

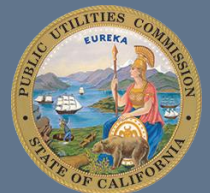


REVIEW OF FINANCIAL STATEMENTS

Long Canyon Water Company

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 23, 2023



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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

**Khusbindar Kaur, CPA
Lead**

**Tir Saephan
Staff**

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

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

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

October 23, 2023

Barbara Prince, President
Long Canyon Water Company
7908 Calle Torcido
Bakersfield, CA 93309

Dear Barbara Prince:

Final Report Transmittal Letter— Review of Long Canyon 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 Long Canyon Water Company’s (LCWC) 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 LCWC for comments on September 14, 2023. LCWC provided comments in a letter dated October 4, 2023. LCWC’s response is incorporated into this final review report. 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 December 7, 2023. The CAP should include specific steps LCWC will take to address UAB’s findings and recommendations and a target date for implementing each specific corrective action. Please submit LCWC’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 LCWC’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

Barbara Prince, President
Long Canyon Water Company
October 23, 2023
Page 2

cc: Regina Houchin, A G Center
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
Wilson Tsai, Program and Project Supervisor, Water Division, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
INDEPENDENT ACCOUNTANT’S REVIEW REPORT.....	4
REVIEWED FINANCIAL STATEMENTS	8
Balance Sheet (As Reported)	8
Income Statement (As Reported)	9
Statement of Retained Earnings (As Reported).....	10
Notes to Financial Statements.....	11
APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS.....	16
APPENDIX B—UTILITY’S RESPONSE	30

EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Long Canyon Water Company (LCWC) 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.

Incorporated in California on August 23, 1971¹, LCWC is a Class D water utility with 66 active residential service connections, which includes ten active metered and 56 active flat rate customers.² LCWC's service area is located in the Town of Weldon, in Kern County, California.³ As a regulated water utility, LCWC 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 LCWC 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'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 LCWC's 2021 Annual Report filed with the CPUC's Water Division on February 9, 2023, 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, LCWC did not timely file its 2021 Annual Report as required by the directives from the CPUC's Water Division. UAB identified eight material misstatements in LCWC's 2021 Annual Report, and three noncompliance issues with USOA requirements and CPUC's directives as described in Appendix A—Review Findings and Recommendations. These findings are summarized below:

¹ www.sos.ca.gov

² LCWC's 2021 Annual Report, Schedule I—Service Connections at End of Year, Page 19.

³ CPUC Resolution W-4673, Page 1.

- Finding 1: LCWC's reported balance of its deficit ownership equity of \$362,323 in its 2021 Annual Report is materially misstated. LCWC incorrectly reported changes in its ownership equity in Account 215–Retained Earnings instead of Account 206–Subchapter S Corporation Accumulated Adjustments Account as required by USOA. In addition, LCWC does not have historical records to substantiate its ownership equity reported in Account 215–Retained Earnings as of December 31, 2021. Furthermore, LCWC's ownership equity is materially misstated because of the aggregate of material misstatements in the reported account balances of Long-term Debt, Short-term Notes Payable, Accumulated Depreciation of Water Plant, Depreciation Expense, Cash, and Accounts Receivable.
- Finding 2: LCWC's reported balances of \$423,049 and \$12,863 in Account 224–Long-term Debt and Account 232–Short-term Notes Payable, respectively, are materially misstated in its 2021 Annual Report. Although LCWC has been reporting the same balances for Long-term Debt and Short-term Notes Payable in its Annual Report since 2013, LCWC could neither provide supporting documents to substantiate the reported balances for these accounts, nor explain their composition.
- Finding 3: LCWC's reported balances of \$67,103 and \$672 in Account 108–Accumulated Depreciation of Water Plant and Account 403–Depreciation Expense, respectively, are materially misstated in its 2021 Annual Report. LCWC has no documentation, such as a depreciation schedule, to substantiate the reported balances. LCWC is using a composite rate of approximately 0.5 percent to depreciate its Water Plant in Service annually, which is well below the industry average of 2 to 2.5 percent. LCWC could not justify the percentage it used to depreciate its assets. Therefore, LCWC's Water Plant in Service are not sufficiently depreciated.
- Finding 4: LCWC overstated Account 460–Unmetered Water Revenue by \$16,443 and understated Account 470–Metered Water Revenue and Account 206–Subchapter S Corporation Accumulated Adjustments Account by \$8,714 and \$7,729, respectively, in its 2021 Annual Report, due to various accounting and billing errors.
- Finding 5: LCWC's reported balance of \$6,154 in Account 131–Cash is materially misstated in its 2021 Annual Report. LCWC could not provide adequate documentation to support the reported Cash balance. LCWC reported a balance of \$6,154 in Account 131–Cash in its Annual Report, but its General Ledger (G/L) showed a balance of \$21,774, resulting in a variance of \$15,620. In addition, our review of LCWC's bank statements revealed a Cash balance of \$20,613 as of December 31, 2021. Therefore, none of the Cash balances from these documents agreed.
- Finding 6: LCWC's reported balance of \$5,764 in Account 141–Accounts Receivable–Customers is materially misstated in its 2021 Annual Report. LCWC could not provide adequate documentation to support the reported balance of Accounts Receivable. LCWC reported an Accounts Receivable balance of \$5,764 in its Annual Report, but its G/L and Accounts Receivable Aging Report showed a balance of \$57,729 as of December 31, 2021, resulting in a variance of \$51,965. LCWC was unable to explain this discrepancy. Additionally, LCWC's Accounts Receivable Aging Report includes receivables that are significantly past due (i.e., outstanding for more than a year). LCWC's Accounts Receivable

Aging Report shows a total of \$25,829 of receivables from seven customers outstanding for over one year as of December 31, 2021, with the oldest receivable dating back to 2008.

