



California Public Utilities Commission
Utility Audit, Finance and Compliance Branch

**Financial Audit of
Rio Plaza Water Company
Financial Statements**

For the Years Ended December 31, 2016 and 2015

March 23, 2018



Acknowledgement

**The following Commission Staff contributed to the completion of this audit report:
Raymond Yin, Sharmin Wellington and Gelila Berhane**

**Audit of Financial Statements of
Rio Plaza Water Company
For the Years Ended December 31, 2016 and 2015**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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Report of Independent Auditors

John Chris Nickel, President
Rio Plaza Water Company (RPWC), Inc.
8698 Roseland Avenue RR#1
Moorpark, CA 93021

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 Rio Plaza Water Company (RPWC), 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

RPWC'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 RPWC'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.

Basis for Qualified Opinion

Due to the lack of historical information on Retained Earnings, Water Plant in Service, and Accumulated Depreciation of Water Plant accounts, UAFCB could not attest to the balances of these accounts as of December 31, 2016 and 2015. Therefore, UAFCB does not express any opinion on those balances.

Qualified Opinion

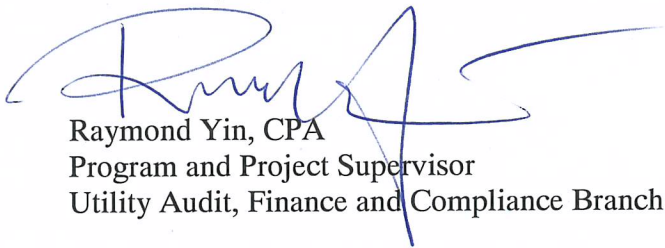
In our opinion, except for the balances of Retained Earnings, Water Plant in Service accounts and Accumulated Depreciation of Water Plant as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Plaza Water Company 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.

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 RPWC on the basis of the accounting requirements of the USOA, 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 Rio Plaza Water Company. 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
Rio Plaza Water Company
For the Years Ended December 31, 2016 and 2015**

Balance Sheets

	As of December 31 for the Year	
	2016	2015
ASSETS		
UTILITY PLANT		
Water Plant in Service (Note 1)	\$769,359	\$754,243
Water Plant in Service – SDWBA (Note 1)	364,698	364,698
Accumulated Depreciation of Water Plant (Note 1)	(320,406)	(298,306)
Accumulated Amortization of SDWBA Loan	(364,698)	(364,698)
Net Utility Plant	448,953	455,937
CURRENT AND ACCRUED ASSETS		
Cash	68,703	47
Accounts Receivable - Customers	31,752	28,502
Materials and Supplies	1,990	1,990
Total Current and Accrued Assets	102,445	30,539
Total Assets	551,398	486,476
LIABILITIES AND OTHER CREDITS		
CORPORATE CAPITAL AND SURPLUS		
Common Stock	14,000	14,000
Retained Earnings (Note 1)	353,789	295,106
Total Corporate Capital and Surplus	367,789	309,106
LONG-TERM DEBT		
Long-term Debt (Note 1)	25,190	33,950
CURRENT AND ACCRUED LIABILITIES		
Accounts Payable	54,728	42,127
Short-term Notes Payable (Note 1)	72,172	71,773
Customer Deposits	2,894	2,944
Accrued Taxes	3,690	0
Total Current and Accrued Liabilities	133,484	116,844
CONTRIBUTION IN AID OF CONSTRUCTION		
Contribution In Aid of Construction (CIAC)	62,651	62,651
Accumulated Amortization of Contributions	(37,716)	(36,075)
Net Contributions In Aid of Construction	24,935	26,576
Total Equity and Liabilities	\$551,398	\$486,476

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

Income Statements

	For the Year of	
	2016	2015
OPERATING REVENUES		
Fire Protection Revenue	\$2,728	\$2,909
Metered Water Revenue (Note 1)	320,235	309,774
Other Water Revenue	8,865	9,380
Total Operating Revenues	331,828	322,063
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	16,750	19,275
Other Volume Related Expenses	54,446	46,497
Materials	2,660	967
Contract Work	24,139	25,098
Transportation Expenses	15,813	12,445
Other Plant Maintenance Expenses	14,087	19,230
Total Plant Operation and Maintenance Expense	127,895	123,512
Administrative and General Expenses		
Management Salaries	52,938	50,343
Employee Pensions and Benefits	2,960	6,557
Uncollectible Accounts Expense	491	466
Office Services and Rentals	10,004	9,714
Office Supplies and Expenses	3,343	4,644
Professional Services	44,333	61,036
Insurance	4,901	4,646
General Expenses	3,710	6,291
Total Administrative and General Expenses	122,680	143,697
Total Operating Expenses	250,575	267,209
Depreciation Expense (Note 1)	25,003	24,662
Taxes Other Than Income Taxes	15,182	13,377
State Corporate Income Tax Expense	1,790	800
Federal Corporate Income Tax Expense	2,768	502
Miscellaneous Non-utility Expense	6,148	5,929
Total Operating Revenue Deductions	301,466	312,479
Total Utility Operating Income	30,362	9,584
OTHER INCOME AND DEDUCTIONS		
Interest Expense	(5,810)	(6,740)
Total Other Income and Deductions	(5,810)	(6,740)
Net Income	\$24,552	\$2,844

