REVIEW OF FINANCIAL STATEMENTS

Easton Estates Water Company

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 4, 2023

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Raymond Yin, CPA
Program and Project Supervisor

Khusbindar Kaur, CPA
Lead

Judith Mason
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

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

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

Transmitted via e-mail

April 4, 2023

Mr. Francis Ferraro
Chief Executive Officer
Easton Estates Water Company
5132 N Palm Avenue, PMB 114
Fresno, CA 93704

Dear Mr. Ferraro:

Final Report Transmittal Letter—Review of Easton Estates 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 Easton Estates Water Company's (EEWC) 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 statement of income. The final review report is enclosed.

UAB provided a draft review report to EEWC for comments on March 20, 2023. EEWC responded via email on March 20, 2023, that it had no comments regarding the draft report. Therefore, we are issuing the report as final. 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 by May 19, 2023. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the Utility Audit Branch at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate EEWC'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.

cc: Claudia Stanley, Secretary, EEWC
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
Judith Mason, Financial Examiner IV, 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 Easton Estates Water Company (EEWC) 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.

Incorporated in California on June 8, 1960, EEWC is a Class D water utility with two metered and 106 flat rate active customer service connections.[1] EEWC serves customers within the City of Fresno in Fresno County, California.[2] As a regulated water utility, EEWC 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 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 EEWC 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, we are not aware of any material modifications that should be made to EEWC'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 EEWC filed its 2021 Annual Report timely in compliance with the CPUC directives from the Water Division. However, UAB identified three material misstatements in EEWC's Annual Report originally filed with the CPUC's Water Division, as described in Appendix A–Review Findings and Recommendations. These findings are summarized below:

- Finding 1: EEWC incorrectly recorded and reported a balance of $42,640 in Account 215–Retained Earnings as of December 31, 2021. EEWC has been incorrectly allocating its earnings from activities related to its Safe Drinking Water Bonds Act (SDWBA) loan to Retained Earnings in Account 215 instead of recording and reporting them in Account 206–Subchapter S Corporation Accumulated Adjustments Account.

[1] EEWC's 2021 Annual Report, Schedule I - Service Connections at End of Year, Page 19.
[2] EEWC's 2021 Annual Report, General Information, Page 4.

- Finding 2: EEWC incorrectly recorded and reported $10,143 of unspent surcharges collected for repaying its SDWBA loan in Account 131–Cash instead of recording and reporting them in Account 132–Cash-Special Deposits in its 2021 Annual Report. USOA requires utilities to record restricted funds in Account 132–Cash-Special Deposits. The surcharges collected from customers related to SDWBA loan are restricted specifically for payment of its SDWBA loan.

- Finding 3: EEWC did not classify the current portion of its Long-Term Debt totaling $8,773 to the Short-Term Notes Payable account in its 2021 Annual Report. As a result, EEWC overstated Account 224–Long-Term Debt by $8,773 and understated Account 232–Short-Term Notes Payable by the same amount in its 2021 Annual Report.

UAB discussed the above findings with EEWC's management during fieldwork. EEWC's management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. EEWC submitted its revised 2021 Annual Report to the CPUC's Water Division on March 3, 2023, to correct the material misstatements described in Appendix A of this report. UAB further discussed these findings with EEWC's management at the exit conference on March 13, 2023, and EEWC 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 EEWC for comments on March 20, 2023. EEWC responded via email on March 20, 2023, that it had no comments regarding the draft report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Francis Ferraro
Chief Executive Officer
Easton Estates Water Company
5132 N Palm Avenue, PMB 114
Fresno, CA 93704

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Easton Estates Water Company (EEWC), which comprise the balance sheet as of December 31, 2021, and the related statement of income for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of EEWC'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
EEWC'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, EEWC'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 EEWC and to meet our other ethical responsibilities, in accordance with 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 accounting framework of 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. EEWC'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, and 6 to the financial statements, UAB identified three material misstatements in EEWC's 2021 Annual Report originally filed with CPUC's Water Division on February 5, 2022. These misstatements have been corrected in the accompanying financial statements. Our conclusion is not modified with respect to this matter.

