



# Financial Audit of Canada Woods Water Company-Water

## Financial Statements For Year Ended December 31, 2018

Utility Audit, Finance and Compliance Branch  
October 31, 2019



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**Thanks to:**  
**Angie Williams, Raymond Yin, Sharmin Wellington, and Aaron Louie**

**Audit of Financial Statements of  
Canada Woods Water Company  
For the Year Ended December 31, 2018**

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
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## **Report of Independent Auditors**

Howard M. Bernstein, Manager  
Canada Woods Water Company – Water  
1925 Century Park East, Suite 800,  
Los Angeles, CA 90067

### **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 Canada Woods Water Company (CWWC), which are comprised of the balance sheet as of December 31, 2018, and the related statements of income, proprietary capital, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management’s Responsibility for the Financial Statements**

CWWC’s management is responsible for the preparation and fair presentation of the financial statements presented in the 2018 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 misstatements, whether due to fraud or error.

### **Auditor’s Responsibility**

The responsibility of the UAFCB is to express an opinion on CWWC’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 supporting documentation and historical information on the reported Proprietary Capital as described in Note 1(e) to the Audited Financial Statements, UAFCB could not attest to these balances as of December 31, 2018. Therefore, UAFCB does not express an opinion on the balances of Proprietary Capital as of December 31, 2018.

### **Qualified Opinion**

In our opinion, except for the balances of Proprietary Capital as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Canada Woods Water Company as of December 31, 2018, and the results of its operations and its cash flows for the year 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 of CWWC were originally prepared on the basis of the accounting requirements of the California Public Utilities Commission as set forth in the USOA 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 Canada Woods Water Company. It should not be used by anyone other than the specified parties.

*Raymond Yin*

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

## Balance Sheets

	<b>As of December 31, for the Year</b>	
	<b>2018</b>	<b>2017 <sup>1</sup></b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water Plant in Service (Note 1)	\$7,424,071	\$6,972,244
Construction Work in Progress (Note 1)	0	423,652
Accumulated Depreciation of Water Plant (Note 1)	(2,466,559)	(2,275,624)
<b>Net Utility Plant</b>	<b>\$4,957,512</b>	<b>\$5,120,272</b>
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash	112,235	76,048
Accounts Receivable – Customers	144,287	117,472
Receivables from Affiliated Companies	3,558	0
Other Current Assets	6,946	6,921
Deferred Charges	12,028	52,033
<b>Total Current and Accrued Assets</b>	<b>279,054</b>	<b>252,474</b>
<b>Total Assets</b>	<b>\$5,236,566</b>	<b>\$5,372,746</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CORPORATE CAPITAL AND SURPLUS</b>		
Proprietary Capital (Note 1)	\$946,098	\$900,756
<b>Total Capitalization</b>	<b>946,098</b>	<b>900,756</b>
<b>CURRENT AND ACCRUED LIABILITIES</b>		
Payables to Affiliated Companies	1,040	0
Accounts Payable	39,408	74,370
Other Current Liabilities	0	4,051
<b>Net Current and Accrued Liabilities</b>	<b>40,448</b>	<b>78,421</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		
Advances for Construction	0	350,385
Contributions in Aid of Construction (Note 1)	6,322,283	5,971,898
Accumulated Amortization of Contributions (Note 1)	(2,072,263)	(1,928,714)
Net Contributions in Aid of Construction	<b>4,250,020</b>	<b>4,393,569</b>
<b>Total Capitalization and Liabilities</b>	<b>\$5,236,566</b>	<b>\$5,372,746</b>

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

<sup>1</sup> The amounts for the year ended December 31, 2017, were reported by CWWC. These amounts have not been audited by UAFCB.

