



REVIEW OF FINANCIAL STATEMENTS

Lytle Springs Water Company

For the Year Ended December 31, 2022

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 24, 2023



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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

**Khusbindar Kaur, CPA
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Staff**

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

October 24, 2023

Seamus Burlingame, President
Lytle Springs Water Company Inc.
3546 North Riverside Avenue
Rialto, CA 92377

Dear Seamus Burlingame:

Final Report Transmittal Letter— Review of Lytle Springs Water Company's Annual Report for the Year Ended December 31, 2022

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Lytle Springs Water Company's (LSWC) regulatory basis financial statements in the 2022 Annual Report filed with CPUC, which comprise the balance sheet as of December 31, 2022, and related statement of income. The final review report is enclosed.

UAB provided a draft report to LSWC for comments on October 6, 2023. LSWC provided comments via email on October 18, 2023. LSWC'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 8, 2023. The CAP should include specific steps LSWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. Please submit LSWC'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 LSWC'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

Seamus Burlingame, President
Lytle Springs Water Company
October 24, 2023
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cc: Kevin Burlingame, Director, LSWC
Richard Duquette, Chief Financial Officer, LSWC
JoAnn Torres, Marketing Manager, Mountain Lakes Resort
Sukhi Bhandari, Director of Information Technology, Burlingame Industries, Inc.
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
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Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Lytle Springs Water Company (LSWC) as of December 31, 2022, 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 November 17, 1958¹, LSWC is a Class D water utility with 149 active customer service connections, which includes 101 active metered and 48 active flat rate customers². LSWC's service area is located in Lytle Creek Canyon, approximately ten miles northwesterly of the city of Rialto, San Bernardino County, California³. As a regulated water utility, LSWC 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 LSWC complied with the following:

- a) complied with PU Code section 818 regarding obtaining CPUC's approval before incurring any long-term debts;
- b) complied with PU Code sections 431 and 433, and CPUC directives regarding CPUC Users Fee requirements; and
- c) timely filed its 2022 Annual Report as required by CPUC Water Division's Memorandum dated February 6, 2023.

Based on our review, we are not aware of any material modifications that should be made to LSWC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by USOA. For the review period, UAB did not note any noncompliance with PU Code section 818; LSWC complied with PU Code section 431 and 433; and filed its 2022 Annual Report timely in compliance with CPUC directive from the Water Division. However, UAB identified three material misstatements in LSWC's 2022 Annual Report originally filed with CPUC's Water Division on March 10, 2023, as described in Appendix A—Review Findings and Recommendations. The three findings are summarized below:

¹ LSWC's 2022 Annual Report, General Information, Page 4.

² LSWC's 2022 Annual Report, Schedule I—Service Connections at End of Year, Page 19.

³ CPUC Resolution W-5234, Page 1.

- Finding 1: LSWC overstated Account 470–Metered Water Revenue by \$2,258 and understated Account 141–Accounts Receivable–Customers, Account 215–Retained Earnings, and Account 460–Unmetered Water Revenue by \$13,195, \$12,415, and \$3,038, respectively, because LSWC used cash basis of accounting rather than accrual basis of accounting.
- Finding 2: LSWC overstated Account 689–General Expenses by \$9,134 and understated Account 615–Power, Account 650–Contract Work, and Account 682–Professional Services by \$4,509, \$1,625, and \$3,000, respectively, due to various misclassification errors.
- Finding 3: LSWC overstated Account 689–General Expenses by \$1,558 and understated Account 215–Retained Earnings by the same amount because LSWC incorrectly reported expenses for utility services rendered in December 2021 in both its 2021 and 2022 Annual Reports.

UAB discussed the above findings with LSWC at the exit conference on September 14, 2023. LSWC’s management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. LSWC submitted its revised financial statements to CPUC’s Water Division on September 20, 2023, to correct the material misstatements described in Appendix A of this report. UAB is not aware of any further material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to LSWC for comments on October 6, 2023. LSWC responded on October 18, 2023, that it agreed with UAB’s findings. LSWC’s response is presented in Appendix B of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Seamus Burlingame, President
Lytle Springs Water Company Inc.
3546 North Riverside Avenue
Rialto, CA 92377

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Lytle Springs Water Company (LSWC), which comprise the balance sheet as of December 31, 2022, 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 LSWC'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

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

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the accounting framework prescribed by USOA.

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.

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

Emphasis of Matter—Correction of Material Misstatements

As discussed in Notes 3 and 4 to the financial statements, UAB identified three material misstatements in LSWC's 2022 Annual Report originally filed with CPUC's Water Division on March 10, 2023. Those misstatements have been corrected in the accompanying financial statements. Our conclusion is not modified with respect to this matter.

