



REVIEW OF FINANCIAL STATEMENTS

Stone Creek Water Company, Inc.

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 30, 2023



MEMBERS OF THE TEAM

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Transmitted via e-mail

October 30, 2023

Leonard Weston, President
Stone Creek Water Company, Inc.
72810 Ambrosia Street
Palm Desert, CA 92260

Dear Leonard Weston:

Final Report Transmittal Letter—Review of Stone Creek 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 Stone Creek Water Company’s (SCWC) regulatory basis financial statements in the 2021 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2021, and related statements of income, and retained earnings. The final review report is enclosed.

We issued the draft review report for comments on September 19, 2023. On September 29, SCWC submitted its response which required further analysis. As a result, we made modifications to Finding 4 in the Executive Summary and Appendix A of the 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 14, 2023. The CAP should include specific steps SCWC will take to address UAB’s findings and recommendations and a target date for implementing each specific corrective action. Please submit the CAP to the 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 SCWC’s assistance and cooperation during the engagement. 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

Leonard Weston, President
Stone Creek Water Company, Inc.
October 30, 2023
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cc: Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
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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 Stone Creek Water Company, Inc. (SCWC) as of December 31, 2021, pursuant to Public Utilities (PU) Code sections 314.5, 314.6, 581, 582, and 584 that provides 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 the State of California on July 15, 1995,¹ SCWC is a Class D water utility with 18 residential and two commercial active metered customer service connections in Riverside County, California.² As a regulated water utility, SCWC 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 SCWC complied with the following:

- a) PU Code section 818 regarding obtaining CPUC's approval before incurring any long-term debts;
- b) Timely filed its 2021 Annual Report as required by CPUC Water Division's Memorandum dated January 20, 2022.

Based on our review, due to the significance of 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 SCWC's 2021 Annual Report originally filed with the CPUC's Water Division on May 2, 2022, are not in accordance with the regulatory basis of accounting framework prescribed by USOA. For the review period, UAB did not note any noncompliance with PU Code section 818; and SCWC filed its 2021 Annual Report timely in compliance with the directives from CPUC's Water Division. However, UAB identified five material misstatements in SCWC's 2021 Annual Report, and three noncompliance issues with CPUC directives as described in Appendix A—Review Findings and Recommendations. These findings and noncompliance issues are summarized below:

- Finding 1: SCWC's reported deficit ending Retained Earnings balance of \$298,271 is materially misstated in its 2021 Annual Report. SCWC did not accurately carry over its

¹ SCWC's 2021 Annual Report, General Information, Page 4.

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

cumulative balances of Retained Earnings from year to year. Furthermore, SCWC 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.

- Finding 2: SCWC understated Account 470–Metered Water Revenue by \$1,681 (\$1,785 - \$1,000 + \$896) in its 2021 Annual Report due to accounting and billing errors. SCWC recorded and reported its revenues using the cash basis of accounting instead of the accrual basis of accounting, as required by USOA. As a result, SCWC understated its Metered Water Revenue by \$1,785. SCWC also overbilled its customers by approximately \$1,000 for water services for the month of November 2021. In addition, SCWC incorrectly offset approximately \$896 of Metered Water Revenue with Contract Work expense. As a result, SCWC understated both Account 470–Metered Water Revenue and Account 650–Contract Work by \$896.
- Finding 3: SCWC’s reported balances of \$97,104 in Account 108–Accumulated Depreciation of Water Plant and \$16,282 in Account 403–Depreciation Expense are materially misstated in its 2021 Annual Report. SCWC reported \$16,282 of Depreciation Expense in its Annual Report, while its Depreciation Schedule showed \$4,367 of Depreciation Expense, resulting in a variance of \$11,915. In addition, SCWC reported \$97,104 of Accumulated Depreciation in its 2021 Annual Report, while its Depreciation Schedule showed \$80,250, resulting in a variance of \$16,854. Furthermore, SCWC’s Depreciation Schedule disclosed that SCWC calculates its annual Depreciation Expense using the double declining depreciation method, which is an accelerated depreciation methodology not allowed by USOA.
- Finding 4: SCWC has failed to regularly collect CPUC Users Fee from its Customers and remit them to CPUC. Based on Resolution W-5247, SCWC did not timely remit its second installment payment for CPUC Users Fee owed from 2003 through 2019. SCWC also failed to remit \$173 of CPUC Users Fee for 2021 to CPUC. Although SCWC’s 2021 Billing Register showed that it billed its customers for the 2021 Users Fee, SCWC has not remitted the money to CPUC as required by CPUC directives. In addition, SCWC has not remitted its 2020 CPUC Users Fee to CPUC. UAB is unable to determine the total CPUC Users Fee that SCWC owes to CPUC for 2020 due to lack of adequate supporting documentation and because making such a determination would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.
- Finding 5: SCWC omitted reporting several account balances in its 2021 Annual Report. Specifically, SCWC did not record and report any Accounts Receivable in its 2021 Annual Report. SCWC also failed to record and report \$17,343 of Unanticipated Repair Cost Balancing Account (URCBA) in Account 180–Deferred Charges as authorized in Resolution W-5247, dated November 18, 2021. In addition, SCWC did not record and report \$3,329 unpaid CPUC Users Fee from 2003 through 2019 in Account 253–Other Credits as ordered by the CPUC in Resolution W-5247. Furthermore, SCWC failed to accrue \$173 of unpaid CPUC Users Fee for 2021, resulting in an understatement of \$173 in both Account 231–Accounts Payable and Account 688–Regulatory Commission Expense. During the review period, SCWC recorded revenue transactions in its accounting system using cash basis of accounting.

- Finding 6: SCWC's 2021 Annual Report contained numerous clerical errors. Account 101–Water Plant in Service balance of \$100,636 reported in Schedule A–Balance Sheet did not agree with the \$114,669 balance reported in Schedule A-1–Utility Plant, resulting in a discrepancy of \$14,033. In addition, SCWC's Balance Sheet did not balance. The Total Assets and Other Debits of \$3,664 did not equal to Total Liabilities and Other Credits of \$3,718, resulting in a variance of \$54. Finally, SCWC's Schedule B–Income Statement in the 2021 Annual Report was not supported by its sub-schedules.
- Finding 7: SCWC did not maintain its accounting records as required by USOA. Specifically, SCWC recorded transactions using cash basis of accounting and did not record non-cash expenses and transactions; SCWC's accounting system did not include any balance for Balance Sheet accounts, including but not limited to Water Plant in Service, Accumulated Depreciation, Accounts Receivable, Accounts Payable, Common Stock, and Subchapter S Corporation Accumulated Adjustments Account; and SCWC did not utilize the Chart of Accounts prescribed by USOA in its accounting system.
- Finding 8: SCWC did not comply with the CPUC's 2020 Annual Report filing requirement of April 30, 2021. During the performance of analytical procedures and through inquiry with SCWC's management, UAB noted that SCWC has not filed its 2020 Annual Report to date.

