



REVIEW OF FINANCIAL STATEMENTS

Bass Lake Water Company

For the Year Ended December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 15, 2022



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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

**Khusbindar Kaur, CPA
Lead**

Judith Mason, Auditor

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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

June 15, 2022

Mr. Stephen Welch, President
Bass Lake Water Company
P.O. Box 113
Bass Lake, CA 93604

Dear Mr. Welch:

Final Report Transmittal Letter—Review of Bass Lake Water Company’s 2020 Annual Report for the Year Ended December 31, 2020

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Bass Lake Water Company’s (BLWC) regulatory basis financial statements in the 2020 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2020, and related statements of income, and retained earnings. The final review report is enclosed.

BLWC’s response to the draft report finding and our evaluation of the response are incorporated into this final report. We will post the final review report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations of this report by August 1, 2022. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate BLWC’s assistance and cooperation during the engagement, and your willingness to implement corrective actions.

Please contact us at UtilityAudits@cpuc.ca.gov if you have any questions.

Sincerely,

Masha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: on next page

Mr. Stephen Welch, President

Bass Lake Water Company

June 15, 2022

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cc: Darlene Herr, Accounting Manager, BLWC
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 Berry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Bass Lake Water Company (BLWC) as of December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide 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).

Incorporated in California on March 2, 1959, BLWC is a Class C water utility with a total of 44 metered customer service connections, 969 flat-rate customer service connections, and 62 public fire hydrant active service connections.¹ BLWC serves customers in the northwest shore of Bass Lake and vicinity in Madera County, California.² As a regulated water utility, BLWC 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 BLWC 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 2020 Annual Report as required by the Water Division Memorandum dated January 26, 2021.

Based on our review, we are not aware of any material modifications that should be made to BLWC's revised financial statements in order for them to be in accordance with the accounting framework established in the USOA. For the review period, BLWC filed its 2020 Annual Report timely in compliance with the CPUC directive from the Water Division. UAB identified one noncompliance issue with the requirement specified under PU Code Section 818 and eight (8) material misstatements in BLWC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A—Review Findings and Recommendations. These findings are summarized below:

- Finding 1: BLWC did not obtain timely approval from the CPUC before incurring a long-term debt from Plumas Bank loan E as required by PU Code Section 818. Between December 2019 and October 2020, BLWC drew \$780,000 from the Plumas Bank loan E, with a maturity date of May 31, 2035. BLWC failed to obtain the CPUC's authorization prior to incurring the loan.

¹ BLWC's 2020 Annual Report, Schedule D—4 Number of Active Service Connections, Page 35.

² CPUC Resolution W-5235, dated April 15, 2021, Page 2

- Finding 2: BLWC misclassified \$127,267 of advances from its parent company, The Pines Resorts of California, LLC, in Account 241–Other Current Liabilities. Amounts owed to affiliated companies should have been recorded in Account 230–Payables to Affiliated Companies. As a result, BLWC overstated Account 241–Other Current Liabilities by \$127,267 and understated Account 230–Payables to Affiliated Companies by the same amount.
- Finding 3: BLWC did not classify the current portion of its Long-Term Debt totaling \$92,102 to the Short-Term Notes Payable account. As a result, BLWC overstated Account 224–Long-Term Debt by \$92,102 and understated Account 232–Short-Term Notes Payable by the same amount.
- Finding 4: BLWC incorrectly recorded and reported insurance proceeds totaling \$60,218 for damages to a reservoir and related structures as a result of a collapsed roof. BLWC received \$56,833 of insurance proceeds in 2019 and \$3,385 in 2020. BLWC incorrectly recorded the insurance proceeds as Non-Utility Income in Account 421 instead of recording it as a credit to Account 108–Accumulated Depreciation. As a result, BLWC understated Account 108–Accumulated Depreciation by \$60,218, and overstated Account 421–Non-Utility Income and Account 215–Retained Earnings by \$3,385 and \$56,833, respectively.
- Finding 5: BLWC incorrectly recorded and reported \$30,500 of the collected but unspent facilities fees as Contributions in Aid of Construction (CIAC). The USOA requires utilities to record unspent facilities fees in Account 253–Other Credits until the facilities fees are used for water plant improvements. As a result, BLWC overstated Account 265–CIAC by \$30,500 and understated Account 253–Other Credits by the same amount.
- Finding 6: BLWC incorrectly recorded and reported \$24,738 of loan origination fees and \$10,988 of related accumulated amortization of these fees in Account 174–Other Current Assets and Account 122–Accumulated Depreciation of Non-Water Utility Property, respectively. Loan origination fees should have been recorded as Deferred Charges in Account 180 and amortized over the life of the loan as a reduction (credit) to Deferred Charges. As a result, BLWC understated Account 180–Deferred Charges by \$13,750 (\$24,738 total fees minus \$10,988 of accumulated amortization as of December 31, 2020) and overstated Account 174–Other Current Assets and Account 122–Accumulated Depreciation of Non-Water Utility Property by \$24,738 and \$10,988, respectively.
- Finding 7: BLWC incorrectly recorded and reported \$13,500 of unspent facilities fees as unrestricted cash in Account 131–Cash. BLWC collected \$5,000 and \$8,500 of facilities fees in 2016 and 2018, respectively, and deposited them in its general cash account. As of December 31, 2020, these facilities fees remained unspent. The facilities fees are restricted for water plant improvements; therefore, these funds should have been deposited in a restricted cash account until it is spent on an allowable purpose. As a result, BLWC overstated Account 131–Cash by \$13,500 and understated Account 132–Cash–Special Deposits by the same amount.

