

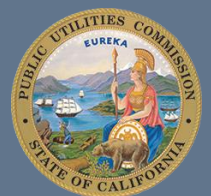


REVIEW OF FINANCIAL STATEMENTS

R. R. Lewis Small Water Company

For the Year Ended December 31, 2022

Utility Audits, Risk and Compliance Division
Utility Audits Branch
February 15, 2024



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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

**Khusbindar Kaur, CPA
Lead**

**Ruth Yang, CPA
Staff**

**Sam Niepoth
Staff**

**Tir Saephan
Staff**

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

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

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

February 15, 2024

Pamela Ostrom, President
R. R. Lewis Small Water Company
4500 East Fremont Street
Stockton, CA 95215

Dear Pamela Ostrom:

Final Report Transmittal Letter—Review of R. R. Lewis Small 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 R. R. Lewis Small Water Company's (RLSWC) regulatory basis financial statements in the 2022 Annual Report filed with CPUC, which comprise the balance sheet as of December 31, 2022, and related statements of income and retained earnings. The final review report is enclosed.

UAB provided a draft report to RLSWC for comments on February 6, 2024. RLSWC responded via email on February 6, 2024, that it had no comments regarding the draft report. Therefore, we are issuing the report as final. We will post the final review report on our website at [Audit Reports by Industry \(ca.gov\)](#).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by April 1, 2023. The CAP should include specific steps RLSWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. Please submit RLSWC's CAP to UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate RLSWC'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

Pamela Ostrom, President
R. R. Lewis Small Water Company
February 15, 2024
Page 2

cc: Larry Morales, Owner, Sierra Water Resources, Inc.
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Wilson Tsai, Program and Project Supervisor, Water Division, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Ruth Yang, Senior Management Auditor, UAB, CPUC
Sam Niepoth, Associate Management Auditor, UAB, CPUC
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of R. R. Lewis Small Water Company (RLSWC) 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).

RLSWC is an unincorporated Class D water utility with 126 active residential metered service connections.¹ RLSWC's service area is located in the area northeast of Sierra City, north of the North Yuba River and adjacent to Highway 49 in Sierra County, California.² As a regulated water utility, RLSWC 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 RLSWC:

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

Based on our review, except for the balance of Proprietary Capital, we are not aware of any material modifications that should be made to RLSWC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by USOA. RLSWC's ending deficit Proprietary Capital balance of \$34,141 presented in the accompanying financial statements is materially misstated due to significant errors in RLWSC's historical accounting records. Without performing an in-depth review of RLWSC's historical accounting records since its inception, UAB is unable to determine the effects of these misstatements on RLSWC's financial position as of December 31, 2022.

For the regulatory compliance components identified above for the review period, our review determined that RLSWC:

- a) failed to comply with requirements outlined in PU Code section 818 because RLSWC did not obtain CPUC's approval before incurring its long-term debts as described in Finding 13 in Appendix A—Review Findings and Recommendations;

¹ RLSWC's December 2022 Billing Register.

² CPUC Resolution W-5236, Page 2

- b) complied with PU Code sections 431 and 433 and filed its 2022 Annual Report timely in compliance with CPUC directive from the Water Division; and
- c) complied with CPUC directive from the Water Division and timely filed its 2022 Annual Report on April 24, 2023.

During the review, UAB identified 14 findings, including 12 findings summarizing material misstatements in RLSWC's 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023, one non-compliance issue with regulatory requirements, and one non-compliance issue with USOA accounting requirements. These findings are described in Appendix A—Review Findings and Recommendations and summarized below:

- Finding 1: RLSWC's Proprietary Capital balance of \$21,057 is materially misstated in its 2022 Annual Report due to significant errors in RLWSC's historical accounting records.
- Finding 2: RLSWC omitted reporting activities related to a \$308,145 grant it received from California Department of Public Health (CDPH) in its 2022 Annual Report. As a result, RLSWC understated Account 101.2—Water Plant in Service—Grant Funds, Account 108.2—Accumulated Depreciation of Water Plant—Grant Funds, Account 265—Contributions in Aid of Construction (CIAC), and Account 272—Accumulated Amortization of Contributions by \$308,145, \$61,630, \$308,145, and \$61,630, respectively.
- Finding 3: RLSWC overstated Account 101—Water Plant in Service and Account 218—Proprietary Capital by \$24,948 each in its 2022 Annual Report due to unsubstantiated additions of \$15,588 to Water Plant in Service reported in 2020 and an unexplained increase of \$9,360 in Water Plant in Service between the end of 2019 and the beginning of 2020 Water Plant in Service balances.
- Finding 4: RLSWC overstated Account 131—Cash and Account 218—Proprietary Capital by \$24,667 each in its 2022 Annual Report. RLSWC reported a balance of \$46,659 in Account 131—Cash; however, our review of RLSWC's bank reconciliation and bank statements disclosed that the actual Cash balance was \$21,992 as of December 31, 2022.
- Finding 5: RLSWC overstated Account 630—Employee Labor and Account 640—Materials by \$13,760 and \$1,529, respectively, and understated Account 650—Contract Work and Account 618—Other Volume Related Expenses by \$12,748 and \$2,541, respectively, in its 2022 Annual Report due to various misclassification errors.
- Finding 6: RLSWC understated Account 141—Accounts Receivable—Customers and Account 218—Proprietary Capital by \$12,224 each in its 2022 Annual Report because RLSWC used cash basis of accounting rather than accrual basis of accounting.
- Finding 7: RLSWC understated Account 218—Proprietary Capital, Account 630—Employee Labor, and Account 408—Taxes Other Than Income Taxes by \$12,000, \$10,904, and \$1,096, respectively, in its 2022 Annual Report because RLSWC did not record or report employee labor expenses and payroll tax expenses.

- Finding 8: RLSWC erroneously recorded and reported a \$11,908 balance in Account 105–Construction Work in Progress in its 2022 Annual Report. As a result, RLSWC overstated Account 105–Construction Work in Progress and Account 218–Proprietary Capital by \$11,908 each.
- Finding 9: RLSWC understated Account 470–Metered Water Revenue and Account 480–Other Water Revenue by \$1,429 and \$3,510, respectively, and overstated Account 218–Proprietary Capital by \$4,939 in its 2022 Annual Report. RLSWC understated Metered Water Revenue by \$1,429 because it used cash basis of accounting rather than accrual basis of accounting. Furthermore, RLSWC did not record or report \$1,894 of CPUC Users Fee and \$1,616 of late fees billed to its customers.
- Finding 10: RLSWC understated Account 231–Accounts Payable, Account 618–Other Volume Related Expenses, and Account 688–Regulatory Commission Expense by \$4,692, \$908, and \$347, respectively, and overstated Account 218–Proprietary Capital by \$3,437 in its 2022 Annual Report because RLSWC used cash basis of accounting rather than accrual basis of accounting.
- Finding 11: RLSWC did not report \$3,862 of Miscellaneous Non-Utility Expense in its 2022 Annual Report. As a result, RLSWC understated Account 426–Miscellaneous Non-Utility Expense and Account 218–Proprietary Capital by \$3,862 each in its 2022 Annual Report because RLSWC did not report any miscellaneous non-utility expenses.
- Finding 12: RLSWC overstated Account 174–Other Current Asset and Account 218–Proprietary Capital by \$1,208 each in its 2022 Annual Report. RLSWC’s General Ledger (G/L) included an erroneous balance of \$1,208 in Account 700.4–Chlorinator Balancing Account.
- Finding 13: RLSWC recorded and reported \$223,166 of Long-Term Debt owed to its owners in its 2022 Annual Report but failed to obtain authorization from CPUC. PU Code section 818 requires regulated utilities to obtain CPUC’s authorization before incurring any Long-term Debt.
- Finding 14: Our review disclosed deficiencies in RLSWC’s accounting system which constitutes a noncompliance with the accounting requirements of USOA. RLSWC used cash basis of accounting instead of accrual basis of accounting to record and report its accounting transactions. Furthermore, RLSWC’s G/L were incomplete and inaccurate. RLSWC’s G/L included erroneous account balances.

