PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

July 21, 2020

Mr. Norman Annett, Owner
Twin Lakes Enterprises, Inc
P. O. Box 455
Bridgeport, CA 93517

Dear Mr. Annett:

Final Report Transmittal Letter—Review of Twin Lake Enterprises, Inc's Annual Report for the period of January 1, 2019 through December 31, 2019

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Twin Lake Enterprises, Inc's (TLE) regulatory basis financial statements in the 2019 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2019 and related statements of income and retained earnings. The final review report is enclosed.

TLE's response to the draft report findings is incorporated into this final report. TLE agreed with the review findings. We will post the final review report on our website at https://www.cpuc.ca.gov/utilityaudits/.

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations within 45 days from the issuance of this final review report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the Utility Audits Branch at UtilityAudits@cpuc.ca.gov, with a copy to Lucian Filler, Deputy Executive Director of CPUC, at Lucian.Filler@cpuc.ca.gov, and Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov .

We appreciate TLE'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: Ms. Kellie Annett, Owner, Twin Lake Enterprises, Inc.
Ms. Alice Stebbins, Executive Director, CPUC
Mr. Lucian Filler, Deputy Executive Director, CPUC
Ms. Masha Vorobyova, Assistant Director, UAB
Mr. Bruce Berry, Program Manager, Water Division
Mr. Raymond Yin, Program and Project Supervisor, UAB
Ms. Khusbindar Kaur, Senior Management Auditor, UAB
Ms. Sharmin Wellington, Public Utilities Regulatory Analyst V, UAB
Ms. Rimple Bhatti, Associate Management Auditor

Review of Financial Statements

Twin Lake Enterprises, Inc

For the Year Ended December 31, 2019

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 21, 2020

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Raymond Yin, CPA
Program and Project Supervisor

Khusbindar Kaur, CPA
Senior Management Auditor

Sharmin Wellington, CPA
Public Utilities Regulatory Analyst V

Rimple Bhatti
Associate Management Auditor

A digital copy of this report can be found at:
http://www.cpuc.ca.gov/utilityaudits/

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

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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 Twin Lake Enterprises, Inc (TLE) as of December 31, 2019, pursuant to Public Utilities (PU) Code, Sections 314.5, 314.6, 581, 582, and 584 that provides the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under "Review of Financial Statements" in the Generally Accepted Government Auditing Standards (GAGAS).

TLE was incorporated in Nevada on October 25, 1991 and operates in California as a foreign corporation. TLE is a Class C water utility with 169 residential service connections. TLE's service area is located adjacent to Twin Lakes in Mono County, about 15 miles southwest of Bridgeport, California. As a regulated water utility, TLE 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 the CPUC on November 16, 2016, which is a comprehensive basis of accounting 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 the USOA. In conjunction with our review of the financial statements, UAB also reviewed, for regulatory purposes, whether TLE complied with the following:

a) PU Code Section 818 regarding obtaining CPUC's approval before incurring any long-term debts.
b) Timely filing of the 2019 Annual Report as required by the Water Division Memorandum dated January 7, 2020.

Based on our review, we are not aware of any material modifications that should be made to TLE's revised financial statements in order for them to be in accordance with the accounting framework established in the USOA. For the review period, UAB did not note any noncompliance with PU Code Section 818; and TLE filed its 2019 Annual Report timely in compliance with the CPUC directive from the Water Division. However, UAB identified three material misstatements in TLE's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A – Review Findings and Recommendations. The three findings are summarized below:

- Finding 1: TLE improperly used cash basis of accounting instead of accrual basis of accounting to report account balances in the Annual Report. As a result, Account 408–Federal Corporate Income Tax Expense is overstated by $4,180.

- Finding 2: TLE incorrectly reported $8,082 of Facilities Fees as Cash in Account 131 instead of Cash–Special Deposit in Account 132.

- Finding 3: TLE incorrectly reported expenses totaling $8,708 for Contract Work in Account 630–Employee Labor and Account 408.2–Payroll Taxes, instead Account 650–Contract Work.

