

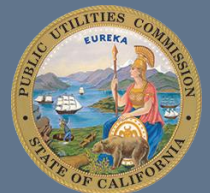


REVIEW OF FINANCIAL STATEMENTS

Meadow Valley Water Works

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
August 21, 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:
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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

August 21, 2023

Mary Ann Forbes Dean, Trustee
Meadow Valley Water Works
P.O. Box 37
Meadow Valley, CA 95956

Dear Mary Ann Forbes Dean:

Final Report Transmittal Letter— Review of Meadow Valley Water Works' 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 Meadow Valley Water Works' (MVWW) regulatory basis financial statements in the 2021 Annual Report filed with 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 report to MVWW for comments on August 1, 2023. MVWW responded via email on August 8, 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 \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by October 5, 2023. The CAP should include specific steps MVWW will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. Please submit MVWW's 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.

We appreciate MVWW'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

Mary Ann Forbes Dean, Trustee
Meadow Valley Water Works
August 21, 2023
Page 2

cc: Robert Dean, Manager, MVWW
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
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Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Sam Niepoth, Associate Management Auditor, UAB, CPUC
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
INDEPENDENT ACCOUNTANT’S REVIEW REPORT.....	4
REVIEWED FINANCIAL STATEMENTS	8
Balance Sheet (As Reported)	8
Income Statement (As Reported)	9
Notes to Financial Statements.....	10
APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS.....	14

EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Meadow Valley Water Works (MVWW) as of December 31, 2021, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide 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.

MVWW is an unincorporated Class D water utility with nine flat rate active residential and five metered irrigation customer service connections.¹ MVWW's service territory is located approximately eight miles west of Quincy, in Plumas County, California.² As a regulated water utility, MVWW 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 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 USOA. In conjunction with our review of the financial statements, UAB also reviewed, for regulatory purposes, whether MVWW 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 Water Division's Memorandum dated January 20, 2022.

Based on our review, due to the significance of the matters described in the succeeding paragraphs and in the Basis for Adverse Conclusion paragraph in the Independent Accountant's Review Report, the financial statements in MVWW's 2021 Annual Report filed with the CPUC's Water Division on June 10, 2022, are not in accordance with the regulatory basis of accounting framework prescribed by USOA. For the review period, UAB did not note any noncompliance with PU Code Section 818. However, MVWW did not timely file its 2021 Annual Report as required by the directives from the CPUC's Water Division. UAB identified four material misstatements in MVWW's 2021 Annual Report originally filed with the CPUC's Water Division on June 10, 2022, and three noncompliance issues with the USOA requirements and CPUC directives as described in Appendix A—Review Findings and Recommendations. These findings are summarized below:

¹ MVWW's 2021 Annual Report, Schedule I—Service Connections at End of Year, Page 19.

² CPUC Resolution W-4893, Page 1.