UAB discussed the above findings with SCWC's management during fieldwork. SCWC's management concurred with the findings. UAB further discussed these findings with SCWC's management at the exit conference on August 28, 2023, and SCWC concurred with the review results. Due to the significance of the matters described above and in the Basis for Adverse Conclusion paragraph in the Independent Accountant's Review Report, we concluded that the financial statements in the SCWC's 2021 Annual Report are not in accordance with the regulatory basis of accounting framework prescribed by USOA. Had we been engaged to perform an audit, other matters might have come to our attention.

UAB provided a draft review report to SCWC for comments on September 19, 2023. SCWC submitted its response on September 29, 2023. SCWC's response is presented in Appendix B of this report. In its response, SCWC provided comments about the draft report and clarified that it has made an installment payment related to its delinquent CPUC Users Fee owed from 2003 through 2019. After the issuance of its draft report, UAB confirmed with CPUC's Fiscal Office that SCWC has made the delinquent payment on September 2, 2023; and therefore, we modified Finding 4 of this report to reflect the updated information. The remainder of the findings and recommendations remain unchanged. UAB's evaluation of SCWC's response is presented in Appendix C of this report. The review findings and recommendations presented in this report remain unchanged and represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Leonard Weston, President
Stone Creek Water Company, Inc.
72810 Ambrosia Street
Palm Desert, CA 92260

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Stone Creek Water Company, Inc. (SCWC), 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 SCWC'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

SCWC'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, SCWC'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 SCWC 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 9, SCWC's financial statements include misstatements that are material and pervasive due to prevalent accounting and reporting errors, and omissions of material account balances.

SCWC's reported deficit ending Retained Earnings balance of \$298,271 is materially misstated. SCWC's Annual Reports from 2016 through 2021 disclosed that it did not accurately carry over its cumulative balances of Retained Earnings from year to year. SCWC also 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.

SCWC understated Account 470—Metered Water Revenue by \$1,681 in its 2021 Annual Report. SCWC recorded and reported its revenues using the cash basis of accounting instead of the accrual basis of accounting, as required by USOA. As a result, SCWC understated its Metered Water Revenue by \$1,785. SCWC also overbilled its customers by approximately \$1,000 for water services for the month of November 2021. In addition, SCWC incorrectly offset approximately \$896 of Metered Water Revenue with Contract Work expense.

SCWC's Depreciation Expense and Accumulated Depreciation of Water Plant reported in its Annual Report did not agree with its Depreciation Schedule. SCWC reported \$16,282 of Depreciation Expense in its Annual Report, while its Depreciation Schedule showed \$4,367 of Depreciation Expense, resulting in a variance of \$11,915. In addition, SCWC reported \$97,104 of Accumulated Depreciation in its 2021 Annual Report, while its Depreciation Schedule showed \$80,250, resulting in a variance of \$16,854. Furthermore, SCWC's Depreciation Schedule disclosed that SCWC calculates its annual Depreciation Expense using the double declining depreciation method, which is an accelerated depreciation methodology not allowed by USOA.

SCWC omitted reporting material balances for Account 141—Accounts Receivable, Account 180—Deferred Charges, Account 253—Other Credits, and Account 688—Regulatory Commission Expense.

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

Adverse Conclusion

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

Basis of Accounting

For regulatory purposes, CPUC adopted, through Decision (D.) 16-11-006 on November 10, 2016, the updated USOA, which is a comprehensive regulatory basis of accounting framework other than the generally accepted accounting principles (GAAP) in the United States of America. CPUC requires all water and sewer utilities to prepare their financial statements in accordance with the accounting framework prescribed by USOA. Due to the significant misstatements described in the Basis of Adverse conclusion paragraph, SCWC's financial statements are not prepared in accordance with the regulatory requirement.

We draw attention to the Notes to the Financial Statements, in which we described the basis of accounting as well as the accounting differences between GAAP and 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 SCWC's management during fieldwork. SCWC's management concurred with the findings as described in Appendix A of this report. UAB further discussed these findings with SCWC's management at the exit conference on August 28, 2023, and SCWC concurred with the results. At the exit conference, we also stated that the final report will include the views of responsible officials.

UAB provided a draft review report to SCWC for comments on September 19, 2023. SCWC submitted its response on September 29, 2023. SCWC's response is presented in Appendix B of this report. In its response, SCWC provided comments about the draft report and clarified that it has made an installment payment related to its delinquent CPUC Users Fee from 2003 through 2019. After the issuance of its draft report, UAB confirmed with CPUC's Fiscal Office that SCWC has made the delinquent payment on September 2, 2023; and therefore, we modified Finding 4 of this report to reflect the updated information. The remainder of the findings and recommendations remain unchanged. UAB's evaluation of SCWC's response is presented in Appendix C of this report. The review findings and recommendations presented in this report remain unchanged and represent our final determination of this review engagement.

Other Matter – Submission of a Corrective Action Plan

SCWC'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 14, 2023. The CAP should include specific steps SCWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. If SCWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. SCWC should determine the effect of the material misstatements described in Appendix A of this report on SCWC'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 SCWC complied with PU Code section 818 regarding obtaining CPUC's approval before incurring long-term debts, and whether SCWC 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; and SCWC filed its 2021 Annual Report timely in compliance with the directives from the CPUC's Water Division. However, SCWC has failed to (1) regularly collect CPUC Users Fee from its customers and remit them to CPUC, (2) comply with USOA accounting requirements, and (3) file its 2020 Annual Report as described in Finding 4, 7, and 8, respectively, in Appendix A of this report.

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 SCWC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This

restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC's website at [Audit Reports by Industry \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, CA
October 30, 2023

REVIEWED FINANCIAL STATEMENTS

Stone Creek Water Company, Inc.

Balance Sheet (As Reported) ³

As of December 31, 2021

ASSETS	
UTILITY PLANT (Note 2)	
Water Plant in Service	\$100,636
Accumulated Depreciation of Water Plant	(97,104)
Net Utility Plant	<u>3,532</u>
 CURRENT AND ACCRUED ASSETS	
Cash	132
Total Current and Accrued Assets	<u>132</u>
Total Assets and Other Debits	<u><u>\$3,664</u></u>
 CORPORATE CAPITAL AND RETAINED EARNINGS	
Common Stock	\$16,831
Other Paid-in Capital	285,158
Retained Earnings (Note 4)	(298,271)
Total Corporate Capital and Retained Earnings	<u>3,718</u>
 Total Liabilities and Other Credits⁴	<u><u>\$3,718</u></u>

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

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

⁴ Total Liabilities and Other Credits of \$3,718 does not agree with \$3,664 of Total Assets and Other Debits reported in 2021 Annual Report. See Note 10 to the Financial Statements for further details.

Stone Creek Water Company, Inc.
Income Statement (As Reported) ⁵
 For Year Ended December 31, 2021

OPERATING REVENUES	
Metered Water Revenue (Note 5)	\$11,166
Total Operating Revenue	<u>11,166</u>
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	2,550
Contract Work (Note 5)	1,913
Transportation Expense	4,889
Other Plant Maintenance Expenses	1,765
Total Plant Operation and Maintenance Expenses	<u>11,117</u>
Administrative and General Expenses	
Office Services and Rentals	2,526
Office Supplies and Expenses	514
Professional Services	745
Insurance	1,250
General Expenses	130
Total Administrative and General Expenses	<u>5,165</u>
Total Operating Expenses⁶	15,832
Depreciation Expense (Note 2)	16,282
Taxes Other Than Income Taxes (Note 6)	3,015
State Corporate Income Tax Expense	800
Total Operating Revenue Deductions	<u>35,929</u>
Total Utility Operating Loss⁷	(23,963)
Net Loss	<u><u>(\$23,963)</u></u>

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

⁵ The information presented in the Income Statement was derived from SCWC's 2021 Annual Report. The contents have not been modified by UAB.