Other Matter – Views of Responsible Official
We discussed our review results and findings with EEWC's management during fieldwork. EEWC'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. EEWC submitted its revised financial statements to the CPUC's Water Division on March 3, 2023, to correct the material misstatements. UAB further discussed these findings with EEWC's management at the exit conference on March 13, 2023, and EEWC concurred with the review results.

UAB provided a draft review report to EEWC for comments on March 20, 2023. EEWC responded via email on March 20, 2023, that it had no comments regarding the draft 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
EEWC management should submit a corrective action plan (CAP) to UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov by May 19, 2023. The CAP should address how EEWC will implement the recommendations and provide the timing of incorporating UAB's review adjustments to EEWC's books and records. If EEWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement the recommendations. EEWC 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 EEWC complied with PU Code Section 818 to obtain its long-term debts, and whether EEWC 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; and EEWC filed its 2021 Annual Report timely in compliance with the CPUC directives from the Water Division.

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 EEWC, 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).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, CA
April 4, 2023

REVIEWED FINANCIAL STATEMENTS

Easton Estates Water Company
Balance Sheet (As Reviewed)
As of December 31, 2021

ASSETS	
UTILITY PLANT (Note 2)	
Water Plant in Service	$229,187
Water Plant in Service–SDWBA/SRF	188,617
Accumulated Depreciation of Water Plant	(111,635)
Accumulated Depreciation of Water Plant–SDWBA/SRF loan	(169,095)
Net Utility Plant	137,074
CURRENT AND ACCRUED ASSETS	
Cash	109,517
Cash–Special Deposits (Note 3)	10,143
Accounts Receivable–Customers	16,675
Other Current Assets	2,274
Total Current and Accrued Assets	138,609
Total Assets and Other Debits	$275,683
CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Common Stock	$27,200
Subchapter S Corporation Accumulated Adjustments Account	192,542
Total Capitalization	219,742
LONG-TERM DEBT	
Long-Term Debt (Note 4)	24,519
CURRENT AND ACCRUED LIABILITIES	
Accounts Payable	8,818
Short-Term Notes Payable (Note 4)	8,773
Customer Deposits	145
Taxes Accrued	1,078
Total Current and Accrued Liabilities	18,814
DEFERRED CREDITS	
Other Credits	12,608
Total Liabilities and Other Credits	$275,683

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

Easton Estates Water Company
Income Statement (As Reviewed)
For Year Ended December 31, 2021

OPERATING REVENUES (Note 7)	
Unmetered Water Revenue	$72,309
Metered Water Revenue	3,371
Total Operating Revenue	75,680
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	10,100
Materials	78
Contract Work	9,083
Total Plant Operation and Maintenance Expenses	19,261
Administrative and General Expenses	
Management Salaries	2,000
Uncollectible Accounts Expense	226
Office Services and Rentals	7,920
Office Supplies and Expenses	3,508
Professional Services	13,819
Insurance	1,887
Regulatory Commission Expense	869
General Expenses	272
Total Administrative and General Expenses	30,501
Total Operating Expenses	49,762
Depreciation Expense	3,119
SDWBA Loan Amortization Expense	6,287
Taxes Other Than Income Taxes	1,671
State Corporate Income Tax Expense	2,068
Total Operating Revenue Deductions	62,907
Total Utility Operating Income	12,773
OTHER INCOME AND DEDUCTIONS	
Non-Utility Income	12
Interest Expense (SDWBA)	(1,262)
Total Other Income and Deductions	(1,250)
Net Income	$11,523

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

Easton Estates Water Company
Statement of Changes in Shareholder's Equity (As Compiled)
For Year Ended December 31, 2021

Balance Beginning of Year	$208,219
CREDITS:	
Net Income	11,523
Total Credits	11,523
Balance End of Year	$219,742

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

Easton Estates Water Company, Inc.
Notes to Financial Statements

EEWC was incorporated in California on June 8, 1960. EEWC is a Class D water utility with two metered and 106 active customer service connections.[3] EEWC serves customers within the City of Fresno in Fresno County, California.[4]

Significant Accounting Policies

The financial statements of EEWC 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 following describes 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.