UAB discussed the above findings and recommendations with TLE. TLE agreed to post UAB's proposed adjusting entries to correct the misstatements identified above.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Norman Annett, Owner
Twin Lakes Enterprises, Inc
P. O. Box 455
Bridgeport, CA 93517

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the financial statements of Twin Lake Enterprises, Inc (TLE), which comprise the balance sheet as of December 31, 2019, and the related income statement and statement of retained earnings for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of TLE'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

TLE's management is responsible for the preparation and fair presentation of its 2019 financial statements in accordance with the accounting framework established under CPUC's Uniform System of Accounts (USOA) for Water Utilities. TLE's management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its 2019 financial statements that are free from material misstatement, whether due to fraud or error. In addition, TLE'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 of the USOA. For regulatory purposes, UAB also reviewed whether TLE complied with PU Code Section 818 to obtain its long-term debts, and whether TLE timely filed its 2019 Annual Report as required by CPUC's Water Division. We believe that the results of our procedures provide a reasonable basis for our conclusion.

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 of the USOA. However, UAB identified three material misstatements in TLE's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A – Review Findings and Recommendations.

For the review period, UAB did not note any noncompliance with PU Code Section 818. In addition, TLE has timely filed its 2019 Annual Report in compliance with the CPUC directive from the Water Division.

Basis of Accounting

For regulatory purposes, the CPUC adopted, through Decision (D.) 16-11-006 on November 16, 2016, the updated USOA, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The CPUC requires all water and sewer utilities to prepare their financial statements in accordance with the accounting framework of the USOA. TLE'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 the USOA. Our conclusion is not modified with respect to this matter.

Views of Responsible Official

UAB provided a draft review report to TLE for comments on July 8, 2020. TLE responded via email dated July 19, 2020, agreeing with review findings and recommendations. TLE response is included 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

TLE's management should submit a corrective action plan to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Lucian Filler, Deputy Executive Director of CPUC, at Lucian.Filler@cpuc.ca.gov, and Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov no later than September 4, 2020. The corrective action plan should address how TLE will implement the recommendations and provide the timing of incorporating UAB's review adjustments to TLE's books and records. If TLE is unable to implement UAB's recommendations, the corrective action plan should state the reason(s) for not being able to implement any of the recommendations. TLE should use the amounts reviewed by the UAB as presented in this report as the basis to file its 2019 Annual Report with the CPUC.

Restricted Use of This Review Report

This review report is intended solely for the information and use by the CPUC and the management of TLE. It is not intended to be used and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: Kellie Annett, Owner, Twin Lake Enterprises, Inc.
Alice Stebbins, Executive Director, CPUC
Lucian Filler, Deputy Executive Director, CPUC
Masha Vorobyova, Assistant Director, UAB
Bruce DeBerry, Program Manager, Water Division
Raymond Yin, Program and Project Supervisor, UAB
Khusbindar Kaur, Senior Management Auditor, UAB
Sharmin Wellington, Public Utilities Regulatory Analyst V, UAB
Rimple Bhatti, Associate Management Auditor, UAB

Twin Lake Enterprises, Inc
BALANCE SHEET (AS REVIEWED)
As of December 31, 2019

ASSETS	
UTILITY PLANT	
Water Plant in Service	$409,309
Water Plant Acquisition Adjustments	(55,315)
Accumulated Depreciation of Water Plant	(130,510)
Net Utility Plant	223,484
CURRENT AND ACCRUED ASSETS	
Cash	43,261
Special Deposits	8,082
Total Current and Accrued Assets	51,343
Total Assets	$274,827
CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Common Stock	$2,500
Retained Earnings	264,245
Total Capitalization	266,745
DEFERRED CREDITS	
Other Credits	8,082
Total Deferred Credits	8,082
Total Equity and Liabilities	$274,827

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

Twin Lake Enterprises, Inc
INCOME STATEMENT (AS REVIEWED)
For Year Ended December 31, 2019

OPERATING REVENUES	
Unmetered Water Revenue	$85,734
Total Operating Revenue	85,734
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	$9,583
Materials	1,129
Contract Work	8,708
Transportation Expenses	12,804
Other Plant Maintenance Expenses	165
Total Plant Operation and Maintenance Expenses	32,389
Administrative and General Expenses	
Office Salaries	2,500
Management Salaries	6,000
Office Supplies and Expenses	500
Professional Services	10,098
Insurance	4,888
Regulatory Commission Expense	1,180
General Expenses	1,426
Net Administrative and General Expenses	26,592
Total Operating Expenses	58,981
Depreciation Expense	6,187
Taxes Other Than Income Taxes	723
Federal Corporate Income Tax Expense	4,180
Total Operating Revenue Deductions	70,071
Net Income	$15,663

