



# REVIEW OF FINANCIAL STATEMENTS

Llano Del Rio Water Company

For the Year Ended December 31, 2022

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
December 18, 2023



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

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

**Khusbindar Kaur, CPA  
Lead**

**Judith Mason  
Staff**

**Amal Kattan-Handal, CPA  
Staff**

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

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

December 18, 2023

John Blalock, President  
Llano Del Rio Water Company  
32810 165<sup>th</sup> Street East  
Llano, CA 93544

Dear John Blalock:

**Final Report Transmittal Letter— Review of Llano Del Rio 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 Llano Del Rio Water Company’s (LDRWC) regulatory basis financial statements in the 2022 Annual Report filed with CPUC, which comprise the balance sheet as of December 31, 2022, and the related statements of income and retained earnings for the year then ended. The final review report is enclosed.

UAB provided a draft report to LDRWC for comments on November 15, 2023. LDRWC provided its response on December 1, 2023. LDRWC’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 February 2, 2024. The CAP should include specific steps LDRWC will take to address UAB’s findings and recommendations and a target date for implementing each specific corrective action. Please submit LDRWC’s CAP to UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov).

We appreciate LDRWC’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

John Blalock, President  
Llano Del Rio Water Company  
December 18, 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  
Raymond Yin, Program and Project Supervisor, UAB, CPUC  
Wilson Tsai, Program and Project Supervisor, Water Division, CPUC  
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC  
Judith Mason, Financial Examiner IV, UAB, CPUC  
Amal Kattan-Handal, Senior Management Auditor, UAB, CPUC

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## EXECUTIVE SUMMARY

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The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Llano Del Rio Water Company (LDRWC) 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).

Incorporated in California on June 21, 1956, LDRWC's service area is located near the Town of Llano in Los Angeles County, California.<sup>1</sup> LDRWC is a Class D water utility with 190 active customer service connections, which include 189 metered and one flat rate customer service connections.<sup>2</sup> As a regulated water utility, LDRWC 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 LDRWC:

- 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 3, 2023.

Based on our review, we are not aware of any material modifications that should be made to LDRWC'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 sections 818, 431, and 433; and LDRWC filed its 2022 Annual Report timely in compliance with CPUC directive from the Water Division. However, UAB identified five material misstatements in LDRWC's 2022 Revised Annual Report filed with CPUC's Water Division dated July 19, 2023 (referred to as "Amended 2022 Annual Report" hereinafter)<sup>3</sup>, as described in Appendix A—Review Findings and Recommendations. The five findings are summarized below:

- Finding 1: LDRWC incorrectly recorded and reported \$52,744 of unspent insurance proceeds as unrestricted cash in Account 131-Cash instead of recording and reporting it in

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<sup>1</sup> LDRWC's 2022 Annual Report, General Information, Page 4

<sup>2</sup> LDRWC's 2022 Annual Report, Schedule I – Service Connections at End of Year, Page 19.

<sup>3</sup> LDRWC originally filed its 2022 Annual Report with the CPUC's Water Division on April 17, 2023. On July 19, 2023, LDRWC amended its 2022 Annual Report by filing the 2022 Revised Annual Report with the CPUC's Water Division. UAB used LDRWC's 2022 Revised Annual Report dated July 19, 2023, as the basis to conduct this review engagement.

Account 132–Cash–Special Deposits. As a result, LDRWC understated Account 132–Cash–Special Deposits by \$52,744 and overstated Account 131–Cash by the same amount.