⁶ Total Operating Expenses reported in SCWC's Income Statement does not foot.

⁷ The reported Total Utility Operating Loss does not foot.

Stone Creek Water Company, Inc.
Statement of Retained Earnings (As Reported) ⁸
 For Year Ended December 31, 2021

Balance Beginning of Year	(\$273,257)
DEBITS:	
Net Loss ⁹	(25,014)
Total debits	(25,014)
Balance End of Year	(\$296,271)

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

⁸ The information presented in the Statement of Retained Earnings was derived from SCWC's 2021 Annual Report. The contents have not been modified by UAB.

⁹ The reported Net Loss in the Statement of Retained Earnings does not agree to the Net Loss reported in the Income Statement.

Stone Creek Water Company, Inc.

Notes to Financial Statements

Incorporated in the State of California on July 15, 1995,¹⁰ SCWC is a Class D water utility with 18 residential and two commercial metered rate active customer service connections in Riverside County, California.¹¹

Significant Accounting Policies

The financial statements of SCWC 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 directives.

1. Purpose of Financial Information and Targeted Audience

The objective of preparing financial statements in accordance with GAAP is to provide information that is useful in making decisions about providing resources to the entity. Users of the financial information include existing and potential investors, lenders, and other creditors.

The purpose of using USOA to prepare financial statements is to have the utilities provide financial transparency of their water operations on a consistent basis. The primary user of the financial information is CPUC for ratemaking and other compliance purposes.

2. Property, Plant and Equipment

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

(1) Depreciation Methodology

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

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

¹⁰ SCWC's 2021 Annual Report, General Information, Page 4.

¹¹ SCWC's 2021 Annual Report, Schedule I - Service Connections at End of Year, Page 19.

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

SCWC's reported balances of \$97,104 in Account 101–Water Plant in Service and \$16,282 in Account 403–Depreciation Expense are materially misstated in its 2021 Annual Report. SCWC reported \$16,282 of Depreciation Expense in its Annual Report, while its Depreciation Schedule showed \$4,367 of Depreciation Expense, resulting in a variance of \$11,915. In addition, SCWC reported \$97,104 of Accumulated Depreciation in its 2021 Annual Report, while its Depreciation Schedule showed \$80,250, resulting in a variance of \$16,854. Furthermore, SCWC's Depreciation Schedule also disclosed that SCWC calculates its annual Depreciation Expense using the double declining method, which is an accelerated depreciation methodology not allowed by USOA.

(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.

SCWC retired \$17,860 of an old fence during the review period.¹²

3 Accounts Receivable

SCWC did not record or report any balance in Account 141–Accounts Receivable–Customers in its 2021 Annual Report. During the review period, SCWC recorded revenue transactions in its accounting system using cash basis of accounting. As a result, SCWC did not record or report a balance in Account 141–Accounts Receivable–Customers as of December 31, 2021.

4 Retained Earnings

SCWC's reported deficit ending Retained Earnings balance of \$298,271 is materially misstated in its 2021 Annual Report. SCWC did not accurately carry over its cumulative balances of Retained Earnings from year to year. In addition, SCWC incorrectly reported changes in its ownership equity in Account 215–Retained Earnings instead of Account 206–Subchapter S Corporation Accumulated Adjustments Account. SCWC is an S Corporation. USOA requires S Corporations to use

¹² SCWC's 2021 California Depreciation Schedule showed that \$17,860 of assets were retired in 2021; however, retirement was not disclosed in Schedule A-1–Utility Plant in SCWC's Annual Report.

Account 206–Subchapter S Corporation Accumulated Adjustments Account to record and report changes in ownership equity.

5 Operating Revenues

SCWC understated Account 470–Metered Water Revenue by \$1,681 ($\$1,785 - \$1,000 + \896) in its 2021 Annual Report. SCWC used the cash basis of accounting instead of accrual basis of accounting, as required by USOA, to record and report revenues in its accounting system and the 2021 Annual Report. SCWC’s Billing Register, which recorded revenue data using accrual basis of accounting, showed that Metered Water Revenue totaled \$13,805, while SCWC reported \$11,300 of Metered Water Revenue in its 2021 Annual Report, resulting in a variance of \$1,785.

SCWC also overbilled its customers by approximately \$1,000 for water services for the month of November 2021. SCWC incorrectly billed its customers at tariff rates effective December 1, 2021,¹³ instead of the tariff rates applicable to the November 2021¹⁴ billing period.

In addition, SCWC incorrectly offset approximately \$896 of Metered Water Revenue with Contract Work expense. One of SCWC’s customers provided meter reading and monitored the water tanks and wells for any leaks for SCWC in exchange for free water service. Instead of separately reporting revenues earned and the costs incurred related to the services rendered by the customer, SCWC netted its revenues and expenses together. As a result, SCWC understated both Account 470–Metered Water Revenue and Account 650–Contract Work by \$896.

6 Taxes Other than Income Taxes

SCWC reported a balance of \$3,015 in Account 408–Taxes Other than Income Taxes did not agree with \$2,215 reported in its Sub-Schedule, resulting in a discrepancy of \$800. The reported balance of Taxes Other than Income Taxes is overstated by \$800 in Schedule B–Income Statement because SCWC incorrectly reported state income taxes twice in the Annual Report. SCWC included \$800 in both Account 408–Taxes Other than Income Taxes and in Account 409–State Corporate Income Tax Expense.

7 Authorized Costs and Revenue

Under GAAP, regulated entities record recoverable costs authorized by the regulator as Regulatory Assets and amortize them over a period of time. Likewise, authorized revenues for future repayment are recorded as Regulatory Liabilities.

USOA requires water utilities to record authorized costs that are to be amortized over future periods as an asset in Account 180, Deferred Charges. Similarly, authorized revenues for future repayment are recorded as liabilities in Account 253, Other Credits.

SCWC failed to record and report \$17,343 of URCBA authorized in Resolution W-5247, dated November 18, 2021. Resolution W-5247 authorized SCWC to recover \$17,343 in the balancing

¹³ CPUC authorized SCWC’s tariff rates effective December 1, 2021, in Advice Letter 3B-W and Resolution W-5247, dated November 18, 2021.

¹⁴ CPUC authorized SCWC’s Tariff Sheet applicable to the November 2021 billing period in Advice Letter 1 authorized in December 1995.

account by implementing a monthly surcharge of \$25.03 per customer over a period of 33 months. As a result, SCWC understated both Account 180—Deferred Charges and 206—Subchapter S Corporation Accumulated Adjustments Account by \$17,343.