- Finding 8: BLWC recorded and reported \$12,359 of CPUC Users Fee collected from its customers and remitted to the CPUC as a pass-through activity instead of reporting them in the proper accounts as revenue and expenses. As a result, BLWC understated both Account 480–Other Water Revenue and Account–688 Regulatory Commission Expense by \$12,359.
- Finding 9: BLWC did not record \$1,540 of amortization of water plant funded through CIAC. BLWC incorrectly recorded it in Depreciation Expense instead of charging it to Account 272–Accumulated Amortization of Contributions, between 2016 and 2020 to amortize water plant funded through CIAC. As a result, BLWC understated Account 272–Accumulated Amortization of Contributions and Account 215–Retained Earnings by \$1,540 and \$1,232, respectively, and overstated Account 403–Depreciation Expense by \$308 as of December 31, 2020.

UAB discussed the above findings with BLWC’s management during fieldwork. BLWC’s management concurred with the findings and agreed to post UAB’s proposed adjusting journal entries to correct the misstatements identified above. BLWC submitted its revised financial statements to the UAB to correct the material misstatements described in Appendix A of this report on May 16, 2022. UAB further discussed these findings with BLWC’s management and its accountant at the exit conference on May 17, 2022, and BLWC concurred with the review results. UAB is not aware of any further material modifications that should be made to the accompanying financial statements.

UAB provided a draft review report to BLWC for comments on June 1, 2022. BLWC submitted its response on June 8, 2022, with comments regarding Finding 1 and Note 7 to the Financial Statements located on page 15 of this report. BLWC’s response is presented in Appendix B of this report. UAB’s evaluation of BLWC’s response is in Appendix C of this report. The review findings and recommendations presented in this report remain unchanged and represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Stephen Welch, President
Bass Lake Water Company
P.O. Box 113
Bass Lake, CA 93604

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Bass Lake Water Company (BLWC), which comprise the balance sheet as of December 31, 2020, 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 BLWC'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

BLWC's management is responsible for the preparation and fair presentation of its 2020 financial statements in accordance with the accounting framework established under CPUC's Uniform System of Accounts (USOA) for Water Utilities. BLWC's management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its 2020 financial statements that are free from material misstatement whether due to fraud or error. In addition, BLWC'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 BLWC complied with PU Code Section 818 to obtain its long-term debts, and whether BLWC timely filed its 2020 Annual Report as required by CPUC's Water Division. We believe that the results of our procedures provide a reasonable basis for our conclusion.

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

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the accounting framework of the USOA. However, UAB identified eight (8) material misstatements in BLWC's Annual Report originally filed with CPUC's Water Division, as described in the Appendix A—Review Findings and Recommendations. These misstatements have been corrected in the accompanying financial statements.

For the review period, BLWC timely filed its 2020 Annual Report in compliance with the CPUC directive from the Water Division. However, BLWC did not comply with the requirement specified under PU Code Section 818 because BLWC did not obtain CPUC's authorization before incurring a long-term debt. This finding is also described in the Appendix A—Review Findings and Recommendations.

Basis of Accounting

For regulatory purposes, the CPUC adopted, through 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. BLWC'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

We discussed our review results and findings with BLWC management during fieldwork. BLWC's management concurred with UAB's 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. BLWC submitted its revised financial statements to the UAB to correct the material misstatements on May 16, 2022. UAB further discussed these findings with BLWC's management at the exit conference on May 17, 2022, and BLWC concurred with the review results. At the exit conference, we also stated that the final report will include the views of responsible officials.

UAB provided a draft review report to BLWC for comments on June 1, 2022. BLWC submitted its response on June 8, 2022, with comments regarding Finding 1 and Note 7 to the Financial Statements located on page 15 of this report. BLWC response is presented in Appendix B of this report. UAB's evaluation of BLWC's response is in Appendix C of this report. The review findings and recommendations presented in this report remain unchanged and represent our final determination of this review engagement.

Other Matter - Submission of a Corrective Action Plan

BLWC's management should submit a corrective action plan (CAP) to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov by August 1, 2022. The CAP should address how BLWC will implement the recommendations. If BLWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. BLWC should use the amounts reviewed by the UAB as presented in this report as the basis to file its 2021 Annual Report with the CPUC.