- Finding 2: LDRWC misclassified payments totaling \$71,582 made to its parent company, Blalock-Eddy Ranch (BER) in Account 630–Employee Labor, Account 670–Office Salaries, and Account 671–Management Salaries. As a result, LDRWC overstated Account 630–Employee Labor, Account 670–Office Salaries, and Account 671–Management Salaries by \$42,268, \$16,490, and \$12,824, respectively; and understated Account 650–Contract Work and Account 682–Professional Services by \$42,268 and \$29,314, respectively.
- Finding 3: LDRWC overstated Account 174–Other Current Assets and Account 215–Retained Earnings by \$3,481 and \$6,421, respectively, and understated Account 241–Other Current Liabilities by \$2,940 due to various accounting errors.
- Finding 4: LDRWC overstated Account 630–Employee Labor and Account 671–Management Salaries by \$1,836 and \$3,276, respectively; and understated Account 650–Contract Work, Account 660–Transportation Expense, and Account 678–Office Services and Rentals by \$1,836, \$2,376, and \$900, respectively, due to various accounting errors.
- Finding 5: LDRWC recorded and reported \$2,935 of CPUC Users Fee collected from its customers and remitted to the CPUC as a pass-through activity instead of reporting them in the proper accounts as revenue and expenses. As a result, LDRWC understated both Account 480–Other Water Revenue and Account 688–Regulatory Commission Expense by \$2,935.

UAB discussed the above findings with LDRWC’s management during the fieldwork. LDRWC’s management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. LDRWC submitted its 2022 Revised Annual Report to CPUC’s Water Division on October 30, 2023, to correct the material misstatements described in Appendix A of this report. UAB further discussed these findings with LDRWC’s management at the exit conference on November 8, 2023, and LDRWC concurred with the review results. UAB is not aware of any further material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to LDRWC for comments on November 15, 2023. LDRWC responded on December 1, 2023, that it agreed with UAB’s findings. LDRWC’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

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John Blalock, President  
Llano Del Rio Water Company  
32810 165<sup>th</sup> Street East  
Llano, CA 93544

## Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Llano Del Rio Water Company (LDRWC), which comprise the balance sheet as of December 31, 2022, and the related statements 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 LDRWC'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***

LDRWC'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, LDRWC'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. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of LDRWC 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, 4, 6, and 7 to the financial statements, UAB identified five material misstatements in LDRWC's Amended 2022 Annual Report. 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***

We discussed our review results with LDRWC's management during fieldwork. LDRWC's management concurred with the findings and agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements described in Appendix A of this report. LDRWC submitted its revised financial statements to CPUC's Water Division on October 30, 2023, to correct the material misstatements. UAB further discussed these findings with LDRWC's management at the exit conference on November 8, 2023, and LDRWC concurred with the review results. At the exit conference, we also stated that the final report will include the views of responsible officials.

UAB provided a draft review report to LDRWC for comments on November 15, 2023. LDRWC responded on December 1, 2023, that it agreed with UAB's findings. LDRWC'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***

LDRWC's management should submit a corrective action plan (CAP) to UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by February 2, 2024. The CAP should include specific steps LDRWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. If LDRWC is unable to implement UAB's recommendations, the CAP should state the reasons for not being able to implement any of the recommendations. LDRWC 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 LDRWC:

- 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 Amended 2022 Annual Report as required by CPUC Water Division's Memorandum dated February 3, 2023.

For the review period, UAB did not note any noncompliance with PU Code sections 818, 431, and 433. LDRWC also properly and timely remitted its CPUC Users Fee to CPUC during the review period. In addition, LDRWC 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 LDRWC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on CPUC's website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Sacramento, CA  
December 18, 2023

