



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

**Financial Audit of  
Timberland Water Company  
Financial Statements**

**For the Years Ended December 31, 2013 and 2014**

**April 26, 2016**



## **Acknowledgement**

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

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

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**PUBLIC UTILITIES COMMISSION**

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

John F. Ballard, President  
Timberland Water Company  
PO Box 1855  
Penn Valley, CA 95946

### **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 Timberland Water Company (TWC), which are comprised of the balance sheets as of December 31, 2013 and 2014, 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**

TWC'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 TWC'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, except for the balances of Contributions In Aid of Construction (CIAC) and Accumulated Amortization of Contributions as described in the following paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Timberland 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.

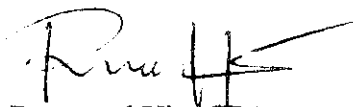
As described in Note 2, due to the lack of sufficient supporting documentation on the historical data of CIAC and Accumulated Amortization of Contributions, the Commission staff could not attest to the balances of CIAC and Accumulated Amortization of Contributions as of December 31, 2013 and 2014. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by TWC in its 2013 and 2014 Annual Reports filed with the Commission.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements of TWC were originally prepared on a cash basis of accounting but were adjusted to accrual basis of accounting as required by the USOA or Generally Accepted Accounting Principles (GAAP). The conversion of cash basis of accounting to accrual basis of accounting on the reported financial statements was achieved via audit adjustments by the UAFCB.

### **Use of Report**

The report is intended solely for the information and use by the Commission and Timberland 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  
Timberland 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)	\$613,871	\$596,030
Accumulated Depreciation of Water Plant (Note 1)	<u>(155,812)</u>	<u>(140,176)</u>
<b>Net Utility Plant</b>	458,059	455,854
<b>CURRENT AND ACCRUED ASSETS</b>		
Cash	35,582	29,749
Special Deposits (Note 1)	13,732	6,866
Materials and Supplies	<u>3,302</u>	<u>4,133</u>
<b>Total Current Assets</b>	52,616	40,748
<b>Total Assets</b>	<u>\$510,675</u>	<u>\$496,602</u>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>CORPORATE CAPITAL AND SURPLUS</b>		
Common Stock	\$26,875	\$26,875
Other Paid-in Capital	64,016	68,016
Retained Earnings	<u>160,942</u>	<u>152,551</u>
<b>Total Capitalization</b>	251,833	247,442
<b>CONTRIBUTION IN AID OF CONSTRUCTION</b>		
Contribution In Aid of Construction (Note 3)	278,256	261,061
Accumulated Amortization of Contributions (Note 3)	<u>(19,414)</u>	<u>(11,901)</u>
<b>Net Contribution In Aid of Construction</b>	<u>258,842</u>	<u>249,160</u>
<b>Total Capitalization and Liabilities</b>	<u>\$510,675</u>	<u>\$496,602</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>		
Unmetered Water Revenue	\$74,961	\$78,541
Fire Protection Revenue	446	446
Metered Water Revenue	<u>43,188</u>	<u>42,452</u>
<b>Total Operating Revenues (Note 1)</b>	118,595	121,439
<b>OPERATING EXPENSES</b>		
<b>Plant Operation and Maintenance Expenses</b>		
Power	2,972	3,020
Materials	760	2,267
Contract Work	13,737	11,737
Transportation Expenses	6,202	5,522
Other Plant Maintenance Expenses	<u>531</u>	<u>4,320</u>
<b>Total Plant Operation and Maintenance Expense</b>	24,202	26,866
<b>Administrative and General Expenses</b>		
Office Salaries	3,500	4,000
Management Salaries	36,500	36,000
Office Services and Rentals	507	0
Office Supplies and Expenses	7,825	5,094
Professional Services	1,672	1,943
Insurance	2,000	2,336
Regulatory Commission Expense	1,779	1,833
General Expenses	<u>7,884</u>	<u>1,239</u>
<b>Total Administrative and General Expenses</b>	61,667	52,445
<b>Total Operating Expenses</b>	85,869	79,311
Depreciation Expense (Note 1)	8,979	8,962
Taxes Other Than Income Taxes	2,094	4,799
State Corporate Income Tax Expense	<u>825</u>	<u>825</u>
<b>Total Operating Revenue Deductions</b>	97,767	93,897
<b>Total Utility Operating Income</b>	20,828	27,542
Miscellaneous Non-Utility Expense	<u>1,000</u>	<u>0</u>
<b>Total Other Income and Deductions</b>	1,000	0
<b>Net Income</b>	<u>\$19,828</u>	<u>\$27,542</u>