- Finding 1: MVWW omitted reporting the balance for Account 218–Proprietary Capital as of December 31, 2021, in its 2021 Annual Report. Due to the omission of the Proprietary Capital account, the Balance Sheet in MVWW’s 2021 Annual Report did not balance. MVWW reported a balance of \$1,350 for Total Assets and Other Debits but did not report any balance for its Total Liabilities and Other Credits, resulting in a variance of \$1,350. Further review of MVWW’s prior Annual Reports from 2018 through 2020 revealed that MVWW has not reported a balance in its Proprietary Capital account since 2018 and its Balance Sheets in those Annual Reports do not balance.
- Finding 2: MVWW’s reported balance of \$1,200 in Account 131–Cash is materially misstated in its 2021 Annual Report. MVWW does not have its own bank account and only reported an estimated cash balance in its 2021 Annual Report. MVWW comingled its business funds with its trustee’s personal funds. MVWW’s cash receipts were deposited in its trustee’s personal bank account and withdrawals related to MVWW’s expenditures were made from the same account.
- Finding 3: MVWW understated Accounts 650–Contract Work and Account 671–Management Salaries by \$1,870 and \$3,350, respectively; and overstated Account 670–Office Salaries and Account 630–Employee Labor by \$500 and \$4,720, respectively, in its 2021 Annual Report. MVWW incorrectly reported \$4,720 of costs related to repair and maintenance services provided by its contractors, manager, and trustee in Account 630–Employee Labor. MVWW also incorrectly reported \$500 of costs related to general office work performed by its trustee in Account 670–Office Salaries, instead of reporting the costs in Account 671–Management Salaries.
- Finding 4: MVWW understated Account 650–Contract Work, Account 460–Unmetered Water Revenue, and Account 465–Irrigation Revenue by \$1,198, and \$720, and \$478, respectively, in its 2021 Annual Report. MVWW misclassified \$720 of Unmetered Water Revenue as Irrigation Revenue. MVWW also incorrectly offset \$1,198 of Irrigation Revenue with Contract Work expense. One of MVWW’s Irrigation customers also provided repair and maintenance services to MVWW. Instead of separately reporting revenues earned and the costs incurred related to the services rendered by the customer, MVWW netted its expenses against the related revenue.
- Finding 5: MVWW did not comply with the CPUC’s Annual Report filing requirement. CPUC Water Division’s Memorandum dated January 20, 2022, requires that all water and sewer utilities file their 2021 Annual Reports with CPUC by April 30, 2022. MVWW did not file its 2021 Annual Report until June 10, 2022, without obtaining the approval from the CPUC’s Water Division for a filing extension.
- Finding 6: MVWW’s accounting system failed to comply with USOA Accounting Requirements and CPUC Directives. MVWW did not record all its transactions using the double entry method, maintain a formal accounting system, or complete all required financial statements. General Accounting Instruction 2 of USOA requires utilities to maintain their accounting records on an accrual basis of accounting using double entry method. PU Code Section 581 requires utilities to accurately complete all forms requested by CPUC.

- Finding 7: MVWW failed to remit approximately \$72 of its 2020 CPUC Users Fee to CPUC. PU Code Sections 431 and 433 and CPUC directives specified in Resolution M-4839 and M-4841 and the CPUC Water Division's memoranda dated January 11, 2019, and July 23, 2020, require water utilities to bill and collect CPUC Users Fee from their customers and remit the fees collected to CPUC annually.

UAB discussed the above findings with MVWW during fieldwork. MVWW's management concurred with the findings. UAB further discussed these findings with MVWW's management at the exit conference on June 5, 2023, and MVWW concurred with the review results. Due to the significance of the matters described above and in the Basis of Adverse Conclusion paragraph in the Independent Accountant's Review Report, we concluded that the financial statements in MVWW's 2021 Annual Report are not in accordance with the regulatory basis of accounting framework prescribed by USOA. Had we been engaged to perform an audit; other matters might have come to our attention.

UAB provided a draft review report to MVWW for comments on August 1, 2023. MVWW responded via email on August 8, 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

Mary Ann Forbes Dean, Trustee
Meadow Valley Water Works
P.O. Box 37
Meadow Valley, CA 95956

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Meadow Valley Water Works (MVWW), 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 MVWW'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

MVWW'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, MVWW'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 MVWW and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our reviews.

Basis for Adverse Conclusion

As disclosed in Notes 3 through 6, MVWW's financial statements include misstatements that are material and pervasive due to omission of a material account balance and prevalent accounting errors.

MVWW omitted reporting the balance for Account 218—Proprietary Capital as of December 31, 2021, in its 2021 Annual Report. Due to the omission of the Proprietary Capital account, the Balance Sheet in MVWW's 2021 Annual Report did not balance. MVWW reported a balance of \$1,350 for Total Assets and Other Debits but did not report any balance for its Total Liabilities and Other Credits, resulting in a variance of \$1,350.

MVWW's reported balance of \$1,200 in Account 131—Cash is materially misstated in its 2021 Annual Report. MVWW does not have its own bank account and only reported an estimated cash balance in its 2021 Annual Report. MVWW commingled its business funds with its trustee's personal funds.

MVWW misclassified its Operating Expenses and Revenues due to the following accounting errors:

- MVWW incorrectly reported \$4,720 of costs related to repair and maintenance services provided by its contractors, manager, and trustee in Account 630—Employee Labor. USOA requires that salaries paid to a Utility's managers and owners be recorded in Account 671—Management Salaries, and costs for repair and maintenance work not performed by the Utility's employees be recorded in Account 650—Contract Work.
- MVWW incorrectly reported \$500 for general office work performed by its trustee in Account 670—Office Salaries, instead of reporting the costs in Account 671—Management Salaries.
- MVWW incorrectly offset \$1,198 of Irrigation Revenue with Contract Work expense. One of MVWW's Irrigation customers also provided repair and maintenance services to MVWW. Instead of separately reporting revenues earned and the costs incurred related to the services rendered by the customer, MVWW netted its expenses against the related revenue.
- MVWW misclassified \$720 of Unmetered Water Revenue as Irrigation Revenue.