UAB discussed the above findings with RLSWC during fieldwork. RLSWC’s management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. RLSWC submitted its revised financial statements to the CPUC’s Water Division on January 25, 2024, to correct the material misstatements in each account, except for Proprietary Capital account, as described in Appendix A of this report. UAB further discussed these findings with RLSWC’s management at the exit conference on February 6, 2024, and RLSWC concurred with the review results. Except for the reported balance of the Proprietary Capital account, UAB is not aware of any material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to RLSWC for comments on February 6, 2024. RLSWC responded via email on February 6, 2024, that it had no comments regarding the draft report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Pamela Ostrom, President
R. R. Lewis Small Water Company
4500 East Fremont Street
Stockton, CA 95215

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of R. R. Lewis Small Water Company (RLSWC), which comprise the balance sheet as of December 31, 2022, and the related statements of income and proprietary capital for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of RLSWC'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

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

We are required to be independent of RLSWC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our reviews.

Basis for Qualified Conclusion

As disclosed in Note 6 of the accompanying financial statements, RLSWC's ending deficit Proprietary Capital balance of \$34,141 presented in the accompanying financial statements is materially misstated due to significant errors in RLWSC's historical accounting records. The effect of this departure from USOA accounting requirements on RLSWC's financial position has not been yet determined by its management.

Qualified Conclusion

Based on our review, except for the effect of the matters described in the Basis for Qualified Conclusion paragraph, 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. RLSWC's financial statements were prepared based on this regulatory requirement.

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 2 through 7, and 9 through 12, UAB identified 12 material misstatements in RLSWC's 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. Except for the misstatement related to the Proprietary Capital account as described in Note 6, those misstatements have been corrected in the accompanying financial statements. As discussed in Note 6 to the financial statements, UAB does not express a conclusion on the reported balance of Proprietary Capital as of December 31, 2022, in the accompanying financial statements. However, our conclusion to the rest of the accompanying financial statements is not modified with respect to this matter.

Other Matter—Sale of Water System

As described in Note 14 to the Financial Statements, RLSWC filed Advice Letter 49-W on February 19, 2023, to request CPUC's approval to sell and transfer all of RLSWC's water utility assets and its certificate of Public Convenience and Necessity (CPCN) to Sierra Water Resources, Inc. On January 25, 2024, CPUC issued Resolution W-5270 and approved the sale of RLSWC's assets.

Other Matter—Views of Responsible Official

We discussed our review results with RLSWC's management during fieldwork. RLSWC'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. RLSWC submitted its revised financial statements to CPUC's Water Division on January 25, 2024, to correct the material misstatements in each account, except for the Proprietary Capital account, as described in Appendix A of this report. UAB further discussed these findings with RLSWC's management at the exit conference on February 6, 2024, and RLSWC concurred with the review results. At the exit conference, we also stated that the final report will include the views of responsible officials. Except for the reported balance of the Proprietary Capital account, UAB is not aware of any material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to RLSWC for comments on February 6, 2024. RLSWC responded via email on February 6, 2024, that it had no comments regarding the draft report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

Other Matter—Submission of a Corrective Action Plan

RLSWC'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 April 1, 2024. The CAP should include specific steps RLSWC will take to address UAB's findings and recommendations and a target date for implementing each specific corrective action. If RLSWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. RLSWC 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 RLSWC:

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

For the regulatory compliance components identified above for the review period, our review determined that RLSWC:

- a) failed to comply with requirements specified in PU Code section 818 because RLSWC did not obtain CPUC's authorization before incurring its long-term debts as described in Finding 13 in Appendix A—Review Findings and Recommendations;
- b) complied with PU Code sections 431 and 433 and filed its 2022 Annual Report timely in compliance with CPUC directive from the Water Division; and
- c) complied with CPUC directive from the Water Division and timely filed its 2022 Annual Report on April 24, 2023.

Furthermore, as described in Finding 14 in Appendix A of this report, RLSWC did not maintain its accounting system as required by USOA.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code section 314.5. Accordingly, this review report is intended solely for the information and use by CPUC and the management of RLSWC, 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 \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, CA
February 15, 2024

REVIEWED FINANCIAL STATEMENTS

R. R. Lewis Small Water Company Balance Sheet (As Reviewed)

As of December 31, 2022

ASSETS	
UTILITY PLANT	
Water Plant in Service (Note 2)	\$654,870
Water Plant in Service–Grant Funds (Note 7)	308,145
Accumulated Depreciation of Water Plant (Note 2)	(465,905)
Accumulated Depreciation of Water Plant–Grant Funds (Note 7)	(61,630)
Net Utility Plant	<u>435,480</u>
CURRENT AND ACCRUED ASSETS	
Cash (Note 3)	21,992
Accounts Receivable (Note 5)	12,224
Total Current and Accrued Assets	<u>34,216</u>
Total Assets	<u><u>\$469,696</u></u>
CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Proprietary Capital (Note 6)	(\$34,141)
Total Capitalization	<u>(34,141)</u>
LONG-TERM DEBT	
Long-Term Debt (Note 8)	223,166
CURRENT AND ACCRUED LIABILITIES	
Accounts Payable (Note 9)	9,156
Short-term Notes Payable	25,000
Total Current and Accrued Liabilities	<u>34,156</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	
Contributions in Aid of Construction (Note 7)	308,145
Accumulated Amortization of Contributions (Note 7)	(61,630)
Net Contributions in Aid of Construction	<u>246,515</u>
Total Equity and Liabilities	<u><u>\$469,696</u></u>