- Finding 7: LCWC understated Account 682–Professional Services by \$6,478 and overstated Account 615–Power, Account 640–Materials, Account 650–Contract Work, and Account 681–Office Supplies and Expenses by \$686, \$2,769, \$1,041, and \$1,982, respectively, in its 2021 Annual Report due to classification errors described in Appendix A–Review Findings and Recommendations.
- Finding 8: LCWC overstated Account 671–Management Salaries by \$1,233 in its 2021 Annual Report. LCWC incorrectly included \$1,233 of management salaries for Year 2020 as expenses in 2021.
- Finding 9: LCWC failed to remit CPUC Users Fee from 2001 through 2021. Based on the 2021 CPUC Users Fees rate of 1.43 percent, LCWC should have billed its customers approximately \$622 for CPUC Users Fee during 2021 and remitted the amount to CPUC. UAB was unable to determine the total CPUC Users Fee that LCWC owes to CPUC from 2001 through 2020 because making such a determination would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.
- Finding 10: LCWC did not maintain its accounting system as required by USOA. Specifically, LCWC’s G/L and Working Trial Balance (WTB) were incomplete and inaccurate. LCWC’s accounting system did not include any balances for Water Plant in Service, Accumulated Depreciation of Water Plant, Common Stock, Short-term Notes Payable, and Depreciation Expense. In addition, the recorded balances of Cash, Accounts Receivable–Customers, Retained Earnings, and Long-term Debt in LCWC’s G/L did not agree with its Annual Report.
- Finding 11: LCWC did not comply with 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. LCWC did not file its 2021 Annual Report until February 9, 2023, without obtaining the approval from CPUC’s Water Division for a filing extension.

UAB discussed the above findings with LCWC during fieldwork. LCWC’s management concurred with the findings. UAB further discussed these findings with LCWC’s management at the exit conference on August 9, 2023, and LCWC 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 LCWC’s 2021 Annual Report originally filed with CPUC on February 9, 2023, 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 LCWC for comments on September 14, 2023. LCWC responded via email on October 4, 2023, and provided a few comments. LCWC’s response is presented in Appendix B of this report. The review findings and recommendations remain unchanged and represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Barbara Prince, President
Long Canyon Water Company
7908 Calle Torcido
Bakersfield, CA 93309

Report on the Financial Statements

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

LCWC'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, LCWC's management is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC's directives.

Accountant's Responsibility

UAB's responsibility is to conduct the review engagement in accordance with the standards applicable to reviews of financial statements promulgated by the generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the accounting framework prescribed by 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 LCWC 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 2 through 8, LCWC's financial statements include misstatements that are material and pervasive due to prevalent accounting errors. These material misstatements are summarized below:

- LCWC incorrectly reported changes in its ownership equity in Account 215–Retained Earnings instead of Account 206–Subchapter S Corporation Accumulated Adjustments Account as required by USOA. In addition, LCWC does not have historical records to substantiate its ownership equity reported in Account 215–Retained Earnings. Furthermore, LCWC’s ownership equity is materially misstated because of the aggregate of material misstatements in the reported account balances of Long-term Debt, Short-term Notes Payable, Accumulated Depreciation of Water Plant, Depreciation Expense, Cash, and Accounts Receivable.
- LCWC has no documentation to substantiate the reported balances of \$423,049 and \$12,863 in Account 224–Long-term Debt and Account 232–Short-term Notes Payable, respectively. LCWC could neither provide supporting documents to substantiate the reported balances for these accounts, nor explain their composition.
- LCWC has no documentation to substantiate the reported balances of \$67,103 and \$672 in Account 108–Accumulated Depreciation of Water Plant and Account 403–Depreciation Expense, respectively. LCWC is using a composite rate of approximately 0.5 percent to depreciate its Water Plant in Service annually, which is well below the industry average of 2 to 2.5 percent. LCWC could not justify the percentage it used to depreciate its assets.
- LCWC misclassified \$9,308 of Metered Water Revenue as Unmetered Water Revenue. LCWC also overstated its Unmetered Water Revenue by \$2,294 by incorrectly recording funding from a grant as Unmetered Water Revenue. Additionally, LCWC overstated water revenues by \$5,435 because its accounting system generated erroneous bills to its former customers for water services.
- LCWC could not provide adequate documentation to support the reported balance of \$6,154 in Account 131–Cash. In addition, LCWC’s reported Cash balance did not agree with its underlying accounting records such as its G/L and bank statements.
- LCWC could not provide adequate documentation to support the reported balance of \$5,764 in Account 141–Accounts Receivable–Customers. In addition, LCWC’s reported Accounts Receivable balance did not agree with its underlying accounting records such as its G/L and Accounts Receivable Aging Report.
- Due to significant accounting and reporting errors, LCWC misclassified its Operating Expense accounts. As a result, LCWC understated Account 682–Professional Services by \$6,478 and overstated Account 615–Power, Account 640–Materials, Account 650–Contract Work, and Account 681–Office Supplies and Expenses by \$686, \$2,769, \$1,041, and \$1,982, respectively.

