REVIEW OF FINANCIAL STATEMENTS

The Casmite Corporation

For the Year Ended December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
August 22, 2022

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Raymond Yin, CPA
Program and Project Supervisor

Khusbindar Kaur, CPA
Lead

Marlene Noss, Auditor

Tir Saephan, Auditor

A digital copy of this report can be found at:
[Audit Reports by Industry (ca.gov)]

You can contact our office at:
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STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

August 22, 2022

Mr. Joseph Cervelli, Director
Regulatory Real Property Officer
The Casmite Corporation
6001 Bollinger Canyon Road, Building B
San Ramon, CA 94583

Dear Mr. Cervelli:

Final Report Transmittal Letter—Review of The Casmite Corporation's Annual Report for the Year Ended December 31, 2020

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of The Casmite Corporation's (TCC) regulatory basis financial statements in the 2020 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2020, and related statements of income, and retained earnings. The final review report is enclosed.

TCC's response to the draft report and our evaluation of the response are incorporated into this final report. We will post the final review report on our website at Audit Reports by Industry (ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations of this report by October 6, 2022. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate TCC's assistance and cooperation during the engagement, and your willingness to implement corrective actions.

Please contact us at UtilityAudits@cpuc.ca.gov if you have any questions.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

cc: Kelly Duran, Regulatory Real Property Officer, TCC
Christian Aldinger, CPA, Peasley, Aldinger & O'Bymachow, An Accountancy Corporation
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
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Marlene Noss, Senior Management Auditor, UAB, CPUC
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of The Casmite Corporation (TCC) as of December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under Review of Financial Statements in the Generally Accepted Government Auditing Standards (GAGAS).

Incorporated in Nevada on December 23, 1936, TCC is a Class D water utility with 14 active metered water customer service connections.[1] TCC's service area is located near the town of Casmalia and nearby area in Santa Barbara County of California[2]. As a regulated water utility, TCC is required to prepare its financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

The purpose of this review was to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the USOA. In conjunction with our review of the financial statements, UAB also reviewed, for regulatory purposes, whether TCC complied with the following:

a) PU Code Section 818 regarding obtaining CPUC's approval before incurring any long-term debts.
b) Timely filing of the 2020 Annual Report as required by the Water Division Memorandum dated January 26, 2021.

Based on our review, we are not aware of any material modifications that should be made to TCC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by the USOA. For the review period, UAB did not note any noncompliance with PU Code Section 818; and TCC filed its 2020 Annual Report timely in compliance with the CPUC directive from the Water Division. However, UAB identified three material misstatements in TCC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A–Review Findings and Recommendations. In addition, UAB identified a noncompliance with the accounting requirements specified by the USOA during the review. The four findings are summarized below:

- Finding 1: TCC misclassified $465,620 of deferred income taxes as Other Current Liabilities instead of reporting it as Accumulated Deferred Income Taxes–Accelerated Tax Depreciation. As a result, TCC understated Account 282–Accumulated Deferred Income Taxes–Accelerated Tax Depreciation by $465,620 and overstated Account 241–Other Current Liabilities by the same amount.

- Finding 2: TCC incorrectly reported $74,461 of tax benefits passed through to it from its affiliated company in its 2020 Annual Report. TCC incorrectly reported the income tax

[1] TCC's 2020 Annual Report, Schedule G–Total Meters and Services, Page 18.
[2] TCC's 2020 Annual Report, General Information, Page 3.

benefit as a credit to Account 408–Taxes Other Than Income Taxes, instead of reporting it as a credit to Account–410 Federal Corporate Income Tax Expense. As a result, TCC understated Account 408–Taxes Other Than Income Taxes by $74,461 and overstated Account 410–Federal Corporate Income Tax Expense by the same amount.