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

R. R. Lewis Small Water Company
Income Statement (As Reviewed)
For Year Ended December 31, 2022

OPERATING REVENUES	
Fire Protection Revenue	\$4,095
Metered Water Revenue (Note 10)	132,445
Other Water Revenue (Note 10)	3,510
Total Operating Revenue	<u>140,050</u>
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	609
Other Volume Related Expenses (Notes 9 and 11)	3,449
Employee Labor (Note 11)	10,904
Materials (Note 11)	7,788
Contract Work (Note 11)	14,839
Transportation Expenses	6,277
Total Plant Operation and Maintenance Expenses	<u>43,866</u>
Administrative and General Expenses	
Management Salaries	12,000
Office Services and Rentals	4,210
Office Supplies and Expenses	4,085
Professional Services	13,356
Insurance	19,284
Regulatory Commission Expense (Note 9)	2,710
General Expenses	4,074
Net Administrative and General Expenses	<u>59,719</u>
Total Operating Expenses	103,585
Depreciation Expense	21,606
Taxes Other Than Income Taxes (Note 11)	4,360
Total Operating Revenue Deductions	<u>129,551</u>
Total Utility Operating Income	10,499
OTHER INCOME AND DEDUCTIONS	
Miscellaneous Non-Utility Expense (Note 11)	3,862
Interest Expense	253
Total Other Income and Deductions	<u>4,115</u>
Net Income	<u><u>\$6,384</u></u>

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

R. R. Lewis Small Water Company
Statement of Proprietary Capital (As Compiled ³)
 For Year Ended December 31, 2022

Proprietary Capital, Beginning of Year	\$2,493
CREDITS:	
Net Income	6,384
UAB Adjustment to Accounts Receivable	12,224
UAB Adjustment to Employee Labor	10,904
UAB Adjustment to Taxes Other Than Income Taxes	1,096
UAB Adjustment to Other Volume Related Expenses	908
UAB Adjustment to Regulatory Commission Expense	347
UAB Adjustment to Miscellaneous Non-Utility Expense	3,862
UAB Rounding Adjustment	3
Total Credits	35,728
DEBITS:	
UAB Adjustment to Water Plant in Service	24,948
UAB Adjustment to Cash	24,667
UAB Adjustment to Construction Work in Progress - Water Plant	11,908
UAB Adjustment to Other Water Revenue	3,510
UAB Adjustment to Metered Water Revenue	1,429
UAB Adjustment to Accounts Payable	4,692
UAB Adjustment to Other Current Assets	1,208
Total Debits	72,362
Proprietary Capital, End of Year	(\$34,141)

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

³ UAB compiled the Statement of Proprietary Capital based on the reviewed Balance Sheet and Income Statement, and other relevant financial data.

R. R. Lewis Small Water Company

Notes to Financial Statements

RLSWC is an unincorporated Class D water utility with 126 active residential metered service connections.⁴ RLSWC's service area is located in the area northeast of Sierra City, north of the North Yuba River and adjacent to Highway 49 in Sierra County, California.⁵

Significant Accounting Policies

The financial statements of RLSWC 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

⁴ RLSWC's December 2022 Billing Register.

⁵ CPUC Resolution W-5236, Page 2

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.⁶ The utility must obtain prior written approval from CPUC for any practice deviates from the aforementioned SPs.

RLSWC computed depreciation on a straight-line composite rate of 3.18 percent, which falls within industry average of 2 percent to 3.5 percent.⁷

RLSWC overstated Account 101–Water Plant in Service and Account 218–Proprietary Capital by \$24,948 each in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. RLSWC was unable to provide documentation to substantiate \$15,588 of additions to Water Plant in Service in 2022. In addition, UAB noted an unexplained increase of \$9,360 in Water Plant in Service between the end of 2019 and the beginning of 2020 Water Plant in Service balance. However, RLSWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC’s Water division on January 25, 2024.

3. Cash

RLSWC overstated Account 131–Cash and Account 218–Proprietary Capital by \$24,667 each in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. RLSWC reported a balance of \$46,659 in Account 131–Cash; however, UAB’s review of RLSWC’s bank reconciliation and bank statements disclosed that the actual Cash balance was \$21,992. As a result, RLSWC overstated both Account 131–Cash and Account 218–Proprietary Capital by \$24,667. However, RLSWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

4. Construction Work in Progress and Other Current Assets

RLSWC erroneously recorded and reported balances in Account 105–Construction Work in Progress and Account 174–Other Current Assets in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023.

- RLSWC erroneously recorded and reported a \$11,908 balance in Account 105–Construction Work in Progress. RLSWC’s personnel explained that RLSWC did not have any ongoing construction projects during the review period and could not explain the composition of this account. As a result, RLSWC overstated Account 105–Construction Work in Progress and Account 218–Proprietary Capital by \$11,908 each.
- RLSWC’s G/L also included an erroneous balance of \$1,208 in Account 700.4–Chlorinator Balancing Account, which was reported as Other Current Asset in RLSWC’s Annual Report.

⁶ D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

⁷ CPUC’s SP U-4-SM, paragraph 22.

RLSWC's personnel could not explain the composition of this account. UAB's review of RLSWC's accounting records disclosed that RLSWC recorded capital expenditures related to its Wixson Chlorinator construction project in G/L Account "Chlorinator Balancing Account." RLSWC capitalized all expenses related to this construction project upon completion in its 2021 Annual Report. However, RLSWC did not reclassify these expenses as Water Plant in Service in its accounting system. As a result, RLSWC overstated Account 174—Other Current Assets and Account 218—Proprietary Capital by \$1,208 each.

However, RLSWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

5. Accounts Receivable

RLSWC did not report \$12,224 of outstanding Accounts Receivable in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. RLSWC reported its Accounts Receivable using cash basis of accounting instead of accrual basis of accounting as required by the USOA. As a result, RLSWC understated Account 141—Accounts Receivable—Customers and Account 218—Proprietary Capital by \$12,224 each. However, RLSWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

6. Proprietary Capital

RLSWC's reported balance of \$21,057 in Account 218—Proprietary Capital is materially misstated in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2024, due to errors in RLSWC's historical accounting records. RLSWC's reported beginning balance of \$2,493 in its Proprietary Capital account in its 2022 Annual Report did not agree with the deficit ending balance of \$22,415 reported in its 2021 Annual Report. In its 2020 and 2021 Annual Reports, RLSWC reported balances in both Account 215—Retained Earnings and Account 218—Proprietary Capital. In its 2020 and 2021 Annual Reports, RLSWC reported in Account 215—Retained Earnings a debit balance of \$22,313 and credit balance of \$4,400, respectively. Similarly, RLSWC reported in Account 218—Proprietary Capital a balance of \$22,415 in both its 2020 and 2021 Annual Reports. Since RLSWC is an unincorporated utility, it should have reported its ownership equity in Account 218—Proprietary Capital as required by USOA.

RLSWC's management has yet to determine the cumulative effect of these misstatements on RLSWC's Proprietary Capital account balance as of December 31, 2022. Without performing an in-depth review of RLSWC's historical accounting records, the cumulative impact of the noted accounting errors on RLSWC's Proprietary Capital account cannot be determined. Determining the cumulative impact on the balance of Proprietary Capital as of December 31, 2022, would require UAB to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

7. Contributions 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 Deprecation Expense account, with contra credits to the appropriate subaccount of Account 108, Accumulated Depreciation of Water Plant.