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

Twin Lake Enterprises, Inc
STATEMENT OF RETAINED EARNINGS (AS REVIEWED)
For Year Ended December 31, 2019

Retained Earnings, Beginning of Year	**$252,484**
CREDITS:	
Net Income	15,663
UCB Adjustment to Federal Corporate Income Tax	4,180
Total Credits	**19,843**
DEBITS:	
UCB Adjustment to Other Credits	(8,082)
Total Debits	**(8,082)**
Retained Earnings, End of Year	**$264,245**

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

TLE Water Company

NOTES TO THE FINANCIAL STATEMENTS

Regulated water utilities are required to prepare their financial statements on Accrual basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting 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 the CPUC for ratemaking and other compliance purposes.

2. Property, Plant, and Equipment

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

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

USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Water utilities are required to comply with the CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over $100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under $100,000, if the utility elects not to separate or maintain the depreciation reserve by accounts, it is appropriate to develop a composite value for remaining life for the entire plant in accordance with Appendix B2 or B3 of SP U-4-SM. The 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.[1] The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

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

Twin Lake Enterprises, Inc (TLE) computes depreciation on a composite depreciation rate of 2.25%. The CPUC's SP U-04-SM, Paragraph 22, specifies that the annual composite rate generally falls within the range of 2.0% and 3.5%.

(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.

(3) Sale and Acquisition of Properties
Under GAAP, entities recognize gain or loss from disposal of properties and recognize goodwill or gain from a bargain purchase of other entities' segment or properties.

Under USOA, no goodwill or gain is recognized from the sale or acquisition of a water system or unit, unless it is 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 proposed journal entries to clear this account. The difference between the net original cost of the assets acquired and the cost to the acquiring utility shall be charged or credited to Account 114, Water Plant Acquisition Adjustments.

TLE reported an acquisition adjustment of ($130,510) for the year ended December 31, 2019. This adjustment is the difference between (1) the cost of acquiring the water plant and (2) the net amount distributed to water plant accounts for these acquisitions.

3. Inventory

GAAP allows entities to use different methodologies, such as average cost, first-in-first-out, and last-in-first-out, for the valuation of inventory, which includes cost components of raw materials, work-in-process, and finished goods, etc.

Under USOA, the inventory includes meters, materials, and supplies. If identifiable, the inventory should be recorded at original cost, which includes transportation charges, sales and use taxes and other directly assignable costs. Items of small value whose original cost cannot be readily determined shall be recorded at current prices. Scrap materials shall be carried in inventory at estimated scrap value.

4. 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, payments to sinking funds, then the funds should be classified to non-current assets. If unsure of the timing of the use, the restricted cash can be classified to Other Assets.

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.

TLE had a restricted cash balance of $8,082; however, the restricted cash was comingled with its general cash and reported in Account 131 in the Annual Report. TLE agreed to post adjusting entries to correct the balances reported in Account 131–Cash and Account 132–Cash Special Deposits.

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 Deprecation 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, the 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.

TLE incorrectly reported Facilities Fees as Non-Utility Income in Account 421 in the year in which the Facilities Fees were collected, instead of recording it in Account 253, Other Credits. TLE agreed to post adjusting entries to correctly reflect $8,082 of unspent Facilities Fees as Other Credits as of December 31, 2019.

6. Water Utility Users Fee

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. USOA requires water utilities to credit regular operating revenue accounts with amounts of Users Fee billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to the CPUC.[2]

For the year-ended December 31, 2019, TLE recorded $1,180 of CPUC Users Fee in accordance with the USOA requirement, and properly and timely remitted the Users Fee to the CPUC.

7. Form of Financial Statements [3]

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

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

8. Exclusion of Statement of Cash Flows

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

[2] D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.
[3] Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touche USA LLP, pages 36-37.

