



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

**Financial Audit of**  
**Cobb Mountain Water Company**  
**Financial Statements**  
**For the Years Ended December 31, 2013 and 2014**

**May 19, 2016**



## **Acknowledgement**

**The following Commission Staff contributed to the completion of this audit report:  
Kayode Kajopaiye, Raymond Yin, Khai (Vic) Duong, and Beverly Sligh**

**Audit of Financial Statements of  
Cobb Mountain Water Company  
For the Years Ended December 31, 2013 and 2014**

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**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



## **Report of Independent Auditors**

Vincent Bruce Anderson, Owner  
Cobb Mountain Water Company  
PO Box 2  
Cobb, CA 93962

### **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 Cobb Mountain Water Company (CMWC), which are comprised of the balance sheets as of December 31, 2013 and 2014, and the related statements of income, proprietary capital and cash flows for the years then ended, and the related notes to the financial statements.

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

CMWC's management is responsible for the preparation and fair presentation of the financial statements presented in the 2013 and 2014 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 to 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 CMWC's financial statements based on our audits. 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.

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 judgement, 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, the financial statements referred to above present fairly, in all material respects, the financial position of Cobb Mountain Water Company as of December 31, 2013 and 2014, 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.

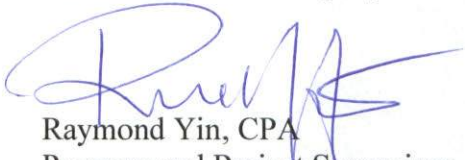
**Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The Balance Sheets and Income Statements are prepared by CMWC on the basis of the accounting requirements of the 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.

The Statements of Proprietary Capital and Statements of Cash Flows are not required by the Commission when CMWC files its Annual Reports with the Commission. Therefore, the accompanying Statements of Proprietary Capital and Statements of Cash Flows were compiled by UAFCB based on the audited financial information of CMWC's Balance Sheets and Income Statements.

**Use of Report**

The report is intended solely for the information and use by the Commission and Cobb Mountain 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  
Cobb Mountain Water Company  
For the Years Ended December 31, 2013 and 2014**

**Balance Sheets**

	<b>As of December 31 for the Year</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Water Plant in Service (Note 1)	\$57,708	\$53,571
Accumulated Depreciation of Water Plant (Note 1)	<u>(28,541)</u>	<u>(27,489)</u>
<b>Net Utility Plant</b>	29,167	26,082
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash	16,780	14,418
Special Deposits	2,158	2,158
Accounts Receivable – Customers	734	578
Materials and Supplies	<u>1,841</u>	<u>1,874</u>
<b>Total Current Assets</b>	<u>21,513</u>	<u>19,028</u>
<b>Total Assets</b>	<u>\$50,680</u>	<u>\$45,110</u>
<b>OWNER EQUITY AND LIABILITIES</b>		
<b>CURRENT AND ACCRUED LIABILITIES</b>		
Other Current Liabilities	365	0
Other Credits	756	1,347
Contributions in Aid of Construction (Note 1)	<u>2,158</u>	<u>2,158</u>
<b>Total Current and Accrued Liabilities</b>	3,279	3,505
<b>PROPRIETARY CAPITAL</b>		
Proprietary Capital (Note 1)	<u>47,401</u>	<u>41,605</u>
<b>Total Proprietary Capital</b>	47,401	41,605
<b>Total Liabilities and Other Credits</b>	<u>\$50,680</u>	<u>\$45,110</u>

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

## Income Statements

	For the Year of	
	2014	2013
<b>OPERATING REVENUES</b>		
Metered Water Revenue	\$23,072	\$18,600
Approved total Surcharge Revenue(s)	899	899
Other Water Revenue	<u>185</u>	<u>205</u>
<b>Total Operating Revenues (Note 2)</b>	24,156	19,704
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Power	788	852
Other Volume Related Expenses	186	106
Employee Labor	4,874	1,144
Materials	386	103
Contract Work	1,505	1,095
Transportation Expense	951	722
Management Salaries	7,311	5,991
Uncollectible Account Expense	<u>0</u>	<u>24</u>
<b>Total Plant Operation and Maintenance Expense</b>	16,001	10,037
<b>Administrative and General Expenses</b>		
Office Supplies and Expense	759	920
Professional Services	180	230
Insurance	750	1,500
Regulatory Commission Expense	149	0
General Expense	<u>847</u>	<u>1,187</u>
<b>Total Administrative and General Expenses</b>	<u>2,685</u>	<u>3,837</u>
<b>Total Operating Expenses</b>	<u>18,686</u>	<u>13,874</u>
Depreciation Expense (Note 1)	1,053	990
Taxes Other Than Income Taxes	242	241
State Corporate Income Tax Expense	484	406
Federal Corporate Income Tax Expense	<u>749</u>	<u>629</u>
<b>Total Operating Revenue Deductions</b>	21,214	16,140
<b>Net Income</b>	<u>\$2,942</u>	<u>\$3,564</u>