(1) Government Grants

Funds received from a governmental funding agency shall be deposited in Account 132, Cash–Special Deposits and credited to Account 265.1, Contributions in Aid of Construction–Government Grant Proceeds. When the Grant Funds are used, the utility shall credit the Account 132, Cash–Special Deposits and debit the appropriate plant asset account. The use of grant funds should be in compliance with the funding agencies’ requirements. For the depreciable portion of the grant-funded properties, the annual depreciation and amortization of the Grant Funds shall be debited to Account 272, Accumulated Amortization of Contributions, and credit to Account 108.2, Accumulated Depreciation of Water Plant–Grant Funds. For the non-depreciable portion of the funded properties, when the properties are retired, the costs shall be credited to the appropriate plant account and charged to Account 265.1, Contributions in Aid of Construction–Government Grant Proceeds in order to eliminate any credit balance in the grant fund account applicable thereto.

RLSWC omitted reporting activities related to a \$308,145 grant it received from CDPH in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. RLSWC used the grant funds for a construction project that was completed in 2013. RLSWC did not record or report any activities related to the grant. As a result, RLSWC understated Account 101.2–Water Plant in Service–Grant Funds, Account 108.2–Accumulated Depreciation of Water Plant–Grant Funds, Account 265–CIAC, and Account 272–Accumulated Amortization of Contributions by \$308,145, \$61,630, \$308,145, and \$61,630, respectively. However, RLSWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

8. Long-Term Debt

Water utilities are required to obtain prior authorization from CPUC before incurring any long-term debt. PU Code section 818, states that,

No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes, or

other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

RLSWC has two outstanding Long-Term Debt owed to its owner totaling \$223,166.

- Between 2012 and 2022, RLSWC received advances totaling \$216,146 from its owner. RLSWC used these advances to pay for construction and operational costs. RLSWC did not incur any interest charges from these advances.
- RLSWC has a \$7,020 outstanding note payable to its former affiliated company, Diamondback Enterprises, Inc. for construction services that Diamondback Enterprises provided to RLSWC in 2020. RLSWC's owner currently holds this note payable because Diamondback Enterprises dissolved in 2022. RLSWC did not incur any interest charges from this note payable.

RLSWC failed to obtain authorization from CPUC for these loans. PU Code section 818 requires regulated utilities to obtain CPUC's authorization before incurring any long-term debt.

9. Accounts Payable

RLSWC understated Account 231—Accounts Payable, Account 618—Other Volume Related Expenses, and Account 688—Regulatory Commission Expense by \$4,692, \$908, and \$347, respectively, and overstated Account 218—Proprietary Capital by \$3,437 in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. RLSWC did not use accrual basis of accounting to record and report operating expenses, which resulted in the following accounting errors:

- RLSWC did not accrue \$1,176 of Contract Work and Other Volume Related Expenses incurred in 2022 but paid in 2023. Furthermore, RLSWC incorrectly reported \$1,176 of Contract Work and Other Volume Related Expenses incurred in 2021 in its 2022 Annual Report.
- RLSWC did not accrue \$908 expense for water treatment chemicals purchased in December 2022.
- RLSWC did not record and report \$688 of liabilities related to an engineering expense, which was incurred in 2021 but paid in 2023, for a construction project as of December 31, 2022. Although RLSWC capitalized the expenditure in its 2021 Annual Report, it did not report the related liability in its 2021 and 2022 Annual Reports.
- RLSWC did not accrue \$1,920 of CPUC Users Fee incurred in 2022 but paid in 2023. Furthermore, RLSWC reported \$1,573 of CPUC Users Fee for 2021 in its 2022 Annual Report.

However, RLSWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

10. Revenue

RLSWC understated Account 470–Metered Water Revenue and Account 480–Other Water Revenue by \$1,429 and \$3,510, respectively, and overstated Account 218–Proprietary Capital by \$4,939 in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. UAB’s review of RLSWC’s accounting records disclosed the following accounting errors:

- RLSWC reported its Metered Water Revenue using cash basis of accounting instead of accrual basis of accounting. Therefore, RLSWC understated Account 470–Metered Water Revenue by \$1,429 and overstated Account 218–Proprietary Capital by the same amount.
- RLSWC did not record or report \$1,894 of CPUC Users Fee and \$1,616 of late fees billed to its customers in 2022. Therefore, RLSWC understated Account 480–Other Water Revenue by \$3,510 and overstated Account 218–Proprietary Capital by the same amount.

However, RLSWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

11. Operating Expenses

RLSWC overstated Account 630–Employee Labor and Account 640–Materials by \$13,760 and \$1,529, respectively, and understated 650–Contract Work and 618–Other Volume Related Expenses by \$12,748 and \$2,541, respectively, in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023, due to various misclassification errors:

- RLSWC misclassified \$12,748 of expenses for repair and maintenance services performed by its contractor and \$1,012 of chemicals purchased for water treatment as Employee Labor instead of reporting these expenses as Contract Work and Other Volume Related Expenses, respectively.
- RLSWC misclassified \$1,529 of chemicals purchased for water treatment as Materials instead of reporting it as Other Volume Related Expenses.

Furthermore, RLSWC did not record or report \$10,904 of Employee Labor Expenses and \$1,096 of payroll tax expenses in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. As a result, RLSWC understated Account 218–Proprietary Capital, Account 630–Employee Labor, Account 408–Taxes Other Than Income Taxes by \$12,000, \$10,904, and \$1,096, respectively.

However, RLSWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

12. Miscellaneous Non-Utility Expense

RLSWC did not report \$3,862 of Miscellaneous Non-Utility Expense in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. As a result, RLSWC understated

Account 426–Miscellaneous Non-Utility Expense and Account 218–Proprietary Capital by \$3,862 each. However, RLSWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

13. 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.⁸

RLSWC complied with these requirements and timely remitted its CPUC Users Fee to CPUC during the review period.

14. Subsequent Event – Sale of Water System

On February 19, 2023, RLSWC filed Advice Letter 49-W to request CPUC’s approval to sell and transfer all of RLSWC’s water utility assets and its certificate of Public Convenience and Necessity (CPCN) to Sierra Water Resources, Inc. On January 25, 2024, CPUC issued Resolution W-5270 and approved the sale of RLSWC’s assets.

15. Form of Financial Statements⁹

(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.

16. Exclusion of Statement of Cash Flows

⁸ D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.

⁹ Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

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.

17. 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, RLSWC has complied with these requirements.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Misstated Proprietary Capital

Condition:

RLSWC’s reported balance of \$21,057 in Account 218—Proprietary Capital is materially misstated in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. Our review of RLSWC’s prior Annual Reports from 2019 to 2022 disclosed numerous accounting errors.

- RLSWC’s reported beginning balance of \$2,493 in its Proprietary Capital account in its 2022 Annual Report did not agree with the deficit ending balance of \$22,415 reported in its 2021 Annual Report.
- In its 2020 and 2021 Annual Report, RLSWC reported the following balances in both Account 215—Retained Earnings and Account 218—Proprietary Capital:

Account	Debit/(Credit)	
	2020	2021
Proprietary Capital	(\$22,415)	(\$22,415)
Retained Earnings	(22,313)	4,400

RLSWC is a unincorporated utility; therefore, it should have reported its ownership equity in the Proprietary Capital account only as required by USOA.