8 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 CPUC Users Fee billed to customers and charge Account 688—Regulatory Commission Expense with fees paid to CPUC.¹⁵

SCWC has failed to regularly collect CPUC Users Fee from its Customers and remit them to CPUC. PU Code sections 431 and 433 and CPUC directives specified in Resolution M-4839 and M-4841 and the CPUC Water Division’s Memorandum dated July 23, 2020, require utilities to bill and collect CPUC Users Fee from customers and remit them to CPUC annually.

CPUC Resolution W-5247, dated November 18, 2021, noted that SCWC had \$3,329 in outstanding Users Fee from 2003 through 2019. The resolution ordered SCWC to make three payments of \$1,110 over a period of three consecutive years starting in December 1, 2021. SCWC made its first installment payment in February 2022. SCWC paid its second installment payment on September 2, 2023, which is nine months later than the CPUC-established deadline of December 1, 2022. The third and final payment is due in December 2023. Additionally, SCWC did not record and report \$3,329 unpaid CPUC Users Fee from 2003 through 2019 as of December 31, 2021. As a result, SCWC understated Account 253—Other Credits by \$3,329 and overstated Account 206—Subchapter S Corporation Accumulated Adjustments Account by the same amount.

SCWC also failed to remit approximately \$173 of CPUC Users Fee for 2021 to CPUC. Although SCWC’s 2021 Billing Register showed that it billed its customers for the 2021 Users Fee, SCWC has not remitted the money to CPUC as required by CPUC’s directives. In addition, SCWC failed to accrue \$173 of unpaid CPUC Users Fee for 2021. As a result, SCWC understated both Account 231—Accounts Payable and Account 688—Regulatory Commission Expense by \$173.

Furthermore, SCWC has not remitted its 2020 CPUC Users Fee to CPUC. UAB is unable to determine the total CPUC Users Fee that SCWC owes to CPUC for 2020 due to lack of adequate supporting documentation and because making such a determination would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

9 Form of Financial Statements¹⁶

(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.

¹⁵ D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.

¹⁶ Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, Pages 36-37

(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.

SCWC’s 2021 Annual Report contained significant mathematical and clerical errors.

Account 101–Water Plant in Service balance of \$100,636 reported in Schedule A–Balance Sheet did not agree with \$114,669 balance reported in Schedule A-1–Utility Plant, resulting in a discrepancy of \$14,033. SCWC’s depreciation schedule supports its WPIS balance of \$100,636 as of December 31, 2021; therefore, the balance reported in Schedule A-1 is overstated by \$14,033.

SCWC’s Balance Sheet in the 2021 Annual Report did not balance. The Total Assets and Other Debits of \$3,664 did not equal Total Liabilities and Other Credits of \$3,718, which resulted in a \$54 variance.

SCWC’s Schedule B–Income Statement was not supported by the Sub-schedules as described in detail in Finding 6 in Appendix A–Review Findings and Recommendations of this report.

10 Exclusion of Statement of Cash Flows

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

11 Compliance filing of 2021 Annual Report with CPUC

PU Code sections 581, 582, and 584, and the CPUC’s directive (i.e., Water Division’s annual memorandum to water and sewer utilities) require all regulated water and sewer utilities to file an Annual Report with CPUC every year. For the year being reviewed, SCWC has complied with these requirements. However, during our review of SCWC’s 2021 Annual Report, we noted that SCWC did not comply with the CPUC’s 2020 Annual Report filing requirement. CPUC Water Division’s Memo dated January 26, 2021, required that all water and sewer utilities file their 2020 Annual Report with CPUC by April 30, 2021. SCWC has not filed its 2020 Annual Report to date.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Misstated Ownership Equity

Condition:

SCWC's reported deficit ownership equity of \$298,271 is materially misstated in its 2021 Annual Report. Our review of SCWC's accounting records disclosed the following accounting errors:

- Our review of SCWC's Annual Reports from 2016 through 2021 disclosed that SCWC did not accurately carry over its cumulative balances of Retained Earnings from year to year. The beginning balances of Retained Earnings shown in SCWC's Annual Reports for the respective years did not agree with the preceding years' ending balances as shown below:

Annual Report for Year Ended:	Prior Year Ending Balance	Beginning Balance	Variance	Notes
December 31, 2016	(\$114,345)	(\$119,715)	(\$5,370)	
December 31, 2017	(127,678)	(200,561)	(72,833)	
December 31, 2018	(209,649)	(208,669)	800	
December 31, 2019	(217,343)	(217,343)	0	
December 31, 2020	(243,422)	N/A	N/A	Note 1
December 31, 2021	N/A	(273,271)	N/A	Note 1

Note 1 – SCWC has not filed its 2020 Annual Report, as described in detail in Finding 8. Thus, UAB is unable to determine the variance of Retained Earnings between 2020 and 2021 due to lack of reported data.

- SCWC incorrectly reported changes in its ownership equity in Account 215–Retained Earnings instead of Account 206–Subchapter S Corporation Accumulated Adjustments Account. SCWC 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.

Due to the above noted accounting errors, SCWC's reported balances in Account 215–Retained Earnings and Account 206–Subchapter S Corporation Accumulated Adjustments Account as of December 31, 2021, are likely materially misstated.

SCWC's management has yet to determine the effects of these material misstatements on its financial position as of December 31, 2021. Without performing an in-depth review of SCWC's historical accounting records, the cumulative impact of the noted accounting errors on SCWC's financial statements cannot be determined. Determining the cumulative impact on the balance of Retained Earnings and Subchapter S Corporation Accumulated Adjustments Account as of December 31, 2021, would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

Criteria:

USOA states, in part, that:

206. Subchapter S Corporation Accumulated Adjustments Account

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

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

C. This account shall be credited with:

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

D. This account shall be charged with:

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

215. Retained Earnings (for corporations only)

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

B. The account shall be credited with:

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

C. The account shall be charged with:

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

Cause:

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

Effect:

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

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

Recommendation:

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

Finding 2: Misstated Metered Water Revenue**Condition:**

SCWC understated Account 470–Metered Water Revenue by \$1,681 ($\$1,785 - \$1,000 + \896) in its 2021 Annual Report. Our review of SCWC's accounting and billing records disclosed the following errors:

- SCWC used the cash basis of accounting instead of the accrual basis of accounting, as required by USOA, to record and report revenues in its accounting system and the 2021 Annual Report. SCWC's Billing Register, which recorded revenue data using accrual basis of accounting, showed that Metered Water Revenue totaled \$13,805, while SCWC reported \$11,300 of Metered Water Revenue in its 2021 Annual Report, resulting in a variance of \$1,785. Therefore, SCWC understated its Metered Water Revenue by \$1,785.
- SCWC overbilled its customers by approximately \$1,000 for water services for the month of November 2021. SCWC's Tariff Sheet applicable to November 2021¹⁷ billing period authorized SCWC to charge its residential and commercial customers a monthly service charge of \$40 and \$60, respectively; in addition to charging all of its customers \$2.20 per 100 cubic feet (cu. ft.) of water for usage above 500 cu. ft.

Based on SCWC's Tariff Schedule and water usage for the month of November 2021, we recomputed SCWC's revenues for the month of November 2021 at approximately \$881 for metered water services, instead of \$1,880, as summarized in the table below. In addition, further discussions with SCWC disclosed that SCWC incorrectly billed its customers at the Tariff Rates effective December 1, 2021,¹⁸ for water services it provided to its customers in November 2021.

