



# REVIEW OF FINANCIAL STATEMENTS

## Ramona Water Company

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
February 6, 2023



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

**Raymond Yin, CPA  
Program and Project Supervisor**

**Khusbindar Kaur, CPA  
Lead**

**Tir Saephan  
Staff**

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

You can contact our office at:  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
400 R Street, Suite 221  
Sacramento, CA 95811

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

February 6, 2023

Mr. Louis DeMartino, President  
Ramona Water Company  
P.O. Box 390626  
Anza, CA 92539

Dear Mr. DeMartino:

**Final Report Transmittal Letter— Review of Ramona Water Company’s Annual Report for the Year Ended December 31, 2021**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Ramona Water Company’s (RWC) regulatory basis financial statements in the 2021 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2021, and related statements of income, and retained earnings. The final review report is enclosed.

We issued the draft review report on January 13, 2023. RWC responded via email on January 30, 2023, that it agreed with all of the findings of UAB’s review. Therefore, we are issuing this report as final. We will post the final review report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan addressing the findings and recommendations by March 23, 2023. 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](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov).

We appreciate RWC’s assistance and cooperation during the engagement, and your willingness to implement corrective actions. If you have any questions regarding this report, please contact Raymond Yin, Program and Project Supervisor, at (415) 703-1818.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page.

Mr. Louis DeMartino, President

Ramona Water Company

February 6, 2023

Page 2

cc: 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  
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC  
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

# TABLE OF CONTENTS

---

EXECUTIVE SUMMARY.....	1
INDEPENDENT ACCOUNTANT’S REVIEW REPORT.....	2
REVIEWED FINANCIAL STATEMENTS .....	7
Balance Sheet (As Reviewed).....	7
Income Statement (As Reviewed).....	8
Statement of Retained Earnings (As Compiled ).....	9
Notes to Financial Statements.....	10
APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS.....	16

## EXECUTIVE SUMMARY

---

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Ramona Water Company (RWC) as of December 31, 2021, 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 standards applicable to reviews of financial statements prescribed by the generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

RWC is a Class D water utility with 54 active unmetered service connections.<sup>1</sup> RWC's service territory is two miles east of Anza in Riverside County, California. RWC was granted a certificate of public convenience and necessity on March 6, 1973.<sup>2</sup> Western Water Conservation, a Public Benefit Corporation, acquired RWC's water system on November 20, 2014.<sup>3</sup> As a regulated water utility, RWC 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 10, 2016, which is a comprehensive regulatory basis of accounting framework 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 RWC 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 2021 Annual Report as required by the Water Division Memorandum dated January 20, 2022.

Based on our review, except for the balances of the Payables to Affiliated Companies and Retained Earnings accounts, we are not aware of any material modifications that should be made to RWC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by the USOA. RWC could not provide sufficient supporting documents to substantiate the balance of \$19,179 and \$24,127 for Payables to Affiliated Companies and Retained Earnings, respectively, presented in the accompanying financial statements. In addition, RWC's underlying accounting records revealed numerous accounting errors related to the Payables to Affiliated Companies and Retained Earnings account balances. RWC's management has yet to determine the effects of these departures from the USOA accounting requirements on RWC's financial position. Due to the pervasiveness of the recording errors in RWC's accounting records relating to Account 230—Payables to Affiliated Companies and Account 215—Retained Earnings, UAB is unable to determine the cumulative total impact of these accounting errors on RWC's financial position

---

<sup>1</sup> RWC's 2021 Annual Report, Schedule I—Number of Active Service Connections, Page 19.

<sup>2</sup> CPUC D.14-11-033, Page 4.

<sup>3</sup> CPUC D.14-11-033, Ordering Paragraph 1, Page 21.

without performing an in-depth review of RWC's historical accounting records. Determining the cumulative impact on the balance of Retained Earnings as of December 31, 2021, would require UAB to go beyond the scope of this review.

For the review period, UAB did not note any noncompliance with PU Code Section 818. In addition, RWC timely filed its 2021 Annual Report as required by the directives from the CPUC's Water Division.

UAB identified six material misstatements in RWC's Annual Report originally filed with the CPUC's Water Division and a noncompliance with the USOA requirements as described in the Appendix A–Review Findings and Recommendations. These findings are summarized below:

- Finding 1: RWC omitted reporting a material balance of Account 230–Payables to Affiliated Companies in its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022. RWC reported a balance of \$19,179 for Payables to Affiliated Companies in its revised Annual Report; however, RWC did not provide adequate supporting documentation to substantiate the balance.
- Finding 2: RWC incorrectly reported a balance of \$35,250 in Account 218–Proprietary Capital instead of reporting the balance in Account 215–Retained Earnings in its 2021 Annual Report. The USOA mandates that Account 218–Proprietary Capital should only be used by a sole proprietor, or partners, in an unincorporated water utility. RWC is a public benefit corporation; therefore, RWC should have reported its cumulative earnings in Account 215–Retained Earnings. As a result, RWC overstated Account 218–Proprietary Capital by \$35,250 and understated Account 215–Retained Earnings by the same amount.
- Finding 3: RWC's reported deficit ending Retained Earnings balance of \$10,694 that is materially misstated in its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022. RWC understated its Retained Earnings by \$43,401 due to several accounting errors and omissions UAB identified during the review. In addition, RWC did not accurately carryover the cumulative Retained Earnings balances from year to year.
- Finding 4: RWC understated Account 105.2–Construction Work in Progress–Grant Funds, and Account 265–Contributions in Aid of Construction (CIAC) because RWC omitted activities related to its Grant D16-02025 in its 2021 Annual Report. As a result, RWC understated Account 105.2–Construction Work in Progress–Grant Funds and Account 265–CIAC by \$521,316.
- Finding 5: RWC omitted reporting \$8,455, \$429, \$554, and \$179 balances for Account 141–Accounts Receivable, Account 664–Other Plant Maintenance Expense, Account 231–Accounts Payable, and Account 241–Other Current Liabilities, respectively, in its 2021 Annual Report.
- Finding 6: RWC misclassified \$9,100 of management salaries and \$673 of expenses for water testing as Professional Services in its 2021 Annual Report. As a result, RWC overstated Account 682–Professional Services by \$9,773, and understated Account 671–Management Salaries and Account 650–Contract Work by \$9,100 and \$673, respectively.