- As described in Findings 2, 3, and 5 through 11, UAB noted numerous accounting errors impacting RLSWC’s Proprietary Capital account. Similar accounting errors in prior years could also impact RLSWC’s Proprietary Capital account balance as of December 31, 2022.

RLSWC’s management has yet to determine the cumulative effect of these misstatements on RLSWC’s Proprietary Capital account balance as of December 31, 2022. Without performing an in-depth review of RLSWC’s historical accounting records, the cumulative impact of the noted accounting errors on RLSWC’s Proprietary Capital Accounting cannot be determined. Determining the cumulative impact on the balance of Proprietary Capital as of December 31, 2022, would require us to obtain additional information and perform extensive analyses going beyond the scope of this engagement.

Criteria:

USOA states, in part, that:

215. Retained Earnings (for corporations only)

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

- B. The account shall be credited with:
 - 1. Net income.
 - 2. Accounting adjustments not properly attributable to the current period.
- C. The account shall be charged with:
 - 1. Net losses.
 - 2. Accounting adjustments not properly attributable to the current period.
 - 3. Dividends.

218. Proprietary Capital (for proprietorships and partnerships only)

- A. This account shall be credited with the investment of a sole proprietor, or partners, in an unincorporated water utility.
- B. A separate subaccount shall be maintained for each partner.
- C. At the end of each calendar year the net income or loss for the year shall be entered in this account.
- D. Accounting adjustments not properly attributable to operations of the current period shall be charged or credited to this account.
- E. All withdrawals from the business by the owner or partners other than as compensation for services performed shall be charged to subaccount 218.1, Proprietary Drawings. This subaccount shall be closed into Account 218 at the end of each accounting period.

Note: Amounts designated by a non-corporate owner or partner as a “salary”, representing fair and reasonable compensation for services performed, shall be charged to operating expense account 671, Management Salaries, or to water plant accounts when appropriate. If clearing accounts are used, the owner’s or partners’ salaries will initially be charged to Account 900.1, Payroll Clearing, pending distribution.

Cause:

RLSWC lacks monitoring and review procedures over its accounting and reporting process to ensure that changes in its ownership equity are accurately reported in Account 218–Proprietary Capital as required by USOA.

Effect:

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

Inaccurate reporting Account 218–Proprietary Capital distorted RLSWC’s financial position as of December 31, 2022, and reduced the comparability of RLSWC’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 RLSWC relative to other small water utilities in California.

Recommendation:

RLSWC should establish and implement review procedures over its accounting and reporting process to ensure changes in its ownership equity are accurately recorded and reported in Account 218—Proprietary Capital in compliance with USOA accounting requirements.

Finding 2: Unreported Grant Contributions**Condition:**

RLSWC omitted reporting activities related to a \$308,145 grant it received from CDPH in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. RLSWC used the grant funds for a construction project that was completed in 2013. RLSWC did not record or report any activities related to the grant. As a result, RLSWC understated Account 101.2—Water Plant in Service—Grant Funds, Account 108.2—Accumulated Depreciation of Water Plant—Grant Funds, Account 265—CIAC, and Account 272—Accumulated Amortization of Contributions by \$308,145, \$61,630, \$308,145, and \$61,630, respectively.

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

AJE No.	Acct No.	Description	DR	CR
1	101.2	Water Plant in Service—Grant Funds	\$308,145	
	272	Accumulated Amortization of Contributions	61,630	
	108.2	Accumulated Depreciation of Water Plant—Grant Funds		\$61,630
	265	Contributions in Aid of Construction		308,145
		<i>To record omitted grant-related activities related to Water Plant in Service funded by California Department of Public Health.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

11. State and Federal Grant Funds

A. When Grant Funds are received from a funding agency; the utility must place these funds in a separate account that is restricted to Grant Funds only. The funds shall be recorded as a debit to Account 132—Cash- Special Deposits and a credit to Account 265.1—Contributions in Aid of Construction –Government Grant Proceeds. As the grant-funded plant is being constructed, the utility shall record those dollars expended as a debit to Account 105.2—Construction Work in Progress—Grant Funds and a credit to Account 132—Cash—Special Deposits. When the authorized plant has been constructed, a second set of entries shall be recorded as a debit to Account 101.2 Utility Plant in Service—Grant Funds and a Credit to Account 105.2—Construction Work in Progress—Grant Funds.

B. Depreciation accrued on the depreciable portion of grant funded properties shall be charged to Account 265.1 Contributions in Aid of Construction—Government

Grant Funds instead of Account 403–Depreciation Expense and credited to Account 108.2–Accumulated Depreciation of Water Plant–Grant Funds.

Cause:

RLSWC did not follow the accounting requirements of USOA to account for its grant funds received from CDPH. RLSWC lacks monitoring and review procedures over its accounting and reporting process to ensure that grant funds received for construction purposes are recorded and reported in the Annual Report in compliance with the accounting requirements specified in USOA.

Effect:

Inaccurate reporting of Account 101.2–Water Plant in Service–Grant Funds, Account 108.2–Accumulated Depreciation of Water Plant–Grant Funds, Account 265–CIAC, and Account 272–Accumulated Amortization of Contributions in the Annual Reports, which may be used during RLSWC’s General Rate Case (GRC) application review process, could potentially impact water rates for RLSWC’s ratepayers.

Recommendation:

RLSWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure grant funds received for construction purposes are properly recorded and reported in the Annual Report in compliance with the accounting requirements specified in USOA.

Finding 3: Unsubstantiated Water Plant in Service Balance**Condition:**

RLSWC overstated Account 101–Water Plant in Service and Account 218–Proprietary Capital by \$24,948 each in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023, due to the following accounting errors:

- RLSWC was unable to provide documentation to support \$15,588 of additions to Water Plant in Service reported in 2020.
- RLSWC had an unexplained increase of \$9,360 in the Water Plant in Service balance between 2019 and 2020. The ending balance of Water Plant in Service in RLSWC’s 2019 Annual Report of \$558,548 did not agree with the beginning balance of \$567,908 in RLSWC’s 2020 Annual Report.
- RLSWC did not record any transactions related to Water Plant in Service, Accumulated Depreciation of Water Plant in Service, and Depreciation Expense in the G/L since 2020.

As a result, RLSWC overstated Account 101–Water Plant in Service and Account 218–Proprietary Capital by \$24,948 each.

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

AJE No.	Acct No.	Description	DR	CR
2	218	Proprietary Capital	\$24,948	
	101	Water Plant in Service		\$24,948
		<i>To remove unsubstantiated Water Plant in Service balance.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

General Accounting Instructions 2

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.

