



**California Public Utilities Commission**  
*Division of Water and Audits*

**Financial Audit of  
Traver Water, LLC  
Financial Statements**

**For the Years Ended December 31, 2008, 2009 and 2010**

**November 22, 2013**



## **Acknowledgement**

**The following Commission Staff contributed to the completion of this audit report:  
Kayode Kajopaiye, Bernard Ayanruoh, Raymond Yin, and Joyce de Rossett**

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



## **Independent Auditor's Report**

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) has audited the accompanying balance sheets of Traver Water, LLC (TWC) as of December 31, 2008, 2009, and 2010, and the related income statements for the years then ended. TWC's management is responsible for:

1. Completeness and accuracy of the financial statements presented in the 2008, 2009 and 2010 annual reports filed with the Commission.
2. Conformity with accounting requirements of the Commission as set forth in the Uniform System of Accounts for Class B, C and D water utilities, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The responsibility of the UAFCB is to express an opinion on TWC's financial statements as a whole based on its 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 of material misstatement. Accordingly, the audit included examining, on a test basis, evidence concerning TWC's compliance with the Commission's accounting and reporting requirements and performing such procedures as we considered necessary in the circumstances. The UAFCB believes that its audit provides a reasonable basis for an opinion.

In our opinion, except for the inconsistency in using account designations in its accounting records as described in the paragraph below, the financial statements referred to above present fairly, in all material respects, the financial position of TWC as of December 31, 2008, 2009 and 2010, and the results of its operations and its cash flows for the years then ended, in compliance with the aforementioned accounting requirements.

TWC did not consistently apply the USOA accounting designations for certain accounts in its General Ledger, Working Trial Balance, and Annual Reports. Additionally, TWC incorrectly used Account 211, Other Paid in Capital, and Account 214, Retained Earnings to report its capitals. To comply with the USOA requirements, UAFCB has reclassified them into the Proprietary Capital account in the audited financial statements.

The report is intended solely for the information and use by the Commission and TWC. It should not be used by anyone other than the specified parties.

Bernard Ayanruoh, CPA  
Program and Project Supervisor  
Utility Audit, Finance and Compliance Branch

**Audit of Financial Statements of  
Traver Water, LLC  
For the Years Ended December 31, 2008, 2009 and 2010**

**Balance Sheets**

	<b>As of December 31 for the Year</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>			
<b>UTILITY PLANT</b>			
Water Plant in Service (Note 1)	\$239,275	\$229,555	\$229,555
Accumulated Depreciation of Water Plant (Note 1)	<u>(35,031)</u>	<u>(31,422)</u>	<u>(23,221)</u>
<b>Net Utility Plant</b>	204,244	198,133	206,334
<b>CURRENT AND ACCRUED ASSETS</b>			
Cash	1,523	(1,863)	1,083
Accounts Receivable – Customers	1,809	2,353	3,542
Materials and Supplies	<u>225</u>	<u>225</u>	<u>225</u>
Total Current and Accrued Assets	<u>3,557</u>	<u>715</u>	<u>4,850</u>
<b>Total Assets</b>	<u>\$207,801</u>	<u>\$198,848</u>	<u>\$211,184</u>
<b>CAPITALIZATION, LIABILITIES AND OTHER CREDITS</b>			
<b>PROPRIETY CAPITAL</b>			
Proprietary Capital (Note 2)	<u>\$130,280</u>	<u>\$124,705</u>	<u>\$104,648</u>
<b>Total Proprietary Capital</b>	\$130,280	\$124,705	104,648
<b>CURRENT AND ACCRUED LIABILITIES</b>			
Other Current Liabilities	33,221	28,569	58,647
Accumulated Deferred Income Taxes – ACRS Depreciation	0	(258)	0
Customer Deposits	<u>250</u>	<u>150</u>	<u>200</u>
<b>Total Current and Accrued Liabilities</b>	33,471	28,461	58,847
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>			
Contributions In Aid of Construction (Note 3)	48,944	48,944	48,944
Accumulated Amortization of Contributions (Note 3)	<u>(4,894)</u>	<u>(3,262)</u>	<u>(1,255)</u>
<b>Net Contributions In Aid of Construction</b>	<u>44,050</u>	<u>45,682</u>	<u>47,689</u>
<b>Total Capitalization, Liabilities and Other Credits</b>	<u>\$207,801</u>	<u>\$198,848</u>	<u>\$211,184</u>