## REVIEWED FINANCIAL STATEMENTS

### Llano Del Rio Water Company Balance Sheet (As Reviewed)

As of December 31, 2022

<b>ASSETS</b>	
<b>UTILITY PLANT (Note 2)</b>	
Water Plant in Service	\$557,102
Construction Work in Progress	34,707
Accumulated Depreciation of Water Plant	(363,367)
<b>Net Utility Plant</b>	<u>228,442</u>
<b>INVESTMENTS</b>	
Investments in Affiliated Companies (Note 8)	28,900
<b>Total Investments</b>	<u>28,900</u>
<b>CURRENT AND ACCRUED ASSETS</b>	
Cash	160,760
Special Deposits (Note 3)	67,704
Accounts Receivable-Customers	18,732
Receivables from Affiliated Companies (Note 8)	15,162
Other Current Assets (Note 4)	2,003
<b>Total Current and Accrued Assets</b>	<u>264,361</u>
<b>Total Assets</b>	<u><u>\$521,703</u></u>
<b>CAPITALIZATION AND LIABILITIES</b>	
<b>CORPORATE CAPITAL AND SURPLUS</b>	
Common Stock	\$127,250
Other Paid-in Capital	881,074
Retained Earnings	(606,888)
<b>Total Capitalization</b>	<u>401,436</u>
<b>CURRENT AND ACCRUED LIABILITIES</b>	
Payables to Affiliated Companies (Note 8)	101,911
Accounts Payable	416
Other Current Liabilities (Note 4)	2,940
<b>Total Current and Accrued Liabilities</b>	<u>105,267</u>
<b>DEFERRED CREDITS</b>	
Other Credits (Note 5)	15,000
<b>Total Deferred Credits</b>	<u>15,000</u>
<b>Total Liabilities and Other Credits</b>	<u><u>\$521,703</u></u>

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

Llano Del Rio Water Company  
**Income Statement (As Reviewed)**  
 For Year Ended December 31, 2022

**OPERATING REVENUES**

Unmetered Water Revenue	\$594
Irrigation Water Revenue	39,267
Metered Water Revenue	168,371
Other Water Revenue	9,476
<b>Total Operating Revenue</b>	<u>217,708</u>

**OPERATING EXPENSES (Note 6)****Plant Operation and Maintenance Expenses**

Purchased Water	16,290
Power	36,945
Other Volume Related Expenses	5,388
Materials	5,585
Contract Work	55,408
Transportation Expenses	10,766
Other Plant Maintenance Expenses	1,356
<b>Total Plant Operation and Maintenance Expenses</b>	<u>131,738</u>

**Administrative and General Expenses**

Office Services and Rentals	3,276
Office Supplies and Expenses	5,595
Professional Services	31,909
Insurance	14,094
Regulatory Commission Expense (Note 7)	2,935
General Expenses	4,960
<b>Net Administrative and General Expenses</b>	<u>62,769</u>
<b>Total Operating Expenses</b>	194,507

Depreciation Expense	10,246
Taxes Other Than Income Taxes	5,144
State Corporate Income Tax Expense	800
<b>Total Operating Revenue Deductions</b>	<u>210,697</u>

**Total Utility Operating Income** 7,011

**OTHER INCOME AND DEDUCTIONS**

Non-Utility Income	23
<b>Total Operating Revenue Deductions</b>	<u>23</u>

**Net Income** \$7,034

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

Llano Del Rio Water Company  
**Statement of Retained Earnings (As Compiled <sup>4</sup>)**  
For Year Ended December 31, 2022

<b>Retained Earnings, Beginning of Year</b>	(\$607,503)
<b>CREDITS:</b>	
Net Income	7,034
UAB Rounding Adjustment	2
<b>Total Credits</b>	<u>7,036</u>
<b>DEBITS:</b>	
UAB Adjustment to Other Current Assets	3,481
UAB Adjustment to Other Current Liabilities	2,940
<b>Total Debits</b>	<u>6,421</u>
<b>Retained Earnings, End of Year</b>	<u><u>(\$606,888)</u></u>

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

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

# Llano Del Rio Water Company

## Notes to Financial Statements

Incorporated in California on June 21, 1956, LDRWC's service area is located near the Town of Llano in Los Angeles County, California.<sup>5</sup> LDRWC is a Class D water utility with 190 active service connections, which includes 189 metered and one flat rate customer.<sup>6</sup>

### **Significant Accounting Policies**

The financial statements of LDRWC 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 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

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<sup>5</sup> LDRWC's 2022 Annual Report, General Information, Page 4

<sup>6</sup> LDRWC's 2022 Annual Report, Schedule I – Service Connections at End of Year, Page 19.

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.<sup>7</sup> The utility must obtain prior written approval from CPUC for any practice deviates from the aforementioned SPs.