101. Water Plant in Service

A. This account shall include the original cost of all water plant owned and used by the utility in providing water service. The following subaccounts should be maintained, if applicable:

101.1 Water Plant in Service - SDWBA

101.2 Water Plant in Service - Grant Funds

101.3 Water Plant in Service – Other

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:

RLSWC lacks accounting policies and procedures to ensure that it retains adequate and accurate documents to support its Water Plant in Service balance reported in its Annual Reports.

Effect:

RLSWC is unable to support \$24,948 of its reported Water Plant in Service balance. Unsubstantiated and inaccurately reported balance of Water Plant in Service in the Annual Report, which may be used during RLSWC's GRC application review process, could potentially impact water rates for RLSWC's ratepayers.

Recommendation:

RLSWC should establish and implement accounting policies and procedures to ensure that it retains adequate and accurate documents to support the Water Plant in Service balance reported in its Annual Reports.

Finding 4: Overstated Cash**Condition:**

RLSWC overstated Account 131–Cash and Account 218–Proprietary Capital by \$24,667 each in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. RLSWC reported a balance of \$46,659 in Account 131–Cash in its Annual Report; however, its G/L showed a balance of \$22,766, resulting in a variance of \$23,893. We reviewed RLSWC's December 2022 bank reconciliations and bank statements and noted that RLSWC had an actual cash balance of \$21,992 (\$19,720 + \$2,272) as of December 31, 2022, as described below:

- RLSWC's bank reconciliation for its general checking account showed an actual cash balance of \$19,720 as of December 31, 2022.
- RLSWC's statement for its payroll checking account showed an ending balance of \$3,047 as of December 31, 2022. However, RLSWC did not perform a bank reconciliation for its payroll checking account. Our review of RLSWC's January 2023 bank statements showed that RLSWC had five outstanding checks totaling \$775 as of December 31, 2022, which did not clear the bank until January 2023. RLSWC did not deduct the checks from the payroll cash account balance. Therefore, the actual cash balance in RLSWC's payroll checking account was \$2,272.

As a result, RLSWC overstated Account 131–Cash and Account 218–Proprietary Capital by \$24,667 (\$46,659 – \$21,992) each account.

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

AJE No.	Acct No.	Description	DR	CR
3	218	Proprietary Capital	\$24,667	
	131	Cash		\$24,667
		<i>To adjust reported Cash balance as of December 31, 2022, to agree with RLSWC's bank balance.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

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.

131. Cash

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

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

131.1 Cash on Hand

131.2 Cash in Bank

Cause:

RLSWC lacks monitoring, review, and reconciliation procedures over its Cash account to ensure that Cash account balance is accurately reported in its Annual Reports.

Effect:

Inaccurate reporting of Cash distorted RLSWC's financial position, misstated its available working capital, and reduced the comparability of RLSWC's financial statements with other water utilities. Consistent financial presentation among water utilities aids decision makers in analyzing the performance and financial position of RLSWC relative to other water utilities in California.

Recommendation:

RLSWC should establish and implement monitoring, review, and reconciliation procedures over its Cash account to ensure that the Cash balance is accurately reported in its Annual Reports.

Finding 5: Misclassified Operating Expenses**Condition:**

RLSWC overstated Account 630—Employee Labor and Account 640—Materials by \$13,760 and \$1,529, respectively, and understated 650—Contract Work and 618—Other Volume Related Expenses by \$12,748 and \$2,541, respectively, in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023, due to the following accounting errors:

Description	Overstated/(Understated)			
	Acct 618	Acct 630	Acct 640	Acct 650
RLSWC misclassified \$12,748 of expenses for repair and maintenance services performed by its contractor and \$1,012 of chemicals purchased for water treatment as Employee Labor instead of reporting these expenses as Contract Work and Other Volume Related Expenses, respectively.	(\$1,012)	\$13,760		(\$12,748)
RLSWC misclassified \$1,529 of chemicals purchased for water treatment as Materials instead of reporting it as Other Volume Related Expenses.	(1,529)		\$1,529	
Total	<u>(\$2,541)</u>	<u>\$13,760</u>	<u>\$1,529</u>	<u>(\$12,748)</u>

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

AJE No.	Acct No.	Description	DR	CR
4	618	Other Volume Related Expenses	\$2,541	
	650	Contract Work	12,748	
	630	Employee Labor		\$13,760
	640	Materials		1,529
		<i>To reclassify incorrectly recorded Operating Expenses to the proper accounts.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

618. Other Volume Related Expenses

This account shall include all other expenses related to the volume of water used.

Items

Ground water replenishment charges.

Chemicals used in water treatment.

Water rights leases based on volume.

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.

630. Employee Labor

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

- Cutting brush and weeds at springs or streams
- Checking, oiling and other pump maintenance
- Repairing leaks in water mains and services
- Reading meters
- Removing, resetting and testing meters
- Turning water off or on at customers' premises
- Maintenance of water treatment equipment; labor of adding chemicals, washing filters, etc.

640. Materials

This account shall include all materials and supplies used in operation and maintenance of the water system, other than repair and maintenance materials charged to Account 650, Contract Work and chemicals charged to Account 618, Other Volume Related Expenses.

Cause:

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

Effect:

RLSWC's misclassification of expenses reduces the comparability of RLSWC'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 RLSWC relative to other small water utilities in California.

Recommendation:

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

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

RLSWC did not report \$12,224 of outstanding Accounts Receivables in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. Our review of RLSWC's accounting records disclosed that RLSWC used cash basis of accounting instead of accrual basis of accounting as required by USOA. As a result, RLSWC understated Account 141—Accounts Receivable—Customers and Account 218—Proprietary Capital by \$12,224 each.

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

AJE No.	Acct No.	Description	DR	CR
5	141	Accounts Receivable	\$12,224	
	218	Proprietary Capital		\$12,224
		<i>To adjust the reported Accounts Receivable balance to agree with RLSWC's Billing Register.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

141. Accounts Receivable—Customers

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

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

Cause:

RLSWC used cash basis of accounting to record and report Accounts Receivables in its Annual Report. RLSWC lacks review and monitoring procedures to ensure that receivables are recorded and reported using accrual basis of accounting as required by USOA.

Effect:

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

Recommendation:

RLSWC should establish and implement review and monitoring procedures to ensure that Accounts Receivables are recorded and reported using accrual basis of accounting as required by USOA.

Finding 7: Unrecorded Payroll Expenses

Condition:

RLSWC did not record or report \$10,904 of employee labor expenses and \$1,096 of payroll tax expenses in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023.

As a result, RLSWC understated Account 218–Proprietary Capital, Account 630–Employee Labor, Account 408–Taxes Other Than Income Taxes by \$12,000, \$10,904, and \$1,096, respectively.

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

AJE No.	Acct No.	Description	DR	CR
6	630	Employee Labor	\$10,904	
	408	Taxes Other Than Income Taxes	1,096	
	218	Proprietary Capital		\$12,000
		<i>To record omitted payroll expenses.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

630. Employee Labor

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

- Cutting brush and weeds at springs or streams
- Checking, oiling and other pump maintenance
- Repairing leaks in water mains and services
- Reading meters
- Removing, resetting and testing meters
- Turning water off or on at customers’ premises
- Maintenance of water treatment equipment; labor of adding chemicals, washing filters, etc.