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

Statements of Retained Earnings

	For the Year of	
	2016	2015
Retained Earnings, Beginning of Year	\$295,106	\$273,030
CREDITS:		
Net Income	24,552	2,844
UAFCB Adjustment to Other Paid-in Capital	72,451	49,778
Rounding Errors per Annual Reports ¹	0	1
Total Credits	97,003	52,623
DEBITS:		
Rounding Errors per Annual Reports ¹	(1)	0
UAFCB Cumulative Adjustment to Beginning Balance ²	(19,232)	0
UAFCB Adjustment to Cash	(10,221)	(30,547)
UAFCB Adjustment to Contract Work	(2,973)	0
UAFCB Adjustment to Professional Services	(5,893)	0
Total Debits	(38,320)	(30,547)
Retained Earnings, End of Year	\$353,789	\$295,106

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

¹ The following shows the computation of rounding errors in the Annual Reports:

Description	2016	2015
Operating Expenses As Reported	\$265,588	\$273,138
Operating Expenses As Computed	265,589	273,137
Rounding Errors per Annual Reports	(\$1)	\$1

² This amount represents the cumulative adjustments to the reported beginning balance of Retained Earnings as of January 1, 2016. Detailed computation is shown below:

Retained Earnings as of 12/31/2015 - As Audited	(\$295,106)
Retained Earnings as of 12/31/2015 - As Reported	275,874
Variance - UAFCB Cumulative Adjustments to Beginning Balance	(\$19,232)

Statements of Cash Flows

	For the Year of	
	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income/(Loss)	\$24,552	\$2,844
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation ¹	22,100	19,157
Decrease (Increase) in Accounts Receivable - Customers	(3,250)	(816)
Increase (Decrease) in Other Current Assets	0	48,895
Increase (Decrease) in Accounts Payable	12,601	42,127
Increase (Decrease) in Customer Deposits	(50)	0
Increase (Decrease) in Payable to Associated Companies	0	(91,235)
Increase (Decrease) in Short-term Notes Payable	399	32,961
Increase (Decrease) in Accrued Interest	3,690	0
Increase (Decrease) in Other Current Liabilities	0	(48,311)
Net Cash Provided by Operating Activities	60,042	5,622
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Plant Deletions (Additions)	(15,116)	(20,035)
Increase (Decrease) in Accumulated Amortization of Contributions	(1,641)	(1,641)
UAFCB Cumulative Adjustments to Retained Earnings ²	34,131	19,232
Net Cash Used for Investing Activities	17,374	(2,444)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-term Debt	(8,760)	33,950
Increase (Decrease) in Other Paid-in Capital	0	(85,650)
Net cash used for Financing Activities	(8,760)	(51,700)
Net INCREASE AND (DECREASE) IN CASH AND CASH EQUIVALENTS	68,656	(48,522)
CASH AT BEGINNING OF YEAR	47	48,569
CASH AT END OF YEAR	\$68,703	\$47

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

¹ For the Statements of Cash Flows purpose, UAFCB included \$22,100 and \$19,157 Depreciation of Water Plants from the depreciation expenses for Years 2016 and 2015, respectively.

² For the Year 2016, the total UAFCB debit adjustment of \$34,131 to Retained Earnings represented the cumulative effect of UAFCB's adjustments to the Retained Earnings for Years 2016 and 2015. For Year 2015, the total UAFCB credit adjustment of \$19,232 to Retained Earnings was presented in the 2015 Summary of Audit Adjustments.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Rio Plaza Water Company (RPWC) is a Class C water utility that provides water service in the area known as Rio Plaza, in the vicinity of El Rio adjacent to Oxnard, in Ventura County. RPWC was incorporated on June 17, 1954. RPWC services approximately 520 active service connections.