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

## Statements of Retained Earnings

	For the Year of	
	2014	2013
<b>Retained Earnings, Beginning of Year</b>	\$152,551	\$136,362
<b>CREDITS:</b>		
Net Income	19,828	27,542
UAFCB Adjustment to Other Paid-in-Capital	1,000	1,000
UAFCB Adjustment to Regulatory Commission Expense	1,779	0
UAFCB Cumulative Adjustment to Beginning Balance (See Footnote 1)	4,000	0
<b>Total Credits</b>	26,607	28,542
<b>DEBITS:</b>		
UAFCB Cumulative Adjustment to Beginning Balance (See Footnote 2)	(12,423)	0
UAFCB Adjustment to Other Volume Related Expenses	0	(944)
UAFCB Adjustment to Material Expenses	(790)	0
UAFCB Adjustment to Transportation Expenses	(2,801)	(7,548)
UAFCB Adjustment to Insurance Expenses	(2,202)	(1,806)
UAFCB Adjustment to Regulatory Commission Expense	0	(538)
UAFCB Adjustment to General Expenses	0	(1,517)
<b>Total Debits</b>	(18,216)	(12,353)
<b>Retained Earnings, End of Year</b>	<u>\$160,942</u>	<u>\$152,551</u>

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

**Statements of Retained Earnings Footnotes:**

- (1) The noted variance of \$4,000 was due to the company's capital withdrawal for personal use that was not properly reflected in the company's Balance Sheet of the 2014 Annual Report.

Retained Earnings as of 12/31/2014 - As Reported	\$148,054
Retained Earnings as of 12/31/2014 - As Computed	152,054
Variance	<u>(\$4,000)</u>

- (2) This amount represents the cumulative adjustments to the reported beginning balance of Retained Earnings as of January 1, 2014. Detailed computation is shown below:

Retained Earnings as of 12/31/2014 - As Reported	\$148,054
Less 2014 Net Income – Reported	(7,926)
Retained Earnings as of 01/01/2014 – As Imputed	140,128
Retained Earnings as of 01/01/2014 – As Audited	152,551
Variance – UAFCB Cumulative adjustments	<u>(\$12,423)</u>



## Statements of Cash Flows

	For the Year of	
	2014	2013
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Net Income	\$19,828	\$27,542
<b>Adjustments to Reconcile Net Income to Cash Provided by Operating Activities</b>		
Depreciation and Amortization	15,636	13,814
Increase in Special Deposits	(6,866)	0
Decrease in Materials and Supplies	831	4,096
<b>Net Cash Provided by Operating Activities</b>	<u>29,429</u>	<u>45,452</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net Plant Additions	(17,841)	(255,835)
Increase in Contributions In Aid of Construction	17,195	247,168
Decrease in Accumulated Amortization of Contribution (Footnote <sup>1</sup> )	(7,513)	(7,049)
UAFCB Adjustments to Retained Earnings (Footnote <sup>2</sup> )	<u>(11,437)</u>	<u>(11,353)</u>
<b>Net Cash Used for Investing Activities</b>	<u>(19,596)</u>	<u>(27,069)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Other Paid-in Capital (Footnote <sup>3</sup> )	<u>(4,000)</u>	<u>2,061</u>
<b>Net Cash Used for Financing Activities</b>	<u>(4,000)</u>	<u>2,061</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,833	20,444
<b>CASH AT BEGINNING OF YEAR</b>	<u>29,749</u>	<u>9,305</u>
<b>CASH AT END OF YEAR</b>	<u>\$35,582</u>	<u>\$29,749</u>

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

### Statements of Cash Flows Footnotes:

<sup>1</sup> For Statements of Cash Flows purpose, UAFCB excluded \$7,513 and \$7,049 of Accumulated Amortization of Contribution for Years 2014 and 2013, respectively.

<sup>2</sup> For Year 2014, the total UAFCB debit adjustment of \$11,437 to Retained Earnings represented the cumulative effect of UAFCB's adjustments to the Retained Earnings for Years 2013 and 2014. For Year 2013, the total UAFCB debit adjustment of \$11,353 to Retained Earnings was presented in the 2013 Summary of Audit Adjustments.

<sup>3</sup> For Year 2014, the total UAFCB debit adjustment of \$11,437 to Retained Earnings represented the cumulative effect of UAFCB's adjustments to the Retained Earnings for Years 2013 and 2014. For Year 2013, the total UAFCB debit adjustment of \$11,353 to Retained Earnings was presented in the 2013 Summary of Audit Adjustments.