- Finding 7: RWC did not maintain its accounting records as required by the USOA. Specifically, RWC did not utilize the Chart of Accounts prescribed by the USOA in its General Ledger.

UAB discussed the above findings with RWC during fieldwork. RWC's management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. RWC submitted its revised financial statements to the CPUC's Water Division on November 18, 2022, to correct the material misstatements in each account, except for Payables to Affiliated Companies and Retained Earnings, as described in Appendix A of this report. UAB further discussed these findings with RWC's management at the exit conference on December 6, 2022, and RWC concurred with the review results. At the exit conference, we stated that the final review report will include the views of responsible officials. Except for the Payables to Affiliated Companies and Retained Earnings accounts, UAB is not aware of any material modifications that should be made to the accompanying financial statements. UAB provided a draft review report to RWC for comments on January 13, 2023. RWC responded via email on January 30, 2023, that it agreed with all of the findings of UAB's review. The review findings and recommendations presented in this report represent our final determination of this review engagement.



# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

---

Mr. Louis DeMartino, President  
Ramona Water Company  
P.O. Box 390626  
Anza, CA 92539

## Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Ramona Water Company (RWC), which comprise the balance sheet as of December 31, 2021, and the related statements of income and retained earnings for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of RWC'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*

RWC's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework prescribed by CPUC's Uniform System of Accounts (USOA) for Water Utilities; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, RWC's management is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC 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 prescribed by the USOA. UAB conducted this review in compliance with the auditing standards of GAGAS, except for obtaining an external peer review within the required timeframe as discussed in the succeeding paragraph. We believe that the results of our procedures provide a reasonable basis for our conclusion.

UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

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

### *Basis for Qualified Conclusion*

As noted in Notes 3 and 7 of the accompanying financial statements, RWC could not provide sufficient supporting documents to substantiate the balance of \$19,179 and \$24,127 for Payables to

Affiliated Companies and Retained Earnings, respectively, presented in the accompanying financial statements. In addition, RWC's underlying accounting records revealed numerous accounting errors related to the Payables to Affiliated Companies and Retained Earnings account balances. The effects of this departure from the USOA accounting requirements on RWC's financial position has not been yet determined by its management.

### ***Qualified Conclusion***

Based on our review, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, 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 accounting framework prescribed by the USOA.

### ***Basis of Accounting***

For regulatory purposes, the CPUC adopted, through Decision (D.) 16-11-006 on November 10, 2016, the updated USOA, which is a comprehensive regulatory basis of accounting framework other than the generally accepted accounting principles (GAAP) in the United States of America. The CPUC requires all water and sewer utilities to prepare their financial statements in accordance with the accounting framework prescribed by the USOA. RWC's financial statements were prepared based on this regulatory requirement.

We draw attention to the 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.

### ***Emphasis of Matter – Correction of Material Misstatements***

As discussed in Notes 3, 4, 5, 7 and 8, UAB identified six material misstatements in RWC's 2021 Annual Report originally filed with CPUC's Water Division on March 1, 2022. Except for the misstatements related to Retained Earnings and Payables to Affiliated Companies accounts as disclosed in Notes 3 and 7, RWC corrected four of the six material misstatements in the accompanying financial statements. As discussed in Note 3 and Note 7 to the Financial Statements, UAB does not express a conclusion on the reported balances of Retained Earnings and Payables to Affiliated Transactions as of December 31, 2021, in the accompanying financial statements. However, our conclusion to the rest of the accompanying financial statements is not modified with respect to this matter.

### ***Other Matter – Views of Responsible Official***

We discussed our review results and findings with RWC during fieldwork. RWC's management concurred with the findings and agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements described in Appendix A of this report. RWC submitted its revised financial statements to the CPUC's Water Division to correct the material misstatements in each account, except for Payables to Affiliated Companies and Retained Earnings, as described in Appendix A of this report, on November 18, 2022. UAB further discussed these findings with RWC's management at the exit conference on December 6, 2022, and RWC concurred with the review results. At the exit conference, we stated that the final review report will include the views of responsible officials. Except for the Payables to Affiliated Companies and Retained Earnings account, UAB is not aware of any material modifications that should be made to the accompanying financial statements. UAB provided a draft review report to RWC for comments on January 13, 2023. RWC responded via email on January 30, 2023, that it agreed with all of the findings of UAB's review. 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***

RWC's management should submit a corrective action plan (CAP) to UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by March 23, 2023. The CAP should address how RWC will implement the recommendations and provide the timing of incorporating UAB's review adjustments to RWC's books and records. If RWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. RWC should use the amounts reviewed by UAB as presented in this report as the basis to file its 2022 Annual Report with the CPUC.

