



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

**Utility Audit, Finance and Compliance Branch**  
June 29, 2018





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**<http://www.cpuc.ca.gov/utilityaudits/>**

**Thanks to:**  
**Raymond Yin, Sharmin Wellington, Xiaowen Zhao, and Aaron Louie**

**Audit of Financial Statements of  
Havasu Water Company  
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**

Jennifer Hodges, Acting President  
Havasu Water Company  
25108 Marguerite Parkway, Suite A-252  
Mission Viejo, California 92692

### **Report on the Financial Statements**

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) was engaged to audit the accompanying financial statements of Havasu Water Company (HWC), 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**

HWC'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 HWC's financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, UAFCB was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for Disclaimer of Opinion**

UAFCB has requested HWC to submit a Management Representation Letter to ensure that HWC has disclosed all necessary information, including the fair presentation of the financial information on the financial statements, to the Commission. As of the date of this report, HWC has not provided UAFCB with the requested Management Representation Letter. During our audit, UAFCB also became aware that HWC was implicated in legal issues over the easement rights and obligations with the Chemehuevi Indian Tribe. UAFCB was unable to obtain sufficient information on the legal matters to assess the potential impact, if any, on HWC's

financial statements. Due to the restriction of scope by HWC and the lack of sufficient supporting documents, UAFCB was unable to determine if HWC's financial statements were presented fairly, nor we consider HWC's disclosures are adequate.

### **Disclaimer of Opinion**

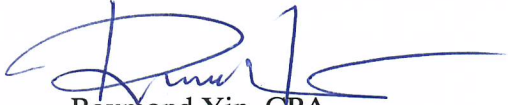
Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, UAFCB has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, UAFCB does not express an opinion on these financial statements.

### **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 HWC 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.

### **Use of Report**

The report is intended solely for the information and use by the Commission and Havasu 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  
Havasu Water Company  
For the Years Ended December 31, 2016 and 2015**

**Balance Sheets**

	As of December 31 for the Year	
	2016	2015
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water Plant in Service (Note 1)	\$472,594	\$472,594
Accumulated Depreciation of Water Plant (Note 1)	(296,387)	(284,395)
<b>Net Utility Plant</b>	<u>176,207</u>	<u>188,199</u>
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash	104,062	69,825
Accounts Receivable	17,167	18,556
Materials and Supplies	500	500
Other Current Assets	5,351	5,130
<b>Total Current and Accrued Assets</b>	<u>127,080</u>	<u>94,011</u>
<b>Total Assets</b>	<u>\$303,287</u>	<u>\$282,210</u>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CORPORATE CAPITAL AND SURPLUS</b>		
Common Stock	\$40,990	\$40,990
Other Paid-in Capital	600,078	600,078
Retained Earnings (Note 1)	(431,307)	(451,733)
<b>Total Corporate Capital and Surplus</b>	<u>209,761</u>	<u>189,335</u>
<b>CURRENT AND ACCRUED LIABILITIES</b>		
Accounts Payable	10,799	7,857
Customer Deposits	5,070	5,870
Other Current Liability	672	0
<b>Total Current and Accrued Liabilities</b>	<u>16,541</u>	<u>13,727</u>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		
Contributions In Aid of Construction	108,000	108,000
Accumulated Amortization of Contributions	(31,015)	(28,852)
<b>Net Contributions In Aid of Construction</b>	<u>76,985</u>	<u>79,148</u>
<b>Total Equity and Liabilities</b>	<u>\$303,287</u>	<u>\$282,210</u>

*(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>		
Metered Water Revenue (Note 1)	\$214,381	\$188,305
Other Water Revenue	1,175	1,228
<b>Total Operating Revenue</b>	<u>215,556</u>	<u>189,533</u>
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Purchased Water	2,526	0
Power	13,497	14,505
Other Volume Related Expenses	3,380	3,385
Employee Labor	33,075	26,038
Materials	3,048	7,511
Contract Work	9,036	7,285
Transportation Expenses	3,469	4,368
<b>Total Plant Operation and Maintenance Expenses</b>	<u>68,031</u>	<u>63,082</u>
<b>Administrative and General Expenses</b>		
Office Salaries	35,895	34,365
Management Salaries	12,000	12,909
Employee Pensions and Benefits	9,292	21,093
Office Services and Rentals	11,366	11,153
Office Supplies and Expenses	8,322	7,729
Professional Services	4,575	4,191
Insurance	11,318	9,107
Regulatory Commission Expense	2,505	2,741
General Expenses	5,766	1,861
<b>Total Administrative and General Expenses</b>	<u>101,039</u>	<u>105,149</u>
<b>Total Operating Expenses</b>	<u>169,070</u>	<u>168,231</u>
Depreciation Expense (Note 1)	9,829	9,829
Taxes Other Than Income Taxes	12,784	12,578
State Corporate Income Tax Expense	800	800
<b>Total Operating Revenue Deductions</b>	<u>192,483</u>	<u>191,438</u>
<b>Total Utility Operating Income/&lt;Loss&gt;</b>	23,073	(1,905)
<b>OTHER INCOME AND DEDUCTIONS</b>		
Non-utility Income	3,662	51
Interest Expenses	(311)	(49)
<b>Total Other Income and Deductions</b>	<u>3,351</u>	<u>2</u>
<b>Net Income/&lt;Loss&gt;</b>	<u>\$26,424</u>	<u>(\$1,903)</u>