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

Timberland Water Company (TWC) was incorporated in May of 1993. TWC is a Class D water utility that provides water service in Tahoe City, Placer County area. TWC service territory is located along the Timberland Tract and is primarily residential with a limited commercial area.

The financial statements of TWC were originally prepared on a cash basis of accounting but were adjusted to accrual basis of accounting as required by the Uniform System of Accounts (USOA) or Generally Accepted Accounting Principles (GAAP). The conversion of cash basis of accounting to accrual basis of accounting on the reported financial statements was achieved via audit adjustments by the Utility Audit, Finance and Compliance Branch (UAFCB). The Statements of Retained Earnings and Statements of Cash Flows are not required by the Commission when TWC files its Annual Reports with the Commission. Therefore, the accompanying Statements of Retained Earnings and Statements of Cash Flows were compiled by UAFCB based on the audited financial information of TWC'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

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 2.7% (equivalent to depreciating the plant assets over approximately 37 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) Special Deposits

The Special Deposits balances represent the cash balances collected for facilities fees via special surcharges from its customers. Facilities Fees is applicable to all customers applying for services from the Utility in the territory served for premises not previously connected to its distribution mains, and for additional service connections to existing premises.

**(e) Revenues**

TWC revenues are obtained from metered service and flat rate service to its customers on an annual basis. In addition, a small portion of TWC revenue is from private fire protection service. TWC computed its water revenues based on tariffs approved by the Commission.

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

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.

Due to the lack of sufficient supporting documentation on the historical data of CIAC and Accumulated Amortization of Contributions, the Commission staff could not attest to the balances of CIAC and Accumulated Amortization of Contributions as of December 31, 2013 and 2014. Therefore, UAFCB does not express an opinion on the accuracy of such balances reported by TWC in its 2013 and 2014 Annual Reports filed with the Commission.

**(3) 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.

## Appendix A

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

The following is a summary of net financial impact resulting from UAFCB's audit adjustments 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	1	4	101	Water Plant In Service	\$3,061	
4,12	A	2	4	108	Accumulated Depreciation of Water Plant	3,802	
1, 2, 3	A	29	4	211	Other Paid-in Capital	1,939	
2, 3, 6, 7, 9, 10, 11	A	30	4	215	Retained Earnings		\$986
4	A	46	4	272	Accumulated Amortization of Contributions	4,086	
<b><u>Net Financial Impact on Income Statements Items:</u></b>							
5	F	15	4	618	Other Volume Related Expenses		\$4,957
6	F	17	4	640	Materials		790
5	F	18	4	650	Contract Work	\$956	
7,9	F	19	4	660	Transportation Expense		2,801
8	F	21	4	670	Office Salaries		500
8	F	22	4	671	Management Salaries	500	
10	F	28	4	684	Insurance		2,202
11	F	29	4	688	Regulatory Commission Expense	1,779	
5	F	30	4	689	General Expense	4,001	
12	F	32	4	403	Depreciation Expense		7,888

## Appendix B

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

The following is a summary of net financial impact resulting from UAFCB's audit adjustments 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	1	4	101	Water Plant In Service	\$3,061	
2, 9	A	2	4	108	Accumulated Depreciation of Water Plant	2,571	
1, 5	A	29	4	211	Other Paid-in Capital		\$2,061
3, 4, 5, 6, 7, 8	A	30	4	215	Retained Earnings	11,353	
2	A	46	4	272	Accumulated Amortization of Contributions	4,852	
<b><u>Net Financial Impact on Income Statements Items:</u></b>							
3	F	15	4	618	Other Volume Related Expenses		\$944
4	F	19	4	660	Transportation Expense		7,548
6	F	28	4	684	Insurance		1,806
7	F	29	4	688	Regulatory Commission Expense		538
8	F	30	4	689	General Expense		1,517
9	F	32	4	403	Depreciation Expense		7,423