Had MVWW correctly reported and substantiated the account balances, many elements of its financial statements would have been materially affected. The aggregate effects of these errors and omissions on the accompanying financial statements have not been determined.

Adverse Conclusion

Based on our review, due to the significance of the matters described in the Basis for Adverse Conclusion paragraph, the accompanying financial statements are not in accordance with the regulatory basis of accounting framework prescribed by USOA. Had we been engaged to perform an audit, other matters might have come to our attention.

Basis of Accounting

For regulatory purposes, 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. CPUC requires all water and sewer utilities to prepare their financial statements in accordance with the accounting framework prescribed by USOA. Due to the significant misstatements described in the Basis of Adverse conclusion paragraph, MVWW's financial statements are not prepared in accordance with the regulatory requirements.

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 USOA. Our conclusion is not modified with respect to this matter.

Other Matter–Views of Responsible Official

We discussed our review results and findings with MVWW’s management during fieldwork. MVWW’s management concurred with the findings as described in Appendix A of this report. UAB further discussed these findings with MVWW’s management at the exit conference on June 5, 2023, and MVWW concurred with the results. At the exit conference, we also stated that the final report will include the views of responsible officials.

UAB provided a draft review report to MVWW for comments on August 1, 2023. MVWW responded via email on August 8, 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

MVWW’s 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 October 5, 2023. The CAP should include specific steps MVWW will take to address UAB’s findings and recommendations and a target date for implementing each specific corrective action. If MVWW is unable to implement UAB’s recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. MVWW should determine the effect of the material misstatements described in Appendix A of this report on MVWW’s financial statements and incorporate applicable adjustments to correct account balances when filing its 2022 Annual Report with CPUC.

Report on Other Regulatory Requirements

For regulatory purposes, UAB also reviewed whether MVWW complied with PU Code Section 818 to obtain its long-term debts, and whether MVWW timely filed its 2021 Annual Report as required by the CPUC’s Water Division. For the review period, UAB did not note any noncompliance with PU Code Section 818; however, as described in Finding 5 in Appendix A of this report, MVWW did not file its 2021 Annual Report timely as required by the directives from the CPUC’s Water Division. In addition, as described in Finding 6 and 7 in Appendix A of this report, MVWW did not maintain its accounting system as required by USOA, and MVWW failed to remit approximately \$72 of its 2020 CPUC Users Fee to CPUC.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by CPUC and the management of MVWW, 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
August 21, 2023

REVIEWED FINANCIAL STATEMENTS

Meadow Valley Water Works Balance Sheet (As Reported) ³ As of December 31, 2021

ASSETS	
UTILITY PLANT	
Water Plant in Service (Note 2)	\$16,545
Accumulated Depreciation of Water Plant (Note 2)	(16,545)
Net Utility Plant	<u>0</u>
CURRENT AND ACCRUED ASSETS	
Cash (Note 3)	1,200
Materials and Supplies	150
Total Current and Accrued Assets	<u>1,350</u>
Total Assets and Other Debits	<u><u>\$1,350</u></u>
CURRENT AND ACCRUED LIABILITIES	
Total Current and Accrued Liabilities	<u>\$0</u>
Total Equity and Liabilities⁴	<u><u>\$0</u></u>

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

³ The information presented in the Balance Sheet was derived from MVWW's 2021 Annual Report. The contents have not been modified by UAB.

⁴ MVWW omitted reporting the balance for Account 218—Proprietary Capital as of December 31, 2021, in its 2021 Annual Report. Due to the omission of the Proprietary Capital account, the Balance Sheet in MVWW's 2021 Annual Report is not balanced.

