



REVIEW OF FINANCIAL STATEMENTS

Goodyears Bar Water Company

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
November 7, 2022



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

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

**Khusbindar Kaur, CPA
Lead**

Marlene Noss, Staff

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You can contact our office at:

**California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

November 7, 2022

Mr. Eben Smart, President
Goodyears Bar Water Company
4700 Rustic Oak Way
Carmichael, CA 95608

Dear Mr. Smart:

Final Report Transmittal Letter—Review of Goodyears Bar Water Company’s Annual Report for the Year Ended December 31, 2021

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Goodyears Bar Water Company’s (GBWC) regulatory basis financial statements in the 2021 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2021, and related statement of income. The final review report is enclosed.

We issued the draft review report on October 27, 2022. GBWC’s response to the draft report is 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 by December 22, 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 GBWC’s assistance and cooperation during the engagement, and your willingness to implement corrective actions. If you have any questions regarding this report, please contact Raymond Yin, Program and Project Supervisor, at (415) 703-1818.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page.

Mr. Eben Smart, President
Goodyears Bar Water Company
November 7, 2022
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cc: Everett Smart, Secretary/Treasurer, GBWC
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Marlene Noss, 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 Goodyears Bar Water Company (GBWC) as of December 31, 2021, 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 standards applicable to reviews of financial statements prescribed in the generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

Incorporated in California on September 16, 1976, GBWC is a Class D water utility with 13 active service connections.¹ GBWC's service area is located in the vicinity of Sierra County, California.² As a regulated water utility, GBWC 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 10, 2016, which is a comprehensive regulatory 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 GBWC 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 2021 Annual Report as required by the Water Division Memorandum dated January 20, 2022.

Based on our review, we are not aware of any material modifications that should be made to GBWC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by the USOA. For the review period, UAB did not note any noncompliance with PU Code Section 818; and GBWC filed its 2021 Annual Report timely in compliance with the CPUC directive from the Water Division. However, UAB identified five material misstatements in GBWC's Annual Report originally filed with the CPUC's Water Division and a noncompliance with the accounting requirements specified by the USOA during the review, as described in the Appendix A—Review Findings and Recommendations. The six findings are summarized below:

- Finding 1: GBWC understated its ownership equity reported in Account 206—Subchapter S Corporation Accumulated Adjustments Account by \$122,663 in its 2021 Annual Report because GBWC incorrectly recorded and reported: (1) \$118,365 of contributions from its shareholders in Account 224—Long-Term Debt; (2) \$6,429 of paid-in-capital in Account 211—Other Paid-in Capital instead of reporting it in Account 206—Subchapter S Corporation Accumulated Adjustments Account as required by the USOA; and (3) its net loss of \$2,131

¹ GBWC's 2021 Annual Report, Schedule I—Service Connections End of Year, Page 19.

² GBWC's 2021 Annual Report General Information, Page 4.

as a debit to Account 215–Retained Earnings instead of debiting it to Account 206–Subchapter S Corporation Accumulated Adjustments Account.