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 the CPUC and the management of BLWC, 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 is available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Masha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, California
June 15, 2022

REVIEWED FINANCIAL STATEMENTS

Bass Lake Water Company Balance Sheet (As Reviewed) As of December 31, 2020

ASSETS

UTILITY PLANT

Water Plant in Service	\$3,598,246
Construction Work in Progress – Water Plant	847,203
Accumulated Depreciation of Water Plant	(1,196,621)
Net Utility Plant	<u>3,248,828</u>

CURRENT AND ACCRUED ASSETS

Cash	52,851
Cash-Special Deposits	49,669
Accounts Receivable-Customers	386,748
Materials and Supplies	2,284
Other Current Assets	112,067
Total Current and Accrued Assets	<u>603,619</u>

Deferred Charges	<u>13,750</u>
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Total Assets and Other Debits	<u><u>\$3,866,197</u></u>
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CORPORATE CAPITAL AND RETAINED EARNINGS

Common Stock	\$49,100
Other Paid-in Capital	1,219,177
Retained Earnings	344,621
Total Corporate Capital and Retained Earnings	<u>1,612,898</u>

LONG-TERM DEBT

Long-Term Debt	<u>1,262,494</u>
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CURRENT AND ACCRUED LIABILITIES

Payables to Affiliated Companies	127,267
Accounts Payable	104,508
Short-Term Notes Payable	92,102
Taxes Accrued	264
Total Current and Accrued Liabilities	<u>324,141</u>

(Continued on next page)

Bass Lake Water Company
Balance Sheet (Continued)
 As of December 31, 2020

DEFERRED CREDITS

Advances for Construction	\$187,003
Other Credits	459,201
Total Deferred Credits	646,204

CONTRIBUTIONS IN AID OF CONSTRUCTION

Contributions in Aid of Construction	22,000
Accumulated Amortization of Contributions	(1,540)
Net Contributions in Aid of Construction	20,460

Total Liabilities and Other Credits	\$3,866,197
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(See independent accountant's review report and accompanying notes.)

Bass Lake Water Company
Income Statement (As Reviewed)
For Year Ended December 31, 2020

OPERATING REVENUES	
Unmetered Water Revenue	\$786,055
Irrigation Water Revenue	2,364
Metered Water Revenue	83,371
Other Water Revenue	39,256
Total Operating Revenue	<u>911,046</u>
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	22,311
Other Volume Related Expenses	53,285
Employee Labor	299,267
Materials	18,796
Contract Work	41,351
Transportation Expenses	10,551
Total Plant Operation and Maintenance Expenses	<u>445,561</u>
Administrative and General Expenses	
Management Salaries	41,270
Employee Pensions and Benefits	44,726
Uncollectible Accounts Expense	6
Office Services and Rentals	18,376
Office Supplies and Expenses	5,557
Professional Services	24,463
Insurance	55,430
Regulatory Commission Expense	16,770
General Expenses	12,510
Net Administrative and General Expenses	<u>219,108</u>
Total Operating Expenses	664,669
Depreciation Expense	80,874
Taxes Other Than Income Taxes	36,575
State Corporate Income Tax Expense	5,691
Federal Corporate Income Tax Expense	6,237
Total Operating Revenue Deductions	<u>794,046</u>
Total Utility Operating Income	117,000
OTHER INCOME AND DEDUCTIONS	
Non-Utility Income	24
Miscellaneous Non-Utility Expense	(2,228)
Interest Expense	(44,649)
Total Other Income and Deductions	<u>(46,853)</u>
Net Income	<u><u>\$70,147</u></u>

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

Bass Lake Water Company
Statement of Retained Earnings (As Reviewed)
For Year Ended December 31, 2020

Retained Earnings, Beginning of Year	\$330,074
CREDITS:	
Net Income	70,147
UAB adjustments to Accumulated Amortization of Contributions	1,232
UAB Rounding Adjustment	<u>1</u>
Total Credits	<u>71,380</u>
DEBITS:	
UAB adjustment to Non-Utility Income	<u>56,833</u>
Total Debits	<u>56,833</u>
Retained Earnings, End of Year	<u><u>\$344,621</u></u>

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

Bass Lake Water Company

Notes to Financial Statements

Incorporated in California on March 2, 1959, BLWC is a Class C water utility with a total of 44 metered customer service connections, 969 flat-rate customer service connections, and 62 public fire hydrant service connections.³ BLWC's service area is located on the Northwest shore of Bass Lake and vicinity in Madera County, California.⁴

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 followings describe 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

³ BLWC's 2020 Annual Report, Schedule D-4 Number of Active Service Connections, Page 35.

⁴ CPUC Resolution W-5235, dated April 15, 2021, Page 2.

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.⁵ The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

BLWC utilizes the straight-line remaining life method for each class of asset as prescribed in SP U-4-SM to determine depreciation accruals. BLWC's overall composite depreciation rate is 2.26%, which falls within the industry average.

(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.