Meadow Valley Water Works
Income Statement (As Reported) ⁵
 For Year Ended December 31, 2021

OPERATING REVENUES	
Unmetered Water Revenue (Note 6)	\$2,019
Irrigation Revenue (Note 6)	2,788
Total Operating Revenue	4,807
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Employee Labor (Note 5)	4,720
Materials	250
Transportation Expense	305
Total Plant Operation and Maintenance Expenses	5,275
Administrative and General Expenses	
Office Salaries (Note 5)	500
Management Salaries (Note 5)	500
Office Supplies and Expenses	100
Insurance	780
Net Administrative and General Expenses	1,880
Total Operating Expenses	7,155
Other Taxes and Licenses	86
Total Operating Revenue Deductions	86
Net Loss	(\$2,434)

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

⁵ The information presented in the Income Statement was derived from MVWW's 2021 Annual Report. The reported amounts presented in this schedule have not been modified by UAB.

Meadow Valley Water Works

Notes to Financial Statements

MVWW is an unincorporated Class D water utility with nine active unmetered residential and five metered irrigation customer service connections.⁶ MVWW's service territory is located approximately eight miles west of Quincy, in Plumas County, California.⁷

Significant Accounting Policies

The financial statements of MVWW were prepared not prepared on the regulatory basis of accounting framework 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 USOA adopted in Decision (D.) 16-11-006 by 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 CPUC for ratemaking and other compliance purposes.

2. Property, Plant and Equipment

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

(1) Depreciation Methodology

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

USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Water utilities are required to comply with the CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over \$100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix

⁶ MVWW's 2021 Annual Report, Schedule I–Service Connections at End of Year, Page 19.

⁷ CPUC Resolution W-4893, Page 1.

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. 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.⁸ The utility must obtain prior written approval from CPUC for any practice deviates from the aforementioned SPs.

MVWW reported \$16,545 in Account 101–Water Plant in Service, which have been fully depreciated.

3. Cash

MVWW's reported balance of \$1,200 in Account 131–Cash is materially misstated in its 2021 Annual Report. MVWW does not have its own bank account and only reported an estimated cash balance in its 2021 Annual Report. MVWW comingled its business funds with its trustee's personal funds. MVWW's cash receipts were deposited in its trustee's personal bank account and withdrawals related to MVWW's expenditures were made from the same account. MVWW's management has yet to determine the effects of this departure from the USOA accounting requirements on MVWW's financial position. Without performing an in-depth review of MVWW's historical accounting records, UAB is unable determine the cumulative effect on MVWW's reported Cash balance as of December 31, 2021. Determining the cumulative effect on the Cash balance as of December 31, 2021, would require UAB to go beyond the scope of this review.

4. Proprietary Capital

MVWW omitted reporting the balance for Account 218–Proprietary Capital as of December 31, 2021, in its 2021 Annual Report. The Proprietary Capital account accumulates a proprietorship's net income and net losses each year since its inception. MVWW is a proprietorship. Due to the omission of the Proprietary Capital account, the Balance Sheet in MVWW's 2021 Annual Report is not balanced. MVWW reported a balance of \$1,350 for Total Assets and Other Debits but did not report any balance for its Total Liabilities and Other Credits, resulting in a variance of \$1,350. Further review of MVWW's prior Annual Reports from 2018 through 2020 revealed that MVWW has not reported a balance in its Proprietary Capital account since 2018 and its Balance Sheets in those Annual Reports do not balance. Without performing an in-depth review of MVWW's historical accounting records, UAB is unable determine the cumulative effect of these accounting errors on MVWW's 2021 financial statements. Determining the cumulative effect on the balance of Proprietary Capital as of December 31, 2021, would require UAB to go beyond the scope of this review.

5. Operating Expense

MVWW incorrectly reported \$4,720 of costs related to repair and maintenance services provided by its contractors, manager, and trustee in Account 630–Employee Labor. USOA requires that salaries paid to a utility's managers and owners be recorded in Account 671–Management Salaries and cost for repair and maintenance work not performed by the utility's employees be recorded in

⁸ D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

Account 650—Contract Work. In addition, MVWW incorrectly reported \$500 of costs related to general office work performed by its trustee in Account 670—Office Salaries, instead of reporting the costs in Account 671—Management Salaries. As a result, MVWW understated Accounts 650—Contract Work and Account 671—Management Salaries by \$1,870 and \$3,350, respectively; and overstated Account 670—Office Salaries and Account 630—Employee Labor by \$500 and \$4720, respectively, in its 2021 Annual Report.