Had LCWC correctly reported and substantiated the account balances, many elements of its financial statements would have been materially affected. The aggregate effects of these errors 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, LCWC'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 LCWC's management during fieldwork. LCWC's management concurred with the findings as described in Appendix A of this report. UAB further discussed these findings with LCWC's management at the exit conference on August 9, 2023, and LCWC concurred with the review 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 LCWC for comments on September 14, 2023. LCWC responded via email on October 4, 2023, and provided a few comments. LCWC's response is presented in Appendix B of this report. The review findings and recommendations remain unchanged and represent our final determination of this review engagement.

Other Matter—Submission of a Corrective Action Plan

LCWC'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 December 7, 2023. The CAP should include specific steps LCWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. If LCWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. LCWC should determine the effect of the material misstatements described in Appendix A of this report on LCWC'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 LCWC complied with PU Code section 818 to obtain its long-term debts, and whether LCWC 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 11 in Appendix A of this report, LCWC 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 9 in Appendix A of this report, LCWC failed to remit its CPUC

Users Fee from 2001 through 2021. For the review period, LCWC has approximately \$622 of unremitted CPUC Users Fee. As described in Finding 10 in Appendix A of this report, LCWC did not maintain its accounting system as required by USOA.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code section 314.5. Accordingly, this review report is intended solely for the information and use by CPUC and the management of LCWC, 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 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
October 23, 2023

REVIEWED FINANCIAL STATEMENTS

Long Canyon Water Company Balance Sheet (As Reported)⁴

As of December 31, 2021

ASSETS	
UTILITY PLANT	
Water Plant in Service (Note 2)	\$160,054
Accumulated Depreciation of Water Plant (Note 2)	(67,103)
Net Utility Plant	<u>92,951</u>
CURRENT AND ACCRUED ASSETS	
Cash (Note 6)	6,154
Accounts Receivable (Note 7)	5,764
Total Current and Accrued Assets	<u>11,918</u>
Total Assets	<u><u>\$104,869</u></u>
CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Common Stock	\$31,280
Retained Earnings (Note 3)	(362,323)
Total Capitalization	<u>(331,043)</u>
LONG-TERM DEBT	
Long-Term Debt (Note 4)	423,049
CURRENT AND ACCRUED LIABILITIES	
Short-Term Notes Payable (Note 4)	12,863
Total Current and Accrued Liabilities	<u>12,863</u>
Total Equity and Liabilities	<u><u>\$104,869</u></u>

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

⁴ The information presented in the Balance Sheet was derived from LCWC's 2021 Annual Report. The reported amounts presented in this schedule have not been modified by UAB.

Long Canyon Water Company
Income Statement (As Reported)⁵
 For Year Ended December 31, 2021

OPERATING REVENUES	
Unmetered Water Revenue (Note 5)	\$51,251
Total Operating Revenue	51,251
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power (Note 8)	8,953
Materials (Note 8)	2,769
Contract Work (Note 8)	4,302
Transportation Expense	1,047
Total Plant Operation and Maintenance Expenses	17,071
Administrative and General Expenses	
Management Salaries (Note 8)	6,033
Office Supplies and Expenses (Note 8)	2,668
Professional Services (Note 8)	2,555
Insurance	2,500
Regulatory Compliance Expense	650
General Expenses	465
Total Administrative and General Expenses	14,871
Total Operating Expenses	31,942
Depreciation Expense (Note 2)	672
Total Operating Revenue Deductions	32,614
Net Income	\$18,637

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

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

Long Canyon Water Company
Statement of Retained Earnings (As Reported ⁶)
For Year Ended December 31, 2021

Retained Earnings, Beginning of Year	(\$380,960)
CREDITS:	
Net Income	18,637
Total Credits	<u>18,637</u>
DEBITS:	
Total Debits	<u>0</u>
Retained Earnings, End of Year	<u><u>(\$362,323)</u></u>

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

⁶ The information presented in the Statement of Retained Earnings was derived from LCWC's 2021 Annual Report. The reported amounts presented in this schedule have not been modified by UAB.

Long Canyon Water Company

Notes to Financial Statements

Incorporated in California on August 23, 1971, LCWC is a Class D water utility with 66 active residential service connections which includes ten active metered and 56 active flat rate customers.⁷ LCWC's service area is located in the Town of Weldon, in Kern County, California.⁸

Significant Accounting Policies

The financial statements of LCWC were 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's 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 CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over \$100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under \$100,000, if the utility elects not to separate or

⁷ LCWC's 2021 Annual Report, Schedule I–Service Connections at End of Year, Page 19.

⁸ CPUC Resolution W-4673, Page 1.

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.⁹ The utility must obtain prior written approval from CPUC for any practice deviates from the aforementioned SPs.

LCWC has no documentation, such as a depreciation schedule, to substantiate the reported balances of \$67,103 and \$672 in Account 108—Accumulated Depreciation of Water Plant and Account 403—Depreciation Expense, respectively. LCWC stated that it has been depreciating its Water Plant in Service at the rate of \$672 annually for over ten years; however, LCWC could not explain its depreciation methodology. UAB reviewed Schedule A 1a—Water Plant in Service and Schedule A-2—Depreciation and Amortization Reserves and noted that LCWC is using a composite rate of approximately 0.5 percent to depreciate its Water Plant in Service annually, which is well below the industry average of 2 to 2.5 percent. LCWC could not justify the percentage it used to depreciate its assets.