In 2019, BLWC retired a reservoir and related structures as a result of damage incurred from a collapsed roof. BLWC filed a claim with the insurance and received proceeds of \$3,385 and \$56,833 in 2020 and 2019, respectively. In its 2019 and 2020 Annual Report, BLWC reported the insurance proceeds as Non-Utility Income in Account 421 instead of recording it as an increase to Accumulated Depreciation in Account 108. As a result, Account 421–Non-Utility Income and Account 215–Retained Earnings are overstated by \$3,385 and 56,833, respectively, and Account 108–Accumulated Depreciation is understated by \$60,218. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC and corrected these misstatements.

During 2020, BLWC also reported disposal of a Bobcat engine and truck totaling \$30,482.⁶

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.

BLWC reported an inventory balance of \$2,284 as of December 31, 2020, in Account 151–Materials and Supplies.

⁵ D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

⁶ BLWC's 2020 Annual Report, Schedule A-1a Account 101–Water Plant in Service, Page 12

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.

In its 2020 Annual Report originally filed with CPUC’s Water Division, BLWC incorrectly reported \$13,500 of unspent facilities fees as unrestricted cash. BLWC collected \$5,000 and \$8,500 of facilities fees in 2016 and 2018, respectively, and deposited funds in its general cash account. As a result, Account 131–Cash was overstated by \$13,500 and Account 132–Cash–Special Deposit was understated by the same amount. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC and corrected this misstatement.

5. Advances for Construction

Under USOA, the advances for construction are similar to a loan for the construction work under GAAP. The construction contract must comply with the Main Extension Rule specified in the CPUC’s SP U-17-W. Among other things, one of the requirements is “Advance Main Extension Contracts would run for 40 years, with refunds at 2 ½ percent per year.”

BLWC reported a balance of \$187,003 in Account 252-Advances for Construction. The advances for construction are interest free loans and BLWC consistently paid its annual payments.

6. 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.

BLWC incorrectly reported \$30,500 of collected but unspent facilities fees in Account 265–CIAC, instead of reporting the unspent amount as Other Credits in Account 253. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC to correct this misstatement.

7. Long-Term Debt

Water utilities are required to obtain prior authorization from the 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.

As of December 31, 2020, BLWC had the following long-term debts outstanding:

Description	Current Portion	Long-Term Debt	Total Principal Outstanding
Plumas Bank #B	\$20,945	\$73,379	\$94,324
Plumas Bank #C	24,616	0	24,616
Plumas Bank #E	30,260	741,137	771,397
2018 Ford F-150	7,790	11,880	19,670
2019 Ford F-150	8,491	24,230	32,721
SRF Loan	0	411,868	411,868
Total	\$92,102	\$1,262,494	\$1,354,596

(a) Plumas Bank Loan #B

In Resolution W-4800, dated October 29, 2009, CPUC authorized BLWC to enter into a loan agreement with Plumas Bank to borrow \$244,067. The proceeds of the loan were used for plant improvements. In January 2010, BLWC obtained the loan from Plumas Bank with interest rate of 7.69 percent, matured in 15 years and secured by BLWC's assets. BLWC has consistently paid its monthly payments over the last three years.

(b) Plumas Bank Loan #C

In Resolution W-4847, dated October 28, 2010, CPUC authorized BLWC to enter into a loan agreement with Plumas Bank to borrow \$187,000. The proceeds of the loan were used to finance the replacement of a leaking 30,000 gallons storage tank with a new 100,000 gallons tank and 1,000 feet of undersized water line. In May 2011, BLWC obtained the loan from Plumas Bank with interest rate of seven percent, matured in ten (10) years and secured by BLWC's assets. BLWC has consistently made loan payments in accordance with the loan agreement.

(c) Plumas Bank Loan #E

In Resolution W-5235, dated April 15, 2021, CPUC authorized BLWC to enter into a loan agreement with Plumas Bank and seek a Rate Base Offset (RBO) of \$975,000 for the construction and installation of a new 400,000-gallon water storage tank to replace the Pines Reservoir that collapsed due to heavy snow on February 2019. However, prior to obtaining CPUC authorization for the long-term obligation, BLWC drew \$780,000 from the Plumas Loan between December 2019 and October 2020. This resulted in BLWC's noncompliance with PU Code Section 818, which requires utilities to obtain CPUC's approval prior to incurring any long-term debt.

Plumas Bank loan E has an interest rate of 6.5 percent, and maturity date of May 31, 2035. BLWC has consistently made loan payments in accordance with the loan agreement.

(d) 2018 Ford F-15

In June 2018, BLWC obtained the loan from Ford Motor Credit Corporation. The loan carries an interest rate of 5.99 percent and a term of five years. BLWC has consistently made loan payments in accordance with the loan agreement.

(e) 2019 Ford F-150

The July 2020, BLWC obtained the loan from Ford Motor Credit Corporation. This is an interest free loan to be paid over five years. BLWC has paid a total of \$1,246 in 2020.

(f) State Revolving Fund Loan

In Resolution W-5167, dated May 31, 2018, the CPUC authorized BLWC to borrow \$1,343,650 under the Drinking Water State Revolving Fund (DWSRF) with the State Water Resources Control Board (SWRCB). In 2020, BLWC drew a total of \$411,868 from the loan. The purpose of the loan is to finance a new water system surface water treatment plant. The loan carries an interest an interest rate of 1.8 percent, a term of 20 years, and secured by BLWC's assets. The first payment of the loan is not due until January 1, 2023.