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 maintain separate depreciation reserve by different plant accounts in accordance with Appendix

[3] EEWC's 2021 Annual Report, Schedule I - Service Connections at End of Year, Page 19.
[4] EEWC's 2021 Annual Report, General Information, Page 4.

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. The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

EEWC utilizes a composite rate of 2.5 percent for each class of depreciable asset as prescribed in SP U-4-SM to determine depreciation accruals.

(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.

EEWC retired $734 of Meters during the review period.[5]

(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.

EEWC reported $6,341 of plant additions during 2021, which consisted of pumping equipment and meters.[6]

3. Cash for Restricted Use

Under GAAP, if the restricted funds are considered to offset the current liability, the funds may be included as current asset classification. If the funds are set aside for use in the near future for the liquidation of long-term debts, payments to sinking funds, then the funds should be classified to

[5] EEWC's 2021 Annual Report, Schedule A–1 Utility Plant, Page 8
[6] EEWC's 2021 Annual Report, Schedule A–1a Account 101-Water Plant in Service, Page 8

non-current assets. If unsure of the timing of the use, the restricted cash can be classified to Other Assets.

Under the USOA, the restricted funds are recorded to Account 132–Cash-Special Deposits, which should include cash amounts set aside from general corporate funds, deposited in a separate account with fiscal agents or others, and designated for a special use. A separate subaccount shall be maintained for each designated special use. Interest earned from this account shall be credited to Account 421–Non-Utility Income.

EEWC incorrectly recorded and reported $10,143 of unspent surcharges collected for its SDWBA loan as general Cash in Account 131 instead of recording and reporting it in Account 132–Cash-Special Deposits in its 2021 Annual Report originally filed with the CPUC's Water Division February 5, 2022. As a result, EEWC understated Account 132–Cash-Special Deposits by $10,143 and overstated Account 131–Cash by the same amount. However, EEWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC's Water Division on March 3, 2023.

4. Safe Drinking Water Bond Act (SDWBA) Loans

SDWBA loans are low-interest loans from the California Department of Water Resources (DWR) to assist water utilities to fund materials and services used on DWR-approved construction projects. SDWBA loans are repaid through surcharges on customer water bills. Although the accounting treatment of SDWBA loans is similar to GAAP, the USOA requires water utilities to follow the special accounting procedures below:

Water utilities must obtain the CPUC's written approval prior to obtaining a SDWBA loan and instituting a SDWBA surcharge to its ratepayers. Any SDWBA surcharge collected from ratepayers shall be deposited monthly to Account 132, Cash–Special Deposits. The periodical payment of the SDWBA loans and related interest expenses shall be made from this special deposit account.

Plant assets funded by a SDWBA loan are booked in Account 101.1–Water Plant in Service–SDWBA and not depreciable. The principal of a SDWBA loan is amortized through the charges to Account 407–SDWBA Loan Amortization Expense with contra credits to Account 108.1–Accumulated Amortization of SDWBA Loan, over the life of the SDWBA loan.

As of December 31, 2021, EEWC had the following long-term debt outstanding:

Description	Current Portion	Long-Term Debt	Total Principal Outstanding
SDWBA loan	$8,773	$24,519	$33,292
Total Principal Outstanding	$8,773	$24,519	$33,292

In D.93-08-006, dated August 4, 1993, CPUC authorized EEWC to enter into a loan agreement with the DWR to borrow $192,982. The proceeds of the loan agreement were used to construct a new well for EEWC's water distribution system.

The SDWBA loan carries an interest rate of 3.18 percent with maturity date of September 30, 2025. In its 2021 Annual Report originally filed with the CPUC's Water Division February 5, 2022, EEWC did not classify the current portion of its Long-Term Debt totaling $8,773 to the Short-Term Notes Payable account as required by the USOA. As a result, EEWC overstated Account 224–Long-Term Debt by $8,773 and understated Account 232–Short-Term Notes Payable by the same amount. However, EEWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC's Water Division on March 3, 2023.

5. Long-Term Debt

Water utilities are required to obtain prior authorization from the CPUC before incurring any long-term debt. PU Code Section 818, states that,

> No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

EEWC's SDWBA loan complied with the requirement of PU Code Section 818. CPUC authorized EEWC's SDWBA loan in D.93-08-006, dated August 4, 1993.