6. Operating Revenue

MVWW misclassified \$720 of Unmetered Water Revenue as Irrigation Revenue. As a result, MVWW understated Account 460—Unmetered Water Revenue by \$720 and overstated Account 465—Irrigation Revenue by the same amount.

MVWW incorrectly offset its Irrigation Revenue with its Contract Work expense. One of MVWW's Irrigation customers also provided repair and maintenance services to MVWW. Instead of separately reporting revenues earned and the costs incurred related to the services rendered by the customer, MVWW netted its expenses against the related revenue. As a result, MVWW understated both Account 465—Irrigation Revenue and Account 650—Contract Work by \$1,198.

7. Water Utility Users Fee

PU Code Sections 401 through 410 authorized CPUC to set a fee annually to water utilities to cover the costs incurred by CPUC in regulating them. USOA requires water utilities to credit regular operating revenue accounts with amounts of User Fees billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to CPUC.⁹

During the review of MVWW's remittance of its 2021 Users Fee, which MVWW timely remitted as required by CPUC's directives, we noted that MVWW failed to remit approximately \$72 of its 2020 CPUC Users Fee to CPUC. PU Code Sections 431 and 433 and CPUC directives specified in Resolution M-4839 and M-4841 and the CPUC Water Division's memoranda dated January 11, 2019, and July 23, 2020, require water utilities to bill and collect CPUC Users Fee from their customers and remit the fees collected to CPUC annually.

8. Form of Financial Statements¹⁰

(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

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

¹⁰ Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

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.

9. Exclusion of Statement of Cash Flows

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

10. Compliance filing of 2021 Annual Report with the CPUC

PU Code Sections 581, 582, and 584, and the CPUC’s directives (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, MVWW did not comply with these requirements. MVWW did not comply with the CPUC’s Annual Report filing requirement because it did not timely file its 2021 Annual Report. CPUC Water Division’s Memorandum dated January 20, 2022, requires that all water and sewer utilities file their 2021 Annual Reports with CPUC by April 30, 2022. MVWW did not file its 2021 Annual Report until June 10, 2022, without obtaining the approval from the CPUC’s Water Division for a filing extension.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Omitted Proprietary Capital Account

Condition:

MVWW omitted reporting the balance for Account 218—Proprietary Capital as of December 31, 2021, in its 2021 Annual Report. The Proprietary Capital account accumulates a proprietorship’s net income and net losses each year since its inception. MVWW is a proprietorship. Due to the omission of the Proprietary Capital account, the Balance Sheet in MVWW’s 2021 Annual Report did not balance. MVWW reported a balance of \$1,350 for Total Assets and Other Debits but did not report any balance for its Total Liabilities and Other Credits, resulting in a variance of \$1,350. Further review of MVWW’s prior Annual Reports from 2018 through 2020 revealed that MVWW has not reported a balance in its Proprietary Capital account since 2018 and its Balance Sheets in those Annual Reports do not balance. Without performing an in-depth review of MVWW’s historical accounting records, UAB is unable determine the cumulative effect of these accounting errors on MVWW’s 2021 financial statements. Determining the cumulative effect on the balance of Proprietary Capital as of December 31, 2021, would require UAB to go beyond the scope of this review.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

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.

Cause:

MVWW lacks monitoring and review procedures over its accounting and reporting process to ensure that corporate earnings retained in the business are accurately calculated and reported in

Account 218–Proprietary Capital. MVWW lacks a formal accounting system that allows it to keep its books of accounts using a double entry method of accounting as required by USOA.

Effect:

The omission of Account 218–Proprietary Capital distorted MVWW’s financial position as of December 31, 2021, and reduced the comparability of MVWW’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 MVWW relative to other small water utilities in California.

Recommendations:

MVWW should develop and implement 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 218–Proprietary Capital in compliance with USOA. MVWW should also keep a formal accounting system that uses the double entry method of accounting.

Finding 2: Materially Misstated Cash Account

Condition:

MVWW reported a balance of \$1,200 in Account 131–Cash that is materially misstated in its 2021 Annual Report. MVWW does not have its own bank account and only reported an estimated cash balance in its 2021 Annual Report. MVWW comingled its business funds with its trustee’s personal funds. MVWW’s cash receipts were deposited in its trustee’s personal bank account and withdrawals related to MVWW’s expenditures were made from the same account.

