plant in Service – Prop 50. The grant of \$1,178,850 was provided by the Department of Public Health (DPH) and was fully funded as of November 2015. The grant is for water system improvements, and for filtration system as required by DPH. Utility plant funded by Proposition 50 was recorded into Contributions-Publicly Grant-Funded Plant per the Commission's Decision 06-03-015.

#### (d) Accumulated Depreciation and Depreciation Expense of Water Plant

Depreciation is computed on a straight-line composite rate of 3.03% (equivalent to a 33-year depreciation period) in order to depreciate all plant assets for ratemaking purposes

and for reporting, the depreciation expense in SBD's Annual Reports filed with the Commission.

**(e) Accumulated Amortization and Amortization Expense of Proposition 50 Grant**

The Proposition 50 grant of \$1,178,850 from DPH is amortized at a rate of 2.50% (equivalent to a 40-year amortization period). The grant amortization period commenced in November 2015 and the amortization expense is computed on a straight-line basis.

**(f) Metered Water Revenue and Approved Total Surcharge Revenue**

SBD customers are metered and are billed on a monthly basis. SBD computed its metered water revenues based on tariffs approved by the Commission. In August of 2014, Advice Letter 391 was filed, authorizing a special surcharge of \$9.31 per customer per month due under-collected revenues. This reimbursement surcharge was collected until October of 2015.

**(g) Retained Earnings**

UAFCB could not attest to the accuracy of the Retained Earnings balances due to lack of historical information on them. Expressing an opinion on the Retained Earnings Balances as of December 31, 2016 and 2015 would require auditing the Retained Earnings balances from the inception of the company. Due to limitation of our audit scope, we cannot express an opinion on those balances.

**(2) Annual Reports**

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

## Appendix A

### Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustments for Year 2016

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2016:

Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct No.		Debit	Credit
					<b><u>Net Financial Impact on Balance Sheets Items:</u></b>		
4	A	8	b	108	Accumulated Depreciation of Water Plant	\$4,883	
2,4	A	30	b	215	Retained Earnings		\$13,219
					<b><u>Net Financial Impact on Income Statements Items:</u></b>		
2	F	32	b	403	Depreciation Expense	\$8,336	
3	F	4	b	465	Irrigation Revenue		\$851
3	F	5	b	470	Metered Water Revenue	851	
1	F	25	b	678	Office Services and Rentals	1,240	
1	F	26	b	681	Office Supplies and Expenses		1,240

## Appendix B

### Summary of Net Financial Impact Resulting from UAFCB's 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
<b><u>Net Financial Impact on Balance Sheets Items:</u></b>							
5	A	8	b	108	Accumulated Depreciation of Water Plant	\$2,899	
4	A	22	b	174	Other Current Assets	1,654	
2,5	A	30	b	215	Retained Earnings		\$6,820
4	A	38	b	241	Other Current Liabilities		1,654
<b><u>Net Financial Impact on Income Statements Items:</u></b>							
2	F	32	b	403	Depreciation Expense	\$3,921	
3	F	4	b	465	Irrigation Revenue		\$1,007
3	F	5	b	470	Metered Water Revenue	1,007	
1	F	25	b	678	Office Services and Rentals	1,239	
1	F	26	b	681	Office Supplies and Expenses		1,239

## Appendix C

### Summary of Audit Adjustments for Year 2016

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	F	25	b	678	Office Services and Rentals	\$1,240	
	F	26	b	681	Office Supplies and Expense		\$1,240
					<i>To reclassify SBD's share of the Safor Corporation rentals to the Office Services and Rentals account.</i>		
2	F	32	b	403	Depreciation Expense	\$8,336	
	A	30	b	215	Retained Earnings		\$8,336
					<i>To adjust depreciation expenses to agree with the audited amount.</i>		
3	F	5	b	470	Metered Water Revenue	\$851	
	F	4	b	465	Irrigation Revenue		\$851
					<i>To adjust metered irrigation to Irrigation Revenue account in compliance with the USOA.</i>		
4	A	8	b	108	Accumulated Depreciation of Water Plant	\$4,883	
	A	30	b	215	Retained Earnings		\$4,883
					<i>To record SBD's adjustment to Accumulated Depreciation.</i>		

## Appendix D

### Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	F	25	b	678	Office Services and Rentals	\$1,239	
	F	26	b	681	Office Supplies and Expense		\$1,239
					<i>To reclassify SBD's share of the Safor Corporation rentals to the Office Services and Rentals account.</i>		
2	F	32	b	403	Depreciation Expense	\$3,921	
	A	30	b	30	Retained Earnings		\$3,921
					<i>To adjust depreciation expenses to agree with the audited amount.</i>		
3	F	5	b	470	Metered Water Revenue	\$1,007	
	F	4	b	465	Irrigation Revenue		\$1,007
					<i>To adjust metered irrigation to Irrigation Revenue account in compliance with the USOA.</i>		
4	A	22	b	174	Other Current Assets	\$1,654	
	A	38	b	241	Other Current Liabilities		\$1,654
					<i>To reclassify excess LIRA expenses as liabilities.</i>		
5	A	8	b	108	Accumulated Depreciation of Water Plant	\$2,899	
	A	30	b	215	Retained Earnings		\$2,899
					<i>To record SBD's adjustment to Accumulated Depreciation.</i>		