LDRWC utilizes a composite rate of 3.18 percent for each class of depreciable asset as prescribed in 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.

LDRWC retired \$17,845 of pumping and other equipment during the review period.<sup>8</sup>

## **(3) Sale and Acquisition of Properties**

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

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

LDRWC reported \$12,481 of plant additions during 2022 which consisted of meters, pumping, and other equipment.<sup>8</sup>

## **3. Cash for Restricted Use**

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

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<sup>7</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

<sup>8</sup> LDRWC's 2022 Revised Annual Report, Schedule A-1a Account 101-Water Plant in Service, Page 8.

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

LDRWC incorrectly recorded and reported \$52,744 of unspent insurance proceeds as unrestricted cash. LDRWC received \$52,744 of insurance proceeds for its water plant damaged in 2020 during the Bobcat Fire in Los Angeles County in its Amended 2022 Annual Report. These insurance proceeds are restricted for replacing the damaged water plant. As a result, LDRWC understated Account 132–Cash-Special Deposits by \$52,744 and overstated Account 131–Cash by the same amount. However, LDRWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to the CPUC’s Water Division on October 30, 2023.

#### **4. Other Current Assets and Other Current Liabilities**

LDRWC overstated Account 174–Other Current Assets by \$3,556 and understated Account 215–Retained Earnings and Account 241–Other Current Liabilities by \$6,496 and \$2,940, respectively, in its Amended 2022 Annual Report, due to the following accounting errors:

- LDRWC incorrectly reported a liability of \$2,940 for CPUC Users Fee as of December 31, 2022, as a reduction to Other Current Assets, instead of reporting it as Other Current Liabilities.
- LDRWC incorrectly included a balance of \$6,421 as Other Current Assets for expired prepayments related to prior year taxes which were not recorded and reported as an expense when incurred.

However, LDRWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to the CPUC’s Water Division on October 30, 2023.

#### **5. Contribution in Aid of Construction (CIAC)**

CIAC account records non-refundable contributions of cash, land or other property donated to the water utility to assist it in constructing, extending, or relocating its water system. The funds can be from governmental agencies and others. The balances in this account shall be written off over the period of its estimated service life by charging to Account 272, Accumulated Amortization of Contributions instead of a Depreciation Expense account, with contra credits to the appropriate subaccount of Account 108, Accumulated Depreciation of Water Plant.

##### **(1) Facilities Fees**

Facilities Fees are fees collected from ratepayers for the purpose of recovering a certain amount of revenue to offset certain facilities or improvements that are required to serve additional customers. Ordering Paragraph (OP) 3 of D.91-04-068 granted authority to Class C and D water utilities, and to districts of Class A and B water utilities with 2,000 or fewer service connections, to institute facilities fees as a part of their requests for a general increase in rates. Through Resolution W-4110, CPUC granted authority to all Class D water utilities



to file generic tariffs to charge fees for new connections for the purpose of generating funds to build a new plant or replace deteriorated plant. Facilities fees received by a water utility shall be deposited in Account 132, Cash–Special Deposits and credited to Account 253, Other Credits. At the time these fees are used for water plant improvements, Account 101, Water Plant in Service shall be debited and Account 132, Cash–Special Deposits credited. Concurrently, Account 253, Other Credits shall be debited and Account 265.7, All Other Contributions in Aid of Construction credited. The annual depreciation and amortization of the facilities fees plant additions shall be debited to Account 272, Accumulated Amortization of Contributions, and credited to Account 108.3, Accumulated Depreciation of Water Plant–Other. The use of facilities fees should be in compliance with SP U-28-W.

LDRWC reported \$15,000 of unspent facilities fees in Account 253–Other Credits as of December 31, 2022.

## 6. Operating Expenses

LDRWC misclassified payments totaling \$71,582 made to its parent company, BER, as employee salaries and wages in its Amended 2022 Annual Report. As a result, LDRWC overstated Account 630–Employee Labor, Account 670–Office Salaries and Account 671–Management Salaries by \$42,268, \$16,490, and \$12,824, respectively, and understated Account 650–Contract Work and Account 682–Professional Services by \$42,268 and \$29,314, respectively. However, LDRWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to the CPUC’s Water Division on October 30, 2023.