3. Retained Earnings

LCWC's reported balance of its deficit ownership equity of \$362,323 in its 2021 Annual Report. LCWC incorrectly reported changes in its ownership equity in Account 215—Retained Earnings instead of Account 206—Subchapter S Corporation Accumulated Adjustments Account as required by USOA. LCWC is an S Corporation. LCWC does not have historical records to substantiate its ownership equity reported in Account 215—Retained Earnings as of December 31, 2021. Also, LCWC's ownership equity is materially misstated because of the material misstatements in the reported account balances of Long-term Debt, Short-term Notes Payable, Accumulated Depreciation of Water Plant, Depreciation Expense, Cash, and Accounts Receivable. These material misstatements are described in detail in Findings 2, 3, 5, and 6. LCWC's management has yet to determine the effects of these material misstatements on its financial position.

4. Long-Term Debt and Short-Term Notes Payable

Water utilities are required to obtain prior authorization from 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.

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

LCWC's reported balances of \$423,049 and \$12,863 in Account 224—Long-term Debt and Account 232—Short-term Notes Payable, respectively, are materially misstated in its 2021 Annual Report. Although LCWC has been reporting the same balances for Long-term Debt and Short-term Notes Payable in its Annual Report since 2013, LCWC could neither provide supporting documents to substantiate the reported balances for these accounts, nor explain their composition. Therefore, UAB is unable to verify the accuracy of the reported account balances for these accounts.

5. Revenues

LCWC overstated Account 460—Unmetered Water Revenue by \$16,443 and understated Account 470—Metered Water Revenue and Account 206—Subchapter S Corporation Accumulated Adjustments Account by \$8,714 and \$7,729, respectively, in its 2021 Annual Report. UAB noted the following accounting and billing errors:

- LCWC misclassified \$9,308 of Metered Water Revenue as Unmetered Water Revenue.
- LCWC incorrectly reported \$2,294 of funding from a grant awarded by Department of Water Resources (DWR) as Unmetered Water Revenue.
- LCWC did not remove former customers from its billing system and continued to bill them for water services for a total of \$5,435 in 2021. LCWC's personnel stated that the billing errors only impacted LCWC's accounting system because LCWC did not send erroneous bills to its former customers.

6. Cash

LCWC's reported balance of \$6,154 in Account 131—Cash is materially misstated in its 2021 Annual Report. LCWC could not provide adequate documentation to support the reported Cash balance. LCWC reported a balance of \$6,154 in Account 131—Cash in its Annual Report, but its G/L showed a balance of \$21,774, resulting in a variance of \$15,620. In addition, our review of LCWC's bank statements showed that LCWC should have a Cash balance of \$20,613 as of December 31, 2021. Therefore, none of the Cash balances on these documents agree with each other.

Our review of LCWC's Cash account also disclosed that LCWC did not perform its bank reconciliations correctly during the review period. LCWC's December bank reconciliation shows 337 outstanding checks totaling \$154,356 and 75 deposits in transit totaling \$154,356. LCWC has no documents to support the outstanding checks and pending deposits used in its bank reconciliation.

Additionally, LCWC's G/L showed \$1,909 in the Undeposited Funds account, which is not reported in the 2021 Annual Report. This amount is likely due to cumulative accounting errors of unreconciled items in the bank reconciliation.

7. Accounts Receivable

LCWC's reported balance of \$5,764 in Account 141—Accounts Receivable—Customers is materially misstated in its 2021 Annual Report. LCWC was unable to provide adequate documentation to support the reported balance of Accounts Receivable in its 2021 Annual Report. While LCWC reported an Accounts Receivable balance of \$5,764 in its Annual Report, its G/L and Accounts

Receivable Aging Report showed a balance of \$57,729 as of December 31, 2021, resulting in a variance of \$51,965. LCWC was unable to explain this discrepancy.

LCWC's Accounts Receivable Aging Report includes receivables that are significantly past due (outstanding for more than a year). LCWC's Accounts Receivable Aging Report shows a total of \$25,829 of receivables from seven customers that have been outstanding for over one year as of December 31, 2021, with the oldest receivable dating back to 2008.

LCWC's management has yet to determine the effects of material misstatements on its financial position.

8. Operating Expenses

LCWC understated Account 682–Professional Services by \$6,478 and overstated Account 615–Power, Account 640–Materials, Account 650–Contract Work, and Account 681–Office Supplies and Expenses by \$686, \$2,769, \$1,041, and \$1,982, respectively, in its 2021 Annual Report, due to the following accounting errors:

- LCWC misclassified \$2,668 of expenses for Professional Services performed by its bookkeeper as Office Supplies and Expenses.
- LCWC misclassified \$1,915 of expenses for Contract Work performed by contractors as Materials.
- LCWC misclassified \$854 of expenses for Professional Services performed by its accounting consultants as Materials.
- LCWC misclassified \$4,302 of expenses for Professional Services performed by its bookkeeper and accounting consultant as Contract Work.
- LCWC misclassified \$686 of Office Supplies and Expenses as a Power expense.
- LCWC misclassified \$1,346 of expenses for Contract Work performed by contractors as Professional Services.

In addition, LCWC overstated Account 671–Management Salaries by \$1,233 in its 2021 Annual Report. LCWC incorrectly included these management salaries for Year 2020 as expenses in its 2021. As a result, LCWC overstated both Account 671–Management Salaries and Account 206–Subchapter S Corporation Accumulated Adjustments Account by \$1,233.