We analyzed MVWW’s cash flow using the financial data presented in its Annual Reports from 2014 through 2021 and found that MVWW’s ending cash balance reported in its Annual Reports as of December 31, 2021, is not supported by its cash inflow and outflow activities shown in the Annual Reports during the respective years. The table below summarizes MVWW’s cash flow between 2014 and 2021:

	Year Ended							
	2014	2015	2016	2017	2018	2019	2020	2021
Cash flow from operations								
Net Earnings or (loss)	\$625	\$549	\$436	\$1,257	\$1,083	\$975	(\$1,727)	(\$2,434)
(Increase)/Decrease in Inventory				(380)	(40)	0	220	50
Net Cash Inflow/ (Outflow) from Operations	625	549	436	877	1,043	975	(1,507)	(2,384)
Cash at Beginning of Year	2,000	2,625	3,174	3,610	4,487	5,530	6,505	4,998
Ending Cash Balance	2,625	3,174	3,610	4,487	5,530	6,505	4,998	2,614
Cash balance per Annual Report	2,000	2,000	2,000	2,000	2,500	2,500	1,500	1,200
Variance	(\$625)	(\$1,174)	(\$1,610)	(\$2,487)	(\$3,030)	(\$4,005)	(\$3,498)	(\$1,414)

As a result of the accounting errors and discrepancies noted above related to the MVWW's Cash account, MVWW's Cash account balance as of December 31, 2021, is materially misstated. MVWW's management has yet to determine the effects of this departure from the USOA accounting requirements on MVWW's financial position. Without performing an in-depth review of MVWW's historical accounting records, UAB is unable determine the cumulative effect on MVWW's reported Cash balance as of December 31, 2021. Determining the cumulative effect on the Cash balance as of December 31, 2021, would require UAB to go beyond the scope of this review.

Criteria:

General Accounting Instructions 2 of 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.

Cause:

MVWW does not have its own bank account and comingles its business funds with its trustee's personal funds. It also lacks monitoring, review, and reconciliation procedures over its Cash account to ensure that (1) a separate Cash account is maintained for the utility; (2) cash reconciliations are performed regularly, timely, and accurately; and (3) the Cash account balance is accurately reported in the Annual Reports.

Effect:

MVWW's management has yet to determine the effects of this departure from the USOA accounting requirements on MVWW's financial position. Without performing an in-depth review of MVWW's historical accounting records since its inception, UAB is unable determine the impact of prior year errors on MVWW's financial statements. Determining the cumulative impact on the Cash balance as of December 31, 2021, would require UAB to go beyond the scope of this review.

Inaccurate reporting of Cash distorted MVWW's financial position, misstated its available working capital, and reduced the comparability of MVWW's financial statements with other water utilities.

Consistent financial presentation among water utilities aids decision makers in analyzing the performance and financial position of MVWW relative to other water utilities in California.

Recommendation:

MVWW should use a separate bank account solely for the utility to handle its respective cash transactions. MVWW should also establish and implement monitoring, review, and reconciliation procedures over its Cash account to ensure that the cash reconciliations are performed regularly, timely, and accurately. MVWW should also ensure that the Cash balance is accurately reported in its Annual Report.

Finding 3: Misclassified Operating Expense

Condition:

MVWW understated Accounts 650–Contract Work and Account 671–Management Salaries by \$1,870 and \$3,350, respectively; and overstated Account 670–Office Salaries and Account 630–Employee Labor by \$500 and \$4,720, respectively, in its 2021 Annual Report. Due to the following accounting errors:

Description	Overstated/(Understated)			
	Acct 630	Acct 650	Acct 670	Acct 671
MVWW incorrectly reported \$4,720 of costs related to repair and maintenance services provided by its contractors, manager, and trustee in Account 630–Employee Labor. USOA requires that salaries paid to a Utility’s managers and owners be recorded in Account 671–Management Salaries and cost for repair and maintenance work not performed by the Utility’s employees be recorded in Account 650–Contract Work.	\$4,720	(\$1,870)		(\$2,850)
MVWW incorrectly reported \$500 of costs related to general office work performed by its trustee in Account 670–Office Salaries, instead of reporting the costs in Account 671–Management Salaries.			\$500	(500)
Total	\$4,720	(\$1,870)	\$500	(\$3,350)

Criteria:

USOA states, in part, that:

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.

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.