In its 2020 Annual Report originally filed with CPUC's Water Division, BLWC incorrectly classified the current portion of its long-term liabilities totaling \$92,102 in as Long-Term Debt. As a result,

Account 224—Long-Term Debt was overstated by \$92,102 and Account 232—Short-Term Notes Payable was understated by the same amount. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC and corrected this misstatement.

8. Authorized Costs and Revenues

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

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

In its 2020 Annual Report originally filed with the CPUC's Water Division, BLWC incorrectly reported \$24,747 of loan origination fees and \$10,988 of related accumulated amortization of these fees in Account 174—Other Current Assets and Account 122—Accumulated Depreciation of Non-Water Utility Property, respectively. Loan origination fees should have been recorded in Account 180—Deferred Charges and amortized over the life of the loan as a reduction (credit) to Deferred Charges. As a result, BLWC understated Account 180—Deferred Charges by \$13,749 (\$24,737 total fees minus \$10,988 of accumulated amortization as of December 31, 2020), and overstated Account 174—Other Current Assets and Account 122—Accumulated Depreciation of Non-Water Utility Property is overstated by \$24,737 and \$10,988, respectively. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC and corrected this misstatement.

9. 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 User Fees billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to the CPUC.⁷

In its 2020 Annual Report originally filed with CPUC's Water Division, BLWC incorrectly treated CPUC Users Fee totaling \$12,359 collected from its customers and remitted to the CPUC as a pass-through activity instead of reporting them in Account 480—Other Water Revenue and Account 688—Regulatory Commission Expenses. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC and corrected this misstatement.

10. Affiliate Transactions

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

⁷ D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.

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

BLWC obtained advances amounted to \$127,267 from The Pines Resorts of California to pay for its operating expenses and construction-related costs, including engineering cost.

BLWC incorrectly classified the \$127,267 of advances from its parent company, The Pines Resorts of California, LLC, in Account 241–Other Current Liabilities. Amounts owed to affiliated companies should have been recorded in Account 230–Payables to Affiliated Companies. As a result, BLWC overstated Account 241–Other Current Liabilities by \$127,267 and understated Account 230–Payables to Affiliated Companies by the same amount. On May 16, 2022, BLWC submitted a revised Annual Report to the CPUC and corrected these misstatements.

11. Form of Financial Statements ⁸

(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.

12. 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 and therefore excluded from this review report.

⁸ Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

13. Compliance filing of 2020 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, BLWC has complied with these requirements.

14. Subsequent Events

On March 1, 2022, BLWC and California-American Water Company (CAWC) filed a joint application requesting the CPUC to authorize BLWC to sell and CAWC to purchase the water utility assets of BLWC. The joint application is currently under review by the CPUC.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Non-Compliance with Long-Term Debt Requirements

Condition:

BLWC did not obtain timely approval from the CPUC before incurring a long-term debt from Plumas Bank loan E as required by PU Code Section 818. Between December 2019 and October 2020, BLWC drew \$780,000 from the Plumas Bank loan E, with a maturity date of May 31, 2035. BLWC did not obtain CPUC's authorization prior to incurring the loan. BLWC filed AL 78-W to request authorization for borrowing \$620,000 from Plumas Bank on October 25, 2019, and filed subsequent AL 78-W-A to amend the loan amount from \$620,000 to \$780,000 on June 11, 2020. The CPUC approved AL 78-W-A via Resolution W-5235 on April 15, 2021.

Criteria:

PU Code Section 818 states:

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:

BLWC lacks adequate policies and procedures to ensure compliance of requirements specified in the PU Code Section 818 for obtaining long-term obligations.

Effect:

BLWC's noncompliance with PU Code Section 818 for obtaining CPUC's authorization prior to incurring long-term debts could expose BLWC to undue liability.

Recommendation:

BLWC should strengthen its policies and procedures to ensure that CPUC's approval is obtained prior to incurring any long-term indebtedness.

Finding 2: Incorrect Reporting of Payables to Affiliated Companies

Condition:

BLWC incorrectly classified \$127,267 of advances from its parent company, The Pines Resorts of California, LLC, in Account 241—Other Current Liabilities in the Annual Report originally filed with the CPUC's Water Division on April 27, 2021. Amounts owed to affiliated companies should have

been recorded in Account 230–Payables to Affiliated Companies. As a result, BLWC overstated Account 241–Other Current Liabilities by \$127,267 and understated Account 230–Payables to Affiliated Companies by the same amount. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

USOA states, in part, that:

230. Payables to Affiliated Companies

A. This account shall include amounts owed to affiliated companies on notes, drafts, acceptances, or other similar evidence of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.

Note: The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note, draft, acceptance, indebtedness, or other open account.