## Income Statements

	For the Year of	
	2018	2017 <sup>2</sup>
<b>OPERATING REVENUES</b>		
Irrigation Revenue	\$245,320	\$261,839
Metered Revenue	998,540	791,077
Other Water Revenue	17,416	0
<b>Total Operating Revenues</b> (Note 1)	1,261,276	1,052,916
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Power	148,639	158,861
Other Volume Related Expense	286,119	284,634
Employee Labor	0	312,517
Materials	42,489	99,323
Contract Work (Note 1)	647,172	102,060
Other Plant Maintenance Expenses	34,108	30,580
<b>Total Plant Operation and Maintenance Expense</b>	1,158,527	987,975
<b>Administrative and General Expenses</b>		
Office Salaries	0	80,737
Management Salaries	0	181,886
Office Services and Rentals	5,387	3,054
Office Supplies and Expenses	30,083	15,578
Professional Services	103,422	91,765
Insurance	38,567	36,855
Regulatory Commission Expense	23,430	0
General Expenses	10,071	21,639
<b>Total Administrative and General Expenses</b>	210,960	431,514
<b>Total Operating Expenses</b>	1,369,487	1,419,489
Depreciation Expense (Note 1)	47,386	35,018
Taxes Other Than Income Taxes	16,056	14,852
State Corporate Income Tax Expense	6,800	6,800
<b>Total Operating Revenue Deductions</b>	1,439,729	1,476,159
<b>Total Utility Operating Income (Loss)</b>	(178,453)	(423,243)
<b>Net Income</b>	(\$178,453)	(\$423,243)

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

<sup>2</sup> The amounts for the year ended December 31, 2017, were reported by CWWC. These amounts have not been audited by UAFCB.

## Statements of Proprietary Capital

	<b>For the Year of</b>	
	<b>2018</b> <sup>3</sup>	<b>2017</b> <sup>4</sup>
<b>Proprietary Capital, Beginning of Year</b>	\$900,756	\$828,012
<b>CREDITS:</b>		
Additional Investments during the year – As reported	243,488	495,987
UAFCB Adjustment to Deferred Charges	21,600	0
2018 Annual Report reflected a reporting error <sup>5</sup>	7,071	0
<b>Total Credits</b>	272,159	495,987
<b>DEBITS:</b>		
Net Loss	(178,453)	(423,243)
UAFCB Adjustment to Cash	(21,378)	0
UAFCB Adjustment to Deferred Charges	(14,400)	0
UAFCB Adjustment to Regulatory Commission Expense	(12,586)	0
<b>Total Debits</b>	(226,817)	(423,243)
<b>Retained Earnings, End of Year</b>	\$946,098	\$900,756

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

<sup>3</sup> The Proprietary Capital balances were not audited but were the results of UAFCB compiled audit adjustments and Net Income (Loss) for 2018. UAFCB could not attest to the accuracy of the Proprietary Capital balances due to the lack of historical information on the account.

<sup>4</sup> The amounts for the year ended December 31, 2017, were reported by CWWC. These amounts have not been audited by UAFCB.

<sup>5</sup> CWWC reported on its 2017 Annual Report an ending balance of \$900,756 for Proprietary Capital; however, Schedule A-9 of the 2018 Annual Report reported a beginning balance of Proprietary Capital of \$907,827. This resulted in a variance of \$7,071 (\$907,827 - \$900,756).



## Statements of Cash Flows

	<b>For the Year of</b>	
	<b>2018</b>	<b>2017 <sup>6</sup></b>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	(\$178,453)	(\$423,243)
<b>Adjustments to Reconcile Net Income to Cash</b>		
<b>Provided by Operating Activities</b>		
Depreciation and Amortization	190,935	178,567
Decrease (Increase) in Accounts Receivable - Customers	(26,815)	(47,457)
Decrease (Increase) in Receivables from Affiliated Companies	(3,558)	0
Decrease (Increase) in Other Current Assets	(25)	4
Decrease (Increase) in Deferred Charges	40,005	(52,033)
Increase (Decrease) in Accounts Payables	1,040	0
Increase (Decrease) in Accrued Taxes	(34,962)	(1,562)
Increase (Decrease) in Accrued Interest	(4,051)	(10,542)
<b>Net Cash Provided by Operating Activities</b>	<b>(15,884)</b>	<b>(356,266)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Plant Deletions (Additions) – Water Plant in Service	(451,827)	(29,730)
Increase (Decrease) in Construction Work in Progress	423,652	0
Net Plant Deletions (Additions) – Advances for Construction	(350,385)	0
Increase (Decrease) in Contributions in Aid of Construction	350,385	0
Decrease (Increase) in Accumulated Amortization of Contributions	(143,549)	(143,549)
UAFCB Cumulative Adjustments to Proprietary Capital <sup>7</sup>	(26,764)	0
As Reported Increase (Decrease) Proprietary Capital <sup>8</sup>	243,488	495,987
2018 Annual Report reflected a reporting error <sup>9</sup>	7,071	0
<b>Net Cash Used for Investing Activities</b>	<b>52,071</b>	<b>322,708</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net Cash used for Financing Activities	0	0
<b>Net Cash Used for Financing Activities</b>	<b>0</b>	<b>0</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>36,187</b>	<b>(33,558)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>76,048</b>	<b>109,606</b>
<b>CASH AT END OF YEAR</b>	<b>\$112,235</b>	<b>\$76,048</b>