670. Office Salaries

This account shall include the salaries of all employees (other than the manager, owner or principal stockholders) whose time is utilized in billing, collecting, record keeping, or general office work.

Note: Fees of independent accountants will be charged to Account 682, Professional Services.

630. Employee Labor

This account shall include the wages of all employees (other than the manager, owner, or principal stockholders) whose time is utilized in the operation, repair and maintenance of the water system. The account shall include wages of employees who perform such work as, for example:

Cutting brush and weeds at springs or streams

Checking, oiling and other pump maintenance

Repairing leaks in water mains and services

Reading meters

Removing, resetting and testing meters

Turning water off or on at customers' premises

Maintenance of water treatment equipment; labor of adding chemicals, washing filters, etc.

Note A. Wages of managers, owners, or principal stockholders who perform any of the above functions shall not be included in this account but shall be included in Account 671, Management Salaries.

Note B. The wages of employees who perform both maintenance work and office work shall be charged to the account to which the greater portion of their time is devoted, unless segregation between accounts is based on actual records of amount

of time spent on each type of work. No arbitrary allocations of employee wages between accounts shall be made.

Cause:

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

Effect:

Inaccurate reporting of Contract Work, Management Salaries, Office Salaries, and Employee Labor in MVWW's Annual Report, which may be used during MVWW's General Rate Case (GRC) application review process, could potentially impact the water rates for MVWW's ratepayers.

Recommendation:

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

Finding 4: Misclassified Operating Revenue**Condition:**

MVWW understated Account 650–Contract Work, Account 460–Unmetered Water Revenue, and Account 465–Irrigation Revenue by \$1,198, \$720, and \$478, respectively, in its 2021 Annual Report, due to the following accounting errors:

<u>Description</u>	<u>Overstated/(Understated)</u>		
	<u>Acct 650</u>	<u>Acct 460</u>	<u>Acct 465</u>
MVWW misclassified \$720 of Unmetered Water Revenue as Irrigation Revenue. As a result, MVWW understated Account 460–Unmetered Water Revenue by \$720 and overstated Account 465–Irrigation Revenue by the same amount.		(\$720)	\$720
MVWW incorrectly offset \$1,198 of Irrigation Revenue with Contract Work expense. One of MVWW's Irrigation customers also provides repair and maintenance services to MVWW. Instead of separately reporting revenues earned and the costs incurred related to the services rendered by the customer, MVWW netted its revenues and expenses together. As a result, MVWW understated both Account 465–Irrigation Revenue and Account 650–Contract Work by \$1,198.	(\$1,198)		(1,198)
Total	<u>(\$1,198)</u>	<u>(\$720)</u>	<u>(\$478)</u>

Criteria:

USOA states, in part, that:

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.

460. Unmetered Water Revenue

A. This account shall include all revenue from unmetered water service. Surcharge revenues approved by the Commission applicable to unmetered customers shall be recorded in this account. Separate subaccounts shall be maintained for each type of surcharge approved by the Commission unless otherwise authorized or directed by the Commission.

465. Irrigation Revenue

This account shall include all revenue from irrigation service, under either metered or flat rate irrigation tariff schedule.

Cause:

MVWW lacks monitoring and review procedures over its accounting and reporting process to ensure revenues and expenses are accurately recorded and reported in its Annual Reports.

Effect:

Inaccurate reporting of Operating Revenue and Operating Expense in the Annual Report, which may be used during MVWW's GRC application review process, could potentially impact the water rates for MVWW's ratepayers.

Recommendation:

MVWW should establish and implement monitoring and review procedures over its accounting and reporting process to ensure revenues and expenses are recorded and reported accurately in its Annual Report.

Finding 5: Late Filing of 2021 Annual Report without CPUC Authorization**Condition:**

MVWW did not comply with the CPUC's Annual Report filing requirement because it did not timely file its 2021 Annual Report. CPUC Water Division's Memorandum dated January 20, 2022, requires that all water and sewer utilities file their 2021 Annual Reports with CPUC by April 30, 2022. MVWW did not file its 2021 Annual Report until June 10, 2022, without obtaining the approval from the CPUC's Water Division for a filing extension.

Criteria:

CPUC Water Division's Memorandum dated January 20, 2022, requires that all water and sewer utilities regulated by CPUC file their 2021 annual reports on or before April 30, 2022. Any request for a filing extension must be authorized by CPUC's Water Division.