¹⁷ CPUC authorized SCWC's Tariff Sheet applicable to the November 2021 billing period in Advice Letter 1 authorized in December 1995.

¹⁸ CPUC authorized SCWC's tariff rates effective December 1, 2021, in Advice Letter 3B-W and Resolution W-5247, dated November 18, 2021.

We recomputed SCWC's November 2021 water revenues as follows:

Account Description	Usage per cu. ft. ¹⁹	November 2021 Revenues Re-computed by UAB				Billing Register	(Over)/ Under Billed
		Service Charge	Quantity Charge	Users Fee ²⁰	Re-computed Revenues		
Account 1 - Commercial	295	\$60	\$0	\$0.86	\$60.86	\$175.33	(\$114.47)
Account 2 - Commercial	0	60	0	0.86	60.86	84.62	(23.76)
Account 3 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Account 4 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Account 5 - Residential	434	40	0	0.57	40.57	160.34	(119.77)
Account 6 - Residential	367	40	0	0.57	40.57	92.52	(51.95)
Account 7 - Residential ²¹	1,658	40	25.48	0.94	66.41	0	66.41
Account 8 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Account 9 - Residential	621	40	2.66	0.61	43.27	104.05	(60.78)
Account 10 - Residential	197	40	0	0.57	40.57	90.78	(50.21)
Account 11 - Residential	309	40	0	0.57	40.57	94.28	(53.71)
Account 12 - Residential	384	40	0	0.57	40.57	177.77	(137.20)
Account 13 - Residential	28	40	0	0.57	40.57	85.50	(44.93)
Account 14 - Residential	121	40	0	0.57	40.57	88.41	(47.84)
Account 15 - Residential	0	40	0	0.57	40.57	44.55	(3.98)
Account 16 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Account 17 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Account 18 - Residential	165	40	0	0.57	40.57	89.62	(49.05)
Account 19 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Account 20 - Residential	0	40	0	0.57	40.57	84.62	(44.05)
Totals		\$840	\$28.14	\$12.39	\$880.52	\$1,880.11	(\$999.59)

Our review of SCWC's Billing Registers for the months of January through October 2021 and December 2021 disclosed that SCWC correctly billed its customers in accordance with the applicable Tariff Schedules.

- SCWC incorrectly offset approximately \$896 of Metered Water Revenue with Contract Work expense. One of SCWC's customers also provided meter reading and monitored the water tanks and wells for any leaks for SCWC. Instead of separately reporting revenues earned and the costs incurred related to the services rendered by the customer, SCWC netted its revenues and expenses together. As a result, SCWC understated both Account 470–Metered Water Revenue and Account 650–Contract Work by \$896.

¹⁹ Usage as shown on SCWC's Monthly Meter Readings Report.

²⁰ CPUC Resolution M-4841 established the Users Fee rate of 1.43 percent.

²¹ Although SCWC's Monthly Meter Reading Report showed that this customer had water usage for the month of November, SCWC did not bill this customer for water services.

- Furthermore, SCWC's Billing Register does not segregate revenues by Metered Water Revenue and revenues generated from surcharges. USOA requires utilities to maintain separate subaccounts for each type of surcharge approved by CPUC unless authorized otherwise. SCWC bills its customers for CPUC Users Fee and URCBA. However, SCWC's Billing Register does not show the billing breakdowns for Metered Water Revenues, CPUC Users Fees, and URCBA Surcharges.

Criteria:

USOA states, in part, that:

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.

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.

B. Metered revenue shall be segregated, using the following subaccounts:

470.1 Residential, Single-Family Dwellings and Multiple Dwelling Units Individually Metered

470.2 Commercial and Multi-Residential Master Metered

470.3 Large Water Users: Large water users are defined as customers, other than customers whose revenues are reported in account 470.1 or 470.2, who use at least five times as much water as the average single-family residential customer and have a 1-1/2 inches (sic) or larger meter installed.

470.4 Safe Drinking Water Bond Surcharge

470.5 Other Metered Revenues

Include herein revenues from construction water sales, sales for resale and revenue from water sales under special contract.

CPUC's General Order 96-B states, in part, that:

9.2.1 Consistency with Tariffs

Except for non-tariffed or detariffed service, or a deviation (whether by contract or otherwise), authorized by statute or Commission order, a utility shall serve its California customers only at rates and under conditions contained in its tariffs then in effect. Any ambiguity in a tariff provision shall be construed in the way most

favorable to the customer, and any representation made by a utility, in advertising or otherwise, with respect to a tariffed service shall be consistent with the terms and conditions of the applicable tariff(s)

SCWC Tariff Book, P.U.C. Sheet No. 5-W, effective December 5, 1995, states in part, that:

Schedule No.1 – General Metered Service

Rates

Quantity Rate:	Per Meter Per Month
For all cubic (cu) feet (ft) over 500 cu. Ft., per 100 cu. Ft.	\$2.20
Service Charge:	
Residential Service	\$40.00
Commercial Service	\$60.00

SCWC Tariff Book, P.U.C. Sheet No. 85-W, effective December 1, 2021, states, in part, that:

Schedule No.1 – General Metered Service

Rates

Quantity Rate:	Per Meter Per Month
For all water, per 100 cu. Ft.	\$2.20
Service Charge:	
	Per Meter Per Month
For 5/8 x 3/4 -inch meter	\$46.96
For 3/4 -inch meter	\$58.40
For 1 -inch meter	\$81.36
For 1 1/2 -inch meter	\$138.72
For 2 -inch meter	\$219.56

Cause:

SCWC lacks effective monitoring and review procedures over its accounting and billing process to ensure that:

- it uses accrual basis of accounting to record and report its revenues;
- ratepayers are billed at the effective tariff rates approved by CPUC for each billing period;
- revenues and expenses are accurately recorded and reported in its entirety in Annual Reports; and
- its billing records are maintained in accordance with the USOA accounting requirements.

Effect:

SCWC overbilled its customers and over-reported its revenue by approximately \$1,000 in its 2021 Annual Report. In addition, SCWC overstated its Operating Revenue and understated its Operating Expense. Inaccurate reporting of Operating Revenues and Operating Expenses in the Annual Report, which may be used during the SCWC's General Rate Case (GRC) application review process, could potentially impact the water rates for SCWC's ratepayers.

Recommendations:

SCWC should obtain authorization from CPUC's Water Division to refund the overcollection to its customers.

SCWC should strengthen its monitoring and review procedures over its accounting and billing process to ensure that:

- revenues and receivables are recorded and reported using the accrual basis of accounting;
- ratepayers are billed at the effective tariff rates approved by CPUC for each billing period;
- Operating Revenues and Operating Expenses are recorded and reported accurately; and
- billing records are maintained in accordance with the USOA accounting requirements.