**Report on Other Regulatory Requirements**

For regulatory purposes, UAB also reviewed whether RWC complied with PU Code Section 818 to obtain its long-term debts, and whether RWC timely filed its 2021 Annual Report as required by CPUC's Water Division. For the review period, UAB did not note any noncompliance with PU Code Section 818. In addition, RWC has timely filed its 2021 Annual Report in compliance with the CPUC directive from the Water Division. However, as described in Finding 7 in Appendix A of this report, RWC did not maintain its accounting system as required by the USOA.

***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 RWC, 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's website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

---

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Sacramento, CA  
February 6, 2023

## REVIEWED FINANCIAL STATEMENTS

---

### Ramona Water Company Balance Sheet (As Reviewed) As of December 31, 2021

<b>ASSETS</b>	
<b>UTILITY PLANT</b>	
Water Plant in Service	\$59,250
Construction Work in Progress – Grant Funds (Note 2)	521,316
Accumulated Depreciation of Water Plant (Note 2)	<u>(24,000)</u>
<b>Net Utility Plant</b>	<b>556,566</b>
 <b>CURRENT AND ACCRUED ASSETS</b>	
Cash	334
Accounts Receivable–Customers	<u>8,455</u>
<b>Total Current and Accrued Assets</b>	<b>8,789</b>
<b>Total Assets and Other Debits</b>	<b><u><u>\$565,355</u></u></b>
 <b>CAPITALIZATION AND LIABILITIES</b>	
<b>CORPORATE CAPITAL AND SURPLUS</b>	
Retained Earnings (Note 3)	<u>\$24,127</u>
<b>Total Capitalization</b>	<b>24,127</b>
 <b>CURRENT AND ACCRUED LIABILITIES</b>	
Payables to Affiliated Companies (Note 7)	19,179
Accounts Payable	554
Other Current Liabilities	<u>179</u>
<b>Total Current and Accrued Liabilities</b>	<b>19,912</b>
 <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	
Contributions in Aid of Construction (Note 8)	<u>521,316</u>
<b>Total Contributions in Aid of Construction</b>	<b>521,316</b>
<b>Total Equity and Liabilities</b>	<b><u><u>\$565,355</u></u></b>

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

**Ramona Water Company**  
**Income Statement (As Reviewed)**  
 For Year Ended December 31, 2021

<b>OPERATING REVENUES</b>	
Unmetered Water Revenue	\$38,775
<b>Total Operating Revenue</b>	<u>38,775</u>
<b>OPERATING EXPENSES (Note 6)</b>	
<b>Plant Operation and Maintenance Expenses</b>	
Power	13,422
Contract Work	673
Transportation Expense	11,312
Other Plant Maintenance Expenses	5,850
<b>Total Plant Operation and Maintenance Expenses</b>	<u>31,257</u>
<b>Administrative and General Expenses</b>	
Management Salaries	9,100
Uncollectible Accounts Expense	867
Office Services and Rentals	6,635
Office Supplies and Expenses	6,840
Professional Services	1,370
Insurance	1,971
<b>Net Administrative and General Expenses</b>	<u>26,783</u>
<b>Total Operating Expenses</b>	58,040
Depreciation Expense	1,500
<b>Total Operating Revenue Deductions</b>	<u>59,540</u>
<b>Net Loss</b>	<u><u>(\$20,765)</u></u>

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

Ramona Water Company  
**Statement of Retained Earnings (As Compiled <sup>4</sup>)**  
 For Year Ended December 31, 2021

<b>Retained Earnings, Beginning of Year</b>	\$9,642
<b>CREDITS:</b>	
UAB Adjustment to Proprietary Capital	35,250
UAB Adjustment to Accounts Receivable	8,455
UAB Adjustment to Other Plant Maintenance Expense	429
RWC Prior Period Adjustment <sup>5</sup>	11,028
<b>Total Credits</b>	55,162
<b>DEBITS:</b>	
Net Loss	20,765
UAB Adjustment to Accounts Payable	554
UAB Adjustment to Other Current Liabilities	179
RWC Adjustment to Payables to Affiliated Companies	19,179
<b>Total Debits</b>	40,677
<b>Retained Earnings, End of Year</b>	\$24,127

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

---

<sup>4</sup> UAB compiled the Statement of Retained Earnings based on the reviewed Balance Sheet and Income Statement, and other relevant financial data.

<sup>5</sup> The Balance Sheet in RWC's Annual Report originally filed with the Water Division on March 1, 2022, did not balance. RWC's revised Annual Report included a \$11,028 plug-in, unsubstantiated prior period adjustment to balance the Balance Sheet.

# Ramona Water Company

## Notes to Financial Statements

RWC is a Class D water utility with 54 active unmetered service connections.<sup>6</sup> RWC service territory is two miles east of Anza in Riverside County in California. RWC was granted a certificate of public convenience and necessity on March 6, 1973.<sup>7</sup> Western Water Conservation, a Public Benefit Corporation, acquired RWC's water system on November 20, 2014.<sup>8</sup>

### **Significant Accounting Policies**

The financial statements of RWC were prepared on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities. Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the USOA adopted in Decision (D.) 16-11-006 by the CPUC on November 10, 2016, which is a comprehensive regulatory basis of accounting framework 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 the 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.

The 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

---

<sup>6</sup> RWC's 2021 Annual Report, Schedule I—Number of Active Service Connections, Page 19.