- Finding 3: TCC understated Account 470–Metered Water Revenue, Account 141–Accounts Receivable–Customers, and Account 253–Other Credits by $14,394, $29,612, and $3,352, respectively, in its 2020 Annual Report. TCC used cash basis of accounting to record and report its revenues. TCC did not accrue $29,612 of receivables and revenues earned in 2020 as of December 31, 2020. TCC incorrectly recorded $3,352 of advanced payments from a customer as revenues instead of recording it as Other Credits. TCC incorrectly reported $11,866 of Metered Water Revenue earned in 2019 as revenues in 2020. As a result, TCC understated Account 470–Metered Water Revenue, Account 141–Accounts Receivable–Customers, and Account 253–Other Credits by $14,394, $29,612, and $3,352, respectively.

- Finding 4: TCC used cash basis of accounting to record its accounting transactions. However, the USOA requires utilities to use accrual basis of accounting. Cash basis of accounting recognizes expenses when they are paid, and revenue when cash is received. Accrual basis of accounting recognizes expenses and revenues in the period in which expenses are incurred, or revenues are earned.

UAB discussed the above findings with TCC's management during fieldwork. TCC's management concurred with the findings and agreed to post UAB's proposed adjusting journal entries to correct the misstatements identified above. TCC submitted its revised financial statements to the UAB to correct the material misstatements described in Appendix A of this report on July 15, 2022. UAB further discussed these findings with TCC's management and its accountant at the exit conference on July 27, 2022, and TCC concurred with the review results. UAB is not aware of any further material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to TCC for comments on July 28, 2022. TCC's response, provided on August 11, 2022, is included in Appendix B of this report. TCC agreed with UAB's Findings 1, 2, and 3; but disagreed with Finding 4. TCC also proposed to revise the description in the Footnote of the Income Statement on Page 7, and to correct the typos in Finding 3 on Page 15 of the draft report. UAB's evaluation of TCC's response is in Appendix C of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Joseph Cervelli, Director
The Casmite Corporation
6001 Bollinger Canyon Road, Building B
San Ramon, CA 94583

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of The Casmite Corporation (TCC), which comprise the balance sheet as of December 31, 2020, and the related income statement and statement of retained earnings for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of TCC's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, UAB does not express such an opinion.

Management's Responsibility for the Financial Statements

TCC's management is responsible for the preparation and fair presentation of its 2020 financial statements in accordance with the accounting framework prescribed by CPUC's Uniform System of Accounts (USOA) for Water Utilities. TCC's management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its 2020 financial statements that are free from material misstatement, whether due to fraud or error. In addition, TCC's management is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC's directives.

Accountant's Responsibility

UAB's responsibility is to conduct the review engagement in accordance with the standards applicable to reviews of financial statements promulgated by the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the accounting framework of the USOA. For regulatory purposes, UAB also reviewed whether TCC complied with PU Code Section 818 to obtain its long-term debts, and whether TCC timely filed its 2020 Annual Report as required by the CPUC's Water Division. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of TCC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the accounting framework of the USOA. However, UAB identified three material misstatements in TCC's Annual Report originally filed with CPUC's Water Division, as described in the Appendix A–Review Findings and Recommendations. These misstatements have been corrected in the accompanying financial statements. In addition, UAB found that TCC used cash basis of accounting during the review period and did not comply with the accounting requirements specified by the USOA, as described in Finding 4 in the Appendix A–Review Findings and Recommendations.

For the review period, UAB did not note any noncompliance with PU Code Section 818. In addition, TCC has timely filed its 2020 Annual Report in compliance with the CPUC directive from the Water Division.

Basis of Accounting

For regulatory purposes, the CPUC adopted, through Decision (D.) 16-11-006 on November 16, 2016, the updated USOA, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The CPUC requires all water utilities to prepare their financial statements in accordance with the accounting framework of the USOA. The accompanying financial statements were prepared based on this regulatory requirement.

We draw attention to Notes to the Financial Statements, in which we described the basis of accounting as well as the accounting differences between GAAP and the USOA. Our conclusion is not modified with respect to this matter.