In addition, LDRWC overstated Account 630–Employee Labor and Account 671–Management Salaries by \$1,836 and \$3,276, respectively; and understated Account 650–Contract Work, Account 660–Transportation Expense, and Account 678–Office Services and Rentals by \$1,836, \$2,376, and \$900, respectively, in its Amended 2022 Annual Report, due to the following accounting errors:

- LDRWC misclassified \$2,376 of Transportation Expense as Office Services and Rentals.
- LDRWC misclassified \$3,276 of rent expense as Management Salaries instead of recording and reporting it as Office Services and Rentals.
- LDRWC misclassified \$1,836 of repair and maintenance service expense provided by a contractor as Employee Labor expense.

However, LDRWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to the CPUC’s Water Division on October 30, 2023.

## 7. Water Utility Users Fee

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

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

LDRWC timely remitted the CPUC Users Fee as required by PU Code sections 401 through 410. However, LDRWC incorrectly recorded and reported \$2,935 of CPUC Users Fee collected from its customers and remitted to CPUC as a pass-through activity instead of reporting them in the proper accounts as revenue and expenses in its Amended 2022 Annual Report. As a result, LDRWC understated both Account 480–Other Water Revenue and Account–688 Regulatory Commission Expense by \$2,935. However, LDRWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to the CPUC’s Water Division on October 30, 2023.

## **8. 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....”

LDRWC reported a \$28,900 investment in Big Rock Mutual Water Company in Account 123–Investments in Affiliated Companies. The purpose of this investment is to maintain water rights. LDRWC uses its water rights to supply water resources to its irrigation customers.

In 2022, LDRWC reported \$16,290 expense for irrigation water purchased from its affiliate company Llano Mutual Water Company. LDRWC recorded and reported these expenses in Account 610–Purchased Water.

LDRWC’s parent company, BER, provides substantially all labor for daily operations and clerical and management services for LDRWC. LDRWC reimburses BER for any incremental costs incurred by LDRWC while providing these services. LDRWC also rents its office space from BER. In 2022, BER provided \$42,268 of daily operational services and \$29,314 of clerical and management services. LDRWC incurred \$3,276 of expenses for its office rental. Additionally, LDRWC reimbursed BER \$10,766 for transportation expenses.

As of December 31, 2022, LDRWC reported \$101,913 of liabilities owed to its affiliated companies for these services in Account 230–Payables to Affiliated Companies.

LDRWC sells potable water to Llano Mutual Water Company. Additionally, Llano Mutual Water Company reimburses LDRWC for shared power expenses. In 2022, Llano Mutual Water Company purchased \$9,145 of potable water and owed \$6,017 for shared expenses. LDRWC reported \$16,290 of receivables owed from Llano Mutual Water Company in Account 142–Receivables from Affiliated Companies.

## 9. Form of Financial Statements<sup>10</sup>

### (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.

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

## 11. 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, LDRWC has complied with these requirements.

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

## APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

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### Finding 1: Misclassified Restricted Cash

#### Condition:

LDRWC incorrectly reported \$52,744 of unspent insurance proceeds as unrestricted cash in its 2022 Amended 2022 Annual Report. LDRWC received \$52,744 of insurance proceeds for its water plant damaged in 2020 during the Bobcat Fire in Los Angeles County. These insurance proceeds are restricted for replacing the damaged water plant. USOA requires utilities to record restricted funds in Account 132–Cash-Special Deposits. As a result, LDRWC understated Account 132–Cash-Special Deposits by \$52,744 and overstated Account 131–Cash by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
1	132	Cash-Special Deposits	\$52,744	
	131	Cash		\$52,744
		<i>To reclassify restricted cash incorrectly reported as general cash.</i>		

LDRWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on October 30, 2023.