<sup>7</sup> CPUC D.14-11-033, Page 4.

<sup>8</sup> CPUC D.14-11-033, Ordering Paragraph 1, Page 21.

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 each depreciable plant account; and it is mandatory for water utilities having more than 500 customers.<sup>9</sup> The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

RWC computes depreciation on a composite depreciation rate of three percent, which falls within industry average.

### **(2) Asset Retirement**

The USOA requires that water plant be recorded at original cost. In the 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 the USOA.

RWC did not retire any assets during the review period.

### **(3) Sale and Acquisition of Properties**

Under GAAP, entities recognize gain or loss from disposal of properties and recognize goodwill or gain from a bargain purchase of other entities' segment or properties.

Under the USOA, no goodwill or gain is recognized from the sale or acquisition of a water system or unit, unless it's approved by the CPUC's decision. When the utility sells or purchases the water system or unit, the utility shall first record the transaction into a temperate Account 104, Water Plant Purchased or Sold. Within six months from the date of sale or date of acquisition, the utility shall file with the CPUC for approval of the proposed journal entries to clear this account. The difference between the net original cost of the assets acquired and the cost to the acquiring utility shall be charged or credited to Account 114, Water Plant Acquisition Adjustments.

RWC did not acquire or sell any utility property during the review period.

## **3. Retained Earnings**

RWC did not maintain historical accounting records to support the retained earnings balance of \$24,127 reported in its revised 2021 Annual Report submitted to the CPUC on November 18, 2022. Due to prior year accounting errors, the Balance Sheet in RWC's originally filed Annual Report did not balance. RWC reported a balance of \$35,584 for Total Assets and Other Debits but reported a balance of \$24,556 for Total Liabilities and Other Credits, resulting in a variance of \$11,028. In its revised Annual Report, RWC included a \$11,028 plug-in, unsubstantiated prior year adjustment to

---

<sup>9</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.



balance the Balance Sheet. In addition, as noted in Finding 3, RWC's Retained Earnings as of December 31, 2021, is also misstated because RWC did not accurately carry over the cumulative balances of Retained Earnings from year to year. The effects of this departure from the USOA on RWC's financial position have not been determined by RWC's management. Determining the cumulative effect on the Retained Earning balance as of December 31, 2021, would require UAB to go beyond the scope of this review. Therefore, UAB does not express a conclusion on the Retained Earning balance in the accompanying balance sheet as of December 31, 2021.

Besides, RWC incorrectly reported a balance of \$35,250 in Account 218–Proprietary Capital in its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022. However, RWC incorporated UAB's proposed adjustments and corrected this misstatement in its revised Annual Report submitted to the CPUC's Water Division on November 18, 2022.

#### **4. Operating Expense**

RWC misclassified \$9,100 of management salaries and \$673 of expenses for water testing as Professional Services in its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022. However, RWC incorporated UAB's proposed adjustments and corrected these misstatements in its revised Annual Report submitted to the CPUC's Water Division on November 18, 2022.

#### **5. Omitted Accounts**

RWC omitted reporting \$8,455, \$429, \$554, and \$179 balances for Account 141–Accounts Receivable, Account 664–Other Plant Maintenance Expense, Account 231–Accounts Payable, and Account 241–Other Current Liabilities, respectively, in its 2021 Annual Report. However, RWC incorporated UAB's proposed adjustments and corrected these misstatements in its revised Annual Report submitted to the CPUC's Water Division on November 18, 2022.

#### **6. 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. The 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.<sup>10</sup>

RWC correctly remitted \$554 of CPUC Users Fee collected from its customers to the CPUC in 2021.

#### **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.

---

<sup>10</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.

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....”

RWC’s shareholder provides advances to RWC to avoid cash shortages and ensure timely payments to contractors and vendors. RWC reported a balance of \$19,179 in Account 230–Payables to Affiliated Companies in its revised Annual Report submitted to CPUC’s Water Division on November 18, 2022. However, RWC did not maintain adequate supporting documentation to substantiate the balance reported in its revised 2021 Annual Report. Due to the lack of supporting documentation to verify the reported balance in the revised 2021 Annual Report, UAB does not express a conclusion on the Payables to Affiliated Companies balance in the accompanying balance sheet as of December 31, 2021.

## **8. Contribution in Aid of Construction (CIAC)**

CIAC account records non-refundable contributions of cash, land or other property donated to the water utility to assist it in constructing, extending, or relocating its water system. The funds can be from governmental agencies and others. The balances in this account shall be written off over the period of its estimated service life by charging to Account 272, Accumulated Amortization of Contributions instead of a Depreciation Expense account, with contra credits to the appropriate subaccount of Account 108, Accumulated Depreciation of Water Plant.

### **(1) Facilities Fees**

Facilities Fees are fees collected from ratepayers for the purpose of recovering a certain amount of revenue to offset certain facilities or improvements that are required to serve additional customers. Ordering Paragraph (OP) 3 of D.91-04-068 granted authority to Class C and D water utilities, and to districts of Class A and B water utilities with 2,000 or fewer service connections, to institute facilities fees as a part of their requests for a general increase in rates. Through Resolution W-4110, the CPUC granted authority to all Class D water utilities to file generic tariffs to charge fees for new connections for the purpose of generating funds to build a new plant or replace deteriorated plant. Facilities fees received by a water utility shall be deposited in Account 132, Cash–Special Deposits and credited to Account 253, Other Credits. At the time these fees are used for water plant improvements, Account 101, Water Plant in Service shall be debited and Account 132, Cash–Special Deposits credited. Concurrently, Account 253, Other Credits shall be debited and Account 265.7, All Other Contributions in Aid of Construction credited. The annual depreciation and amortization of the facilities fees plant additions shall be debited to Account 272, Accumulated Amortization of Contributions, and credited to Account 108.3, Accumulated Depreciation of Water Plant–Other. The use of facilities fees should be in compliance with SP U-28-W.