Views of Responsible Official

We discussed our review results and findings with TCC management during fieldwork. TCC's management concurred with UAB's findings and agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements. TCC submitted its revised financial statements to the UAB to correct the material misstatements on July 15, 2022. UAB further discussed these findings with TCC's management and its accountant at the exit conference on July 27, 2022, and TCC concurred with the review results.

UAB provided a draft review report to TCC for comments on July 28, 2022. TCC's response, provided on August 11, 2022, is included in Appendix B of this report. TCC agreed with UAB's Findings 1, 2, and 3; but disagreed with Finding 4. TCC also proposed to revise the description in the Footnote of the Income Statement on Page 7, and to correct the typos in Finding 3 on Page 15 of the draft report. UAB's evaluation of TCC's response is in Appendix C of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

Other Matter – Submission of a Corrective Action Plan

TCC's management should submit a corrective action plan (CAP) to the UAB at UtilityAudits@cpuc.ca.gov with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov by October 6, 2022. The CAP should address how TCC will implement the recommendations. If TCC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. TCC should use the amounts reviewed by the UAB as presented in this report as the basis to file its revised 2021 Annual Report with the CPUC.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of TCC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC website at Audit Reports by Industry (ca.gov).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, CA
August 22, 2022

REVIEWED FINANCIAL STATEMENTS

The Casmite Corporation
Balance Sheet (As Reviewed)
As of December 31, 2020

ASSETS	
UTILITY PLANT	
Water Plant in Service	$4,193,993
Accumulated Depreciation of Water Plant	(601,731)
Net Utility Plant	3,592,262
CURRENT AND ACCRUED ASSETS	
Accounts Receivables – Customers	29,612
Receivables from Affiliated Companies	128,046
Total Current and Accrued Assets	157,658
Total Assets and Other Debits	$3,749,920
CORPORATE CAPITAL AND RETAINED EARNINGS	
Common Stock	$500
Other Paid-in Capital	5,798,101
Retained Earnings	(2,517,653)
Total Capitalization and Retained Earnings	3,280,948
DEFERRED CREDITS	
Other Credits	3,352
Accumulated Deferred Income Taxes – Accel. Tax Depreciation	465,620
Total Current and Accrued Liabilities	468,972
Total Liabilities and Other Credits	$3,749,920

(See independent accountant's review report and accompanying notes.)

The Casmite Corporation
Income Statement (As Reviewed)
For Year Ended December 31, 2020

OPERATING REVENUES	
Metered Water Revenue	$131,259
Total Operating Revenues	131,259
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	10,452
Contract Work	68,936
Other Plant Maintenance Expenses	78,367
Total Plant Operation and Maintenance Expenses	157,755
Administrative and General Expenses	
Office Services and Rentals	771
Office Supplies and Expenses	1,707
Professional Services	5,659
Regulatory Commission Expense	1,458
Net Administrative and General Expenses	9,595
Total Operating Expenses	167,350
Depreciation Expense	73,429
Federal Corporate Income Tax Expense (Tax Benefits)[3]	(74,461)
Total Operating Revenue Deductions	166,318
Net Loss	($35,059)

(See independent accountant's review report and accompanying notes.)

[3] TCC's affiliate company passed through to TCC tax benefits it received from TCC's net loss during the review period. See Note 7 to the Financial Statements.

The Casmite Corporation
Statement of Retained Earnings (As Reviewed)
For Year Ended December 31, 2020

Retained Earnings, Beginning of Year	($2,494,460)
CREDITS:	
UAB Adjustment to Accounts Receivable – Customers	29,612
Total Credits	29,612
DEBITS:	
Net Loss	35,059
UAB Adjustment to Metered Water Revenue	14,394
UAB Adjustment to Other Credits	3,352
Total Debits	52,805
Retained Earnings, End of Year	($2,517,653)

(See independent accountant's review report and accompanying notes.)