9. 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.¹⁰

LCWC failed to remit CPUC Users Fee from 2001 through 2021. The CPUC Users Fees rate for 2021 was 1.43 percent and LCWC's G/L showed that it billed its customers \$43,522 of Metered and Unmetered Water Revenue during 2021. Therefore, LCWC should have billed its customers approximately \$622 ($\$43,522 \times 1.43$ percent) for CPUC Users Fees during 2021 and remitted the

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

amount to CPUC. UAB was unable to determine the total CPUC Users Fee that LCWC owes to CPUC from 2001 through 2020 because making such a determination would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

10. Form of Financial Statements ¹¹

(1) Balance Sheet

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

(2) Income Statement

The form of Income Statement reflects the classification of revenues and expenses in ratemaking. Operating revenues and expenses are referred to as “above the line” because they are allowable in ratemaking, and the result of deducting total operating expenses from total operating revenues is the operating income. Other Income and Deductions are referred to as “below the line” because they are applied after operating income and are not allowable in ratemaking. The “below the line” items include interest revenue, dividend income, other revenues that are from non-water utility operations and/or non-water utility properties, expenses that are unrelated to water utility operations, and interest expense (the interest expense is recovered through the authorized rate of return). The concept of “above the line” revenues and expenses being allowable in ratemaking affects the form of the income statement, the classification of revenues and expenses, and decisions of management in incurring expenses.

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 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.

12. 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 memoranda to water and sewer utilities) require all regulated water and sewer IOUs to file an Annual Report with CPUC every year. For the year being reviewed, LCWC did not comply with these requirements 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. LCWC did not file its 2021 Annual Report until February 9, 2023, without obtaining the approval from the CPUC’s Water Division for a filing extension.

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

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Misstated Ownership Equity

Condition:

LCWC's reported balance of its deficit ownership equity of \$362,323 is materially misstated in its 2021 Annual Report. Our review of LCWC's accounting records revealed the following accounting errors:

- LCWC incorrectly reported changes in its ownership equity in Account 215—Retained Earnings instead of Account 206—Subchapter S Corporation Accumulated Adjustments Account as required by USOA. LCWC is an S Corporation. USOA requires S Corporations to use Account 206—Subchapter S Corporation Accumulated Adjustments Account to record and report changes in ownership equity.
- LCWC does not have historical records to substantiate its ownership equity reported in Account 215—Retained Earnings as of December 31, 2021.
- LCWC's ownership equity is materially misstated because of the aggregate of material misstatements in the reported account balances of Long-term Debt, Short-term Notes Payable, Accumulated Depreciation of Water Plant, Depreciation Expense, Cash, and Accounts Receivable. These material misstatements are described in detail in Findings 2, 3, 5, and 6 of this review report. LCWC's management has yet to determine the effects of these material misstatements on its financial position.

Criteria:

USOA states, in part, that:

215. Retained Earnings (for corporations only)

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

B. The account shall be credited with:

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

C. The account shall be charged with:

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

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.

Cause:

LCWC lacks monitoring and review procedures over its accounting and reporting process to ensure that:

- changes in ownership equity are accurately recorded and reported in Account 206—Subchapter S Corporation Accumulated Adjustments Account;
- source documents are retained to support its ownership equity balances reported in its Annual Reports; and
- account balances are accurately reported in its Annual Reports.

Effect:

LCWC's management has yet to determine the effects of this departure from USOA's accounting requirements on LCWC's financial position.

Inaccurate reporting of its ownership equity distorted LCWC's financial position as of December 31, 2021, and reduced the comparability of LCWC's financial statements with other water utilities. Consistent financial presentation among water utilities aids decisionmakers in analyzing the performance and financial position of LCWC relative to other water utilities in California.

Recommendations:

LCWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that:

- changes in ownership equity are accurately recorded and reported using the appropriate account as required by USOA;
- source documents are properly retained to support its ownership equity balances; and
- account balances are accurately reported in its Annual Reports.

Finding 2: Unsupported Balances for Long-term Debt and Short-term Notes Payable

Condition:

LCWC's reported balances of \$423,049 and \$12,863 in Account 224—Long-term Debt and Account 232—Short-term Notes Payable, respectively, are materially misstated in its 2021 Annual Report. Although LCWC has been reporting the same balances for Long-term Debt and Short-term Notes Payable in its Annual Report since 2013, LCWC could neither provide supporting documents to substantiate the reported balances for these accounts, nor explain their composition. Therefore, UAB is unable to verify the accuracy of the reported account balances for these accounts.

Criteria:

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.

Note: Prior authorization must be obtained from this Commission before any long-term indebtedness may be incurred by the utility. (Public Utilities Code, section 818.)

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.

2. General Accounting Instructions

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.

Cause:

LCWC lacks accounting policies and procedures to ensure that it properly retains source documentation to support balances of Long-term Debt and Short-term Notes Payable in its 2021 Annual Report.

Effect:

Due to the lack of supporting documentation, UAB was unable to verify the accuracy of the reported balances in Account 224–Long-term Debt and Account 232–Short-term Notes Payable. Inaccurately reported balances of Long-term Debt and Short-term Notes Payable could potentially impact LCWC’s rate base and water rates for LCWC’s ratepayers during LCWC’s General Rate Case (GRC) application review process.

Recommendation:

LCWC should establish and implement accounting policies and procedures to ensure that source documentations are properly retained and readily available to support the balances reported in its Annual Reports.

Finding 3: Unsupported, Materially Misstated, and Insufficient Depreciation of Water Plant in Service**Condition:**

LCWC’s reported balances of \$67,103 and \$672 in Account 108–Accumulated Depreciation of Water Plant and Account 403–Depreciation Expense, respectively, are materially misstated in its 2021 Annual Report. LCWC has no documentation, such as a depreciation schedule, to substantiate

the reported balances. LCWC stated that it has been depreciating its Water Plant in Service at the rate of \$672 annually for over ten years. However, LCWC could not explain its methodology. UAB reviewed Schedule A-1a–Water Plant in Service and Schedule A-2–Depreciation and Amortization Reserves and noted that LCWC is using a composite rate of approximately 0.5 percent to depreciate its Water Plant in Service annually, which is well below the industry average of 2 to 2.5 percent. LCWC could not justify the percentage it used to depreciate its assets. Therefore, LCWC’s Water Plant in Service are not sufficiently depreciated. As a result, LCWC understated the Accumulated Depreciation of Water Plant and Depreciation Expense accounts in its 2021 Annual Report.