408. Taxes Other Than Income Taxes

This is the tax expense account to which taxes other than income taxes are charged. Property taxes, payroll taxes (and, unemployment insurance, social security taxes) and other taxes and licenses (e.g., municipal business taxes, annual franchise fees) will be entered in this account.

A separate subaccount will be maintained for each type of tax.

408.1 Property Taxes

408.2 Payroll Taxes

408.3 Other Taxes and Licenses

Cause:

RLSWC lacks review and monitoring procedures to ensure that employee labor expenses and payroll tax expenses are recorded and reported as required by USOA.

Effect:

Inaccurately reported balances of Account 630–Employee Labor and Account 408–Taxes Other Than Income Taxes in the Annual Report, which may be used during RLSWC’s GRC application review process, could potentially impact water rates for RLSWC’s ratepayers.

Recommendation:

RLSWC should establish and implement review and monitoring procedures to ensure that payroll tax expenses are recorded and reported as required by USOA.

Finding 8: Overstated Construction Work in Progress**Condition:**

RLSWC erroneously recorded and reported a \$11,908 balance in Account 105–Construction Work in Progress in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. RLSWC’s personnel explained that RLSWC does not have any ongoing construction projects and could not explain the composition of this account. As a result, RLSWC overstated Account 105–Construction Work in Progress and Account 218–Proprietary Capital by \$11,908 each.

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

AJE No.	Acct No.	Description	DR	CR
7	218	Proprietary Capital	\$11,908	
	105	Construction Work in Progress–Water Plant <i>To remove the erroneously reported balance in Construction Work in Progress account.</i>		\$11,908

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

105. Construction Work in Progress - Water Plant

This account shall include the cost of water plant in process of construction, but not yet ready for service. The following subaccounts should be maintained, if applicable:

- 105.1 Construction Work in Progress – SDWBA
- 105.2 Construction Work in Progress - Grant Funds
- 105.3 Construction Work in Progress – Other

Cause:

RLSWC lacks review and monitoring procedures to ensure that completed construction projects are accurately and timely reclassified as Water Plant in Service in its accounting system.

Effect:

Inaccurately reported balance of Account 105–Construction Work in Progress in the Annual Report, which may be used during RLSWC’s GRC application review process, could potentially impact water rates for RLSWC’s ratepayers.

Recommendation:

RLSWC should establish and implement review and monitoring procedures to ensure that completed construction projects are accurately and timely reclassified as Water Plant in Service in its accounting removed from its accounting system.

Finding 9: Understated Operating Revenue**Condition:**

RLSWC understated Account 470–Metered Water Revenue and Account 480–Other Water Revenue by \$1,429 and \$3,510, respectively, and overstated Account 218–Proprietary Capital by \$4,939 in its 2022 Annual Report originally filed with CPUC’s Water Division on April 24, 2023. Our review of RLSWC’s accounting records disclosed the following accounting errors:

- RLSWC reported its Metered Water Revenue using cash basis of accounting instead of accrual basis of accounting. Therefore, RLSWC understated Account 470–Metered Water Revenue by \$1,429 and overstated Account 218–Proprietary Capital by the same amount.
- RLSWC understated Account 480–Other Water Revenue by \$3,510 and overstated Account 218–Proprietary Capital by the same amount because it did not record or report CPUC Users Fee in its accounting system. However, RLSWC properly billed its customers and remitted the CPUC Users Fee to CPUC in a timely manner.

As a result, RLSWC understated Account 470–Metered Water Revenue and Account 480–Other Water Revenue by \$1,429 and \$3,510, respectively, and overstated Account 218–Proprietary Capital by \$4,939.

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

AJE No.	Acct No.	Description	DR	CR
8	218	Proprietary Capital	\$4,939	
	470	Metered Water Revenue		\$1,429
	480	Other Water Revenue		3,510
		<i>To adjust RLSWC’s operating revenue to agree with its underlining accounting records.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC’s Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

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.

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

Cause:

RLSWC used cash basis of accounting to record and report its revenues in its Annual Report. RLSWC lacks review and monitoring procedures to ensure that revenues are recorded and reported accurately and completely using accrual basis of accounting as required by USOA.

Effect:

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

Recommendation:

RLSWC should establish and implement review and monitoring procedures to ensure its revenues are recorded and reported accurately and completely using accrual basis of accounting as required by USOA.

Finding 10: Understated Accounts Payable**Condition:**

RLSWC understated Account 231—Accounts Payable, Account 618—Other Volume Related Expenses, and Account 688—Regulatory Commission Expense by \$4,692, \$908, and \$347, respectively, and overstated Account 218—Proprietary Capital by \$3,437 in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. RLSWC incorrectly used cash basis of accounting instead of accrual basis of accounting to record and report operating expenses, which resulted in the following accounting errors:

Description	Overstated/(Understated)			
	Acct 218	Acct 231	Acct 618	Acct 688
RLSWC did not accrue \$1,176 of Contract Work and Other Volume Related Expenses incurred 2022 but paid in 2023. Furthermore, RLSWC incorrectly reported \$1,176 of Contract Work and Other Volume Related Expenses incurred in 2021 in its 2022 Annual Report.	\$1,176	(\$1,176)		
RLSWC did not accrue \$908 expense for water treatment chemicals purchased in December 2022.		(908)	(\$908)	
RLSWC did not record and report \$688 of liabilities related to an engineering expense, which was incurred in 2021 but paid in 2023, for a construction project as of December 31, 2022. Although RLSWC capitalized the expenditure in its 2021 Annual Report, it did not report the related liability in its 2021 and 2022 Annual Reports.	688	(688)		
RLSWC did not accrue \$1,920 of CPUC Users Fee incurred in 2022 but paid in 2023. Furthermore, RLSWC reported \$1,573 of CPUC Users Fee for 2021 in its 2022 Annual Report.	1,573	(1,920)		(\$347)
Total	<u>\$3,437</u>	<u>(\$4,692)</u>	<u>(\$908)</u>	<u>(\$347)</u>

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

AJE No.	Acct No.	Description	DR	CR
9	218	Proprietary Capital	\$3,437	
	618	Other Volume Related Expenses	908	
	688	Regulatory Commission Expense	347	
	231	Accounts Payable		\$4,692
		<i>To adjust RLSWC's operating expenses and Accounts Payable balances using accrual basis of accounting.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

231. Accounts Payable

This account shall include all amounts payable by the utility within one year, which is not provided for in other accounts.

Cause:

RLSWC used cash basis of accounting instead of accrual basis of accounting to record and report expenses and liabilities in its Annual Report. RLSWC lacks policies and procedures over its accounting and reporting process to ensure that liabilities and expenses are recorded accurately using accrual basis of accounting.

Effect:

Inaccurate reporting of Operating Expenses in the Annual Report, which may be used during RLSWC's GRC application review process, could potentially impact the water rates for RLSWC's ratepayers. Inaccurate reporting of Accounts Payable (Account 231) distorted RLSWC's financial position as of December 31, 2022, and understated its available working capital, which could impact the water rates for its ratepayers during its GRC review process.