The Casmite Corporation
Notes to Financial Statements

Incorporated in Nevada on December 23, 1936, TCC is a Class D water utility with 14 active metered customer service connections.[4] TCC's service area is located near the town of Casmalia and nearby area, in Santa Barbara County of California.[5]

Regulated water utilities are required to prepare its financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The followings describe certain differences in accounting treatments between GAAP and USOA, the company's current accounting practices, and its compliance with applicable regulation and CPUC directives.

1. Purpose of Financial Information and Targeted Audience

The objective of preparing financial statements in accordance with GAAP is to provide information that is useful in making decisions about providing resources to the entity. Users of the financial information include existing and potential investors, lenders, and other creditors.

The purpose of using USOA to prepare financial statements is to have the utilities provide financial transparency of their water operations on a consistent basis. The primary user of the financial information is the CPUC for ratemaking and other compliance purposes.

2. Property, Plant and Equipment

The USOA distinguishes the plant assets for water operations (i.e., Account 101, Water Plant in Service) from those for non-water operations (i.e., Account 121, Non-Water Utility Property and Other Assets), for ratemaking purposes.

(1) Depreciation Methodology
GAAP allows entities to elect a depreciation methodology of their choices, such as straight-line, double-declining balance, or sum-of-the-years digits depreciation method.

USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Water utilities are required to comply with the CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over $100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under $100,000, if the utility elects not to separate or maintain the depreciation reserve by accounts, it is appropriate to develop a composite value for remaining life for the entire plant in accordance with Appendix B2 or B3 of SP U-4-SM. The USOA suggested that all utilities maintain a separate accumulated depreciation subaccount for

[4] TCC's 2020 Annual Report, Schedule G–Total Meters and Services, Page 20.
[5] TCC's 2020 Annual Report, General Information, Page 3.

each depreciable plant account; and it is mandatory for water utilities having more than 500 customers.[6] The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

TCC utilizes the straight-line remaining life method for each class of asset as prescribed in SP U-4-SM to determine depreciation accruals. TCC's overall composite depreciation rate is two percent, which falls within the industry average.

(2) Asset Retirement

USOA requires that water plant be recorded at original cost. In USOA's depreciation schedule, the difference between the estimated cost of removal and the salvage value is included in the depreciable base to obtain the annual depreciation expense. When retiring an asset, the cost of removal will reduce the balance of Account 108, Accumulated Depreciation of Water Plant, while the cash received from the salvage value or sale price will increase the balance of Account 108, Accumulated Depreciation of Water Plant. The gain or loss from the asset retirement that is recognized under GAAP is accumulated in Account 108, Accumulated Depreciation of Water Plant under USOA.

TCC did not retire any assets during the review period.

3. Water Utility Users Fee

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. USOA requires water utilities to credit regular operating revenue accounts with amounts of User Fees billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to the CPUC.[7]

TCC correctly recorded CPUC Users Fee in Account 688–Regulatory Commission Expense and operating revenues.

4. Form of Financial Statements [8]

(1) Balance Sheet

Unlike the financial statements of other industries, the financial statements of regulated water utilities present the water plant as the first major caption on the asset side of the balance sheet, and capitalization is first on the liability side. Current assets and current liabilities are relegated to a comparatively unimportant position in the center of the balance sheet, rather than being placed prominently as in statements for non-regulated industries.

(2) Income Statement

The form of Income Statement reflects the classification of revenues and expenses in ratemaking. Operating revenues and expenses are referred to as "above the line" because they are allowable in ratemaking, and the result of deducting total operating expenses from total operating revenues is the operating income. Other Income and Deductions are referred to as "below the line" because they are applied after operating income and are not allowable in

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[6] D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.
[7] D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.
[8] Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

ratemaking. The "below the line" items include interest revenue, dividend income, other revenues that are from non-water utility operations and/or non-water utility properties, expenses that are unrelated to water utility operations, and interest expense (the interest expense is recovered through the authorized rate of return). The concept of "above the line" revenues and expenses being allowable in ratemaking affects the form of the income statement, the classification of revenues and expenses, and decisions of management in incurring expenses.