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

## Income Statements

	For the Year of		
	2010	2009	2008
<b>OPERATING REVENUES</b>			
Unmetered Water Revenue (Note 1)	\$94,760	\$90,223	\$68,922
Fire Protection Revenue	857	639	0
Approved Total Surcharge Revenue	1,353	1,353	1,034
Other Water Revenue	<u>2,515</u>	<u>2,504</u>	<u>4,139</u>
<b>Total Operating Revenues</b>	99,485	94,719	74,095
<b>OPERATING EXPENSES</b>			
<b>Plant Operation and Maintenance Expenses</b>			
Power	13,659	14,332	13,978
Contract Work (Note 4)	<u>58,856</u>	<u>46,742</u>	<u>47,975</u>
<b>Total Plant Operation and Maintenance Expense</b>	72,515	61,074	61,953
<b>Administrative and General Expenses</b>			
Office Services and Rentals	76	96	0
Office Supplies and Expenses	0	(37)	1,556
Professional Services	2,793	3,460	6,758
Insurance	2,115	1,811	1,811
Regulatory Commission Expense	1,353	1,353	1,034
General Expenses	<u>289</u>	<u>690</u>	<u>1,205</u>
<b>Total Administrative and General Expenses</b>	<u>6,626</u>	<u>7,373</u>	<u>12,364</u>
<b>Total Operating Expenses</b>	79,141	68,447	74,317
Depreciation Expense	5,356	4,822	4,591
Taxes Other Than Income Taxes	3,097	2,593	622
State Corporate Income Tax Expense	800	800	800
Federal Corporate Income Tax Expense	<u>2,023</u>	<u>800</u>	<u>0</u>
<b>Total Operating Revenue Deductions</b>	90,417	77,462	80,330
<b>Total Utility Operating Income</b>	9,068	17,257	(6,235)
Non-utility Income	<u>60</u>	<u>0</u>	<u>0</u>
<b>Total Other Income and Deductions</b>	60	0	0
<b>Net Income/(Loss)</b>	<u><u>\$9,128</u></u>	<u><u>\$17,257</u></u>	<u><u>(\$6,235)</u></u>

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

## Statements of Proprietary Capital

	For the Year of		
	2010	2009	2008
<b>Proprietary Capital, Beginning of Year</b>	\$124,705	\$104,648	\$99,887
<b>CREDITS:</b>			
Net Income	9,128	17,257	0
UAFCB Adjustment to Other Paid-In Capital	169,345	156,565	154,164
UAFCB Adjustment to Professional Services	0	0	2,896
UAFCB Adjustment to Accumulated Amortization of Contributions	501	607	0
UAFCB Adjustment to Accumulated Deferred Income Taxes – ACRS Depreciation	1,180	0	0
UAFCB Adjustment to Taxes Other Than Income Taxes	838	0	0
<b>Total Credits</b>	<u>180,992</u>	<u>174,429</u>	<u>157,060</u>
<b>DEBITS:</b>			
Net Loss	0	0	(6,235)
UAFCB adjustment to Retained Earnings	(31,133)	(40,246)	(42,071)
UAFCB Adjustment to Contributions in Aid of Construction	(674)	(674)	(674)
UAFCB Adjustment to Regulatory Commission Expense	0	0	(3,660)
UAFCB Adjustment to Taxes Other Than Income Taxes	0	(4,629)	(2,946)
UAFCB Adjustment to Accumulated Depreciation	(908)	0	0
UAFCB Adjustment to Cash	(3,320)	0	0
UAFCB Adjustment to Other Current Liabilities	(1,354)	0	0
UAFCB Adjustment to Unmetered Water Revenue	(1,354)	0	0
UAFCB Adjustment to State Income Tax Expense	(508)	0	0
UAFCB Cumulative Adjustment to Beginning Balance (Footnote 1)	<u>(136,166)</u>	<u>(108,823)</u>	<u>(96,713)</u>
<b>Total Debits</b>	<u>(175,417)</u>	<u>(154,372)</u>	<u>(152,299)</u>
<b>Proprietary Capital, End of Year</b>	<u>\$132,280</u>	<u>\$124,705</u>	<u>\$104,648</u>