#### Criteria:

USOA states, in part, that:

#### 131. Cash

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

B. The following subaccounts should be maintained, if applicable:

131.1 Cash on Hand

131.2 Cash in Bank

#### 132. Cash-Special Deposits

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

#### Cause:

LDRWC lacks effective review and monitoring procedures over its accounting and recording process related to insurance proceeds to ensure that unspent insurance proceeds are properly classified as restricted cash in Account 132–Cash-Special Deposits.

**Effect:**

Inaccurate reporting of Cash and Cash-Special Deposits distorted LDRWC's financial position as of December 31, 2022, and reduced the comparability of LDRWC'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 LDRWC relative to other small water utilities in California.

**Recommendation:**

LDRWC should strengthen its review and monitoring procedures over its accounting and recording process related to insurance proceeds to ensure that restricted cash is properly classified as restricted cash in Account 132–Cash-Special Deposits in accordance with the accounting requirements of USOA.

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

LDRWC misclassified payments totaling \$71,582 made to its parent company, BER, as employee salaries and wages in its Amended 2022 Annual Report. LDRWC does not have any employees. Rather, it uses BER's employees to provide management, operational, repair and maintenance, accounting, and administrative services. LDRWC incorrectly recorded the payment made to BER for these services in Account 630–Employee Labor, Account 670–Office Salaries, and Account 671–Management Salaries. However, USOA requires that these expense accounts should only be used to report salaries and wages incurred by the utility's employees. Therefore, LDRWC overstated Account 630–Employee Labor, Account 670–Office Salaries and Account 671–Management Salaries by \$42,268, \$16,490, and \$12,824, respectively, and understated Account 650–Contract Work and Account 682–Professional Services by \$42,268 and \$29,314, respectively, as summarized in the table below:

Description	Overstated/(Understated)				
	Acct 630	Acct 650	Acct 670	Acct 671	Acct 682
LDRWC misclassified \$12,824 paid to its parent company for management services as Management Salaries instead of reporting and recording the expense as Professional Services				\$12,824	(\$12,824)
LDRWC misclassified \$16,490 expenses for accounting and clerical services provided by its parent company's employees as Office Salaries instead of reporting it as Professional Services.			\$16,490		(16,490)
LDRWC misclassified \$42,268 paid to its parent company for repair and maintenance services provided by the employees of its parent company as Employee Labor expense instead of recording and reporting it as Contract Work	\$42,268	(\$42,268)			
<b>Total</b>	<u>\$42,268</u>	<u>(\$42,268)</u>	<u>\$16,490</u>	<u>\$12,824</u>	<u>(\$29,314)</u>

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

Adj. No.	Acct. No.	Description	DR	CR
2	650	Contract Work	\$42,268	
	682	Professional Services	29,314	
	630	Employee Labor		\$42,268
	670	Office Salaries		16,490
	671	Management Salaries		12,824
		<i>To correctly classify payment that LDRWC made to its parent company for management, operations, repair and maintenance, accounting, and clerical services.</i>		

LDRWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on October 30, 2023.

**Criteria:**

USOA states, in part, that:

**650. Contract Work**

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

**682. Professional Services**

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

**630. Employee Labor**

This account shall include the wages of all employees (other than the manager, owner, or principal stockholders) whose time is utilized in the operation, repair and maintenance of the water system....

**670. Office Salaries**

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

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

**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....

**Cause:**

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

**Effect:**

LDRWC'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 LDRWC relative to other small water utilities in California.

**Recommendation:**

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

**Finding 3: Misstated Assets and Liabilities****Condition:**

LDRWC overstated Account 174—Other Current Assets and Account 215—Retained Earnings by \$3,481 and \$6,421, respectively, and understated Account 241—Other Current Liabilities by \$2,940 in its Amended 2022 Annual Report, due to the following accounting errors:

Description	Overstated/(Understated)		
	Acct 174	Acct 215	Acct 241
LDRWC incorrectly reported a liability of \$2,940 for CPUC Users Fee as of December 31, 2022, as a reduction to Other Current Assets, instead of reporting as Other Current Liabilities.	(\$2,940)		(\$2,940)
LDRWC incorrectly included a balance of \$6,421 as Other Current Assets for expired prepayments related to prior year taxes which were not recorded and reported as an expense when incurred.	6,421	\$6,421	
<b>Total</b>	<b>\$3,481</b>	<b>\$6,421</b>	<b>(\$2,940)</b>

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

Adj. No.	Acct. No.	Description	DR	DR
3	215	Retained Earnings	\$6,421	
	174	Other Current Assets		\$3,481
	241	Other Current Liabilities		2,940
		<i>To remove expired prepayments and reclassify the liability for unpaid CPUC Users Fee.</i>		

LDRWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on October 30, 2023.

**Criteria:**

USOA states, in part, that:

**174. Other Current Assets**

- A. This account shall include prepayment of rents, taxes, insurance and similar expenses for which payments have been made in advance of the period to which they apply. As the periods covered by such prepayments expire, this account shall be credited and the proper operating expense or other accounts shall be charged with the amounts applicable to the current period.
- B. This account shall include the book cost of all notes receivable and accounts receivable, other than from customers for water service, maturing or collectible within one year.
- C. This account shall include all other current assets not provided for in other balance sheet accounts.
- D. Separate subaccounts shall be maintained for each class of current asset included in this account.

**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.

**241. Other Current Liabilities**

- A. This account shall include all current and accrued liabilities not provided for elsewhere.
- B. Include herein pension accruals prior to the time they are transmitted to the trustee, accruals of vacation pay, etc.
- C. A separate subaccount shall be maintained for each class of liability.

**Cause:**

LDRWC lacks effective review and monitoring procedures over its accounting and reporting process to ensure its Other Current Assets and Other Current Liabilities are recorded and reported accurately.

**Effect:**

Inaccurate reporting of Other Current Assets and Other Current Liabilities in LDRWC's Annual Report reduces the comparability of LDRWC'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 LDRWC relative to other small water utilities in California.



**Recommendation:**

LDRWC should strengthen its review and monitoring procedures to ensure that Other Current Assets and Other Current Liabilities are accurately accounted for in accordance with the accounting requirements of USOA.

**Finding 4: Misclassified Operating Expenses**

LDRWC overstated Account 630–Employee Labor and Account 671–Management Salaries by \$1,836 and \$3,276, respectively; and understated Account 650–Contract Work, Account 660–Transportation Expense, and Account 678–Office Services and Rentals by \$1,836, \$2,376, and \$900, respectively, in its Amended 2022 Annual Report, due to the following accounting errors:

Description	Overstated/(Understated)				
	Acct 630	Acct 650	Acct 660	Acct 671	Acct 678
LDRWC misclassified \$2,376 of Transportation Expense as Office Services and Rentals.			(\$2,376)		\$2,376
LDRWC misclassified \$3,276 of rent expense as Management Salaries instead of recording and reporting it as Office Services and Rental.				\$3,276	(3,276)
LDRWC misclassified \$1,836 of repair and maintenance services provided by a contractor as Employee Labor expense instead of reporting it as Contract Work.	\$1,836	(\$1,836)			
<b>Total</b>	<b>\$1,836</b>	<b>(\$1,836)</b>	<b>(\$2,376)</b>	<b>\$3,276</b>	<b>(\$900)</b>

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

Adj. No.	Acct. No.	Description	DR	CR
4	650	Contract Work	\$1,836	
	660	Transportation Expense	2,376	
	678	Office Services Rentals	900	
	630	Employee Labor		\$1,836
	671	Management Salaries		3,276

*To correctly record misclassified Operating Expense.*

LDRWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on October 30, 2023.

**Criteria:**

USOA states, in part, that:

**650. Contract Work**

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

**660. Transportation Expense**

This account shall include all truck, automobile, construction equipment and other vehicle expense chargeable to utility operations, except depreciation and insurance.