5. Exclusion of Statement of Cash Flows

Financial Accounting Standards Board specifies in its Statement of Financial Accounting Standards No. 95 that a Statement of Cash Flows is part of a complete set of financial statements under GAAP. However, Codification of Statements on Auditing Standards AU-C Section 800.A35 states, in part, that, "Special purpose financial statements may not include a statement of cash flows…." Since the USOA is an accounting framework other than GAAP for regulatory purpose, the Statement of Cash Flows is not required and therefore excluded from this review report.

6. Compliance filing of 2020 Annual Report with the CPUC

PU Code Sections 581, 582, and 584, and the CPUC's directive (i.e., Water Division's annual memorandum to water and sewer utilities) require all regulated water and sewer IOUs to file an Annual Report with the CPUC every year. For the year being reviewed, TCC has complied with these requirements.

7. Affiliate Transactions

Affiliate companies are all entities, including any holding companies, that are under direct or indirect common ownership or control with a water utility regulated by the CPUC. Water utilities are required to comply with the rules specified in D.10-10-019 and SP U-21-W for all the transactions with its affiliates.

Rule 12 of SP U-21-W states, in part, that, "Water Utility shall file with the Commission each year a report which includes a summary of all transactions between Water Utility and its affiliated companies for the previous calendar year…."

TCC is a wholly owned subsidiary of Union Oil Company, a California corporation. Union Oil Company is a wholly owned subsidiary of Unocal Corporation, which is a wholly owned subsidiary of Chevron Corporation. Chevron Corporation provides funding to TCC to cover TCC's operational deficits and costs of construction projects. TCC records the funding provided as Other Paid-in Capital. As of December 31, 2020, TCC reported $5,798,101 of funding from Chevron Corporation to cover its operational deficit and cost of construction projects.

Chevron Corporation also passes through to TCC any federal income tax benefits Chevron Corporation receives from TCC's operational loss. TCC reports the tax benefits as a credit to Account 410–Federal Corporate Income Tax. During the review period of 2020, total tax benefits that Chevron passed through to TCC totaled $74,461.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Misclassification of Deferred Income Taxes

Condition:
TCC misclassified $465,620 of deferred income taxes as Other Current Liabilities instead of reporting it as Accumulated Deferred Income Taxes–Accelerated Tax Depreciation in its 2020 Annual Report originally filed with the CPUC's Water Division on May 3, 2021. As a result, TCC understated Account 282–Accumulated Deferred Income Taxes–Accelerated Tax Depreciation by $465,620 and overstated Account 241–Other Current Liabilities by the same amount.

UAB proposed, and TCC agreed and incorporated, the following adjusting entry to correct the misstatements identified above:

Adj No.	Acct No.	Description	DR	CR
1	241	Other Current Liabilities	$465,620	
	282	Accumulated Deferred Income Taxes–Accel. Tax Depreciation *To reclassify the deferred income taxes incorrectly reported in Account 241-Other Current Liabilities*		$465,620

TCC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC on July 15, 2021.

Criteria:
The USOA states, in part, that:

> **241. Other Current Liabilities**
> A. This account shall include all current and accrued liabilities not provided for elsewhere.
>
> B. Include herein pension accruals prior to the time they are transmitted to the trustee, accruals of vacation pay, etc.
>
> C. A separate subaccount shall be maintained for each class of liability.
>
> **282. Accumulated Deferred Income Taxes – Accelerated Tax Depreciation**
> A. Account 282 shall be credited and Account 236, Taxes Accrued, shall be charged with the difference between the federal income tax expense based on tax basis, straight-line method of depreciation and the tax liability resulting from use of accelerated tax depreciation.
>
> B. Account 282 shall be debited and Account 236, Taxes Accrued shall be credited when the tax liability based on the use of accelerated tax depreciation exceeds the

federal income tax expense based on tax basis, straight-line method of depreciation.