## Appendix C

### Summary of Audit Adjustments for Year 2014

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	1	4	101	Water Plant in Service	\$3,061	
	A	29	4	211	Other Paid-in Capital		\$3,061
					<i>To adjust the reported Other Paid-in Capital to agree with the company's records per the audited amount in Year 2013.</i>		
2	A	29	4	211	Other Paid-in Capital	\$1,000	
	A	30	4	215	Retained Earnings		\$1,000
					<i>To adjust the 2014 beginning balance of Retained Earnings to agree with the 2013 audited ending balance.</i>		
3	A	29	4	211	Other Paid-in Capital	\$4,000	
	A	30	4	215	Retained Earnings		\$4,000
					<i>To record the under-reported amount of Retained Earnings.</i>		
4	A	46	4	272	Accumulated Amortization of Contributions	\$4,086	
	A	2	4	108	Accumulated Depreciation of Water Plant		\$4,086
					<i>To record the audited Accumulated Amortization of Contributions.</i>		
5	F	18	4	650	Contract Work	\$956	
	F	30	4	689	General Expense	4,001	
	F	15	4	618	Other Volume Related Expenses		\$4,957
					<i>To reclassify Other Volume Related Expenses to reflect TWC's operating expenses.</i>		
6	A	30	4	215	Retained Earnings	\$790	
	F	17	4	640	Materials		\$790
					<i>To adjust the reported Material Expenses to agree with the audited amount.</i>		

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Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
7	A	30	4	215	Retained Earnings	\$2,075	
	F	19	4	660	Transportation Expense		\$2,075
					<i>To adjust Transportation Expenses to reflect reimbursement costs of a personal vehicle for business use.</i>		
8	F	22	4	671	Management Salaries	\$500	
	F	21	4	670	Office Salaries		\$500
					<i>To reclassify Office Salaries expense to agree with audited amount.</i>		
9	A	30	4	215	Retained Earnings	\$726	
	F	28	4	660	Transportation Expense		\$726
					<i>To reflect capital withdrawal improperly reported as Transportation Expense.</i>		
10	A	30	4	215	Retained Earnings	\$2,202	
	F	28	4	684	Insurance		\$2,202
					<i>To disallow a portion of the reported Insurance expense for a personal vehicle in conjunction with Audit Adjustment #7.</i>		
11	F	29	4	688	Regulatory Commission Expense	\$1,779	
	A	30	4	215	Retained Earnings		\$1,779
					<i>To adjust Regulatory Commission Expense to agree with the audited amount.</i>		
12	A	2	4	108	Accumulated Depreciation of Water Plant	\$7,888	
	F	32	4	403	Depreciation Expenses		\$7,888
					<i>To adjust the reported Depreciation Expense to agree with the audited amount.</i>		

## Appendix D

### Summary of Audit Adjustments for Year 2013

Audit Adj. No.	Annual Report				Description	Debit	Credit
	Sch.	Line	Col.	Acct No.			
1	A	1	4	101	Water Plant in Service	\$3,061	
	A	29	4	211	Other Paid-in Capital <i>To include the land value omitted from the Company's records.</i>		\$3,061
2	A	46	4	272	Accumulated Amortization of Contributions	\$4,852	
	A	8	4	108	Accumulated Depreciation of Water Plant <i>To adjust the Accumulated Amortization of Contributions to reflect the audited amount.</i>		\$4,852
3	A	30	4	215	Retained Earnings	\$944	
	F	15	4	618	Other Volume Related Expenses <i>To adjust Other Volume Related Expenses due to the lack of supporting documentation.</i>		\$944
4	A	30	4	215	Retained Earnings	\$7,548	
	F	17	4	660	Transportation Expense <i>To adjust Transportation Expense to reflect reimbursable costs of a personal vehicle for business use.</i>		\$7,548
5	A	29	4	211	Other Paid-in Capital	\$1,000	
	A	30	4	215	Retained Earnings <i>To reflect capital withdrawal incorrectly booked as Office Salaries.</i>		\$1,000
6	A	30	4	215	Retained Earnings	\$1,806	
	F	28	4	684	Insurance Expense <i>To disallow personal insurance expense improperly booked as the company's expense.</i>		\$1,806



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Audit Adj. No.	Annual Report			Description	Debit	Credit	
7	A	30	4	215	Retained Earnings		
	F	29	4	688	Regulatory Commission Expense	\$538	\$538
<i>To adjust the reported Regulatory Commission Expense to agree with the company's records.</i>							
8	A	30	4	215	Retained Earnings	\$1,517	
	F	30	4	689	General Expenses		\$1,517
<i>To disallow Leak Detector Expense improperly reported as General Expense because the Leak Detector expense had been capitalized in Account #339.</i>							
9	A	2	4	108	Accumulated Depreciation of Water Plant	\$7,423	
	F	32	4	403	Depreciation Expense		\$7,423
<i>To adjust the reported Depreciation Expense attributed to CIAC plant because CIAC plant is not depreciable.</i>							