Other Matter—Views of Responsible Official

UAB discussed these findings with LSWC's management at the exit conference on September 14, 2023. At the exit conference, UAB also stated that the final report will include the views of responsible officials. LSWC's management agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements described in Appendix A of this report. LSWC submitted its revised financial statements to CPUC's Water Division on September 20, 2023, to correct the material misstatements in each account as described in Appendix A of this report. UAB is not aware of any material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to LSWC for comments on October 6, 2023. LSWC responded on October 18, 2023, that it agreed with UAB's findings. LSWC's response is presented in Appendix B of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

Other Matter—Submission of a Corrective Action Plan

LSWC'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 8, 2023. The CAP should include specific steps LSWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. If LSWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. LSWC should use the amounts reviewed by UAB as presented in this report as the basis to file its 2023 Annual Report with CPUC.

Report on Other Regulatory Requirements

For regulatory purposes, UAB also reviewed whether LSWC:

- a) complied with PU Code section 818 regarding obtaining CPUC's approval before incurring any long-term debts;
- b) complied with PU Code sections 431 and 433, and CPUC directives regarding CPUC Users Fee requirements; and

- c) timely filed its 2022 Annual Report as required by CPUC Water Division’s Memorandum dated February 6, 2023.

For the review period, UAB did not note any noncompliance with PU Code section 818. LSWC also properly and timely remitted its CPUC Users Fee to CPUC during the review period. In addition, LSWC has timely filed its 2022 Annual Report in compliance with CPUC directive from the Water Division.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code section 314.5. Accordingly, this review report is intended solely for the information and use by CPUC and the management of LSWC, 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 final 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 24 2023

REVIEWED FINANCIAL STATEMENTS

Lytle Springs Water Company Balance Sheet (As Reviewed)

As of December 31, 2022

ASSETS	
UTILITY PLANT	
Water Plant in Service	\$80,814
Accumulated Depreciation of Water Plant	(73,238)
Net Utility Plant	<u>7,576</u>
CURRENT AND ACCRUED ASSETS	
Cash	7,295
Accounts Receivable	13,195
Total Current and Accrued Assets	<u>20,490</u>
Total Assets	<u><u>\$28,066</u></u>
CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Common Stock	\$25,000
Other Paid-in Capital	269
Retained Earnings	733
Total Capitalization	<u>26,002</u>
CURRENT AND ACCRUED LIABILITIES	
Accounts Payable	2,064
Total Current and Accrued Liabilities	<u>2,064</u>
Total Equity and Liabilities	<u><u>\$28,066</u></u>

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

Lytle Springs Water Company
Income Statement (As Reviewed)
 For Year Ended December 31, 2022

OPERATING REVENUES	
Unmetered Water Revenue	\$3,038
Metered Water Revenue	10,157
Total Operating Revenue	<u>13,195</u>
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	4,509
Contract Work	1,625
Total Plant Operation and Maintenance Expenses	<u>6,134</u>
Administrative and General Expenses	
Management Salaries	3,000
Insurance	4,421
Regulatory Compliance Expense	214
General Expenses	360
Total Administrative and General Expenses	<u>7,995</u>
Total Operating Expenses	14,129
Depreciation Expense	589
State Corporate Income Tax Expense	800
Total Operating Revenue Deductions	<u>15,518</u>
Total Utility Operating Loss	<u><u>(\$2,323)</u></u>

Lytle Springs Water Company
Statement of Retained Earnings (As Compiled ⁴)
 For Year Ended December 31, 2022

Retained Earnings, Beginning of Year	(\$9,361)
CREDITS:	
UAB Adjustment to Accounts Receivable – Customers	13,195
UAB Adjustment to Metered Water Revenue	2,258
UAB Rounding Adjustment	2
Total Credits	15,455
DEBITS:	
Net Loss	2,323
UAB Adjustment to Unmetered Water Revenue	3,038
Total Debits	5,361
Retained Earnings, End of Year	\$733

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

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

Lytle Springs Water Company

Notes to Financial Statements

Incorporated in California on November 17, 1958⁵, LSWC is a Class D water utility with 149 active customer service connections, which includes 101 active metered and 48 active flat rate customers⁶. LSWC service area is located in Lytle Creek Canyon, approximately ten miles northwesterly of the city of Rialto, San Bernardino County, California⁷.

Significant Accounting Policies

The financial statements of LSWC were prepared on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities. Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in 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 CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining

⁵ LSWC's 2022 Annual Report, General Information, Page 4.

⁶ LSWC's 2022 Annual Report, Schedule I—Service Connections at End of Year, Page 19.