Criteria:

USOA states, in part, that:

General Accounting Instructions

4. Depreciation

A. Depreciation charges shall be computed using the straight-line remaining life method (see definition (17)), and composite depreciation rates (see definition (4)). The rates shall be reviewed periodically and adjusted as required, so that the depreciation accrual will bear a reasonable relationship to the remaining life, the estimated net future salvage, costs of plant in service, and to the balance of accumulated depreciation accrued in prior periods.

108. Accumulated Depreciation of Water Plant

A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service. The following subaccounts should be maintained, if applicable:

- 108.1 Accumulated Amortization of SDWBA
- 108.2 Accumulated Depreciation of Water Plant - Grant Funds
- 108.3 Accumulated Depreciation of Water Plant – Other

B. This account shall be credited with:

- 1. Amounts concurrently charged to account 403, Depreciation Expense, representing currently accruing depreciation of water plant (other than contributed water plant).

SP U-4-SM, Depreciation Procedures for Small Water and Sewer System Utilities, states, in part, that:

I - REASONABLENESS OF FINAL RESULT

22. An overall test of reasonableness should be applied to the final accrual. Assuming the reserve is not unreasonably large or small, the overall composite depreciation rate produced by the accrual calculation should normally fall within the range from 2.0% to 3.5%. Where results outside this range are obtained, further review should be made to ascertain the nature of any special conditions which may be influencing the result.

Cause:

LCWC has not developed a depreciation methodology to ensure that its assets are sufficiently and timely depreciated to recover the costs of its plant assets.

Effect:

Inaccurate reporting of Accumulated Depreciation of Water Plant and Depreciation Expense in the Annual Report could potentially impact LCWC's rate base and water rates for its ratepayers during LCWC's GRC application review process.

Recommendation:

LCWC should develop and implement a depreciation methodology to ensure that its assets are depreciated sufficiently and timely to recover the costs of its plant assets.

Finding 4: Misstated Revenues**Condition:**

LCWC overstated Account 460—Unmetered Water Revenue by \$16,443 and understated Account 470—Metered Water Revenue and Account 206—Subchapter S Corporation Accumulated Adjustments Accounts by \$8,714 and \$7,729, respectively, in its 2021 Annual Report. UAB noted the following accounting and billing errors:

Description	Overstated/(Understated)		
	Acct 460	Acct 470	Acct 206
LCWC misclassified \$9,308 of Metered Water Revenue as Unmetered Water Revenue.	\$9,308	(\$9,308)	
LCWC incorrectly reported \$2,294 of funding from a grant awarded by DWR as Unmetered Water Revenue.	2,294		(\$2,294)
LCWC did not remove former customers from its billing system and continued to generate bills for them for water services for a total of \$5,435 in 2021. According to LCWC's personnel, the billing errors only impacted LCWC's accounting system and LCWC did not send erroneous bills to its former customers.	4,841	594	(5,435)
Total	\$16,443	(\$8,714)	(\$7,729)

Criteria:

USOA states, in part, that:

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.

470. Metered Water Revenue

A. This account shall include all revenue from metered water service. Surcharge revenues approved by the Commission applicable to metered 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.

Cause:

LCWC lacks effective monitoring and review procedures over its billing process to ensure that it timely removes inactive customers from its accounting system to avoid generating erroneous customer bills. LCWC also lacks monitoring and review procedures over its accounting and reporting process to ensure that Operating Revenue is accurately reported in its 2021 Annual Report.

Effect:

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

Recommendations:

LCWC should strengthen its monitoring and review procedures over its billing process to ensure that it timely removes inactive customers from its accounting system to ensure that no erroneous bills are generated. LCWC should also implement monitoring and review procedures over its accounting and reporting process to ensure that Operating Revenue is accurately reported in its Annual Reports.

Finding 5: Misstated Cash**Condition:**

LCWC's reported balance of \$6,154 in Account 131–Cash is materially misstated in its 2021 Annual Report. LCWC could not provide adequate documentation to support the reported Cash balance. LCWC reported a balance of \$6,154 in Account 131–Cash in its Annual Report, but its G/L showed a balance of \$21,774, resulting in a variance of \$15,620. In addition, our review of LCWC's bank statements revealed a Cash balance of \$20,613 as of December 31, 2021. Therefore, none of the Cash balances from these documents agree with each other.

Our review of LCWC's Cash account also disclosed that LCWC did not perform its bank reconciliations correctly during the review period. LCWC's December bank reconciliation shows 337 outstanding checks totaling \$154,356 and 75 deposits in transit totaling \$154,356. LCWC has no documents to support the outstanding checks and pending deposits used in its bank reconciliation.

Additionally, LCWC's G/L showed \$1,909 in the Undeposited Funds account, which is not reported in the 2021 Annual Report. This amount is likely due to cumulative accounting errors of unreconciled items in the bank reconciliation.

Criteria:

USOA states, in part, that:

2. General Account Institutions

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.

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

Cause:

LCWC lacks monitoring, review, and bank reconciliation procedures over its Cash account to ensure that bank reconciliations are performed regularly, timely, and accurately. LCWC also lacks monitoring and review procedures over its accounting and reporting process to ensure that the Cash balances are accurately reported in the Annual Reports.