241. Other Current Liabilities

A. This account shall include all current and accrued liabilities not provided for elsewhere.

Cause:

BLWC lacked adequate accounting procedures to ensure that advances from its affiliate are properly classified as Payables to Affiliated Companies in Account 230.

Effect:

Inaccurate reporting of Payables to Affiliated Companies in the Annual Report distorted BLWC's financial position as of December 31, 2020.

Recommendation:

BLWC should revise its accounting procedures to ensure that advances from its affiliate are properly recorded and reported in accordance with the accounting requirements specified in the USOA.

Finding 3: Misclassified Current Portion of Long-Term Debt**Condition:**

BLWC did not classify the current portion of its Long-Term Debt totaling \$92,102 to the Short-Term Notes Payable account in the Annual Report originally filed with the CPUC's Water Division on April 27, 2021. As a result, BLWC overstated Account 224–Long-Term Debt by \$92,102 and understated Account 232–Short-Term Notes Payable by the same amount. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The USOA states, in part, that:

224. Long-Term Debt

A. This account shall include all notes, conditional sales contracts, or other evidence of indebtedness payable more than one year from the date of issue.

B. A separate subaccount shall be maintained for each obligation outstanding.
Note: Prior authorization must be obtained from the Commission before any long-term indebtedness may be incurred by the utility. (Public Utilities Code, Section 818).

232. Short-Term Notes Payable

This account shall include the face value of all notes, or other similar evidence of indebtedness, payable on demand or within a period not exceeding one year from the date of issue.

Cause:

BLWC lacks review and monitoring procedures over its accounting and reporting process to ensure that all liabilities due within the next year are classified as short-term liabilities.

Effect:

Understated short-term liabilities misstated BLWC's available working capital and short-term liquidity as of December 31, 2020, which could impact the water rates for BLWC's ratepayers during BLWC's general rate case (GRC) review process.

Recommendation:

BLWC should establish and implement review and monitoring procedures to ensure its liabilities are properly classified and reported in accordance with the accounting requirements of the USOA.

Finding 4: Incorrect Reporting of Insurance Proceeds for Damaged Water Plant in Service

Condition:

BLWC incorrectly recorded and reported insurance proceeds totaling \$60,218 for damages to a reservoir and related structures as a result of a collapsed roof in the Annual Report originally filed with the CPUC's Water Division on April 27, 2021. BLWC received \$56,833 of insurance proceeds in 2019 and \$3,385 in 2020. BLWC incorrectly recorded the insurance proceeds as Non-Utility Income in Account 421 instead of recording it as a credit to Account 108–Accumulated Depreciation. As a result, BLWC understated Account 108–Accumulated Depreciation by \$60,218, and overstated Account 421–Non-Utility Income and Account 215–Retained Earnings by \$3,385 and \$56,833, respectively. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The USOA states, in part, that:

General Accounting Instruction

13. Water Contamination Proceeds

A. This accounting instruction applies to all transactions involving contamination proceeds from damage awards, settlements, government order, or insurance proceeds.

108. Accumulated Depreciation of Water Plant

A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service.

B. This account shall be credited with:

3. Salvage value, sales price, insurance settlements and other amounts recovered from plant retired.

215. Retained Earnings (for corporations only)

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

C. The account shall be charged with:

2. Accounting adjustments not properly attributable to the current period.

Cause:

BLWC lacks review and monitoring procedures over its accounting and recording process to accurately record insurance proceeds as Accumulated Depreciation in Account 108.

Effect:

Inaccurate reporting of Accumulated Depreciation (Account 108) in BLWC's Annual Report, which may be used during BLWC's GRC application review process, could impact the water rates for BLWC's ratepayers during its GRC application review process.

Recommendation:

BLWC should establish and implement review and monitoring procedures over its accounting and recording process to ensure compliance with the USOA requirements.

Finding 5: Incorrect Reporting of Unspent Facilities Fees

Condition:

BLWC incorrectly recorded and reported \$30,500 of collected, but unspent facilities fees, as Contributions in Aid of Construction (CIAC) in Account 265 in the Annual Report originally filed with the CPUC's Water Division on April 27, 2021. The USOA requires utilities to record unspent facilities fees in Account 253—Other Credits until the facilities fees are used for water plant improvements. As a result, BLWC overstated Account 265—CIAC by \$30,500 and understated Account 253—Other Credits by the same amount. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The USOA states, in part, that:

10. Facilities Fees

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 – Deferred Credits.

253. Other Credits

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

Cause:

BLWC lacks review and monitoring procedures over its accounting and reporting process to ensure that collected but unspent facilities fees are recorded as Other Credits in Account 253.

Effect:

Inaccurate recording of facilities fees as CIAC, instead of Other Credits, in the Annual Report distorted BLWC's Balance Sheet and could misinform decision makers that these facilities fees had been spent for allowable purposes. Additionally, overstated CIAC and contributed water plant could lead to an understated rate base, which may potentially impact decision makers during BLWC's GRC review process and impact the water rates for BLWC ratepayers.