**678. Office Services and Rentals**

Items

Computer and/or Billing Machine ..... Credit Reports  
 Payments to Service Bureaus ..... Commissions to Others  
 Office Equipment Rentals ..... For Collecting Bills  
 Other Services

**630. Employee Labor**

This account shall include the wages of all employees (other than the manager, owner, or principal stockholders) whose time is utilized in the operation, repair and maintenance of the water system....

**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....

**Cause:**

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

**Effect:**

LDRWC’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 LDRWC relative to other sewer utilities in California.

**Recommendation:**

LDRWC should strengthen its review and monitoring procedures over its accounting and recording process to ensure that expenses are properly classified.

**Finding 5: Incorrect Recording of CPUC Users Fee**

LDRWC recorded \$2,935 CPUC Users Fee collected from its customers and remitted to CPUC as a pass-through activity instead of reporting them in the proper accounts as revenue and expenses in its

Amended 2022 Annual Report. As a result, LDRWC understated both Account 480–Other Water Revenue and Account–688 Regulatory Commission Expense by \$2,935.

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

Adj. No.	Acct. No.	Description	DR	CR
5	688	Regulatory Commission Expense	\$2,935	
	470.5	Other Metered Revenues		\$2,935
		<i>To correctly record CPUC Users Fee remittances recorded as a pass-through activity.</i>		

LDRWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on October 30, 2023.

**Criteria:**

USOA states, in part, that:

**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.

**480. Other Water Revenue**

This account shall include revenue from water operations other than the delivery of water or provision of fire protection. This account shall be appropriately subdivided.

Items: Fees for changing, temporarily shutting off or reconnecting services  
Maintenance of appliances or repair of piping on customers’ premises  
Rental income from water property.

**688. 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.

**Cause:**

LDRWC lacks effective review and monitoring procedures over its accounting and reporting process to ensure that CPUC Users Fee is properly accounted for in compliance with the accounting requirements of USOA.

**Effect:**

Inaccurate reporting of Other Water Revenue in Account 480 and Regulatory Commission Expense in Account 688 in the Annual Report, which may be used during LDRWC’s General Rate Case application review process, could potentially impact water rates for LDRWC’s ratepayers.

**Recommendation:**

LDRWC should strengthen its review and monitoring procedures to ensure that CPUC Users Fee are properly accounted for in compliance with the accounting requirements of USOA.

## APPENDIX B—UTILITY'S RESPONSE

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### LLANO DEL RIO WATER COMPANY

32810 165<sup>th</sup> Street East  
LLANO, CA 93544  
661 944 2939

December 1, 2023

California Public Utilities Commission  
Angie Williams, Director  
Utility Audit, Risk and Compliance Division  
400 R Street  
Sacramento, CA 95811

REF: Response to Summary of Findings for Review of 2022 Financial Annual Report of Llano Del Rio Water Company.

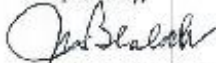
Director Angie Williams,

Thank you for the opportunity to respond to the Draft Review Report of the Llano Del Rio Water Company. We agree and concur with the "Five" Findings as outlined in the Review. We have made the appropriate adjusting entries to correct the misstatements. We appreciate the review as it focused on reporting areas that LDRWC had similarly reported for numerous years that are now different.

Our work plan is to use this report as a guideline for completion of subsequent years' reporting. Although not intended to be an excuse, but an observation that our small water company is subject to limited personnel being available for review of the annual report. This past reporting year we had a key person absent due to a lengthy illness which caused a rush to completion and submittal—we should have requested an extension rather than force the deadline of the submittal. In addition, our accountant's prior involvement is to annually consolidate the financial review based on our bookkeeper's data entry. We will be requesting the CPA review these transactions more often than annually. This Review also assisted the CPA in a better understanding some of these transactions in which some Accounts were misclassified. Our access to get answers from the PUC has not always been as easy as it was during the Review and appreciate the effort.

Our thank you to Ms. Kaur as she was very professional and assisted us greatly throughout the review period to reach a mutually acceptable solution

Respectfully,



John Bialock, President  
Llano del Rio Water Company