



**Financial Audit of Foothill Ditch Company
Financial Statements
For the Year Ended December 31, 2017**

Utility Audit, Finance and Compliance Branch
November 29, 2018



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Thanks to:

Barbara Owens, Raymond Yin, Sharmin Wellington, and Aaron Louie

**Audit of Financial Statements of
Foothill Ditch Company
For the Year Ended December 31, 2017**

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PUBLIC UTILITIES COMMISSION

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Report of Independent Auditors

Patricia J. Jacobsen, President
Foothill Ditch Company
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Exeter, CA, 93221

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 Foothill Ditch Company (FDC), which are comprised of the balance sheet as of December 31, 2017, and the related statement of income, retained earnings and cash flow for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

FDC's management is responsible for the preparation and fair presentation of the financial statements presented in the 2017 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 FDC'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 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.

Basis for Qualified Opinion

Due to the lack of historical information on Retained Earnings and Payables to Affiliated Companies, UAFCB could not attest to these balances as of December 31, 2017. Therefore, UAFCB does not express an opinion on the Retained Earnings and Payables to Affiliated Companies balances as of December 31, 2017.

Qualified Opinion

In our opinion, except for the balances of Retained Earnings and Payables to Affiliated Companies as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Foothill Ditch Company as of December 31, 2017, 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 FDC 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 Foothill Ditch 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

		As of December 31, for the Year	
		2017	2016¹
ASSETS			
UTILITY PLANT			
Water Plant in Service (Note 1)		\$265,044	\$259,460
Accumulated Depreciation of Water Plant		(116,805)	(124,545)
Net Utility Plant		\$148,239	\$134,915
 CURRENT AND ACCRUED ASSETS			
Other Investments		0	5,584
Cash		359,791	328,640
Accounts Receivable – Customers		9,960	14,067
Deferred Assets		800	800
Total Current and Accrued Assets		370,551	349,091
Total Assets		\$518,790	\$484,006
 CAPITALIZATION AND LIABILITIES			
CORPORATE CAPITAL AND SURPLUS			
Common Stock		\$10,000	\$10,000
Other Paid-in Capital (Note 1)		0	67,706
Retained Earnings (Note 1)		84,921	56,197
Total Capitalization		94,921	133,903
 CURRENT AND ACCRUED LIABILITIES			
Payables to Affiliated Companies		423,869	0
Accounts Payable		0	350,103
Net current and accrued liabilities		423,869	350,103
Total Capitalization and Liabilities		\$518,790	\$484,006

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

¹ The amounts for the year ended December 31, 2016, were reported by FDC. These amounts have not been audited by UAFCB.

Income Statement

	For the Year of	
	2017	2016 ²
OPERATING REVENUES		
Irrigation Revenue	\$95,429	\$165,305
Other Water Revenue	0	0
Total Operating Revenues (Note 1)	95,429	165,305
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Materials	16,673	15,689
Contract Work	60,647	45,983
Transportation Expenses	20,469	13,672
Total Plant Operation and Maintenance Expense	97,789	75,344
Administrative and General Expenses		
Office Salaries	12,000	12,000
Management Salaries	12,000	12,000
Employee Pensions and Benefits	5,814	0
Office Supplies and Expenses	348	0
Professional Services	1,670	1,870
Insurance	9,290	14,339
Regulatory Commission Expense	1,732	0
General Expenses	12,722	13,097
Total Administrative and General Expenses	55,576	53,306
Total Operating Expenses	153,365	128,650
Depreciation Expense (Note 1)	3,323	7,748
Taxes Other Than Income Taxes	2,284	1,626
State Corporate Income Tax Expense	800	800
Total Operating Revenue Deductions	159,772	138,824
Total Utility Operating Income	(64,343)	26,481
Non-Utility Income	43	43
Miscellaneous Non-Utility Expense	0	0
Interest Expense	0	0
Total Other Income and Deductions	43	43
Net Income	(\$64,300)	\$26,524

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

² The amounts for the year ended December 31, 2016, were reported by FDC. These amounts have not been audited by UAFCB.

Statements of Retained Earnings

	For the Year of	
	2017³	2016⁴
Retained Earnings, Beginning of Year	\$56,197	\$29,673
CREDITS:		
Net Income		26,524
UAFCB Adjustment to Other Paid-in Capital	67,706	0
UAFCB Adjustment to Irrigation Revenue	15,833	0
UAFCB Adjustment to Accumulated Dep. of Water Plant	11,063	0
Total Credits	94,602	26,524
DEBITS:		
Net Loss	(64,300)	0
UAFCB Adjustment to General Expense	(1,578)	0
Total Debits	(65,878)	0
Retained Earnings, End of Year	\$84,921	\$56,197

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

³ The Retained Earnings balances were not audited but were the results of UAFCB compiled audit adjustments and Net Income (Loss) for 2017. UAFCB could not attest to the accuracy of the Retained Earnings balances due to lack of historical information on the account.