Cause:

MVWW lacks accounting and reporting procedures to ensure timely filing of its Annual Reports with the CPUC's Water Division.

Effect:

MVWW did not comply with the filing requirements of the CPUC's Water Division regarding its 2021 Annual Report. The unavailability of the Annual Report in a timely manner could impact decision making by the CPUC's decision makers and the public.

Recommendation:

MVWW should implement accounting and reporting procedures to ensure timely filing of its Annual Reports with the CPUC's Water Division as required.

Finding 6: Noncompliance with USOA Accounting Requirements and CPUC Directives**Condition:**

During the review, UAB noted that MVWW's accounting system failed to comply with the following accounting requirements of USOA and CPUC's directives:

- MVWW did not record all its transactions using the double entry method.
- MVWW did not maintain a formal accounting system; therefore, it did not have a general ledger (G/L) or a working trial balance (WTB) to support the balances reported in the Annual Report. Instead, MVWW relied on documents such as CPUC Resolutions and Decisions, and its Billing Registers, and Expense Summary Schedules to support the account balances in its 2021 Annual Report.
- MVWW's 2021 Annual Report was incomplete because MVWW did not provide financial information on all required financial schedules. Specifically, MVWW omitted reporting the required financial data in the following schedules in its 2021 Annual Report:
 - Schedule A-1–Utility Plant
 - Schedule A-1a–Account 101–Water Plant in Service
 - Schedule A-2–Accounts 108–Depreciation and Amortization Reserves
 - Schedule A-9–Proprietary Capital
 - Schedule B-1–Income Statement

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

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.

PU Code Section 581 requires utilities to accurately complete all forms requested by CPUC.

Cause:

MVWW lacks an effective accounting system to ensure that its accounting transactions are accurately and completely recorded in its books and reported in its Annual Report using the double entry method as mandated by the USOA accounting requirements.

Effect:

Lack of an effective accounting system results in noncompliance with the USOA accounting requirements. It can also result in material misstatements in MVWW's financial reporting. Inaccurate and materially misstated financial information in MVWW's Annual Reports, which may be used during MVWW's GRC application review process, could potentially impact water rates for MVWW's rate payers.

Recommendation:

MVWW should establish and implement an effective accounting system to ensure that its accounting transactions are accurately and completely recorded and reported using the double entry method, and that it complies with the USOA accounting requirements.

Finding 7: Unpaid 2020 CPUC Users Fee

Condition:

During the review of MVWW's remittance of its 2021 Users Fee, which MVWW timely remitted as required by CPUC's directives, we noted that MVWW failed to remit approximately \$72 of its 2020 CPUC Users Fee to CPUC. PU Code Sections 431 and 433 and CPUC directives specified in Resolution M-4839 and M-4841 and the CPUC Water Division's memoranda dated January 11, 2019, and July 23, 2020, require water utilities to bill and collect CPUC Users Fee from their customers and remit the fees collected to CPUC annually.

Criteria:

USOA states, in part, that:

9. Water Utility Users Fee

Public Utilities Code Sections 401 through 415 provide that the Commission shall annually set a fee to be paid by water utilities to cover the costs incurred by the Commission in regulating them. A percentage of gross revenues is added to customer bills and paid by the water companies to the Commission.

PU Code Section 433(a) states that:

Every public utility with annual gross intrastate revenues of seven hundred fifty thousand dollars (\$750,000) or less shall make payment of the fee to the commission on an annual basis on or before January 15.

PU Code Section 431 requires CPUC to annually determine the Users Fee.

CPUC Resolution M-4839 established the Users Fee effective April 1, 2019.

CPUC Resolution M-4841 established the Users Fee effective October 1, 2020.

Cause:

MVWW lacks adequate monitoring and review procedures over its accounting and reporting process to ensure that CPUC Users Fee are timely remitted to CPUC annually.

Effect:

MVWW owes CPUC \$72 for unremitted 2020 Users Fee. In addition, MVWW did not comply with CPUC directives regarding remitting CPUC Users Fee annually.

Recommendations:

MVWW should work with the CPUC's Water Division and Fiscal Office to remit the delinquent payment of CPUC Users Fee for 2020. MVWW should also strengthen its monitoring and review procedures over its accounting process to ensure CPUC Users Fee are timely remitted to CPUC.