Finding 3: Materially Misstated Accumulated Depreciation and Depreciation Expense**Condition:**

SCWC's reported balances of \$97,104 in Account 108—Accumulated Depreciation of Water Plant and \$16,282 in Account 403—Depreciation Expense are materially misstated in its 2021 Annual Report. Our review of SCWC's accounting records disclosed the following accounting errors:

- The Depreciation Expense and Accumulated Depreciation of Water Plant reported in SCWC's Annual Report did not agree with the corresponding amounts in its Depreciation Schedule.
- SCWC reported \$16,282 of Depreciation Expense in its Annual Report, while its Depreciation Schedule showed \$4,367 of Depreciation Expense, resulting in a variance of \$11,915.
- SCWC reported \$97,104 of Accumulated Depreciation in its Annual Report, while its Depreciation Schedule showed \$80,250, resulting in a variance of \$16,854. Further review of SCWC's Depreciation Schedule disclosed that SCWC did not reduce the Accumulated Depreciation reported in its 2021 Annual Report to account for water plant retired in 2021.
- SCWC's Depreciation Schedule showed that SCWC calculates its annual Depreciation Expense using the double declining method, which is an accelerated depreciation methodology not allowed by USOA.

Criteria:

USOA states, in part, that:

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).

Note: Also see Account 104, Water Plant Purchased or Sold.

F. The utility is restricted in the use of this account to the purposes set forth above. It shall not transfer any portion to retained earnings or to other accounts without prior written authorization from this Commission.

Note: Refer to Paragraph 4, Accounting Instructions - Depreciation, for information on depreciation accruals and plant retirement procedures.

403. Depreciation Expense

This account shall be charged with that portion of the depreciation accrual credited to Account 108, Accumulated Depreciation of Water Plant, applicable to all classes of depreciable water plant except plant represented by contributions in aid of construction. Depreciation shall be accrued on a straight-line remaining life basis. Use of a single composite depreciation rate applied to all depreciable plant is permissible for water utilities with annual revenues of \$ 100,000 or less.

Note A. See Accounting Instructions – Depreciation, Paragraph 4, for more detailed instructions on depreciation accounting.

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)).

Cause:

SCWC's use of an accelerated depreciation methodology does not comply with the USOA accounting requirements. SCWC also lacks monitoring and review procedures over its accounting and reporting process to ensure its compliance with the USOA accounting requirements regarding asset depreciation.

Effect:

Inaccurate reporting of Accumulated Depreciation of Water Plant in SCWC's Annual Report, which may be used during SCWC's GRC application review process, could potentially impact water rates for SCWC's ratepayers.

Recommendations:

SCWC should ensure that assets are depreciated using straight-line remaining life basis. SCWC should also establish and implement monitoring and review procedures over its accounting and reporting process to ensure that it complies with the USOA accounting requirements regarding asset depreciation.

Finding 4: Noncompliance with CPUC Users Fee Requirements**Condition:**

SCWC has failed to regularly collect CPUC Users Fee from its Customers and remit them to CPUC. PU Code sections 431 and 433 and CPUC's directives specified in Resolution M-4839 and 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.

CPUC Resolution W-5247, dated November 18, 2021, noted that SCWC had \$3,329 in outstanding CPUC Users Fee owed from 2003 through 2019. The resolution ordered SCWC to make three payments of \$1,110 over a period of three consecutive years starting in December 2021. SCWC made its first installment payment in February 2022. SCWC paid its second installment payment on September 2, 2023, which is nine months later than the CPUC-established deadline of December 1, 2022. The third and final payment is due in December 2023.

SCWC also failed to remit approximately \$173 of CPUC Users Fee for 2021 to CPUC. Although SCWC's 2021 Billing Register showed that it billed its customers for the 2021 CPUC Users Fee, SCWC has not remitted the money to CPUC as required by CPUC's directives.

In addition, SCWC has not remitted its 2020 CPUC Users Fee to CPUC. UAB is unable to determine the total Users Fee that SCWC owes to CPUC for 2020 due to lack of adequate supporting documentation and because making such a determination would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

Criteria:

Ordering Paragraph 2 of CPUC's Resolution W-5247 states that:

Stone Creek Water Company's User Fee repayment plan of \$1,110 per year over a period of three years is approved. Stone Creek Water Company shall submit a payment of \$1,110 to the Commission's Fiscal Office annually, for three consecutive years with the first payment due the first of the month starting December 2021, second payment in December 2022, and final payment in December 2023.

PU Code section 433(a) 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.

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

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

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

CPUC Water Division's Memorandum dated July 23, 2020, directs all regulated water and sewer utilities to implement the authorized CPUC Users Fee.

Cause:

SCWC lacks monitoring and review policies and procedures over its accounting process to ensure that CPUC Users Fee are remitted to CPUC fully and timely.

Effect:

SCWC did not comply with CPUC's directives regarding collecting and remitting CPUC Users Fee. SCWC has not been paying CPUC Users Fee timely. SCWC also owes CPUC \$173 of unpaid CPUC Users Fee for 2021, and an undetermined amount for 2020.

Recommendations:

SCWC should work with the CPUC's Water Division and Fiscal Office to remit the unpaid CPUC Users Fee to CPUC in a timely manner. SCWC should establish and implement policies and procedures to ensure that all CPUC Users Fee is timely remitted to CPUC.

Finding 5: Missing Financial Data in the 2021 Annual Report

Condition:

SCWC omitted balances for the following accounts in its 2021 Annual Report:

- Account 141–Accounts Receivable–Customers: SCWC did not record and report any Accounts Receivable in its 2021 Annual Report. During the review period, SCWC recorded revenue transactions in its accounting system using cash basis of accounting. As a result, SCWC did not record or report any balance in Account 141–Accounts Receivable–Customers as of December 31, 2021.
- Account 180–Deferred Charges: SCWC failed to record and report \$17,343 of URCBA authorized in Resolution W-5247, dated November 18, 2021. Resolution W-5247 authorized SCWC to recover \$17,343 in the balancing account by implementing a monthly surcharge of \$25.03 per customer over a period of 33 months. USOA requires utilities to record specific costs authorized by CPUC for recovery over future periods as Deferred Charges in Account 180. As a result, SCWC understated both Account 180–Deferred Charges and 206–Subchapter S Corporation Accumulated Adjustments Account by \$17,343.
- Account 253–Other Credits: SCWC did not record and report \$3,329 unpaid CPUC Users Fee for 2003 through 2019 as ordered in Resolution W-5247. As a result, SCWC

understated Account 253–Other Credits by \$3,329 and overstated Account 206–Subchapter S Corporation Accumulated Adjustments Account by the same amount.

- Account 688–Regulatory Commission Expense: SCWC failed to accrue \$173 of unpaid CPUC Users Fee for 2021. As a result, SCWC understated both Account 231–Accounts Payable and Account 688–Regulatory Commission Expense by \$173.

Criteria:

Ordering Paragraphs 2, 3 and 4 of CPUC’s Resolution W-5247 state that:

2. Stone Creek Water Company’s User Fee repayment plan of \$1,110 per year over a period of three years is approved. Stone Creek Water Company shall submit a payment of \$1,110 to the Commission’s Fiscal Office annually, for three consecutive years with the first payment due the first of the month starting December 2021, second payment in December 2022, and final payment in December 2023.

3. Stone Creek Water Company is authorized to establish the Unanticipated Repair Cost Balancing Account and to transfer the amount of \$17,343 from its Unanticipated Repair Cost Memorandum Account to its Unanticipated Repair Cost Balancing Account for recovery over a period of thirty-three months.