6. Subchapter S Corporation Accumulated Adjustments Account

EEWC incorrectly used Account 215–Retained Earnings to track income derived from its activities related to its SDWBA loan. EEWC is an S Corporation and should report all changes in ownership equity, including net income, in Account 206–Subchapter S Corporation Accumulated Adjustments Account. As a result, EEWC understated Account 206–Subchapter S Corporation Accumulated Adjustments Account by $42,640 and overstated Account 215–Retained Earnings by the same amount. However, EEWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC's Water Division on March 3, 2023.

7. Operating Revenues

EEWC generated approximately 96 percent of its Operating Revenues from Unmetered Water Revenue, and approximately four percent from Metered Water Revenue.

8. 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 Users Fee billed to customers and charge Account 688–Regulatory Commission Expense with fees paid to the CPUC.[7]

EEWC recorded and reported CPUC Users Fee on its operating revenue and timely remitted the Users Fee to the CPUC during the review period.

9. 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…."

EEWC's affiliate company, C. Stanley, CPA, provides customer service including billings and collection, and field supervision for EEWC. EEWC reported $13,819 in Account 682–Professional Services in its 2021 Annual Report for these services.

EEWC also rents its office space from its owner. EEWC reported $7,920 in Account 678–Office Services and Rentals in its 2021 Annual Report.

10. 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 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

[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.

income statement, the classification of revenues and expenses, and decisions of management in incurring expenses.

EEWC complied with this requirement by submitting its balance sheet and income statement in the proper form.

11. 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 purposes, the Statement of Cash Flows is not required and therefore excluded from this review report.

12. 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 utilities to file an Annual Report with the CPUC every year. For the year being reviewed, EEWC has complied with these requirements.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Misclassified Ownership Equity

Condition:
EEWC incorrectly recorded and reported a balance of $42,640 in Account 215–Retained Earnings in its 2021 Annual Report originally filed with the CPUC's Water Division on February 5, 2022. In 1984, EEWC converted from a C Corporation to an S Corporation. For tax purposes, EEWC splits its net income between income derived from its operations and income derived from its activities related to its Safe Drinking Water Bond Act (SDWBA) loan. EEWC has been allocating its earnings from activities related to the SDWBA loan to Account 215–Retained Earnings and earnings from its operations to Account 206–Subchapter S Corporation Accumulated Adjustments Account. However, the USOA requires that changes in ownership equity such as net income for S Corporations be charged to Subchapter S Corporation Accumulated Adjustments account only. As a result, EEWC understated Account 206–Subchapter S Corporation Accumulated Adjustments Account by $42,640 and overstated Account 215–Retained Earnings by the same amount.

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

Adj. No.	Acct. No.	Description	DR	DR
1	215	Retained Earnings	$42,640	
	206	Subchapter S Corporation Accumulated Adjustment Account		$42,640
		To reclassify Retained Earnings to Subchapter S Corporation Accumulated Adjustments Account.		

EEWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on March 3, 2023.

Criteria:
The USOA states, in part, that:

> **206. Subchapter S Corporation Accumulated Adjustments Account**
> A. This account shall be used by Subchapter S Corporations for the reporting of changes in its ownership equity.
>
> B. This account shall include all paid-in-capital not derived from earnings.
>
> C. This account shall be credited with:
> 1. Net income.
> 2. Accounting adjustments not properly attributable to the current period.

D. This account shall be charged with:
1. Net loss.
2. Accounting adjustments not properly attributable to the current period.
3. Dividends.

215. Retained Earnings
A. This account shall be used by Subchapter S Corporations for the reporting of changes in its ownership equity.

B. This account shall include all paid-in-capital not derived from earnings.

C. This account shall be credited with:
1. Net income.
2. Accounting adjustments not properly attributable to the current period.

D. This account shall be charged with:
1. Net loss.
2. Accounting adjustments not properly attributable to the current period.
3. Dividends.

Cause:
EEWC lacks monitoring and review procedures over its accounting and reporting process to ensure changes in ownership equity are accurately recorded and reported in Account 206–Subchapter S Corporation Accumulated Adjustments Account.