C. In order to employ normalized tax accounting it will be necessary for the utility to maintain plant and depreciation records grouped by year of installation and service life.

Cause:
TCC lacks effective review and monitoring procedures over its accounting and reporting process to accurately report deferred income taxes.

Effect:
TCC's misclassification of deferred income taxes reduced the comparability of its financial statements with other small water utilities. Consistent financial presentation among small water utilities aids decision makers in analyzing the performance and financial position of TCC relative to other small water utilities in California.

Recommendation:
TCC should strengthen its review and monitoring procedures over its accounting and reporting process to ensure that deferred income taxes are properly classified in accordance with the accounting requirements specified by the USOA.

Finding 2: Misclassification of Taxes Other Than Income Taxes

Condition:
TCC incorrectly reported $74,461 of tax benefits passed through to it from its affiliated company in its 2020 Annual Report filed with the CPUC's Water Division on May 3, 2021. TCC incorrectly reported the income tax benefit as a credit to Account 408–Taxes Other Than Income Taxes, instead of reporting it as a credit to Account 410–Federal Corporate Income Tax Expense. As a result, TCC understated Account 408–Taxes Other Than Income Taxes by $74,461 and overstated Account 410–Federal Corporate Income Tax Expense by the same amount.

UAB proposed, and TCC agreed and incorporated, the following adjusting entry to correct the misstatements identified above:

Adj No.	Acct No.	Description	DR	CR
2	408	Taxes Other Than Income Taxes	$74,461	
	410	Federal Corporate Income Tax Expense *To reclassify federal tax benefits incorrectly recorded and reported in Account 408–Taxes Other than Income Taxes instead of Account 410–Federal Corporate Income Tax Expense.*		$74,461

TCC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC on July 15, 2021.

Criteria:
The USOA states, in part, that:

408. Taxes Other Than Income Taxes
This is the tax expense account to which taxes other than income taxes are charged. Property taxes, payroll taxes (and, unemployment insurance, social security taxes) and other taxes and licenses (e.g., municipal business taxes, annual franchise fees) will be entered in this account.
A separate subaccount will be maintained for each type of tax.

408.1 Property Taxes
408.2 Payroll Taxes
408.3 Other Taxes and Licenses
Note A: Vehicle license fees shall be included in operating expense Account

410. Federal Corporate Income Tax Expense
A. This account will be used only by incorporated water utilities.

B. This account will be charged with federal income taxes for the current calendar year.

Cause:
TCC lacks effective monitoring and review procedures over its accounting and reporting process to ensure compliance with the accounting requirements specified by the USOA.

Effect:
TCC's misclassification of expenses reduces the comparability of its financial statements with other small water utilities. Consistent financial presentation among small water utilities aids decision makers in analyzing the performance and financial position of TCC relative to other small water utilities in California.

Recommendation:
TCC should strengthen its monitoring and review procedures over its accounting and reporting process to ensure compliance with the accounting requirements specified by the USOA.

Finding 3: Noncompliance with USOA Accounting Requirements in Recording and Reporting Revenue

Condition:
TCC understated Account 470–Metered Water Revenue, Account 141–Accounts Receivable–Customers, and Account 253–Other Credits by $14,394, $29,612, and $3,352, respectively, in its 2020 Annual Report originally filed with the CPUC's Water Division on May 3, 2021. TCC used cash basis of accounting to record and report its revenues. Our review of TCC's accounting records revealed the following misstatements:

	Overstated/(Understated)		
Description	**Metered Water Revenue**	**Accounts Receivable**	**Other Credits**
TCC did not accrue $29,612 of receivables and revenues earned in 2020 as of December 31, 2020.	($29,612)	($29,612)	
TCC incorrectly recorded $3,352 of advanced payments from a customer as revenues instead of recording it as Other Credits.	3,352		($3,352)
TCC incorrectly reported $11,866 of Metered Water Revenue earned in 2019 as revenues in 2020.	11,866		
Total Misstatement	($14,394)	($29,612)	($3,352)

UAB proposed, and TCC agreed and incorporated, the following adjusting entry to correct the misstatements identified above:

Adj No.	Acct. No.	Description	DR	CR
3	141	Accounts Receivable - Customers	$29,612	
	215	Retained Earnings		$11,866
	253	Other Credits		3,352
	470	Metered Water Revenue		14,394
		To record Meter Water Revenues, Accounts Receivable, and Other Credits omitted from TCC's general ledger and the 2020 Annual Report.		