Recommendation:

BLWC should establish and implement review and monitoring procedures over its accounting and reporting process to ensure that all reported amounts in the Annual Report are complete and accurate.

Finding 6: Incorrect Reporting of Loan Origination Fees**Condition:**

BLWC incorrectly recorded and reported \$24,738 of loan origination fees and \$10,988 of related accumulated amortization of these fees in Account 174—Other Current Assets and Account 122—Accumulated Depreciation of Non-Water Utility Property, respectively, in the Annual Report originally filed with the CPUC's Water Division on April 27, 2021. Loan origination fees should have been recorded as Deferred Charges in Account 180 and amortized over the life of the loan as a reduction (credit) to Deferred Charges. As a result, BLWC understated Account 180—Deferred Charges by \$13,750 (\$24,738 total fees minus \$10,988 of accumulated amortization as of December 31, 2020) and overstated Account 174—Other Current Assets and Account 122—Accumulated Depreciation of Non-Water Utility Property by \$24,738 and \$10,988, respectively. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The 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.

180. Deferred Charges

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

Cause:

BLWC lacks review and monitoring procedures over its accounting and recording process for loan origination fees to ensure proper and accurate classification.

Effect:

BLWC's misclassification of loan origination fees and related amortization reduces the comparability of its financial statements with other small water utilities. Consistent financial presentation among small water utilities aids decision makers in analyzing the performance and financial position of BLWC relative to other water utilities in California.

Recommendation:

BLWC should establish and implement effective review and monitoring procedures over its accounting and recording process for loan origination fees to ensure that assets are accurately and properly classified.

Finding 7: Incorrectly Reported Restricted Cash**Condition:**

BLWC incorrectly reported \$13,500 of unspent facilities fees as unrestricted cash. BLWC collected \$5,000 and \$8,500 of facilities fees in 2016 and 2018, respectively, and reported them as general cash in the Annual Report originally filed with the CPUC's Water Division on April 27, 2021. As of December 31, 2020, these facilities fees remained unspent. The facilities fees are restricted for water plant improvements; therefore, these funds should have been deposited in a restricted cash account until it is spent on an allowable purpose. As a result, BLWC overstated Account 131–Cash by \$13,500 and understated Account 132–Cash–Special Deposits by the same amount. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The USOA states, in part, that:

10. Facilities Fees

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–Deferred Credits.

132. Cash – Special Deposits

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

Cause:

BLWC lacks review and monitoring procedures over its accounting and recording process to accurately classify restricted cash as Cash–Special Deposits in Account 132.

Effect:

Inaccurate reporting of Cash and Cash–Special Deposits distorted BLWC’s financial position and available working capital as of December 31, 2020, which could impact water rates for BLWC’s ratepayers during BLWC’s GRC review process.

Recommendation:

BLWC should establish and implement review and monitoring procedures over its accounting and recording process to ensure that restricted assets are properly classified in accordance with the accounting requirements of the USOA.

Finding 8: Incorrect Reporting of CPUC User Fees**Condition:**

BLWC recorded and reported \$12,359 of CPUC Users Fee collected from its customers and remitted to the CPUC as a pass-through activity instead of reporting them in the proper accounts as revenue and expenses in the Annual Report originally filed with the CPUC’s Water Division on April 27, 2021. As a result, BLWC understated both Account 480–Other Water Revenue and Account–688 Regulatory Commission Expense by \$12,359. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The USOA states, in part, that:

9. Water Utility Users Fee

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

480. Other Water Revenue

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

618. Regulatory Compliance Expense

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

Cause:

BLWC lacks review and monitoring procedures over its accounting and reporting process to ensure compliance with the accounting requirements specified in the USOA.

Effect:

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

Recommendation:

BLWC should establish and implement review and monitoring procedures to ensure compliance with the accounting requirements specified in the USOA.

Finding 9: Omitted Amortization of Contributed Assets**Condition:**

BLWC did not record \$1,540 of amortization of water plant funded through CIAC. BLWC incorrectly recorded it in Depreciation Expense, instead of charging it to Account 272–Accumulated Amortization of Contributions, between 2016 and 2020 to amortize water plant funded through CIAC in the Annual Report originally filed with the CPUC’s Water Division on April 27, 2021. As a result, BLWC understated Account 272–Accumulated Amortization of Contributions and Account 215–Retained Earnings by \$1,540 and \$1,232, respectively, and overstated Account 403–Depreciation Expense by \$308 as of December 31, 2020. BLWC corrected this misstatement in its revised Annual Report submitted to the CPUC on May 17, 2022.

Criteria:

The USOA states, in part, that:

215. Retained Earnings (for corporations only)

B. The account shall be credited with:

2. Accounting adjustments not properly attributable to the current period.

272. Accumulated Amortization of Contributions – Debit

This account is a valuation account, applied against balances in Account 265 Contributions in Aid of Construction.

This account shall include the amortization accumulated on balances in Account 265, Contributions in Aid of Construction. This account shall be charged and Account 108, Accumulated Depreciation of Water Plant, shall be credited with amounts sufficient to amortize balances in Account 265, Contributions in Aid of Construction, over the lives of the depreciable assets to which they relate.