RWC did not collect any facilities fees from its ratepayers.

### **(2) Government Grants**

Funds received from a governmental funding agency shall be deposited in Account 132, Cash–Special Deposits and credited to Account 265.1, Contributions in Aid of Construction–Government Grant Proceeds. When the Grant Funds were used, the utility shall credit the Account 132, Cash–Special Deposits and debit the appropriate plant asset account. The use of grant funds should be in compliance with the funding agencies’

requirements. For the depreciable portion of the grant-funded properties, the annual depreciation and amortization of the Grant Funds shall be debited to Account 272, Accumulated Amortization of Contributions, and credit to Account 108.2, Accumulated Depreciation of Water Plant—Grant Funds. For the non-depreciable portion of the funded properties, when the properties are retired, the costs shall be credited to the appropriate plant account and charged to Account 265.1, Contributions in Aid of Construction—Government Grant Proceeds in order to eliminate any credit balance in the grant fund account applicable thereto.

As of December 31, 2021, RWC has received and expended \$521,316 of grant funding from California State Water Resources Control Board (SWRCB) for a well construction planning project. RWC did not record and report the \$521,316 of grant funding it received and expended as CIAC in Account 265 and Construction Work in Progress – Grant Funds in Account 105.2. However, RWC incorporated UAB’s proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on November 18, 2022.

## 9. Form of Financial Statements <sup>11</sup>

### (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 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.

## 10. 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

---

<sup>11</sup> Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

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.

## **11. Compliance filing of 2021 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, RWC has complied with these requirements.

## APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

---

### **Finding 1: Materially Misstated Payables to Affiliated Companies**

#### **Condition:**

RWC omitted reporting a material balance of Account 230—Payables to Affiliated Companies in its 2021 Annual Report originally filed with the CPUC’s Water Division on March 1, 2022. RWC reported a balance of \$19,179 for Payables to Affiliated Companies Account in its revised Annual Report submitted to the CPUC’s Water Division on November 18, 2022; however, RWC did not provide adequate supporting documentation to substantiate this balance.

In its originally filed 2021 Annual Report, RWC did not report any liability it owed to its shareholder. RWC’s owner provided advances to RWC to avoid cash shortages and ensure timely payments to contractors and vendors. RWC’s General Ledger (G/L) and the summary schedule of loan payable showed that RWC’s Payables to Affiliated Companies was \$106,126 and \$104,592, respectively, as of December 31, 2021. However, this liability was not reported in RWC’s originally filed Annual Report. Our review of RWC’s underlying accounting records revealed numerous accounting errors in recording the transactions of Payables to Affiliated Companies in RWC’s G/L. Due to the pervasiveness of the recording errors in RWC’s G/L relating to Account 230—Payables to Affiliated Companies, the cumulative total impact of these accounting errors on RWC’s financial position cannot be determined.

Our review of RWC’s G/L and the summary schedule of loan payable revealed the following accounting errors impacting the Payables to Affiliated Companies balance as of December 31, 2021:

- In 2018, RWC reimbursed its owner for a \$61,045 payment for an out-of-pocket vendor payment that the owner made with his personal funds. The reimbursement to the owner was recorded as a reduction (debit) to Account 230—Payables to Affiliated Companies without accruing and recording the related expense and liability in the G/L. As a result, RWC understated Account 230—Payables to Affiliated Companies by \$61,045 and overstated Account 215—Retained Earnings by the same amount in the G/L.
- RWC recorded several journal entries accruing expenses and Payables to Affiliated Companies totaling \$138,018 as of December 31, 2021, related to its Grant D16-02025 from the California State Water Resources Control Board (SWRCB) in its G/L from 2018 through 2020. RWC was unable to provide supporting documentation to substantiate these transactions. As a result, RWC’s Payables to Affiliated Companies balance of \$138,018 recorded in its G/L is unsupported and unverifiable.
- RWC did not record expenses and Payables to Affiliated Companies totaling \$56,753 for services RWC owner performed for work related to Grant D16-02025 from the SWRCB. As a result, RWC understated Account 230—Payables to Affiliated Companies balance by \$56,753 and overstated Account 215—Retained Earnings by the same amount as of December 31, 2021.

On November 18, 2022, RWC provided its revised 2021 Annual Report to the CPUC's Water Division, which included a balance of \$19,179 for Account 230—Payables to Affiliated Companies. To substantiate the balance reported in the revised Annual Report, RWC provided a Payables to Affiliated Companies ledger, which included transactional activities related to this account that occurred in 2021. The ledger included a beginning balance of \$21,609 as of January 1, 2021. However, RWC did not provide any documentation to substantiate the beginning balance. Therefore, the accuracy of Payables to Affiliated Companies balance of \$19,179 reported in RWC's revised Annual Report as of December 31, 2021, cannot be verified.

**Criteria:**

The USOA states, in part, that:

**230. Payables to Affiliated Companies**

A. This account shall include amounts owed to affiliated companies on notes, drafts, acceptances, or other similar evidence of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.