⁷ CPUC Resolution W-5234, Page 1.

depreciation accruals. Specifically, for the water plant with over \$100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under \$100,000, if the utility elects not to separate or maintain the depreciation reserve by accounts, it is appropriate to develop a composite value for remaining life for the entire plant in accordance with Appendix B2 or B3 of SP U-4-SM. 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.

LSWC utilizes the straight-line remaining life method for each class of assets as prescribed in the SP U-4-SM to determine depreciation accruals.

(2) Asset Retirement

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

LSWC did not retire any assets during the review period.

(3) Sale and Acquisition of Properties

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

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

LSWC did not sell or acquire any properties during the review period.

3. Revenues

LSWC used cash basis of accounting instead of accrual basis of accounting as required by USOA's accounting requirements to report revenues in its 2022 Annual Reported originally filed with the CPUC's Water Division on March 10, 2023. As a result, LSWC overstated Account 470–Metered Water Revenue by \$2,258 and understated Account 141–Accounts Receivable–Customers, Account 215–Retained Earnings, and Account 460–Unmetered Water Revenue by \$13,195, \$12,415, and \$3,038, respectively. However, LSWC incorporated UAB's proposed adjustments and corrected

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

the noted misstatements in its revised 2022 Annual Report submitted to the CPUC's Water Division on September 20, 2023.

4. Operating Expenses

LSWC misclassified \$9,134 of operating expenses, in its 2022 Annual Report originally filed with the CPUC's Water Division on March 10, 2023, due to the following accounting errors:

- LSWC incorrectly reported \$4,509 of its electricity expense in Account 689–General Expenses instead of reporting it in Account 615–Power.
- LSWC incorrectly reported \$3,000 of expenses for accounting and bookkeeping services as General Expenses instead of reporting it in Account 682–Professional Services.
- LSWC incorrectly reported \$1,625 of expenses for testing of water as General Expenses instead of reporting it in Account 650–Contract Work.

In addition, LSWC incorrectly reported \$1,558 of expenses for utility services rendered in December 2021 in both its 2021 and 2022 Annual Report. However, LSWC should have only reported the expense in its 2021 Annual Report. As a result, LSWC overstated Account 689–General Expenses by \$1,558 and understated Account 215–Retained Earnings by the same amount.

However, LSWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to the CPUC's Water Division on September 20, 2023.

5. 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

LSWC correctly recorded CPUC Users Fee in Account 688–Regulatory Compliance Expense and Operating Revenues and timely remitted its CPUC Users Fee for 2022.

6. Affiliate Transactions

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

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

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

LSWC's affiliated company, Burlingame Industries provides customer service, billing, accounting and administrative services for LSWC. During 2022, LSWC paid \$3,000 to Burlingame Industries for these services. These expenses were reported in Account 682—Professional Services.

7. Form of Financial Statements ¹⁰

(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.

8. 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.

9. Compliance filing of 2022 Annual Report with CPUC

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

¹⁰ 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 Revenues and Accounts Receivable

Condition:

LSWC overstated Account 470—Metered Water Revenue by \$2,258 and understated Account 141—Accounts Receivable—Customers, Account 215—Retained Earnings, and Account 460—Unmetered Water Revenue by \$13,195, \$12,415, and \$3,038, respectively, in its 2022 Annual Report originally filed with the CPUC’s Water Division on March 10, 2023. Our review of LSWC’s accounting records disclosed that LSWC used cash basis of accounting instead of accrual basis of accounting as required by USOA accounting requirements. As a result, LSWC’s reported accounts balances were misstated as follows:

Description	Overstated/(Understated)			
	Acct 141	Acct 215	Acct 460	Acct 470
LSWC incorrectly reported \$12,415 of Metered Water Revenue earned in 2021 as revenues in 2022.		(\$12,415)	\$12,415	
LSWC did not accrue \$13,195 of receivables and revenues earned in 2022 as of December 31, 2022.	(\$13,195)		(10,157)	(\$3,038)
Total	(\$13,195)	(\$12,415)	\$2,258	(\$3,038)

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

AJE No.	Acct. No.	Description	DR	CR
1	141	Accounts Receivable	\$13,195	
	470	Metered Water Revenue	2,258	
	215	Retained Earnings		\$12,415
	460	Unmetered Water Revenue		3,038
		<i>To accrue Accounts Receivable and Operating Revenues earned in 2022.</i>		

LSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on September 20, 2023.

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.

141. Accounts Receivable - Customers

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

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:

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

Effect:

Inaccurate reporting of Accounts Receivable in Account 141 distorted LSWC's financial position as of December 31, 2022, misstated its available working capital, and reduced the comparability of LSWC'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 LSWC relative to other small water utilities in California.