TCC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC on July 15, 2021.

Criteria:
The USOA states, in part, that:

> **2. General Accounting Instructions**
> A. The books of account of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year.
>
> **141. Accounts Receivable - Customers**
> Note: Accounts receivable other than from customers for water service shall be included in account 174, Other Current Assets, or in account 121, Non-Water Utility Property and Other Assets, as appropriate.

253. Other Credits
This account shall include advance billings, unamortized premium on debt, items in suspense and other credit items not provided for in other accounts. This account shall also include specific revenues (Revenue Balancing Account) that the Commission has authorized the utilities to record for future repayment.

Cause:
TCC used cash basis of accounting to record and report its revenues. TCC lacks effective review and monitoring procedures to ensure that revenues are recorded and reported using accrual basis of accounting as required by the USOA.

Effect:
Inaccurate reporting of Accounts Receivable and Other Credits distorted TCC's financial position of December 31, 2020. Misstated Metered Water Revenue in TCC's Annual Report, which may be used during TCC's General Rate Case application review process, could impact the water rates for TCC's ratepayers.

Recommendations:
TCC should update its accounting policy to ensure that revenues are recorded and reported using accrual basis of accounting. TCC should establish and implement review and monitoring procedures over its accounting and reporting process to ensure compliance with the accounting requirements specified by the USOA.

Finding 4: Noncompliance with USOA Accounting Requirements

Condition:
TCC used cash basis of accounting to record its accounting transactions during the review period. The USOA requires utilities to use accrual basis of accounting. Cash basis of accounting recognizes expenses when they are paid, and revenue when cash is received. Accrual basis of accounting recognizes expenses and revenues in the period in which expenses are incurred, or revenues are earned.

Criteria:
The USOA states that:

2. General Accounting Instructions
A. The books of account of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year.

B. All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, memoranda and information useful in determining the facts regarding a transaction.

C. Utilities may further subdivide any of the accounts provided that such subdivisions do not impair the integrity of the accounts, or they may maintain such additional accounts as are included in the Uniform System of Accounts for Class A Water Utilities.

Cause:
TCC used cash basis of accounting to record and report its accounting transactions rather than using accrual basis of accounting as required by the USOA.

Effect:
The use of cash basis of accounting can result in material misstatements in total operating revenues, operating expenses, liabilities, or assets reported in the Annual Report. Inaccurately reported account balances in the Annual Report could impact water rates for TCC's ratepayers.

Recommendation:
TCC should update its accounting policy and practices to ensure compliance with the accounting requirements specified by the USOA by using accrual basis of accounting to record and report its accounting transactions.

APPENDIX B—UTILITY'S RESPONSE

The Casmite Corporation
P.O. Box 6020
San Ramon, CA 94583
(925) 842-1213

August 11, 2022

Angie Williams, Director
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 958811

RE: Reply to Utility Audits, Risk and Compliance Division Utility Audits Branch regarding review of financial statements for The Casmite Corporation for the year ended December 31, 2020.

FINDING #1

The Casmite Corporation (TCC) accepts this finding and as a result has made this correction in the Revised CPUC Report filed July 15, 2022.

FINDING #2

The Casmite Corporation (TCC) accepts this finding and as a result has made this correction in the Revised CPUC Report filed July 15, 2022.