Note: The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note, draft, acceptance, indebtedness, or other open account.

**Cause:**

RWC lacks policies to ensure all accounting transactions are supported by adequate documentation. In addition, RWC lacks monitoring and review procedures over its accounting and reporting process to ensure that all accounting transactions are accurately recorded in the G/L and reported in its Annual Reports.

**Effect:**

RWC's management has yet to determine the effects of this departure from the USOA accounting requirements on RWC's financial position. Without performing an in-depth review of RWC's historical accounting records, UAB is unable to determine the impact of prior year errors on RWC's financial statements. Determining the cumulative impact of this misstatement would require UAB to go beyond the scope of this review.

Inaccurate reporting of Payables to Affiliated Companies (Account 230) distorted RWC's financial position as of December 31, 2021, misstated its available working capital, and reduced the comparability of RWC's 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 RWC relative to other small water utilities in California.

**Recommendations:**

RWC should establish accounting policies and implement monitoring and review procedures over its accounting and reporting process to ensure that all accounting transactions are supported by adequate supporting documentation, properly recorded in the G/L, and accurately reported in its Annual Reports.

**Finding 2: Misuse of Proprietary Capital Account****Condition:**

RWC incorrectly reported a balance of \$35,250 in Account 218–Proprietary Capital in its 2021 Annual Report originally filed with the CPUC’s Water Division on March 1, 2022. The USOA mandates that Account 218–Proprietary Capital should only be used by a sole proprietor, or partners, in an unincorporated water utility. RWC is a public benefit corporation; therefore, RWC should have reported its cumulative earnings in Account 215–Retained Earnings. As a result, RWC overstated Account 218–Proprietary Capital by \$35,250 and understated Account 215–Retained Earnings by the same amount.

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

Adj. No.	Acct No.	Description	DR	CR
1	218	Proprietary Capital	\$35,250	
	215	Retained Earnings		\$35,250
		<i>To correctly report the corporate earnings that was incorrectly reported as reported as Proprietary Capital.</i>		

RWC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC’s Water Division on November 18, 2022.

**Criteria:**

The USOA states, in part, that:

**215. Retained Earnings (for corporations only)**

- A. This account shall reflect corporate earnings retained in the business.
- B. The account shall be credited with:
  1. Net income.
  2. Accounting adjustments not properly attributable to the current period.
- C. The account shall be charged with:
  1. Net losses.
  2. Accounting adjustments not properly attributable to the current period.
  3. Dividends.

**218. Proprietary Capital (for proprietorships and partnerships only)**

- A. This account shall be credited with the investment of a sole proprietor, or partners, in an unincorporated water utility.
- B. A separate subaccount shall be maintained for each partner.
- C. At the end of each calendar year the net income or loss for the year shall be entered in this account.

D. Accounting adjustments not properly attributable to operations of the current period shall be charged or credited to this account.

E. All withdrawals from the business by the owner or partners other than as compensation for services performed shall be charged to subaccount 218.1, Proprietary Drawings. This subaccount shall be closed into Account 218 at the end of each accounting period.

Note: Amounts designated by a non-corporate owner or partner as a “salary”, representing fair and reasonable compensation for services performed, shall be charged to operating expense account 671, Management Salaries, or to water plant accounts when appropriate. If clearing accounts are used, the owner’s or partners’ salaries will initially be charged to Account 900.1, Payroll Clearing, pending distribution.

**Cause:**

RWC lacks effective monitoring and review procedures over its accounting and reporting process to ensure that corporate earnings retained in the business are accurately reported in Account 215–Retained Earnings.

**Effect:**

Inaccurate reporting of Account 218–Proprietary Capital and Account 215–Retained Earnings, distorted RWC’s financial position as of December 31, 2021, and reduced the comparability of RWC’s 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 RWC relative to other small water utilities in California.

**Recommendation:**

RWC should strengthen its monitoring and review procedures over its accounting and reporting process to ensure corporate earnings retained in the business are accurately recorded and reported in Account 215–Retained Earnings in compliance with the USOA.

**Finding 3: Materially Misstated Retained Earnings**

**Condition:**

RWC’s reported deficit ending Retained Earnings balance of \$10,694 that is materially misstated in its 2021 Annual Report originally filed with the CPUC’s Water Division on March 1, 2022, because of the following accounting errors:

- The Balance Sheet in the 2021 Annual Report originally filed with the CPUC’s Water Division on March 1, 2020, did not balance. RWC reported a balance of \$35,584 for Total Assets and Other Debits but reported a balance of \$24,556 for Total Liabilities and Other Credits, resulting in a variance of \$11,028. RWC’s revised Annual Report submitted to the CPUC’s Water Division on November 18, 2022, included a prior year accounting adjustment



of \$11,028<sup>12</sup> to correct this issue.

- RWC understated the Retained Earnings reported in its original Annual Report by \$43,401 as a result of cumulative accounting errors and omissions as described throughout Appendix A.
- For years ended December 31, 2018, 2019, and 2020, the beginning balances of Retained Earnings shown in RWC's Annual Reports for the respective year did not agree with the preceding year's ending balance as follows:

<b>Annual Report for Year Ended:</b>	<b>Prior Year Ending Balance</b>	<b>Beginning Balance</b>	<b>Variance</b>
December 31, 2018	(\$30,846)	\$0	\$30,846
December 31, 2019	(6,774)	40,211	46,985
December 31, 2020	0	40,211	40,211
December 31, 2021	9,642	9,642	0

Although the beginning balance of Retained Earnings in the 2021 Annual Report agreed with the ending balance of Retained Earnings in the 2020 Annual Report, the ending balance of Retained Earnings in the 2020 Annual Report is likely misstated because RWC did not accurately carry over the cumulative balances of Retained Earnings from year to year.