Inaccurate reporting of Operating Revenue in the Annual Report, which may be used during the LSWC's General Rate Case (GRC) application review process, could potentially impact water rates for LSWC's ratepayers.

Recommendation:

LSWC should strengthen its review and monitoring procedures to ensure that revenues are recorded and reported using accrual basis of accounting as required by USOA.

Finding 2: Misclassified Operating Expenses**Condition:**

LSWC overstated Account 689–General Expenses by \$9,134 and understated Account 615–Power, Account 650–Contract Work, and Account 682–Professional Services by \$4,509, \$1,625, and \$3,000, respectively, in its 2022 Annual Report originally filed with the CPUC’s Water Division on March 10, 2023, due to the following accounting errors:

Description	Overstated/(Understated)			
	Acct 615	Acct 650	Acct 682	Acct 689
LSWC incorrectly reported \$4,509 of its electricity expense in Account 689–General Expenses instead of reporting it in Account 615–Power.	(\$4,509)			\$4,509
LSWC incorrectly reported \$3000 of expenses for accounting and bookkeeping services as General Expenses instead of reporting it in Account 682–Professional Services.			(\$3,000)	3,000
LSWC incorrectly reported \$1,625 of expenses for testing of water as General Expenses instead of reporting it in Account 650–Contract Work.		(\$1,625)		1,625
Total	(\$4,509)	(\$1,625)	(\$3,000)	\$9,134

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

AJE No.	Acct. No.	Description	DR	CR
2	615	Power	\$4,509	
	650	Contract Work	1,625	
	682	Professional Services	3,000	
	689	General Expenses		\$9,134
		<i>To correctly reclassify Operating Expenses incorrectly reported as General Expenses.</i>		

LSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on September 20, 2023.

Criteria:

USOA states, in part, that:

615. Power

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

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.

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.

689. General Expense

This account shall include all expenses not includible in other operating expense accounts. General expenses include advertising, subscriptions, collection agency fees and Water Association dues.

Cause:

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

Effect:

LSWC'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 LSWC relative to other sewer utilities in California.

Recommendation:

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

Finding 3: Misstated General Expenses**Condition:**

LSWC overstated Account 689–General Expenses by \$1,558 and understated Account 215–Retained Earnings by the same amount in its 2022 Annual Report originally filed with the CPUC's Water Division on March 10, 2023. LSWC incorrectly reported expenses for utility services rendered in December 2021 in both its 2021 and 2022 Annual Report. However, LSWC should have only reported the expense in its 2021 Annual Report. As a result, LSWC overstated Account 689–General Expenses by \$1,558 and understated Account 215–Retained Earnings by the same amount.

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

AJE No.	Acct. No.	Description	DR	CR
3	215	Retained Earnings	\$1,558	
	689	General Expenses		\$1,558
		<i>To remove Operating Expenses incurred in 2021 that were incorrectly reported in 2022.</i>		

LSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on September 20, 2023.

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.

689. General Expense

This account shall include all expenses not includible in other operating expense accounts. General expenses include advertising, subscriptions, collection agency fees and Water Association dues.

Cause:

LSWC lacks effective review and monitoring procedures to ensure that expenses are recorded and reported in the year that the services are rendered.

Effect:

Inaccurate reporting of General Expenses in the Annual Report, which may be used during LSWC's GRC application review process, could potentially impact the water rates for LSWC's ratepayers.

Recommendation:

LSWC should strengthen its review and oversight procedures over its accounting and recorded process to ensure that expenses are recorded and reported in the year that the services are rendered.

APPENDIX B—UTILITY'S RESPONSE

LYTLE SPRINGS WATER COMPANY

Since 1958




Hello and good morning Khusbindar. Please use this letter as my official response to your audit findings.

I have gone over the "Executive Summary" a couple of times now and have discussed your findings with the staff here at Burlingame. While we were disappointed that you noted some changes that needed to be made to the Annual Report, we certainly recognize our deviation from the reporting requirements and made the appropriate changes. I'm okay with the Executive Summary as written.

We will prepare the 2023 Annual Report in the correct manner and are confident these reporting issues are behind us.

Thank you for your patience during this audit. You and your team made this pretty painless. As I mentioned prior, this was our first ever PUC audit and we weren't quite sure what to expect. We certainly appreciate your kind words regarding our organized files, our financials, workpapers, and us as managers. We do try and maintain our accounting and billing records in perfect order. Our commitment to our owners is that they are presented monthly financial statements that are correct in every respect and always in accordance with GAAP.

Sincerely,



Richard Duquette
CFO
Burlingame Industries, Inc.

Cc: LSWC file

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