9. Compliance filing of 2019 Annual Report with the CPUC

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

APPENDICES

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: TLE did not record expenses using accrual basis of accounting

Condition:
TLE incorrectly reported Federal Income Tax expense using the cash basis of accounting, instead of accrual basis of accounting. The USOA mandates that the Utilities' books must be kept using the accrual basis of accounting. The cash basis method recognizes certain expenses when paid rather than when they were incurred. Based on our analytical procedures and discussions with TLE personnel, we noted that TLE overpaid its federal income tax expense in 2018 and applied the overpayment to its 2019 federal income taxes. The federal income tax overpayment in 2018 was applied towards TLE's 2019 federal income taxes. The overpayment of federal taxes in 2018 was incorrectly reported as expenses in the 2018 Annual Report instead of as a prepayment. As a result, Account 408–Federal Corporate Income Tax Expense is understated by $4,180 in 2019. TLE agreed to post an adjusting journal entry to correct the amount reported in the 2019 Annual Report.

Criteria:
General Instructions 2.A of the USOA states that:

> 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.

Cause:
TLE lacks adequate internal controls over financial reporting to ensure that account balances are reported using the accrual basis of accounting.

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

Recommendation:
TLE should comply with all accounting requirements specified in the USOA by strengthening its internal control to ensure federal income taxes are recorded using the accrual basis of accounting.

Finding 2: Incorrect reporting of Facilities Fees

Condition:
TLE incorrectly reported unspent Facilities Fees in Account 131–Cash instead of Account 132–Cash Special Deposit. In addition, TLE did not report unspent Facilities Fees in Account 253–Other Credits. Upon further discussions with TLE, UAB noted that in prior accounting periods, TLE incorrectly recorded the collection of Facilities Fees as Non-Utility Income. As a result, Account 131–Cash was overstated by $8,082 and Account 132–Cash Special Deposit and Account 253–Other Credits were understated by the same amount. TLE agreed to post an adjusting journal entry to correct the amount reported in the 2019 Annual Report.

Criteria:
The USOA states, in part, that:

> 10. Facilities Fees
>
> A. Facilities fees are available for Class B, C, and D water utilities. These fees are also available to Class A water utility districts that serve less than 2,000 service connections.
>
> B. Eligible utilities may file an advice letter to institute a facilities fee schedule.
>
> C. When facilities fees are received by a water utility, the amount received shall be deposited in Account 132 – Cash-Special deposits and credited to Account 253 – Other Credits. Interest earned on these fees shall be debited to Account 132- Cash-Special Deposits and credited to Account 421 – Non-Utility Income.
>
> 132. Cash - Special Deposit
>
> 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:
TLE lacks adequate internal control to ensure that its accounting policies and procedures comply with the requirements established by the USOA.

Effect:
Inaccurate reporting of Cash, Cash–Special Deposit, and Other Credits account balances distorted TLE's financial position as of December 31, 2019, which decision makers may rely on.

Recommendations:
TLE should adhere to the accounting requirements prescribed by the USOA by ensuring that the unspent Facilities Fees are properly reported as Cash–Special Deposit and Other Credits.

Finding 3: Misclassification of Expenses

Condition:
TLE incorrectly reported reimbursements paid to its affiliated company for costs associated with utilizing the affiliated company's employees to perform repair and maintenance work on TLE's water plant. TLE recorded the payments to the affiliated company in Account 630–Employee Labor and Account 408.2–Payroll Taxes. However, the USOA specifies that the cost of all repair and maintenance work not performed by water company employees should be reported as Contract Work in Account 650. As a result, Account 650–Contract Work was understated by $8,708 and Account 630–Employee Labor and Account 408.2–Payroll Taxes was overstated by $5,655 and $3,053, respectively. TLE agreed to post a reclassifying journal entry to correct the reported amounts for the aforementioned accounts in the 2019 Annual Report.

Criteria:
The USOA states in part:

> 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.

Cause:
TLE does not have adequate internal control in place to ensure that expenses were properly reported in the correct accounts.

Effect:
Inaccurate reporting of Contract Work, Employee Labor, and Payroll Tax expenses distorted the TLE's Income Statement for the year ended December 31, 2019, which decision makers may rely on.

Recommendation:
TLE should design and implement adequate internal controls to ensure that expenses are properly recorded and reported in the correct accounts as required by the USOA.

APPENDIX B—TLE's RESPONSE

Twin Lake Enterprises, Inc's submitted the following response via email to Utility Audit Branch's draft review report on July 19, 2020:

> Our accounting team, as well as ourselves, as owners of Twin Lakes Enterprises, Inc., find no issues with the report and accept your findings.