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

<sup>6</sup> The amounts for the year ended December 31, 2017, were reported by CWWC. These amounts have not been audited by UAFCB.

<sup>7</sup> For the Year 2018, the total UAFCB credit adjustment of \$26,764 to Proprietary Capital represented the cumulative effect of UAFCB's adjustments to the Proprietary Capital for the Year 2018.

<sup>8</sup> For the purpose of the Statement of Cash Flows, UAFCB included CWWC's reported Additional Investment during the Year of \$243,488 and \$495,987 in Schedule A-9 of the Annual Reports for the Years 2018 and 2017, respectively.

<sup>9</sup> CWWC reported on its 2017 Annual Report an ending balance of \$900,756 for Proprietary Capital; however, Schedule A-9 of the 2018 Annual Report reported a beginning balance of Proprietary Capital of \$907,827. This resulted in a variance of \$7,071 (\$907,827 - \$900,756).

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Canada Woods Water Company (CWWC) is engaged in the sale and distribution of irrigation, domestic, commercial, and industrial water to 167 metered customers in its service territory around the Carmel area. CWWC was incorporated in the state of Delaware as a single member Limited Liability Company. CWWC contracts with Carmel Lahaina Utility Services, Inc. (CLUS) to manage the utility. As a Class D water utility, CWWC must comply and adhere to the Commission's USOA for Class B, C, and D water utilities.

The financial statements of CWWC were prepared 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, would have been recorded directly in the statements of retained earnings or proprietary capital. Accounting principles generally accepted in the United States of America would require such transactions to be recorded in the statement of income.

The Statements of Cash Flows are not required by the Commission when CWWC files its Annual Reports with the Commission. Therefore, the accompanying Statements of Cash Flows were compiled by UAF CB based on the audited financial information of CWWC Balance Sheets and Income Statements.

CWWC provides water, reclaimed water, and sewer services to its customers. Activities related to those services were separately identifiable in CWWC's general ledger. However, for purposes of reporting to the CPUC, the water and reclaimed water were grouped together and reported in the water annual reports, while the sewer operations were reported in the sewer annual reports. CWWC directly allocated water and sewer revenue to the water and sewer operations based on their respective actual billings. CWWC billed the water and reclaimed water services based on the usage at tariff rates approved by the CPUC, while CWWC billed the sewer services at the CPUC-approved flat rates based on the size of each home's sewage tank. CWWC's methodology for allocating expenses between water and sewer operations are directly associated with each utility's transaction meaning if the expense is clear and identifiable it is allocated to the appropriate function water or sewer. However, if the expense or overhead is not identifiable to a specific utility, the methodology for allocating the expense is approximately 70% to water operations (60% to water and 10% to reclaimed water) and 30% to sewer operations. CWWC acknowledges allocating most of the expenses to the water function as it is the biggest of the three functions of the utility and requires the most work.

### (a) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A presents the net financial impact resulting from UAF CB's audit adjustments for the year ended 2018. Appendix B presents UAF CB detail audit adjustments for the year ended 2018.