*(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>	(\$451,733)	(\$449,830)
<b>CREDITS:</b>		
Net Income	26,424	(1,903)
<b>Total Credits</b>	26,424	(1,903)
<b>DEBITS:</b>		
UAFCB Cumulative Adjustment to Beginning Balance <sup>1</sup>	(5,998)	0
<b>Total Debits</b>	(5,998)	0
<b>Retained Earnings, End of Year</b> <sup>2</sup>	(\$431,307)	(\$451,733)

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

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<sup>1</sup>These amounts represent 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 12/31/2016 reported:	(\$430,635)
Less: HWC reported net income in 2016:	27,096
Retained Earnings as of 01/01/2016 supposed to be:	(457,731)
Retained Earnings as of 01/01/2016 reported:	(451,733)
UAFCB Cumulated Adjustments to 2016 beginning <sup>1</sup> balance according to reported information	(\$5,998)

"UAFCB Cumulated Adjustments to 2016 beginning balance according to reported information" represented those unreported transactions. Auditor observed that HWC per their reconciliation worksheet is using the Retained Earnings account as a reconciliation account to reconcile the general ledger to the Annual Report amounts.

<sup>2</sup>The Retained Earnings balances were not audited but were the results of UAFCB compiled audit adjustments and net income of 2016. UAFCB could not attest to the accuracy of the Retained Earnings balances due to lack of historical information on the account.



## Statements of Cash Flows

	<b>For the Year of</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income/(Loss)	\$26,424	(\$1,903)
<b>Adjustments to Reconcile Net Income to Cash</b>		
<b>Provided by Operating Activities</b>		
Depreciation (Note 1)	11,992	11,992
Decrease (Increase) in Accounts Receivable - Customers	1,389	(4,029)
Decrease (Increase) in Other Current Assets	(221)	(54)
Increase (Decrease) in Accounts Payable	2,942	2,398
Increase (Decrease) in Customer Deposits	(800)	900
Increase (Decrease) in Other Current Liability	672	0
UAFCB Adjustments to Retained Earnings	(5,998)	0
<b>Net Cash Provided (Used) by Operating Activities</b>	36,400	9,304
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Decrease (Increase) in Accumulated Amortization of Contributions	(2,163)	(2,163)
<b>Net Cash Provided (Used) for Investing Activities</b>	(2,163)	(2,163)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Common Stock	0	(177,501)
Increase (Decrease) in Other Paid-in Capital	0	177,501
<b>Net Cash Provided (Used) for Financing Activities</b>	0	0
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	34,237	7,141
<b>CASH AT BEGINNING OF YEAR</b>	69,825	62,684
<b>CASH AT END OF YEAR</b>	\$104,062	\$69,825

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

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Havasu Water Company (HWC) is a Class D water utility that provides water service to the community of Havasu and its vicinity, located approximately 28 miles south of Needles, in San Bernardino County. Havasu Water Company currently serves 212 metered-rate customers in the southeast desert basin. Ninety-six percent (96%) of the customers are residences and the balance is industrial/commercial 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) Accumulated Depreciation and Depreciation Expense of Water Plant

Depreciation is computed on a straight-line composite rate of 2.1% (equivalent to a 50 years depreciation period) in order to depreciate all plant assets for ratemaking purposes and for reporting the depreciation expense in HWC's Annual Reports filed with the Commission.

#### (d) Operating Water Revenue

HWC customers are metered and billed on a monthly basis. HWC computed its metered water revenues based on tariffs approved by the Commission.