Effect:
Inaccurate reporting in Account 206–Subchapter S Corporation Accumulated Adjustments Account, and Account 215–Retained Earnings distorted EEWC's financial position as of December 31, 2021, and reduced the comparability of EEWC'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 EEWC relative to other small water utilities in California.

Recommendation:
EEWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that changes in ownership equity are properly accounted for in compliance with the USOA accounting requirements.

Finding 2: Misclassified Restricted Cash

Condition:
EEWC incorrectly recorded and reported $10,143 of unspent surcharges collected for repaying its SDWBA loan in Account 131–Cash instead of recording and reporting them in Account 132–Cash-Special Deposits in its 2021 Annual Report originally filed with the CPUC's Water Division on February 5, 2022. USOA requires utilities to record restricted funds in Account 132–Cash–Special Deposits. The surcharges collected from customers related to SDWBA loan are restricted specifically for payment of its SDWBA loan. As a result, EEWC understated Account 132–Cash-Special Deposits by $10,143 and overstated Account 131–Cash by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
2	132	Cash-Special Deposits	$10,143	
	131	Cash		$10,143
		To reclassify restricted cash incorrectly reported as general cash.		

EEWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on March 3, 2023.

Criteria:
The USOA states, in part, that:

131. Cash
A. This account shall include the amount of cash on hand or on deposit in banks.

B. The following subaccounts should be maintained, if applicable:
131.1 Cash on Hand
131.2 Cash in Bank

132. Cash-Special Deposits
This account shall include cash amounts set aside from general corporate funds and deposited in a separate account with fiscal agents or others and designated for a special use. A separate subaccount shall be maintained for each designated special use.

Cause:
EEWC lacks review and monitoring procedures over its accounting and recording process to accurately classify restricted cash to Cash-Special Deposits in Account 132.

Effect:
Inaccurate reporting of Cash and Cash-Special Deposits distorted EEWC's financial position as of December 31, 2021, and reduced the comparability of EEWC'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 EEWC relative to other small water utilities in California.

Recommendation:
EEWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that restricted cash is properly classified in accordance with the accounting requirements of the USOA.

Finding 3: Misclassified Current Portion of Long-Term Debt

Condition:
EEWC did not classify the current portion of its Long-Term Debt totaling $8,773 to the Short-Term Notes Payable account in its 2021 Annual Report originally filed with the CPUC's Water Division on February 5, 2022. As a result, EEWC overstated Account 224–Long-Term Debt by $8,773 and understated Account 232–Short-Term Notes Payable by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
3	224	Long-Term Debt	$8,773	
	232	Short-Term Notes Payable		$8,773
		To properly reclassify the current portion of Long-Term Debt to Short-Term Notes Payable account in accordance with the accounting requirements of the USOA.		

EEWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on March 3, 2023.

Criteria:
The USOA states, in part, that:

> **224. Long-Term Debt**
> A. This account shall include all notes, conditional sales contracts or other evidences of indebtedness payable more than one year from date of issue.
> B. A separate subaccount shall be maintained for each obligation outstanding.
>
> **232. Short-Term Notes Payable**
> This account shall include the face value of all notes, or other similar evidences of indebtedness, payable on demand or within a period not exceeding one year from the date of issue.

Cause:
EEWC lacks monitoring and review procedures over its accounting and reporting process to ensure that all liabilities due within the next year are properly classified as short-term liabilities as required by the USOA.

Effect:
Inaccurate reporting in Account 232–Short-Term Notes Payable and Account 224–Long-Term Debt distorted EEWC's financial position as of December 31, 2021. Inaccurately reported Short-Term Notes Payable and Long-Term Debt reduce the comparability of EEWC'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 EEWC relative to other small water utilities in California. In addition, understated short-term liabilities misstated EEWC's available working capital and short-term liquidity as of December 31, 2021, which may be

used during EEWC's General Rate Case (GRC) application review process, and could potentially impact water rates for EEWC's ratepayers.

Recommendation:
EEWC should establish and implement review and monitoring procedures to ensure its liabilities are properly classified and reported in accordance with the accounting requirements of the USOA.