**Statement of Proprietary Capital Footnote 1:**

These amounts represent the cumulative adjustments to the reported beginning balances of Proprietary Capital as of January 1, 2008, 2009 and 2010. Detailed computation is shown below:

	2010	2009	2008
Other Paid-In Capital as of January 1 of audit periods – As Reported	\$156,565	\$154,164	\$138,784
Retained Earnings as of January 1 of audit periods – As Reported	<u>(40,246)</u>	<u>(42,071)</u>	<u>(38,897)</u>
Proprietary Capital as of January 1 of audit periods – As Reported	116,319	112,093	99,887
Net Income/(Loss) of audit period – As Reported	<u>11,461</u>	<u>4,175</u>	<u>(3,174)</u>
Reported Proprietary Capital, Beginning of Years	<u>127,780</u>	<u>116,268</u>	<u>96,713</u>
Proprietary Capital as of January 1 of audit period – As Audited	124,705	104,648	99,887
Proprietary Capital as of January 1 of audit period – As Reported	<u>116,319</u>	<u>112,093</u>	<u>99,887</u>
Variance – UAFCB Cumulative Adjustments	<u>8,386</u>	<u>(7,445)</u>	<u>0</u>
UAFCB Cumulative Adjustment to Beginning Balance	<u>\$136,166</u>	<u>\$108,823</u>	<u>\$96,713</u>

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

## Statements of Cash Flows

	For the Year of		
	2010	2009	2008
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Net Income (Loss)	\$9,128	\$17,257	(\$6,235)
<b>Adjustments to Reconcile Net Income to Cash Provided by Operating Activities</b>			
Depreciation	5,356	4,822	4,591
Decrease/(Increase) in Accounts Receivable	544	1,189	(1,838)
Increase/(Decrease) in Other Current Liabilities	4,652	(30,078)	16,513
Increase/(Decrease) in Other Deferred Credits	0	0	(9,254)
Increase/(Decrease) in Accumulated Deferred Income Taxes – ACRS Depreciation	258	(258)	0
Increase/(Decrease) in Customer Deposits	<u>100</u>	<u>(50)</u>	<u>200</u>
<b>Net Cash Provided by Operating Activities</b>	<b>20,038</b>	<b>(7,118)</b>	<b>3,977</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net Plant Additions	(9,720)	0	(15,175)
Increase/(Decrease) in Accumulated Depreciation of Water Plant (Footnote 1)	(1,747)	3,379	0
Increase/(Decrease) in Contributions in Aid of Construction	0	0	674
Decrease/(Increase) in Accumulated Amortization of Constructions	<u>(1,632)</u>	<u>(2,007)</u>	<u>(627)</u>
<b>Net Cash Used for Investing Activities</b>	<b>(13,099)</b>	<b>1,372</b>	<b>(15,128)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase/(Decrease) in Other Paid In Capital (Footnote 2)	0	0	(138,784)
Increase/(Decrease) in Retained Earnings (Footnote 3)	0	0	38,897
UAFCB Adjustments to Proprietary Capital (Footnote 4)	<u>(3,553)</u>	<u>2,800</u>	<u>110,881</u>
<b>Net Cash Used for Financing Activities</b>	<b>(3,553)</b>	<b>2,800</b>	<b>10,994</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,386</b>	<b>(2,946)</b>	<b>(157)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<u>(1,863)</u>	<u>1,083</u>	<u>1,240</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$1,523</u></u>	<u><u>(\$1,863)</u></u>	<u><u>\$1,083</u></u>