Recommendation:

RLSWC should establish and implement policies and procedures over its accounting and reporting process to ensure that expenses and liabilities are recorded accurately using accrual basis of accounting.

Finding 11: Understated Non-Utility Expense**Condition:**

RLSWC did not report \$3,862 of Miscellaneous Non-Utility Expense in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. As a result, RLSWC understated Account 426—Miscellaneous Non-Utility Expense and Account 218—Proprietary Capital by \$3,862 each.

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

AJE No.	Acct No.	Description	DR	CR
10	426	Miscellaneous Non-Utility Expense	\$3,862	
	218	Proprietary Capital		\$3,862
		<i>To adjust Miscellaneous Non-Utility Expense omitted from RLSWC's G/L.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

Criteria:

USOA states, in part, that:

426. Miscellaneous Non-Utility Expense

To this account shall be charged all expense other than expenses of water utility operations and interest expense.

Items

Contributions for charitable or community welfare purposes.

Expenses, including depreciation and taxes, of non-water utility property.

Country club dues, service club dues (Rotary, Kiwanis, etc.) and items of a similar nature.

Amortization of balances in Account 114 - Utility Plant Acquisition Adjustments.

Cause:

RLSWC lacks review and monitoring procedures to ensure that Miscellaneous Non-Utility Expense is recorded and reported as required by USOA.

Effect:

Inaccurate reporting of Miscellaneous Non-Utility Expense RLSWC's 2022 Annual Report reduces the comparability of RLSWC'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 RLSWC relative to other small water utilities in California.

Recommendation:

RLSWC should establish and implement review and monitoring procedures to ensure that Miscellaneous Non-Utility Expense is recorded and reported as required by USOA.

Finding 12: Overstated Other Current Assets**Condition:**

RLSWC overstated Account 174—Other Current Asset and Account 218—Proprietary Capital by \$1,208 each in its 2022 Annual Report originally filed with CPUC's Water Division on April 24, 2023. RLSWC's G/L included an erroneous balance of \$1,208 in Account 700.4—Chlorinator Balancing Account, which was reported as Other Current Asset in RLSWC's Annual Report. RLSWC's personnel could not explain the composition of this account. Our review of RLSWC's accounting records disclosed that RLSWC recorded capital expenditures related to its Wixson Chlorinator Construction project in G/L Account "Chlorinator Balancing Account." RLSWC capitalized all expenses related to this construction project upon completion in its 2021 Annual Report. However, RLSWC did not reclassify these expenses as Water Plant in Service in its accounting system. As a result, RLSWC overstated Account 174—Other Current Assets and Account 218—Proprietary Capital by \$1,208 each.

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

AJE No.	Acct No.	Description	DR	CR
11	218	Proprietary Capital	\$1,208	
	174	Other Current Assets		\$1,208
		<i>To remove the erroneously reported balance of Other Current Assets.</i>		

RLSWC applied this adjusting journal entry and corrected these misstatements in its revised 2022 Annual Report submitted to CPUC's Water Division on January 25, 2024.

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 payment 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.

Cause:

RLSWC lacks review and monitoring procedures to ensure that:

- Capital expenditure transactions are accurately recorded in its accounting system and reported in its Annual Reports.
- Erroneous account balances resulting from recording errors are timely corrected in its accounting system.

Effect:

Inaccurate reporting of Other Current Assets in RLSWC's 2022 Annual Report reduces the comparability of RLSWC'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 RLSWC relative to other small water utilities in California.

Recommendations:

RLSWC should establish and implement review and monitoring procedures to ensure that:

- Capital expenditures are accurately recorded in its accounting system and reported in its Annual Reports;

- Erroneous account balances resulting from recording errors are timely corrected in its accounting system.

Finding 13: Noncompliance with Long-term Debt Requirements

Condition:

RLSWC recorded and reported \$223,166 of Long-Term Debt owed to its owner but failed to obtain authorization from CPUC. PU Code section 818 requires regulated utilities to obtain CPUC's authorization before incurring any Long-term Debt. RLSWC's outstanding long-term debt owed to its owner is related to construction costs incurred as of December 31, 2022.

Criteria:

PU Code section 818 states that:

No public utility may issue stocks and stock certificates, or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

Cause:

RLSWC lacks adequate policies, monitoring, and review procedures to ensure compliance of requirements specified in the PU Code section 818 for obtaining long-term obligations.

Effect:

RLSWC's noncompliance with PU Code section 818 for obtaining CPUC's authorization before incurring long-term debts could expose RLSWC to undue liability.

Recommendation:

RLSWC should revise its existing policies and implement adequate monitoring and review procedures to ensure that CPUC's approval is obtained before incurring any long-term debt.

Finding 14: Noncompliance with USOA Accounting Requirements

Condition:

Our review disclosed deficiencies in RLSWC's accounting system which constitutes a noncompliance with the accounting requirements of USOA as follows:

- RLSWC used cash basis of accounting instead of accrual basis of accounting to record and report its accounting transactions.

- RLSWC's G/L was incomplete and inaccurate. RLSWC's G/L included the following erroneous account balances which were not reported in its 2022 Annual Report:

Account	G/L DR/(DR)	Notes
Chlorinator – Balancing Account	35,999	Note 1
Water Testing – Balancing Account	10,997	Note 1
Fire Line Balancing Account	37,225	Note 1
Wixson CL2 Legal Balancing Account	2,173	Note 1
Payroll	23,892	Note 2
Miscellaneous	3,862	See Finding 10

Note 1: Our review of RLSWC's Tariff Book disclosed that RLSWC did not have any active balancing accounts during the review period. However, RLSWC's G/L showed that the RLSWC used these accounts to record transactions related to Construction Work in Progress. Although RLSWC correctly capitalized these expenditures as Water Plant in Service upon completion of these projects in its prior Annual Reports, RLSWC did not reclassify these balances to the proper accounts in its accounting system.

Note 2: RLSWC posted a \$23,892 expense transaction to correct accounting errors related to its payroll checking account. As described in Finding 3, RLSWC did not record its payroll expenses on accrual basis of accounting during the review period.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

B. All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, memoranda and information useful in determining the facts regarding a transaction.

Cause:

RLSWC lacks policies, and monitoring and review procedures over its accounting system to ensure that its accounting transactions are accurately and completely recorded in its accounting system and reported in its Annual Reports using accrual basis of accounting.

Effect:

Lack of policies, and monitoring and review procedures over its accounting system results in noncompliance with USOA accounting requirements. It can also result in material misstatements in

RLSWC's financial reporting. Inaccurate and materially misstated financial information in RLSWC's Annual Reports, which may be used during RLSWC's GRC application review process, could potentially impact water rates for RLSWC's ratepayers.

Recommendation:

RLSWC should establish and implement policies and procedures over its accounting system to ensure that its financial data are accurately and completely recorded in its accounting system and reported in its Annual Reports using accrual basis of accounting.