Without performing an in-depth review of RWC's historical accounting records, the cumulative impact on RWC's financial statements cannot be determined due to various accounting and reporting errors. Determining the cumulative impact on the balance of Retained Earnings as of December 31, 2021, would require UAB to go beyond the scope of this review.

**Criteria:**

General Accounting Instructions 2 of the USOA states, in part, that:

- 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.

**Cause:**

RWC lacks policies to ensure that Retained Earnings balances are accurately computed and recorded in its G/L, and properly reported in its Annual Reports. In addition, RWC lacks monitoring and review procedures to prevent or timely detect and correct accounting errors.

**Effect:**

RWC's management has yet to determine the effects of this departure from the USOA accounting requirements on RWC's financial position. Without performing an in-depth review of RWC's historical accounting records since its inception, UAB is unable to determine the impact of prior year errors on RWC's financial statements. Determining the cumulative impact on the Retained

<sup>12</sup> Schedule A-8 (Retained Earnings) on Page 12 of RWC's revised Annual Report includes a prior year accounting adjustment of \$35,250. This adjustment consists of \$43,401 prior year adjustments identified by UAB during the review; \$19,179 of adjustments related to the previous omitted Payables to Affiliated Companies account; and \$11,028 plug-in, unsubstantiated prior period adjustment to balance the Balance Sheet.

Earnings as of December 31, 2021, would require UAB to go beyond the scope of this review. Inaccurate reporting of Retained Earnings distorted RWC's financial position as of December 31, 2021, which could impact decision makers.

**Recommendations:**

RWC should establish accounting policies and implement monitoring and review procedures over its accounting and reporting process to ensure that all accounting transactions are properly recorded in the G/L and accurately reported in its Annual Reports, and accounting errors, if any, are timely detected and corrected.

**Finding 4: Unreported Grant Contributions and Construction Work in Progress**

**Condition:**

RWC understated Account 105.2–Construction Work in Progress–Grant Funds, and Account 265–Contributions in Aid of Construction (CIAC) because RWC omitted activity related to its Grant D16-02025. Grant D16-02025, awarded to RWC by SWRCB, is a construction planning grant. As of December 31, 2021, RWC spent, and SWRCB reimbursed RWC, \$521,316 for eligible grant spending. As of December 31, 2021, the water plant was in the process of construction. RWC omitted recording and reporting all activity related to this grant from its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022. However, the USOA requires utilities to record and report all grant proceeds received for construction as CIAC and the related grant funded plant under construction as Construction Work in Progress. As a result, RWC understated Account 105.2–Construction Work in Progress–Grant Funds and Account 265–CIAC by \$521,316.

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

Adj. No.	Acct No.	Description	DR	CR
2	105.2	Construction Work in Progress - Grant Funds	\$521,316	
	265	Contributions in Aid of Construction		\$521,316
		<i>To record Construction Work in Progress and Contributions in Aid of Construction omitted from the 2021 Annual Report.</i>		

RWC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC's Water Division on November 18, 2022.

**Criteria:**

The USOA states, in part, that:

**11. State and Federal Grant Funds**

A. When Grant Funds are received from a funding agency; the utility must place these funds in a separate account that is restricted to Grant Funds only. The funds shall be recorded as a debit to Account 132 – Cash- Special Deposits and a credit to Account 265.1 – Contributions in Aid of Construction -Government Grant Proceeds. As the grant-funded plant is being constructed, the utility shall record those dollars expended as a debit to Account 105.2 – Construction Work in Progress

– Grant Funds and a credit to Account 132 – Cash – Special Deposits. When the authorized plant has been constructed, a second set of entries shall be recorded as a debit to Account 101.2 Utility Plant in Service – Grant Funds and a Credit to Account 105.2 – Construction Work in Progress – Grant Funds.

**Cause:**

RWC did not follow the accounting requirements of the USOA to account for its grant funds received from a funding agency. RWC lacks monitoring and review procedures over its accounting and reporting process to ensure its compliance with the accounting requirements of the USOA regarding grant funds it receives for construction purposes.

**Effect:**

Inaccurate reporting of Construction Work in Progress in Account 105.2 and Contributions in Aid of Construction in Account 265 distorted RWC's financial position as of December 31, 2021; and could potentially impact the water rates for RWC's ratepayers during RWC's General Rate Case (GRC) review process.

**Recommendation:**

RWC should establish and implement monitoring and review procedures over its grant accounting to ensure grant funds received for construction purposes are recorded and reported in the Annual Report in compliance with the accounting requirements specified in the USOA.

**Finding 5: Accounts Omitted from the 2021 Annual Report****Condition:**

RWC omitted reporting the balances for the following accounts in its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022:

<u>Account</u>	<u>Amount</u>
Account 141 - Accounts Receivable	\$8,455
Account 664 - Other Plant Maintenance Expense	429
Account 231 - Accounts Payable	554
Account 241 - Other Current Liabilities	179

RWC's underlying accounting records, such as the Working Trial Balance, G/L, and Accounts Receivable Aging Report, showed the above balances for these accounts as of December 31, 2021, but RWC omitted them from its 2021 Annual Report.