#### (e) 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, HWC is required to file an annual report with the Commission every year. For the years being audited, HWC 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

**Net Financial Impact on Balance Sheets Items:**

1	A	27	C	201	Common Stock	\$177,501	
1	A	29	C	211	Other Paid-in Capital		\$177,501
8	A	38	C	241	Other Current Liability		672

**Net Financial Impact on Income Statements Items:**

2	F	5	C	470	Metered Water Revenue	\$1,175	
2	F	7	C	480	Other Metered Revenues		\$1,175
3	F	16	C	630	Employee Labor		3,280
4, 5	F	17	C	640	Materials		4,166
5	F	18	C	650	Contract Work	3,266	
4	F	19	C	660	Transportation Expenses	900	
3, 7	F	23	C	674	Employee Pensions and Benefits	9,292	
6	F	25	C	678	Office Services and Rentals	2,366	
6	F	26	C	681	Office Supplies and Expenses		2,366
7	F	28	C	684	Insurance		6,012
8	F	30	C	689	General Expense	672	

## 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	201	Common Stock	\$177,501	
1	A	29	C	211	Other Paid-in Capital		\$177,501

**Net Financial Impact on Income Statements Items:**

2	F	5	C	470	Metered Water Revenue	\$1,120	
2	F	7	C	480	Other Water Revenue		\$1,120
3	F	16	C	630	Employee Labor		3,192
4	F	17	C	640	Materials		1,860
4	F	19	C	660	Transportation Expenses	1,860	
5	F	22	C	671	Management Salaries		8,091
3,5,7	F	23	C	674	Employee Pensions and Benefits	21,093	
6	F	25	C	678	Office Services and Rentals	1,953	
6	F	26	C	681	Office Supplies and Expenses		1,953
7	F	28	C	684	Insurance		9,810

## Appendix C

### Summary of Audit Adjustments for Year 2016

Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
1	A	27	C	201	Common Stock	\$177,501	
	A	29	C	211	Other Paid-in Capital <i>To reclassify the Common Stock value to agree with the audited par value.</i>		\$177,501
2	F	5	C	470	Metered Water Revenue	\$1,175	
	F	7	C	480	Other Water Revenue <i>To reclassify Late Charge to Acct 480 - Other Water Revenue.</i>		\$1,175
3	F	23	C	674	Employee Pensions and Benefits	\$3,280	
	F	16	C	630	Employee Labor <i>To reclassify 125 Health Insurance to Employee Pensions and Benefits.</i>		\$3,280
4	F	19	C	660	Transportation Expense	\$900	
	F	17	C	640	Materials <i>To reclassify equipment rental expenses to Transportation Expense Account.</i>		\$900
5	F	18	C	650	Contract Work	\$3,266	
	F	17	C	640	Materials <i>To reclassify repair pump expenses to Contract Work Account.</i>		\$3,266



Financial Audit of Havasu Water Company Financial Statements  
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Audit Adj. No.	Annual Report				Description	For the Year 2016	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
6	F	25	C	678	Office Services and Rentals	\$2,366	
	F	26	C	681	Office Supplies and Expense <i>To reclassify the partial amount of Office Supplies and Expense to Office Services and Rentals Account.</i>		\$2,366
7	F	23	C	674	Employee Pensions and Benefits	\$6,012	
	F	28	C	684	Insurance <i>To reclassify Health Insurance to Employee Pensions and Benefits Account.</i>		\$6,012
8	F	30	C	689	General Expense	\$672	
	A	38	C	241	Other Current Liability <i>To accrue six months' SWRCB annual Fee (07/01/2016 through 12/31/2016) that was not billed or paid as of 06/30/2016.</i>		\$672

## Appendix D

### Summary of Audit Adjustments for Year 2015

Audit Adj. No.	Annual Report				Description	For the Year 2015	
	Sch.	Line	Col.	Acct No.		Debit	Credit
1	A	27	C	201	Common Stock	\$177,501	
	A	29	C	211	Other Paid-in Capital <i>To reclassify the Common Stock value to agree with the audited par value.</i>		\$177,501
2	F	5	C	470	Metered Water Revenue	\$1,120	
	F	7	C	480	Other Water Revenue <i>To reclassify Late Charge to Acct 480 - Other Water Revenue.</i>		\$1,120
3	F	23	C	674	Employee Pensions and Benefits	\$3,192	
	F	16	C	630	Employee Labor <i>To reclassify 125 Health Insurance to Employee Pensions and Benefits.</i>		\$3,192
4	F	19	C	660	Transportation Expense	\$1,860	
	F	17	C	640	Materials <i>To reclassify equipment rental expenses to Transportation Expense Account.</i>		\$1,860
5	F	23	C	674	Employee Pensions and Benefits	\$8,091	
	F	22	C	671	Management Salaries <i>To reclassify 125 Health Insurance to Employee Pensions and Benefits.</i>		\$8,091
6	F	25	C	678	Office Services and Rentals	\$1,953	
	F	26	C	681	Office Supplies and Expense <i>To reclassify the partial amount of Office Supplies and Expense to Office Services and Rentals Account.</i>		\$1,953
7	F	23	C	674	Employee Pensions and Benefits	\$9,810	
	F	28	C	684	Insurance <i>To reclassify Health Insurance to Employee Pensions and Benefits Account.</i>		\$9,810