**Statement of Cash Flow Footnotes:**

- (1) The cash flow changes of Accumulated Depreciation of Water Plant account in 2008, 2009 and 2010 excluded the depreciation expense.
- (2) UAFCB reclassified Other Paid-In Capital account balances to Proprietary Capital account for 2008, 2009 and 2010 because Traver Water, LLC is a partnership rather than a corporation.
- (3) UAFCB adjusted Retained Earnings account balances to Proprietary Capital account for 2008, 2009 and 2010 because Traver Water, LLC is a partnership rather than a corporation.
- (4) The cash flow changes of Proprietary Capital account in 2008, 2009 and 2010 excluded the net income or net loss.

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



## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Traver Water, LLC (TWC) is a partnership that files with the State of California as a Limited Liability Company (LLC). TWC is equally owned by Tito and Linda Balling. In its Decision 00-07-014, dated July 6, 2000, the California Public Utilities Commission (CPUC or Commission) granted the Ballings a Certificate of Convenience and Necessity to acquire and operate the TWC water system. As of December 31, 2010, TWC has 178 service connections in Tulare County, California.

TWC prepared the accompanying financial statements on the basis of accounting set forth in the Uniform System of Accounts for Classes B, C and D 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 operating expenses, revenues, depreciation, and amortization related to prior years are recorded directly in the Statements of Proprietary Capital. Accounting principles generally accepted in the United States of America would require such transactions to be recorded in the income statements. The Statements of Proprietary Capital and Statements of Cash Flows were not required by the Commission when TWC filed its annual reports with the Commission. Therefore, the accompanying Statements of Proprietary Capital and Statements of Cash Flows were compiled by the UAFCB based on the financial information in TWC's Balance Sheets and Income Statements.

#### (a) Water Plant

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

#### (b) Depreciation

TWC depreciated its plant assets individually using the straight-line depreciation method based on the estimated useful lives of the plant assets.

#### (c) Revenues

TWC bills its 178 unmetered customers monthly based on tariffs approved by the Commission.

#### (d) Affiliate Transactions

California Water Services, Inc. is an affiliate of TWC and it provided administrative, maintenance, and other operational services to TWC in exchange for monthly service fees.

**(2) Proprietary Capital**

TWC is a partnership. TWC incorrectly used Account 211, Other Paid in Capital, and Account 214, Retained Earnings to report its capitals. To comply with the USOA requirements, UAFCB has reclassified them into the Proprietary Capital account in the audited financial statements.

**(3) Contributions In Aid of Construction (CIAC) and Accumulated Amortization of Contributions**

In 2006, the Traver fire department requested TWC to increase fire suppression at Traver Elementary School. Therefore, TWC and Traver Elementary School initiated a joint project to construct a new well. Traver Elementary School contributed 50% of the cost of the new well, which was completed in 2007 for a total project cost of \$97,887. The CIAC is amortized over 30 years using straight-line amortization method.

**(4) Contract Work**

Since 2001, TWC has contracted with California Water Services, Inc., an affiliated company, to provide all operations, testing, and repair and maintenance services to TWC.

**(5) Insufficient Cash Inflow from Business Operations**

TWC did not have sufficient cash inflow to cover its business operations in 2008 and 2009. Net cash inflow in 2010 was minimal. TWC had net loss of \$6,235 in 2008 and net income of \$17,257 and \$9,128 in 2009 and 2010, respectively. Thus, it is a going concern on TWC's ability to maintain positive cash inflow in the future.

**(6) Annual Reports**

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