Effect:

LCWC's management has yet to determine the effects of this departure from the USOA accounting requirements on LCWC's financial position. Inaccurate reporting of Cash distorted LCWC's financial position, misstated its available working capital, and reduced the comparability of its financial statements with other water utilities. Consistent financial presentation among water utilities aids decision makers in analyzing the performance and financial position of LCWC relative to other water utilities in California.

Recommendations:

LCWC should establish and implement monitoring, review, and bank reconciliation procedures over its Cash account to ensure that the bank reconciliations are performed regularly, timely, and accurately. LCWC should also establish and implement monitoring and review procedures over its accounting and reporting process to ensure that Cash balances are accurately reported in its Annual Reports.

Finding 6: Misstated Accounts Receivable**Condition:**

LCWC's reported balance of \$5,764 in Account 141—Accounts Receivable—Customers is materially misstated in its 2021 Annual Report. LCWC was unable to provide adequate documentation to support the reported balance of Accounts Receivable in its 2021 Annual Report. LCWC reported an Accounts Receivable balance of \$5,764 in its Annual Report, but its G/L and Accounts Receivable Aging Report showed a balance of \$57,729 as of December 31, 2021, resulting in a variance of \$51,965. LCWC was unable to explain this discrepancy.

LCWC's Accounts Receivable Aging Report includes receivables that are significantly past due (i.e., outstanding for more than a year). LCWC's Accounts Receivable Aging Report shows a total of \$25,829 of receivables from seven customers that have been outstanding for over one year as of December 31, 2021, with the oldest receivable dating back to 2008.

Criteria:

USOA states, in part, that:

141. Accounts Receivable - Customers

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

Note: Accounts receivable other than from customers for water service shall be included in account 174, Other Current Assets, or in account 121, Non-Water Utility Property and Other Assets, as appropriate.

Cause:

LCWC lacks effective monitoring and review procedures over its accounting and reporting process to ensure Accounts Receivable are accurately reported in its 2021 Annual Report.

Effect:

LCWC's management has yet to determine the effects of material misstatements on its financial position. Inaccurate reporting of Accounts Receivable in Account 141 distorted LCWC's financial position as of December 31, 2021, misstated its available working capital, and reduced the comparability of LCWC'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 LCWC relative to other small water utilities in California.

Recommendation:

LCWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that Accounts Receivable are accurately recorded and reported in the Annual Report.

Finding 7: Misclassified Operating Expenses**Condition:**

LCWC understated Account 682—Professional Services by \$6,478 and overstated Account 615—Power, Account 640—Materials, Account 650—Contract Work, and Account 681—Office Supplies and Expenses by \$686, \$2,769, \$1,041, and \$1,982, respectively, in its 2021 Annual Report, due to the following accounting errors:

Description	Acct 615	Overstated/(Understated)			Acct 682
		Acct 640	Acct 650	Acct 681	
LCWC misclassified \$2,668 of expenses for Professional Services performed by its bookkeeper as Office Supplies and Expenses.				\$2,668	(\$2,668)
LCWC misclassified \$1,915 of expenses for Contract Work performed by contractors as Materials.		\$1,915	(\$1,915)		
LCWC misclassified \$854 of expenses for Professional Services performed by its accounting consultants as Materials.		854			(854)
LCWC misclassified \$4,302 of expenses for Professional Services performed by its bookkeeper and accounting consultant as Contract Work.			4,302		(4,302)
LCWC misclassified \$686 of Office Supplies and Expenses as a Power expense.	\$686			(686)	
LCWC misclassified \$1,346 of expenses for Contract Work performed by contractors as Professional Services.			(1,346)		1,346
Total	\$686	\$2,769	\$1,041	\$1,982	(\$6,478)

Criteria:

USOA states, in part, that:

682. Professional Services

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

640. Materials

This account shall include all materials and supplies used in operation and maintenance of the water system, other than repair and maintenance materials

charged to Account 650, Contract Work and chemicals charged to Account 618, Other Volume Related Expenses.

681. Office Supplies and Expense

This account shall include the cost of office supplies and expenses, including printing, stationery, general accounting supplies, repair, maintenance and telephone, utilities, and other office expenses.

650. Contract Work

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

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

615. Power

This account shall include the cost of power and fuel used to operate pumps.

Note: Fuel and electricity used to heat and light offices shall be charged to Account 681, Office Supplies and Expense.

Cause:

LCWC lacks effective review and oversight procedures over its accounting and recording process to ensure expenses are properly classified.

Effect:

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

Recommendation:

LCWC should strengthen its review and oversight procedures over its accounting and recording process to ensure that expenses are accurately classified.

Finding 8: Overstated Management Salaries

Condition:

LCWC overstated Account 671–Management Salaries by \$1,233 in its 2021 Annual Report. LCWC incorrectly included \$1,233 of management salaries for Year 2020 as expenses in its 2021 Annual Report. As a result, LCWC overstated both Account 671–Management Salaries and Account 206–Subchapter S Corporation Accumulated Adjustments Account by \$1,233.

Criteria:

USOA states, in part, that:

671. Management Salaries

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

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

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

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

Cause:

LCWC lacks effective monitoring and review procedures over its accounting and recording process to ensure that Management Salaries are accurately reported in its 2021 Annual Report.

Effect:

Incorrect reporting of Management Salaries in LCWC’s Annual Report, which may be used during LCWC’s GRC application review process, could impact water rates for LCWC’s ratepayers.