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

## Statements of Proprietary Capital

	For the Year of	
	2014	2013
<b>Proprietary Capital, Beginning of Year</b>	\$41,605	\$46,942
<b>CREDITS:</b>		
Net Income	2,942	3,564
Capital Improvements	<u>2,854</u>	<u>0</u>
<b>Total Credits</b>	5,796	3,564
<b>DEBITS:</b>		
Owner Withdrawals	<u>0</u>	<u>(8,901)</u>
<b>Total Debits</b>	0	(8,901)
<b>Proprietary Capital, End of Year</b>	<u>\$47,401</u>	<u>\$41,605</u>

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



## Statements of Cash Flows

	For the Year of	
	2014	2013
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income	\$2,942	\$3,564
<b>Adjustments to Reconcile Net Income to Cash Provided by Operating Activities</b>		
Depreciation and Amortization (Note 1)	1,052	851
Decrease in Special Deposits	0	(12)
Decrease in Accounts Receivable (Note 1)	(156)	(61)
Increase in Material and Supplies	33	0
Increase in Current Liabilities	365	0
Increase (Decrease) in Other Credits	<u>(591)</u>	<u>446</u>
<b>Net Cash Provided by Operating Activities</b>	<b>3,645</b>	<b>4,788</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in Net Plant Additions (Note 1)	(4,137)	(46)
Increase in Advances for Construction (Note 1)	0	(2,146)
Decrease in contributions in Aid of Construction (Note 1)	<u>0</u>	<u>2,158</u>
<b>Net Cash Used for Investing Activities</b>	<b>(4,137)</b>	<b>(34)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Proprietary Capital	<u>2,854</u>	<u>(8,901)</u>
<b>Net Cash Used for Financing Activities</b>	<b>2,854</b>	<b>(8,901)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,362</b>	<b>(4,147)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<u>14,418</u>	<u>18,565</u>
<b>CASH AT END OF YEAR</b>	<u><b>\$16,780</b></u>	<u><b>\$14,418</b></u>

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

## **Notes to Financial Statements**

### **(1) Summary of Significant Accounting Policies**

Cobb Mountain Water Company (CMWC) is a private Class D water utility that provides water service to approximately 64 metered service connections in the service area one-mile west of the town of Cobb, in Lake County.

CMWC has prepared the accompanying Balance Sheets and Income Statements on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities adopted and prescribed by the California Public Utilities Commission (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 Statements of Income.

The Statements of Proprietary Capital and Statements of Cash Flows are not required by the Commission when CMWC files its Annual Reports with the Commission. Therefore, the accompanying Statements of Proprietary Capital and Statements of Cash Flows were compiled by UAFCB based on the audited financial information of CMWC's Balance Sheets and Income Statements.

#### **(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 UAFCB's audit adjustments for Years 2014 and 2013, respectively. Appendix C and Appendix D summarize the detail UAFCB audit adjustments for Years 2014 and 2013, respectively.

#### **(b) Water Plant in Service (WPIS)**

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

#### **(c) Depreciation of Water Plant**

Depreciation is computed using a straight-line composite rate of 3% (equivalent to depreciating the plant assets over approximately 33 years) to depreciate all of its plant assets for ratemaking purpose and for reporting the depreciation expense in its Annual Reports filed with the Commission.

#### **(d) Proprietary Capital**

Since CMWC is operated by a sole owner, its Proprietary Capital includes all capital investments and cumulative profits or losses retained in the business.

**(e) Contributions in Aid of Construction (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.

**(2) Revenues**

CMWC's revenues are obtained from metered services to its customers on a bi-monthly basis. The recorded operating revenue is comprised of revenue from water usage billed to all customers based on approved tariffs by the Commission.

**(3) Annual Reports**

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

## Appendix A

### Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustment for Year 2014

The following is a summary of net financial impact resulting from UAFCB's audit adjustment for Year 2014.

Audit Adj. No.	Annual Report				Description	For the Year 2014	
	Sch.	Line.	Col.	Acct No.		Debit	Credit
					<b><u>Net Financial Impact on Balance Sheets Items:</u></b>		
1	A	40	4	252	Advances for Construction	\$2,158	
1	A	45	4	271	Contributions in Aid of Construction		\$2,158

## Appendix B

### Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustment for Year 2013

The following is a summary of net financial impact resulting from UAFCB's audit adjustment for Year 2013.

Audit Adj. No.	Annual Report				Description	For the Year 2013	
	Sch.	Line.	Col.	Acct No.		Debit	Credit
<b><u>Net Financial Impact on Balance Sheets Items:</u></b>							
1	A	40	4	252	Advances for Construction	\$2,158	
1	A	45	4	271	Contributions in Aid of Construction		\$2,158

## Appendix C

### Summary of Audit Adjustment for Year 2014

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	40	4	252	Advances for Construction	\$2,158	
	A	45	4	271	Contributions in Aid of Construction		\$2,158
					<i>To reclassify facility fees from Advances for                      Construction to Contributions in Aid of                      Construction per the Commission's instructions                      specified in Resolution W-4567, Appendix B,                      Schedule No. F, Item 5 on Page 10.</i>		

## Appendix D

### Summary of Audit Adjustment for Year 2013

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	40	4	252	Advances for Construction	\$2,158	
	A	45	4	271	Contributions in Aid of Construction		\$2,158
					<i>To reclassify facility fees from Advances for                      Construction to Contributions in Aid of                      Construction per the Commission's instructions                      specified in Resolution W-4567, Appendix B,                      Schedule No. F, Item 5 on Page 10.</i>		