4. Stone Creek Water Company is authorized to recover the \$17,343 in the balancing account reflected in Ordering Paragraph 3 above by implementing a monthly surcharge of \$25.03 per customer over a period of 33-months.

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.

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.

180. Deferred Charges

A. This account shall include such items as expenses of security issues, bond discount, items in suspense, and costs which the Commission has authorized the utility to amortize over future periods. This account shall also include specific costs the Commission has authorized to record in a balancing account for recover [SIC] over future periods.

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.

253. Other Credits

This account shall include advance billings, unamortized premium on debt, items in suspense and other credit items not provided for in other accounts. This account shall also include specific revenues (Revenue Balancing Account) that the Commission has authorized the utilities to record for future repayment.

618. Regulatory Compliance Expense

A. This account shall include all expenses (except salaries of regular utility employees) incurred by the utility in connection with formal matters before regulatory commissions.

B. Amounts of regulatory commission expense which, by direction of the commission is to be spread over future periods shall be charged to Account 180, Deferred Charges and amortized by charges to Account 688, Regulatory Commission Expense.

9. Water Utility Users Fee

B. Water utilities will credit regular operating revenue accounts with amounts billed to customers and charge account 688, Regulatory Commission Expense, with fees paid to the Commission.

Cause:

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

Effect:

SCWC's management has yet to determine the effects of these omissions on SCWC's financial position.

Inaccurate reporting of Regulatory Commission Expense in Account 668 in the Annual Report, which may be used during SCWC's GRC application review process, could potentially impact the water rates for SCWC's ratepayers.

Inaccurate reporting of Accounts Receivable in Account 141 and Other Credits in Account 253 distorted SCWC's financial position as of December 31, 2021, misstated its available working capital, and reduced the comparability of SCWC'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 SCWC relative to other small water utilities in California.

Recommendation:

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

Finding 6: Errors in the 2021 Annual Report

Condition:

SCWC's 2021 Annual Report contained numerous clerical errors, as outlined below.

- Account 101–Water Plant in Service – Account balance of \$100,636 reported in Schedule A–Balance Sheet did not agree with the \$114,669 balance reported in Schedule A-1–Utility Plant, resulting in a discrepancy of \$14,033. SCWC's depreciation schedule supports its WPIS balance of \$100,636 as of December 31, 2021; therefore, the balance reported in Schedule A-1 is overstated by \$14,033.
- SCWC's Balance Sheet did not balance. The Total Assets and Other Debits of \$3,664 did not equal to Total Liabilities and Other Credits of \$3,718, resulting in a variance of \$54. UAB's review of SCWC's underlying accounting records disclosed that the noted variance was due to an understatement of \$54 in Account 131–Cash because SCWC incorrectly reported a Cash balance of \$132 instead of \$186.
- SCWC's Schedule B–Income Statement in the 2021 Annual Report was not supported by its sub-schedules as summarized below:

Account	Sub-schedule	As Reported in Schedule B	As Reported in Sub-schedules	Variance
Operating Revenues	B-1	\$11,166	\$11,300 ⁽¹⁾	(\$134)
Operating Expense	B-2	15,832	16,282 ⁽²⁾	(450)
Depreciation Expense	A-2	16,282	977 ⁽³⁾	15,305
Taxes Other than Income Taxes	B-3	3,015	2,215 ⁽⁴⁾	800
State Corporate Income Tax Expense	B-3	800	800	0
Net Loss		<u>(\$23,963) ⁽⁵⁾</u>	<u>(\$8,974)</u>	<u>(\$15,789)</u>

Notes:

⁽¹⁾ SCWC recorded and reported revenues using cash basis of accounting and overbilled its customers for revenues services for the month of November 2021. See Finding 2.

⁽²⁾ Reviewed balance is \$16,282 as reported in sub-schedule B-2.

⁽³⁾ SCWC's depreciation methodology does not comply with USOA accounting requirements. See Finding 3.

⁽⁴⁾ Taxes Other than Income Taxes is overstated by \$800 in Schedule B because SCWC incorrectly reported State Corporate Income Tax Expense in Account 408–Taxes Other than Income Taxes.

⁽⁵⁾ Schedule B did not foot.

Criteria:

PU Code section 581, states that:

Every public utility shall furnish to the commission in such form and detail as the commission prescribes all tabulations, computations, and all other information required by it to carry into effect any of the provisions of this part, and shall make specific answers to all questions submitted by the commission.

Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

Cause:

SCWC lacks monitoring and review policies and procedures over its accounting and reporting process to ensure that financial data presented in all schedules in its 2021 Annual Report are consistent and accurate.

Effect:

Inaccurate and inconsistent information in the Annual Reports reduces the reliability of SCWC's Annual Reports. Accurate and consistent financial presentation in the Annual Reports aids decision makers in analyzing the performance and financial position of SCWC relative to other small water utilities in California.

Recommendation:

SCWC should establish and implement monitoring and review policies and procedures over its accounting and reporting process to ensure that financial data presented in all schedules in the Annual Reports are consistent and accurate.

Finding 7: Noncompliance with USOA Accounting Requirements**Condition:**

Our review disclosed deficiencies in SCWC's accounting system which constitutes a noncompliance with the USOA accounting requirements. These deficiencies are summarized below:

- SCWC recorded transactions in its accounting system using cash basis of accounting and did not record noncash expenses and transactions, such as depreciation expense and asset retirements.
- SCWC's accounting system did not include any balance for Balance Sheet accounts, including but not limited to Water Plant in Service, Accumulated Depreciation, Accounts Receivable, Accounts Payable, Common Stock, and Subchapter S Corporation Accumulated Adjustments Account.
- SCWC did not utilize the Chart of Accounts prescribed by USOA in its accounting system.

Criteria:

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

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

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:

SCWC lacks an effective and efficient accounting system to ensure that all accounting transactions, including non-cash transactions such as depreciation expense, asset retirement and amortization, and liabilities and assets, are accurately and completely recorded in its accounting system and reported in its Annual Reports.

Effect:

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

Recommendation:

SCWC should establish and implement an effective and efficient accounting system to ensure that all accounting transactions are accurately and completely recorded in its accounting system and reported in its Annual Reports.

Finding 8: Non-Filing of 2020 Annual Report**Condition:**

During our review of SCWC's 2021 Annual Report through performance of analytical procedures and inquiry with SCWC's management, we noted that SCWC did not comply with the CPUC Water Division's 2020 Annual Report filing requirement. CPUC Water Division's Memo dated January 26, 2021, requires that all water and sewer utilities file their 2020 Annual Reports with CPUC by April 30, 2021. SCWC has not filed its 2020 Annual Report to date.

Criteria:

CPUC Water Division's Memorandum dated January 26, 2021, requires that all water and sewer utilities regulated by CPUC file their 2020 annual reports on or before April 30, 2021

Cause:

SCWC lacks reporting procedures to ensure that its Annual Reports are timely filed with the CPUC's Water Division each year.

Effect:

SCWC failed to comply with the filing requirements of the CPUC's Water Division regarding its 2020 Annual Report. The unavailability of the 2020 Annual Report in a timely manner could impact decision making by the CPUC's decision makers and the public.