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

The USOA requires that utility plant shall be recorded at original cost when first constructed or purchased and used by the utility in providing water service. Retired utility plant assets shall be removed from utility plant accounts based on original cost of depreciable plant retired and charged against accumulated depreciation. UAFCB could not attest to the accuracy of the Water Plant in Service balances except for the utility plant additions for audit years 2015 and 2016 due to lack of historical information on the utility plant assets.

(c) Water Plant in Service – SDWBA

Utility plant funded using Safe Drinking Water Bond Act (SDWBA) aka State Revolving Fund (SRF) is recorded at SDWBA loan amount. RPWC's SDWBA loan of \$364,698 from the California Department of Water Resources (DWR) was paid off as of February 1, 2008. Therefore, UAFCB did not audit this account. The purpose of the loan was to assist in the financing of a construction project, which will enable the RPWC to meet the safe drinking water standards established pursuant to Part 12, Chapter 4 of Division 101 of the Health and Safety Code and California Code of Regulations, Title 22.

(d) Accumulated Depreciation and Depreciation Expense of Water Plant

Depreciation is computed on a straight-line composite rate of 2.62% (equivalent to approximately 38-year depreciation period) in order to depreciate all plant assets for ratemaking purposes and for reporting the depreciation expense in RPWC's Annual Reports filed with the Commission. UAFCB could not attest to the accuracy of the Accumulated Depreciation and Depreciation Expense of Water Plant in Service balances due to lack of historical information on the utility plant assets.

(e) Long-term Debt

RPWC had a vehicle loan. The term of the loan was for 72 months with the first payment beginning August 29, 2014. The vehicle loan principal payment amounts due beyond the immediate 12-month period are classified as long-term obligations.

(f) Short-term Notes Payable

The short-term obligations include credit card loan and vehicle loan principal payment amounts due within the immediate 12-month period.

(g) Operating Water Revenue

RPWC's water service revenues include 97% in metered water revenue and 3% in Other Water Revenue. The metered water revenue includes surcharges collected from customers while the Other Water Revenues comprise of late fees and reconnection fees. Customers are billed on a monthly basis. RPWC computes its water service revenues based on tariffs approved by the Commission.

(h) 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 and do not express an opinion on those balances.

(2) Annual Reports

Per California Public Utilities Code, Sections 581, 582, and 584, RPWC is required to file an annual report with the Commission every year. For the years being audited, RPWC 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 Adjustment Number	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct No.		Debit	Credit
<u>Net Financial Impact on Balance Sheets Items:</u>							
1	A	27	C	131	Cash		\$10,221
2	A	43	C	211	Other Paid-in Capital	\$72,451	
1,2,7,11	A	44	C	215	Retained Earnings		53,364
4	A	53	C	224	Long-term Debt		25,190
3	A	57	C	231	Accounts Payable		54,728
4	A	58	C	232	Short-term Notes Payable		8,360
3	A	60	C	235	Payables to Associated Companies	54,728	
4	A	63	C	241	Other Current Liabilities	33,550	
<u>Net Financial Impact on Income Statements Items:</u>							
6	B-1	14	B	470.1	Single-family Residential	\$8,865	
6	B-1	21	B	480	Other Water Revenue		8,865
7	B-2	5	B	630	Employee Labor		4,938
8	B-2	7	C	650	Contract Work		2,973
7	B-2	13	B	671	Management Salaries	4,938	
9,10	B-2	16	B	674	Employee Pensions and Benefits		8,619
11	B-2	16	B	678	Office Services and Rentals		927
11	B-2	17	B	681	Office Supplies and Expense	927	
12	B-2	18	C	682	Professional Services		5,893
9	B-2	21	C	689	General Expense	2,471	
10	B	11	B	426	Miscellaneous Non-utility Expense	6,148	

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 Adjustment Number	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct No.		Debit	Credit

Net Financial Impact on Balance Sheets Items:

1	A	27	C	131	Cash		\$30,547
2	A	43	C	211	Other Paid-in Capital	\$49,778	
1,2	A	44	C	215	Retained Earnings		19,232
4	A	53	C	224	Long-term Debt		33,950
3	A	57	C	231	Accounts Payable		42,127
4	A	58	C	232	Short-term Notes Payable		7,961
3	A	60	C	235	Payables to Associated Companies	42,127	
4	A	63	C	241	Other Current Liabilities	41,911	

Net Financial Impact on Income Statements Items:

5,6	B-1	14	B	470.1	Single-family Residential	\$8,670	
5	B-1	18	B	470.9	Other Metered Water Revenue		\$9,377
6	B-1	21	B	480	Other Water Revenue		9,380
7	B-2	5	B	630	Employee Labor		4,342
7	B-2	13	B	671	Management Salaries	4,342	
8	B-2	16	B	674	Employee Pensions and Benefits		5,929
9	B-2	16	B	678	Office Services and Rentals		1,493
9	B-2	17	B	681	Office Supplies and Expense	1,493	
8	B	11	C	426	Miscellaneous Non-utility Expense	5,929	