⁴ The amounts for the year ended December 31, 2016, were reported by FDC. These amounts have not been audited by UAFCB.

Statements of Cash Flows

	For the Year of	
	2017	2016 ⁵
CASH FLOW FROM OPERATING ACTIVITIES:		
Net Income (Loss)	(\$64,300)	\$26,524
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities		
Depreciation and Amortization ⁶	(7,740)	7,748
Decrease (Increase) in Accounts Receivable - Customers	4,107	(6,313)
Increase (Decrease) in Payables to Affiliated Companies	423,869	0
Increase (Decrease) in Accounts Payable	(350,103)	32,859
Net Cash Provided by Operating Activities	5,833	60,818
CASH FLOWS FROM INVESTING ACTIVITIES:		
UAFCB Cumulative Adjustments to Retained Earnings	93,024	0
Net Cash Used for Investing Activities	93,024	0
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease (Increase) in Other Paid-in Capital	(67,706)	0
Net Cash Used for Financing Activities	(67,706)	0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,151	60,818
CASH AT BEGINNING OF YEAR	328,640	267,822
CASH AT END OF YEAR	\$359,791	\$328,640

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

⁵ The amounts for the year ended December 31, 2016, were reported by FDC. These amounts have not been audited by UAFCB.

⁶ For the purpose of Statements of Cash Flows, UAFCB included (\$7,740) Depreciation of Water Plants from the depreciation expense for Year 2017.

⁷ For Year 2017, the total UAFCB debit adjustment of \$93,024 to Retained Earnings represented the cumulative effect of UAFCB's adjustments to the Retained Earning for Year 2017.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Foothill Ditch Company (FDC) was incorporated in April of 1914. FDC is a Class D water utility with about 18 active service connections located in Exeter, California providing water service to Tulare County. The utility provides irrigation water services.

The financial statements of FDC 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. 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 FDC files its Annual Reports with the Commission. Therefore, the accompanying Statements of Cash Flows were compiled by UAFCB based on the audited financial information of FDC Balance Sheets and Income Statements.

(a) Appendices

The accompanying Appendices are an integral part of the financial statements. Appendix A presents the net financial impact resulting from UAFCB's audit adjustments for year ended 2017. Appendix B presents UAFCB detail audit adjustments for the year ended 2017.

(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. FDC incorrectly classified the utility plant as grant funded plant. Thus, UAFCB made a correcting journal entry to reflect the correct funding source of the utility plant.

(c) Depreciation of Water Plant

FDC did not use the composite rate methodology prescribed by the Commission's Standard Practice (SP) U-04-SM, paragraph no. 22, which states in-part depreciation rate should normally fall within the range of 2.0% to 3.5%. FDC used its tax depreciation methodology to report depreciation expense on the Annual Report, which resulted in a depreciation rate of 5.5% (\$7,748/\$140,532). Audit adjustments were made to FDC's remaining depreciable plants to bring it into compliance with the Commission's directives.

(d) Corporate Capital

FDC reported Common Stock of \$10,000 and Other Paid-in Capital (OPIC) of \$67,706 on its 2017 Annual Report. FDC could not provide sufficient evidence to support the Other Paid-in Capital amount of \$67,706. Management was unsure of the origin or purpose of this transaction. CPUC Annual Report records showed OPIC was reported as of 2010. The USOA states in-part that OPIC should include premiums and discounts related to the issuance of capital stock, donations to the utility of its capital stock, credits arising from the forgiveness of debt of the utility or credits arising out of reorganization of the utility. Therefore, UAFCB proposes a correcting journal entry to reflect the correct Other Paid-in Capital balance as of December 31, 2017.

(e) Retained Earnings

UAFCB could not attest to the accuracy of the Retained Earnings balance due to the lack of historical information. Expressing an opinion on the Retained Earnings balance as of December 31, 2017 would require auditing the Retained Earnings from the inception of the company. Due to limitation of our audit scope, we cannot and do not express an opinion on this balance.

(f) Revenues

FDC's revenues are obtained from irrigation water services to its customers. FDC computed its water revenues based on tariffs approved by the Commission.

(g) Accounts Payable (AP)

FDC parent company, Rocky Hill Incorporated (RHI), pays FDC's operating expenses including the salaries and benefits of their shared staff. These transactions were recorded cumulatively in FDC's AP, Account 231. As of December 31, 2017, FDC reported a cumulative balance of \$423,869, which includes \$143,249 relating to the year 2017. This amount should have been recorded as Payables to Affiliated Companies in Account 230. Therefore, UAFCB reclassified the reported AP balance to Payables to Affiliated Companies to comply with the USOA requirements.