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

Adj. No.	Acct No.	Description	DR	CR
3	141	Accounts Receivable - Customers	\$8,455	
	664	Other Plant Maintenance Expenses	429	
	231	Accounts Payable		\$554
	241	Other Current Liabilities		179
	215	Retained Earnings		8,151
		<i>To correctly report account balances omitted from the 2021 Annual Report</i>		

RWC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC's Water Division on November 18, 2022.

**Criteria:**

The USOA states, in part, that:

**141. Accounts Receivable – Customers**

This account shall include amounts due from customers for water service.

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.

**664. Other Plant Maintenance Expenses**

This account shall include all plant operation and maintenance expenses not related to volume of water, and not separately provided for in other accounts.

Items

Well rental charges.

Charges for the right to divert water from springs and streams

Cost of drilling nonproductive wells unless special accounting is ordered by the Commission.

Telemetry.

**231. Accounts Payable**

This account shall include all amounts payable by the utility within one year, which is not provided for in other accounts.

**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.

**215. Retained Earnings (for corporations only)**

A. This account shall reflect corporate earnings retained in the business.

B. The account shall be credited with:

1. Net income.
2. Accounting adjustments not properly attributable to the current period.

C. The account shall be charged with:

1. Net losses.
2. Accounting adjustments not properly attributable to the current period.
3. Dividends.

**Cause:**

RWC lacks effective monitoring and review procedures over its accounting and reporting process to ensure all account balances are accurately reported in its 2021 Annual Report.

**Effect:**

Inaccurate reporting of Other Plant Maintenance Expense in Account 664 in the Annual Report, which may be used during RWC's GRC application review process, could potentially impact the water rates for RWC's ratepayers.

Inaccurate reporting of Accounts Receivable in Account 141 and Accounts Payable in Account 231 distorted RWC's financial position as of December 31, 2021, misstated its available working capital, and reduced the comparability of RWC's 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 RWC relative to other small water utilities in California.

**Recommendation:**

RWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that all account balances are accurately recorded and reported in the Annual Report.

**Finding 6: Misclassified Management Salaries**

**Condition:**

RWC misclassified \$9,100 of management salaries and \$673 of expenses for water testing as Professional Services in its 2021 Annual Report originally filed with the CPUC's Water Division on March 1, 2022. The USOA requires utilities to record salaries paid to managers, owners, partners, or principal stockholders in Account 671–Management Salaries and water testing fees be recorded in Account 650–Contract Work. As a result, RWC overstated Account 682–Professional Services by \$9,773, and understated Account 671–Management Salaries and Account 650–Contract Work by \$9,100 and \$673, respectively.

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

Adj. No.	Acct No.	Description	DR	CR
4	650	Contract Work	\$673	
	671	Management Salaries	9,100	
	682	Professional Services		\$9,773

*To reclassify Contract Work and Management  
Salaries incorrectly reported as Professional Services.*

RWC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC's Water Division on November 18, 2022.

**Criteria:**

The USOA states, in part, that:

**682. Professional Services**

This account shall include the fees of independent accountants, engineers, lawyers, and similar professional consultants. This account shall be kept in a manner that will permit ready analysis of charges.

**650. Contract Work**

This account shall include the cost of all repair and maintenance work not performed by water company employees. Examples of such expenses are pump repairs, repairs of water system leaks by local plumbers, painting of tanks by painting contractors, and testing of water by laboratories. This account shall include materials that are part of a contract price if the cost of such materials is not separately stated, and incidental operation and maintenance expenses not chargeable to accounts 630 or 640. The following subaccounts shall be used, if applicable:

- 650.1 Contract Water Quality and Testing Work
- 650.2 Other Contract Work

**671. Management Salaries**

A. This account shall include the portion of salaries of managers, owners, partners or principal stockholders of a utility, chargeable to utility operations.

B. No portion of such salaries shall be allocated to other expense accounts even though the owner or manager may perform other duties (e.g., billing, collecting, and maintenance) in addition to managing the utility.

C. Drawings by partners or owners of non-corporate utilities in addition to amounts designated as "salaries" for operating the utility shall be charged to subaccount 218.1, Proprietary Drawings.

D. The portion of salaries of managers, owners, partners or principal stockholders assignable to utility plant construction shall be charged to Account 101 or Account 105 as appropriate. Also see Account 900.1 Payroll Clearing.

**Cause:**

RWC lacks effective monitoring and review procedures over its accounting and recording process to ensure all expenses are properly classified, recorded, and reported.

**Effect:**

Inaccurate reporting of Contract Work, Management Salaries, and Professional Services reduces the comparability of RWC's 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 RWC relative to other small water utilities in California.

**Recommendation:**

RWC should establish and implement monitoring and review procedures over its accounting and recording process to ensure that all expenses are properly classified, recorded, and reported.

**Finding 7: Noncompliance with USOA Chart of Accounts****Condition:**

RWC did not maintain its accounting records as required by the USOA. RWC did not utilize the Chart of Accounts prescribed by the USOA in its G/L.

**Criteria:**

General Accounting Instructions 2 of the USOA states, in part, that:

- 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:**

RWC lacks effective monitoring and review procedures over its accounting and recording process to ensure compliance with the accounting requirements of the USOA.

**Effect:**

RWC's noncompliance of the USOA 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 RWC relative to other water utilities in California.

**Recommendation:**

RWC should establish and implement monitoring and review procedures over its accounting and recording process to ensure compliance with the accounting requirements of the USOA.