Recommendation:

LCWC should strengthen its monitoring and review procedures over its accounting and recording process to ensure that Management Salaries are accurately reported in its Annual Reports.

Finding 9: Unpaid CPUC Users Fee**Condition:**

LCWC failed to remit CPUC Users Fee from 2001 through 2021. PU Code sections 431 and 433 and the CPUC’s directives specified in Resolution M-4841 and CPUC Water Division’s Memorandum dated July 23, 2020, require utilities to bill and collect CPUC Users Fee from customers and remit them to CPUC annually. The CPUC Users Fee rate for 2021 was 1.43 percent and LCWC’s G/L showed that it billed its customers \$43,522 of Metered and Unmetered Water Revenue during 2021. Therefore, LCWC should have billed its customers approximately \$622 ($\$43,522 \times 1.43$ percent) for CPUC Users Fee during 2021 and remitted the amount to CPUC. UAB was unable to determine the total CPUC Users Fee that LCWC owes to CPUC from 2001 through 2020 because making such a determination would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

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.

PU Code section 433 states that:

Except as provided in section 404, every public utility subject to section 431 shall make payment of the required fee in accordance with the following schedule:

(a) Every public utility with annual gross interest state 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 15th.

(b) Every other public utility not subject to subdivision (a) shall make payment of the fee to the Commission on a quarterly basis between the first and 15th days of July, October, January, and April.

Cause:

LCWC lacks monitoring and review procedures over its accounting and reporting process to ensure that CPUC Users Fee are timely computed, billed, collected, and remitted to CPUC annually.

Effect:

LCWC has not paid its CPUC Users Fee since 2001. In addition, LCWC did not comply with CPUC's directives regarding remitting CPUC Users Fee annually.

Recommendations:

LCWC should work with the CPUC's Water Division and Fiscal Office to determine the amount of delinquent User Fees since 2001 and remit the delinquent payment to the CPUC. LCWC should develop and implement monitoring and review procedures over its accounting process to ensure CPUC Users Fee are timely computed, billed, collected, and remitted to CPUC.

Finding 10: Noncompliance with USOA Accounting Requirements

Our review disclosed deficiencies in LCWC's accounting system which constitutes a noncompliance with the USOA accounting requirements.

LCWC's G/L and WTB were incomplete and inaccurate. UAB noted the following exceptions among LCWC's G/L, WTB, and its 2021 Annual Report:

- LCWC's G/L and WTB did not include any activities or balances for the accounts shown below:

Account	Annual Report	Notes
Water Plant in Service	\$160,054	
Accumulated Depreciation of Water Plant	(67,103)	See Finding 3
Common Stock	31,280	
Short-term Notes Payable	12,863	See Finding 2
Depreciation Expense	672	See Finding 3

- LCWC's G/L and its 2021 Annual Report had the following discrepancies:

Account	Per G/L	Per Annual Report	Variance	Note
Cash	\$ 21,774	\$6,154	\$15,620	See Finding 5
Accounts Receivable– Customers	57,729	5,764	51,965	See Finding 6
Retained Earnings	56,319	362,323	306,004	See Finding 1
Long-term Debt	21,124	423,049	401,925	See Finding 2

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.

Cause:

LCWC lacks an effective accounting system to ensure that its accounting transactions are accurately and completely recorded in its books and reported in its 2021 Annual Report 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 LCWC's financial reporting. Inaccurate and materially misstated financial information in LCWC's Annual Reports, which may be used during LCWC's GRC application review process, could potentially impact water rates for LCWC's ratepayers.

Recommendation:

LCWC should establish and implement an effective accounting system to ensure that its accounting transactions are accurately, completely and timely recorded as mandated by the USOA accounting requirements.

Finding 11: Late Filing of 2021 Annual Report without CPUC Authorization**Condition:**

LCWC failed to 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.

LCWC did not file its 2021 Annual Report until February 9, 2023, 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 the CPUC's Water Division.

Cause:

LCWC lacks monitoring procedures over its reporting process to ensure timely filing of its Annual Reports with the CPUC's Water Division.

Effect:

LCWC 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:

LCWC should implement monitoring procedures over its reporting process to ensure timely filing of its Annual Reports with the CPUC's Water Division.

APPENDIX B—UTILITY'S RESPONSE

Long Canyon Water
7908 Calle Torcido
Bakersfield, CA 93309

Response to PUC draft dated September 14, 2023: Long Canyon Water, Weldon CA.

Please be advised that as discussed previously that much of the explanation of the details in question were lost with the passing of my Husband who was the President of LCW at the time of the audit request, as a result there were several discrepancies we were unable to explain. I understand that we will be fully detailing as much as possible all discrepancies and complete a detail revision of policies and procedures going forward starting with 2022 returns, to ensure full compliance with applicable regulations and CUPUC's directives. We have an extension granted for 2022 filing through October 31st and the understanding that if necessary, can extend to 45 days after receipt of the final audit report. We have acquired an expert in preparing new reports in QuickBooks to establish and implement monitoring review and bank reconciliation. Please be aware that part of the previous issue is the reporting from our end was on a different fiscal year end on QuickBooks reporting making it very difficult for accountant to convert to calendar year end. That will be corrected I do understand the issues as we have previously discussed in the Audit meetings and understand once the final report has been issued, we will address each item and implement detailed procedures going forward. Please note that annual filing has always been on time. The reason for the delay in providing the 2021 report was the illness and death of my husband. I was not prepared for this transition and had difficulty with my computer files. I failed to submit the information, preventing the PUC report from being prepared timely.. Please advise when we should expect the final PUC audit report.

Sincerely,



Barbara Prince