**(b) Water Plant in Service**

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

**(c) Construction Work in Progress**

Utility construction in progress should include the cost of water plant in the process of construction, but not yet place in service. Once the utility has completed its construction of the utility plant and it is in service, the construction work in progress should be removed and charged against water plant in service. CWWC recorded utility plant that was placed in service in Construction Work in Progress; thus, auditor proposed an audit adjustment to reclassify \$423,652 to Water Plant in Service.

**(d) Depreciation and Accumulated Depreciation of Water Plant**

Depreciation was computed on a composite depreciation rate of 2.58% in order to depreciate all plant assets for ratemaking purposes and reporting the depreciation expense in CWWC's Annual Reports filed with the Commission. The Commission's Standard Practice (SP) U-04-SM, Paragraph 22, specifies that the annual composite depreciation rate should normally fall within the range of 2.0% to 3.5%.

**(e) Proprietary Capital**

UAFCB could not attest to the accuracy of the Proprietary Capital balance due to the lack of historical information. Expressing an opinion on the Proprietary Capital balance as of December 31, 2018, would require auditing the Proprietary Capital from the inception of the company. Due to the limitations of our audit scope, we cannot and do not express an opinion on the Proprietary Capital balance as of December 31, 2018.

Total investment of \$400,000 was transferred from the owner to CWWC and then allocated to the water and sewer utilities for the year ended 2018. The Water utility was allotted \$243,488 and the Sewer utility was allotted \$156,512 of the total \$400,000. CWWC does not have an official allocation methodology for the additional investments that it receives; funds are allocated based on the needs of the utilities at that time. CWWC's Annual Report reflected an operating loss of \$174,095 from its water operations for the year ended December 31, 2018.

**(f) Contributions in Aid of Construction (CIAC) and Accumulated Depreciation of CIAC**

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. CWWC reported contributed funds of \$350,385 as advances for construction since there is no obligation to repay these funds, it is considered a contribution. Thus, auditor proposed a reclassification of \$350,385 to CIAC for the donated funds.

**(g) Revenue**

CWWC primarily obtained its water revenue from irrigation revenue and metered services based on tariffs approved by the Commission. CWWC billed its customers on a monthly basis.

**(h) Contract Work**

Contract Work represents all repair and maintenance work that is not performed by the Water Company's employees. CWWC contracts all work relating to the continual operation of the utility to CLUS, which hires its own staff to run the operation. CWWC reported \$332,804 under Employee Labor, \$89,507 under Office Salaries, and \$158,476 under Management Salaries as expenses; however, all individuals are considered employees of CLUS. Since those costs were contract expenses not incurred directly by the CWWC's employees, UAFCB reclassified them to Contract Work expenses.

**(2) Annual Reports**

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

## Appendix A

### Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustments for Year 2018

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2018.

Audit Adj. No.	Annual Report				Description	For the Year 2018	
	Sch.	Line	Col.	Acct No.		Debit	Credit
<b><u>Net Financial Impact on Balance Sheets Items:</u></b>							
1	A	2	c	101	Water Plant in Service	\$423,652	
1	A	8	c	105	Construction Work in Progress		\$423,652
15	A	14	c	108	Accumulated Depreciation of Water Plant		10,930
2	A	30	c	131	Cash		21,378
5	A	33	c	142	Receivables from Affiliated Companies	3,558	
3,4,5,12	A	39	c	180	Deferred Charges		2,372
2,3,4,11	A	10	c	218	Proprietary Capital	26,764	
10	A	16	c	230	Payables to Affiliated Companies		1,040
10	A	17	c	231	Accounts Payables		4,721
10	A	22	c	241	Other Current Liabilities	5,761	
6	A	26	c	252	Advances for Construction	350,385	
6	A	34	c	265	Contribution in Aid of Construction		350,385
<b><u>Net Financial Impact on Income Statements Items:</u></b>							
15	B	6	c	403	Depreciation Expense	\$10,930	
13	B-1	26	b	480	Other Water Revenue		\$17,416
7	B-2	9	b	630	Employee Labor		332,804
7,8,9	B-2	11	b	660	Contract Work	580,787	
8	B-2	18	b	670	Office Salaries		89,507
9	B-2	19	b	671	Management Salaries		158,476
14	B-2	23	b	681	Office Supplies and Expenses	19,066	
11,12,13	B-2	26	b	688	Regulatory Compliance Expense	10,844	
14	B-2	27	b	689	General Expenses		19,066