FINDING #3

TCC contracts with Fluid Resource Management (FRM) to read meters, and FRM subcontracts with Wallace Group to issue water bills, collect payments and to remit payments to TCC who sends the payments onto Chevron for deposit into the bank. The amount of accounts receivable at year end is not material to Chevron's financial position and has not been included in the accounting by Chevron.

TCC recognizes that when the TCC financials are presented on a standalone basis that the accounts receivable is material to TCC's financial position. In the future, TCC will make the accounts receivable adjustment in the preparation of the Annual CPUC Report.

The Casmite Corporation (TCC) accepts this finding and as a result has made this correction in the Revised CPUC Report filed July 15, 2022.

FINDING #4

TCC does not agree with this finding. TCC uses the accrual basis of accounting as it is part of the Chevron accounting system and Chevron uses the accrual basis of accounting. The fact that the accounts receivable was not recorded does not mean that TCC uses the cash basis as

Angie Williams, Director
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
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its accounting method. As explained in the reply to Finding #3, the omission of the accounts receivable is due to the immateriality of TCC (to Chevron as a whole), not the use of the cash basis of accounting.

OTHER COMMENTS

In the footnote on the bottom of page 7, the word "credits" should be changed to "benefits". On page 15, the description for the accounts receivable (top of page), the "2021" should be "2020", and the third description should read… "water revenue earned in 2019 reported as revenues in 2020."

Yours truly,

Kelly A Duran

Kelly A. Duran
Regulatory Real Property Officer

APPENDIX C—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate TCC's comments submitted on August 11, 2022. In its response, TCC agreed with UAB's Findings 1, 2, and 3; but disagreed with Finding 4.

Finding 4: Noncompliance with USOA Accounting Requirements

TCC did not agree with Finding 4. TCC stated that it uses accrual basis of accounting as it is part of Chevron Corporation's accounting system, which uses accrual basis of accounting. TCC also explained that the specific Accounts Receivable transactions in question were omitted due to the immateriality of TCC to Chevron Corporation as a whole.

We disagree with TCC's position. For CPUC's regulatory purposes, TCC is considered a stand-alone entity and files its stand-alone Annual Report with the CPUC. UAB determined the materiality level for TCC's financial statements as a whole as a stand-alone entity, exclusive of Chevron Corporation, consistent with TCC's Annual Report. Therefore, UAB evaluated all of TCC's transactions, account balances, or disclosures in its regulatory financial statements on a stand-alone basis. In addition, we noted TCC misstated account balances for multiple accounts, including Accounts Receivable, Revenues, and Other Credits because TCC recorded transactions using cash basis of accounting rather than accrual basis of accounting as required. As a result, we determined that TCC's use of cash basis of accounting is a systematic issue, and we correctly characterized the issue in Finding 4. The finding and recommendations remain unchanged.

Other Comments:

In its response, TCC also requested to revise the description in the Footnote of the Income Statement on page 7 of the draft report. Specifically, TCC requested to revise the line-item description from "Federal Corporate Income Tax Expense (Tax Credit)" to "Federal Corporate Income Tax Expense (Tax Benefits)" to clarify that the credit balance presented in the Income Statement is not a tax credit but rather the tax benefits passed along from its parent company, Chevron Corporation, to TCC. UAB determined TCC's suggestion is reasonable and appropriate; and therefore, UAB revised the Footnote of the Income Statement on page 7 of this report accordingly. Other parts of the Income Statement remain unchanged.

TCC also noted that the draft report included the incorrect years in the condition of Finding 3 on Page 15 of the draft report. The Finding 3 previously stated "… receivables and revenues earned in **2021** as of December 31, **2021**" and "… Metered Water Revenue earned in **2020** as revenues in **2021**." UAB acknowledges the inadvertent typos in the draft report and revised the descriptions of Finding 3 in this report to state "… receivables and revenue earned in **2020** as of December 31, **2020**" and "… Metered Water Revenue earned in **2019** as revenue in **2020"**. Other parts of Finding 3 remain unchanged.