(2) Related Party Transactions

FDC shares the same management functions with its parent company, RHI. RHI allocates employees time and administrative costs to FDC monthly. RHI also acquires irrigation water services from FDC. The water services provided to RHI is offset with FDC's payables to RHI.

(3) Annual Reports

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

Appendix A

Summary of Net Financial Impact Resulting from UAFCB's Audit Adjustments for Year 2017

The following is a summary of net financial impact resulting from UAFCB's audit adjustments for Year 2017.

Audit Adj. No.	Annual Report				Description	For the Year 2017	
	Sch.	Line	Col.	Acct No.		Debit	Credit

Net Financial Impact on Balance Sheets Items:

1,3	A	2	C	101	Water Plant in Service (Excluding SDWBA/Grants)	\$265,044	
1	A	4	C	101.2	Water Plant in Service – Grant Funds		\$259,460
2,11	A	14	C	108	Accumulated Depreciation of Water Plant	15,487	
3	A	26	C	124	Other Investments		5,584
4	A	5	C	211	Other Paid-in Capital	67,706	
2,4,6,10	A	6	C	215	Retained Earnings		93,024
5	A	16	C	230	Payables to Affiliated Companies		423,869
5	A	17	C	231	Accounts Payables	423,869	

Net Financial Impact on Income Statements Items:

11	B	6	C	403	Depreciation Expense		\$4,424
6,7,8	B-1	15	B	465	Irrigation Revenue		95,429
8	B-1	18	B	470.1	Metered Water Revenue (Residential, Single-family)	\$109,530	
9	B-2	20	B	674	Employee Pension and Benefits	5,814	
9	B-2	25	B	684	Insurance Expense		5,814
7	B-2	26	B	688	Regulatory Compliance Expense	1,732	
10	B-2	27	B	689	General Expenses		1,578

Appendix B

Summary of Audit Adjustments for Year 2017

Audit Adj. No.	Annual Report				Description	For the Year 2017	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
1	A	2	C	101	Water Plant in Service (Excluding SDWBA/SRF, Grant)	\$259,460	
	A	4	C	101.2	Water Plant in Service – Grant Funds <i>To reclassify Water Plant in Service – Grant Funds to Water Plant in Service (Excluding SDWBA/SRF, Grants).</i>		\$259,460
2	A	14	C	108	Accumulated Depreciation of Water Plant	\$11,063	
	A	6	C	215	Retained Earnings <i>To adjust Accumulated Depreciation of Water Plant to agree with the audited amount.</i>		\$11,063
3	A	2	C	101	Water Plant in Service	\$5,584	
	A	26	C	124	Other Investments <i>To reclassify Other Investments to intangible water plant to agree with the audited amount.</i>		\$5,584
4	A	5	C	211	Other Paid-in Capital	\$67,706	
	A	6	C	215	Retained Earnings <i>To reclassify Other Paid-in Capital to comply with the USOA standards.</i>		\$67,706
5	A	17	C	231	Accounts Payables	\$423,869	
	A	16	C	230	Payables to Affiliated Companies <i>To reclassify the closing entry reported in Accounts Payables to comply with USOA.</i>		\$423,869
6	B-1	15	B	465	Irrigation Revenue	\$15,833	
	A	6	C	215	Retained Earnings <i>To reclassify prior year Irrigation Revenue to agree with the audited amount.</i>		\$15,833
7	B-2	26	B	688	Regulatory Commissions Expense	\$1,732	
	B-1	15	B	465	Irrigation Revenue <i>To reclassify the CPUC surcharge to the correct account to comply with the USOA standards.</i>		\$1,732

Financial Audit of Foothill Ditch Company Financial Statements
For the Year Ended December 31, 2017

Audit Adj. No.	Annual Report				Description	For the Year 2017	
	Sch.	Line	Col.	Acct. No.		Debit	Credit
8	B-1	18	B	470.1	Metered Water Revenue (Residential, Single-family)	\$109,530	
	B-1	15	B	465	Irrigation Revenue <i>To reclassify Irrigation Revenue to the correct account to comply with the USOA standards.</i>		\$109,530
9	B-2	20	B	674	Employee Pensions and Benefits	\$5,814	
	B-2	25	B	684	Insurance Expenses <i>To reclassify Insurance Expense to comply with the USOA standards.</i>		\$5,814
10	A	6	C	215	Retained Earnings	\$1,578	
	B-2	27	B	689	General Expense <i>To reclassify General Expense to agree with the audited amount.</i>		\$1,578
11	A	14	C	108	Accumulated Depreciation of Water Plant	\$4,424	
	B	6	C	403	Depreciation Expense <i>To reclassify Depreciation Expense to agree with the audited amount.</i>		\$4,424