## Appendix B

### Summary of Audit Adjustments for Year 2018

Audit Adj. No.	Annual Report				Description	For the Year 2018	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
1	A	2	c	101	Water Plant in Service	\$423,652	
	A	8	c	105	Construction Work in Progress <i>To reclassify Construction Work in Progress for completed Water Plant.</i>		\$423,652
2	A	10	c	218	Proprietary Capital	\$21,378	
	A	30	c	131	Cash <i>To allocate a proportional Cash derived from both water and sewer operations that were entirely reported under the water operations to the sewer operations.</i>		\$21,378
3	A	10	c	218	Proprietary Capital	\$14,400	
	A	39	c	180	Deferred Charges <i>To remove the incorrectly reported ending balance of Deferred Charges in CWWC's Water Annual Report.</i>		\$14,400
4	A	39	c	180	Deferred Charges	\$21,600	
	A	10	c	218	Proprietary Capital <i>To record CPUC approved Deferred Charges for both water and sewer operations at the beginning of the year.</i>		\$21,600
5	A	33	c	142	Receivables from Affiliated Companies	\$3,558	
	A	39	c	181	Deferred Charges <i>To reclassify the portion of Deferred Charges belonging to CWWC's Sewer operations that was recorded in the water operations of CWWC.</i>		\$3,558
6	A	26	c	252	Advances for Construction	\$350,385	
	A	34	c	265	Contributions in Aid of Construction <i>To reclassify Advances for Construction for donated funds as contributions.</i>		\$350,385

## Appendix B (continued)

### Summary of Audit Adjustments for Year 2018

Audit Adj. No.	Annual Report				Description	For the Year 2018	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
7	B-2	11	b	650	Contract Work	\$332,804	
	B-2	9	b	630	Employee Labor <i>To reclassify Employee Labor provided by contracted services.</i>		\$332,804
8	B-2	11	b	650	Contract Work	\$89,507	
	B-2	18	b	670	Office Salaries <i>To reclassify Office Salaries provided by contracted services.</i>		\$89,507
9	B-2	11	b	650	Contract Work	\$158,476	
	B-2	19	b	671	Management Salaries <i>To reclassify Management Salaries provided by contracted services.</i>		\$158,476
10	A	22	c	241	Other Current Liabilities	\$5,761	
	A	17	c	231	Accounts Payables		\$4,721
	A	16	c	230	Payables to Affiliated Companies <i>To reclassify the outstanding PUC User Fee balance under the correct account.</i>		1,040
11	A	10	c	218	Proprietary Capital	\$12,586	
	B-2	26	b	688	Regulatory Commission Expense <i>To remove the incorrectly reported Regulatory Commission Expense in CWWC's Annual Report.</i>		\$12,586
12	B-2	26	b	688	Regulatory Compliance Expense	\$6,014	
	A	39	c	180	Deferred Charges <i>To amortize CPUC-approved Deferred Charges pertaining to CWWC's General Rate Case costs for 2018.</i>		\$6,014
13	B-2	26	b	688	Regulatory Compliance Expense	\$17,416	
	B-1	26	b	480	Other Water Revenue <i>To include unrecorded CPUC User Fees collected from water customers to comply with CPUC accounting guidelines.</i>		\$17,416

## Appendix B (continued)

### Summary of Audit Adjustments for Year 2018

Audit Adj. No.	Annual Report				Description	For the Year 2018	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
14	B-2	23	b	681	Office Supplies and Expenses	\$19,066	
	B-2	27	b	689	General Expenses		\$19,066
					<i>To reclassify General Expenses to agree with the audited amount.</i>		
15	B	6	c	403	Depreciation Expense	\$10,930	
	A	14	c	108	Accumulated Depreciation of Water Plant		\$10,930
					<i>To record the Depreciation expense for the reclassified WPIS.</i>		