Recommendations:

SCWS should file its 2020 Annual Report with CPUC's Water Division. SCWC should also implement reporting procedures to ensure its Annual Reports are timely filed with the CPUC's Water Division each year.

APPENDIX B—UTILITY'S RESPONSE

Response to California Public Utilities Commission Review Stone Creek Water Company Annual Report Year Ended on December 31, 2021

To preface my responses to this report, I wish to indicate that the staff we worked with were professional, courteous and cooperative and that I do not wish them any ill will for the process they were involved in.

To be honest, my overall response to this report is frustration, confusion and disbelief. There are 30 pages, 10 pages more than customers in the Stone Creek Water Company. I have read over the report several times and remain confused about the great majority of the information presented. It is filled with codes and accounting jargon that doesn't communicate anything meaningful. It is negative in nature, feeling punitive in general. The people I have had review it, end up shaking their heads and laughing. This might make sense for a metropolitan water district with thousands of customers and an accounting department, but this has little or no face value to me. I come away with no clear idea of what needs to be done to "remedy" all the deficits found and no idea of why it would be important to take steps in that direction.

It is unclear what the agenda for this "review" is. I wonder of all of the small water companies reviewed whether they are not facing similar reactions, and that the problems brought up aren't endemic or even pandemic. I have sought out assistance from the PUC on many occasions regarding the Annual Reports and have gone over many of these reports with the California Water Association accountant. In none of these contacts have any of the issues raised by this review been brought up. There has never been a question regarding my use of a cash accounting system. I have never been informed that I was in error or had the suggestion or indication that this was a violation of some code or PUC policy. The rate increase involved the review of many Annual Reports and Tax Returns without these issues being raised.

Many of the violations raised appear to be confusion caused by the difference in accounting approaches. For example, a statement was made

that customers had been overcharged for December, 2021. When we received word that a rate increase and surcharge were approved, we started to bill at the new rate in December. However, technically, we were billing for November which was not in line with what the PUC expected. Consequently, we overcharged our customers by around \$1000! We were so anxious to put the new rate into effect (we had been waiting for the rate increase for almost two years) and wanted to hire a water operator to take over many of the responsibilities that we were feeling extremely overwhelmed and stressed over. We do not argue that this occurred but this was not done with any intent to defraud. The paradox is that we made efforts to reduce the amount of the tax increase and forego any 10 percent profit in the process. The tax increase memorandum provided for another tax increase one year later. We have yet to charge this increase because we are still collecting the \$25.03 surcharge and didn't want to burden our customers more. I provide this information as a context with which to understand our frustration with this particular matter.

We provided all the documents that your team requested freely and attempted to answer the questions presented to the best of our ability. My bookkeeping is straight forward with a list of fees collected and bills paid as they arrived. At the end of the year, the books balance out without any large discrepancies. My impression is that every year there have been deficits due to expenses being much higher than the revenue and each year we have absorbed many expenses or subsidized the water company. Being able to write off losses on my income taxes has been small consolation. Even with the rate increase, we are still catching up and paying for expenses beyond income from fees.

Another area which I understand is a problem, was reducing the amount owed on one of our accounts for one of our customers who helped locate and repair a leak. He also monitored water levels and water pressure during this particular crisis. He lives close by the water company and on occasions will make sure that the water tank levels are okay. His bill was reduced according to the number of hours he and his renter spend dealing with the leak repair. I can understand how this is not a good practice and can cause accounting errors. On the other hand, it is not criminal or fraudulent in intent.

When the rate increase was approved, I agreed to pay three payments of \$1110 over three years. After a few months delay because the rate increase was not making an immediate dent in expenses, the first payment was sent off. This year the second payment was due. Since it had been a year, I had trouble figuring out where the second check should be sent and to whom it should be made out. I tried on many occasions over several months to contact Marie Osorio, the last person I had been in contact regarding the payments. I was able to locate her email and phone number and made several attempts over time to connect with her but never got a response. I told the review team about this problem but the way it is written up, there is just a statement of the payment not being made. At the end of our contacts, I was given the email address for the finance department. I had called the finance department earlier but was told that that department did not collect monies from water companies but only dealt with employee wages which did not make any sense. A request for information was sent to the provided address on 8/11/23 and it appeared that I was not going to get a response from there. It seemed that the PUC did not care if it collected the money or not. However, on 08/29/23, I received the information in a response and sent in a check immediately on 09/02/2023.

Related to the above PUC payments, I have been collecting PUC customer fees for last year and this year but I still have no understanding of how I am suppose to pay them. When I first went into the PUC offices in San Francisco in December, 2019, the PUC did not know that the Stone Creek Company was under the PUC. In addition, they could not understand why this company would be required to be under the PUC. Then they discovered that there were years of PUC customer fees that hadn't been paid and we had not been collecting these fees from the customers since we took over the company in the mid-1990's. Then I was supposed to make up these forgotten fees. Why isn't there a well defined process with a billing statement sent out so these fees are collected like most businesses would collect them?

Many areas of the report discuss discrepancies in how depreciation is reported. I am unable to comment on this area because I have little understanding of depreciation matters. I have relied on my accountant

who does my other corporation taxes. I have just presented him with the information from my books and let him manage the IRS reports, especially regarding depreciation. I have no idea of the importance of these matters except a sense that it affects what I am able to write off in losses. My accountant has not been able to review this report and give me feedback in the limited time I have to respond.

At this time, I am unclear what the expectations are for the Stone Creek Water Company after this report. I have no idea what would be involved in terms of bring my accounting practices in line with what this reports suggests. I am aware that an Annual Report is due and I am thoroughly confused about how to complete that report under the circumstances. I know that I have limited funds and limited time to address these issues. If I had funds available, I would hire a professional who is familiar with these accounting practices but there are no funds available for this matter. I am focused on replacing a fire hydrant and several meters, paying for numerous required waters tests and getting back flow certificates. These matters directly impact the provision of drinking water to the customers and are clearly a priority.

Overall, I admire the diligence and effort that the staff put into preparing this report. However, at this point in time, it seems like a tremendous waste of resources. As a taxpayer, if taxes are paying for this, I am dumbfounded by the process and lack of information which has very little application or face value that I am able to ascertain. In order for this report to be of any value to small water companies such as ours, it is necessary for us to now have an identified resource person or department at the PUC to assist us in the preparation of the Annual Report and to answer accounting issues as they arise. We also need an identified person to discuss the process for paying regular PUC fees. I am in the process of consulting with my accountant in hopes of getting further guidance and assistance in this process.

Respectfully,

Leonard J. Weston, Ph.D. - Owner

APPENDIX C—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate SCWC's cooperation during the review and its comments on the draft report submitted on September 29, 2023.

SCWC explained that the second installment payment for the delinquent CPUC Users Fee owed from 2003 through 2019, which was due on December 1, 2022, was paid on September 2, 2023. Finding 4 of our draft report stated that SCWC had not paid its second installment payment of the outstanding Users Fee owed from 2003 through 2019 as of August 11, 2023. We confirmed that SCWC's second installment payment had been received by CPUC's Fiscal Office as stated in SCWC's response. Therefore, we modified Finding 4 of this report to reflect the updated information.

All other findings and recommendations remain unchanged.