Appendix C

Summary of Audit Adjustments for Year 2016

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	44	C	215	Retained Earnings	\$10,221	
	A	27	C	131	Cash <i>To adjust the bank cash balance to agree with the audited amount.</i>		\$10,221
2	A	43	C	211	Other Paid-in Capital	\$72,451	
	A	44	C	215	Retained Earnings <i>To adjust Other Paid-in Capital to agree with the audited amount.</i>		\$72,451
3	A	60	C	235	Payables to Associated Companies	\$54,728	
	A	57	C	231	Accounts Payable <i>To reclassify Payables to Associated Companies to agree with the audited amount.</i>		\$54,728
4	A	63	C	241	Other Current Liabilities	\$33,550	
	A	53	C	224	Long-term Debt		\$25,190
	A	58	C	232	Short-term Notes Payables <i>To adjust reclassify Other Current Liabilities to agree with the audited amount.</i>		\$8,360
5	B-1	14	B	470.1	Single-family Residential	\$8,865	
	B-1	21	B	480	Other Water Revenue <i>To reclassify Other Water Revenue to agree with the audited amount.</i>		\$8,865
6	B-2	13	B	671	Management Salaries	\$4,938	
	B-2	5	B	630	Employee Labor <i>To reclassify Employee Labor to agree with the audited amount.</i>		\$4,938
7	A	44	C	215	Retained Earnings	\$2,973	
	B-2	7	C	650	Contract Work <i>To adjust Contract Work Expense to agree with the audited amount.</i>		\$2,973

Financial Audit of Rio Plaza Water Company Financial Statements
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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
8	B-2	21	C	689	General Expense	\$2,471	
	B-2	14	B	674	Employee Pensions and Benefits <i>To reclassify Employee Pensions and Benefits to agree with the audited amount.</i>		\$2,471
9	B	11	B	426	Miscellaneous Non-utility Expense	\$6,148	
	B-2	14	B	674	Employee Pensions and Benefits <i>To reclassify Employee Pensions and Benefits Expense to agree with the audited amount.</i>		\$6,148
10	B-2	17	B	681	Office Supplies and Expenses	\$927	
	B-2	16	B	678	Office Services and Rentals <i>To reclassify Office Services Rentals to agree with the audited amount.</i>		\$927
11	A	44	C	215	Retained Earnings	\$5,893	
	B-2	18	C	682	Professional Services <i>To adjust Professional Services Expense to agree with the audited amount.</i>		\$5,893

Appendix D

Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	44	C	215	Retained Earnings	\$30,547	
	A	27	C	131	Cash <i>To adjust the bank cash balance to agree with the audited amount.</i>		\$30,547
2	A	43	C	211	Other Paid-in Capital	\$49,778	
	A	44	C	215	Retained Earnings <i>To adjust Other Paid-in Capital to agree with the audited amount.</i>		\$49,778
3	A	60	C	235	Payables to Associated Companies	\$42,127	
	A	57	C	231	Accounts Payable <i>To reclassify Payables to Associated Companies to agree with the audited amount.</i>		\$42,127
4	A	63	C	241	Other Current Liabilities	\$41,911	
	A	53	C	224	Long-term Debt		\$33,950
	A	58	C	232	Short-term Notes Payables <i>To adjust reclassify Other Current Liabilities to agree with the audited amount.</i>		\$7,961
5	B-1	14	B	470.1	Single-family Residential	\$9,380	
	B-1	21	B	480	Other Water Revenue <i>To reclassify Other Water Revenue to agree with the audited amount.</i>		\$9,380
6	B-2	13	B	671	Management Salaries	\$4,342	
	B-2	5	B	630	Employee Labor <i>To reclassify Employee Labor to agree with the audited amount.</i>		\$4,342
7	B	11	B	426	Miscellaneous Non-utility Expense	\$5,929	
	B-2	16	B	674	Employee Pensions and Benefits <i>To reclassify Employee Pensions and Benefits Expense to agree with the audited amount.</i>		\$5,929

Financial Audit of Rio Plaza Water Company Financial Statements
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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			

8	B-2	17	B	681	Office Supplies and Expenses	\$1,493	
	B-2	16	B	678	Office Services and Rentals		\$1,493
					<i>To reclassify Office Services and Rentals to agree with the audited amount.</i>		