403. Depreciation Expense

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

Cause:

BLWC lacks review and monitoring procedures over its accounting and recording process to ensure amortization of water plant funded through CIAC are recorded as Accumulated Amortization of Contributions in Account 272.

Effect:

Inaccurately reporting amortization of contributed assets as Depreciation Expense in Account 403 instead of as Accumulated Amortization of Contributions in Account 272 in BLWC's Annual Report and accounting records could impact BLWC's rate base and water rates for its customers during its GRC review process.

Recommendation:

BLWC should establish and implement review and monitoring procedures over its accounting and recording process to ensure compliance with the accounting requirements specified in the USOA.

APPENDIX B—UTILITY'S RESPONSE



June 8, 2022

Comments to Draft Review Report dated June 1, 2022 prepared by the Utility Audits Branch of the CPUC:

Comment to Finding #1

BLWC acknowledges CPUC approval is required prior to incurring long term debt with a greater maturity than 12 months and believes it is important to note such prior approval has been obtained for all its other prior and existing long term debt obligations. However, there were unique and special circumstances regarding this loan since it was to provide funding to replace a storage facility critical to our operation that was irreparably damaged in a snowstorm in February 2019. This storage capacity was 30% of our operational water storage and therefore represented a key part of our ability to provide both reliable domestic service and fire protection for our community so it was vital to expedite its replacement.

The project involved the demolition of the damaged 400,000 gallon reservoir facility, a 40' x 160' x 10' deep (5 feet below ground) concrete block structure, back-filling and compacting the void and construction of an above-ground bolted steel tank preferred by the Division of Drinking Water (DDW) of the Water Boards. Design and engineering work and permitting by DDW and the County occupied much of 2019. An Advice Letter was submitted to the CPUC on October 25, 2019 requesting authority to borrow \$620,000 from Plumas Bank for construction funding and for a Rate Base Offset (RBO) for \$780,000, the then projected cost of the project. A construction loan of \$620,000 was approved by the Bank on December 11, 2019 which anticipated interest only payments on a 7-month construction loan to be modified into a 15-year fully amortized loan upon completion.

In the spring of 2020 the scope and cost of the project increased and it became necessary to seek additional funding. On May 28, 2020 the Bank approved an increase in the loan to \$780,000 based on a revised project cost of \$975,000 and a revised Advice Letter was submitted on June 11, 2020 seeking that authority. The Bank then on June 1, 2020 issued a Loan Modification Agreement increasing the loan to \$780,000 which called for a continuation of the interest only payments until October 11, 2020 when Principal and Interest payments would commence based on a 15-year amortization. (It is acknowledged the Bank's approval of both the construction portion and the 15-year repayment schedule was done in one document; however, as a practical matter, it seems the interest only construction period did not become a long term debt obligation until the 15-year fully-amortized period began in October 2020.)

The CPUC approved the RBO and related loan by Resolution #5235 dated May 25, 2021, ten (10) months after the Revised Advice Letter was submitted and nearly 18 months from the original submission. I can't explain why this process took so long. But I believe BLWC fulfilled the intent of the required prior approval provision by its continued consultation and communication with CPUC staff from the date of our original Advice Letter submission in October 2019 through the final approval 18 months later.

Correction in Notes to Financial Statement

There appears to be an error in the notes in paragraph 7 in the references to the Plumas Bank Loans. Paragraph 7(a) states correctly Loan B was issued in January 2010 but it states for "a term of eight years." It was for 15 years. Similarly in paragraph 7(b) the May 2011 loan states it was for "a term of four years" and this one was for 10 years.

Stephen R. Welch

Stephen R. Welch
President
Bass Lake Water Company

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

We appreciate BLWC's comments submitted on June 8, 2022. We will address the comments in the same order presented in BLWC's letter.

Finding 1

In its response, BLWC described the unique circumstances related to the long-term debt described in Finding 1. BLWC explained that due to irreparable damage to a critical water storage facility in a snowstorm in February 2019, BLWC needed emergency funding to expedite the replacement of that facility to maintain its operation; resulting in BLWC's incurring the long-term debt prior to CPUC's authorization. Although we understand the circumstances relating to the specific long-term debt in question, PU Code Section 818 requires all public utility companies to secure CPUC's prior authorization before incurring any long-term debt, as described in Finding 1. The finding and recommendation remain unchanged.

Notes to Financial Statements

In its response, BLWC also suggested a correction to the lengths of the Plumas Bank Loans B and C described in Note 7 to the Financial Statements on page 15 of this report. We reviewed and verified the additional loan documents provided by BLWC for these two loans. As a result, we revised the length of Loan B from eight (8) years as previously stated to fifteen (15) years in Note 7(a) to the Financial Statements. Likewise, we revised the length of Loan C from seven (7) years as previously stated to ten (10) years in Note 7(b) to the Financial Statements. All other descriptions in Note 7 to the Financial Statements remain unchanged.