- Finding 2: GBWC overstated Account 101–Water Plant in Service (WPIS) by \$5,230. GBWC reported a balance of \$29,579 in Account 101–WPIS in its 2021 Annual Report. However, GBWC’s accounting records could only substantiate a balance of \$24,349.
- Finding 3: GBWC understated Account 206–Subchapter S Corporation Accumulated Adjustments Account by \$4,481. GBWC’s Balance Sheet in its 2021 Annual Report did not balance. The Total Assets and Other Debits of \$4,593 did not agree with Total Liabilities and Other Credits of \$112, resulting in a \$4,481 variance. This error occurred because: (1) GBWC incorrectly posted the year-end closing entry twice to transfer its net loss of \$1,887 to the equity section of the Balance Sheet; (2) the beginning deficit balance of \$135,664 in Account 206–Subchapter S Corporation Accumulated Adjustments Account in Schedule A-6 of GBWC’s 2021 Annual Report did not agree with the prior year ending deficit balance of \$133,314 shown in GBWC’s Working Trial Balance, resulting in an understatement of \$2,350; and (3) GBWC incorrectly recorded and reported \$244 property tax expense in Account 408–Taxes Other Than Income Taxes using a one-sided journal entry.
- Finding 4: GBWC overstated Account 108–Accumulated Depreciation of Water Plant by \$916. GBWC did not maintain a depreciation schedule to support the accumulated depreciation reported in its Annual Report. GBWC’s substantiated WPIS balance as of December 31, 2021, was \$24,349. However, GBWC reported a balance of \$25,265 for Account 108–Accumulated Depreciation of Water Plant. Since GBWC’s WPIS is fully depreciated as of December 31, 2021, the balance for Account 108–Accumulated Depreciation of Water Plant should not have exceeded the WPIS balance of \$24,349.
- Finding 5: GBWC misclassified \$800 State franchise tax expense as Federal Corporate Income Tax Expense in Account 410 rather than Taxes Other Than Income Taxes in Account 408 in its 2021 Annual Report. As a result, GBWC overstated Account 410–Federal Corporate Income Tax Expense by \$800 and understated Account 408–Taxes Other Than Income Taxes by the same amount.
- Finding 6: GBWC used cash basis of accounting to record its accounting transactions. However, the USOA requires utilities to use accrual basis of accounting.

UAB discussed the above findings with GBWC’s management during fieldwork. GBWC’s management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. GBWC submitted its revised 2021 Annual Report to the CPUC’s Water Division to correct the material misstatements described in Appendix A of this report on August 18, 2022. UAB further discussed these findings with GBWC’s management at the exit conference on September 1, 2022, and GBWC 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 GBWC for comments on October 27, 2022. GBWC responded in the letter dated October 28, 2022, that it did not disagree with the findings. GBWC’s 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.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Eben Smart, President
Goodyears Bar Water Company
4700 Rustic Oak Way
Carmichael, CA 95608

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of Goodyears Bar Water Company (GBWC), which comprise the balance sheet as of December 31, 2021, and the related statement of income for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of GBWC'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

GBWC's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework prescribed by CPUC's Uniform System of Accounts (USOA) for Water Utilities; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its financial statements that are free from material misstatement, whether due to fraud or error. In addition, GBWC's management is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC directives.

Accountant's Responsibility

UAB's responsibility is to conduct the review engagement in accordance with the standards applicable to reviews of financial statements promulgated by the generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the accounting framework prescribed by the USOA. UAB conducted this review in compliance with the auditing standards of GAGAS, except for obtaining an external peer review within the required timeframe as discussed in the succeeding paragraph. We believe that the results of our procedures provide a reasonable basis for our conclusion.

UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

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

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the accounting framework of the USOA.

Basis of Accounting

For regulatory purposes, the CPUC adopted, through Decision (D.) 16-11-006 on November 10, 2016, the updated USOA, which is a comprehensive regulatory basis of accounting framework other than the generally accepted accounting principles (GAAP) in the United States of America. The CPUC requires all water and sewer utilities to prepare their financial statements in accordance with the accounting framework prescribed by the USOA. GBWC's financial statements were prepared based on this regulatory requirement.

We draw attention to the Notes to the Financial Statements, in which we described the basis of accounting as well as the accounting differences between GAAP and the USOA. Our conclusion is not modified with respect to this matter.

Emphasis of Matter – Correction of Material Misstatements

As discussed in Notes 2 through 5 to the financial statements, UAB identified five material misstatements in GBWC's 2021 Annual Report originally filed with CPUC's Water Division on March 3, 2022. These misstatements have been corrected in the accompanying financial statements. Our conclusion is not modified with respect to this matter.

Emphasis of Matter – Substantial Doubt About the Entity's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming GBWC will continue as a going concern. As discussed in Note 6 to the financial statements, GBWC does not bill its customers for the water services it provides; thus, GBWC does not generate any revenues to cover its operation costs. This results in substantial doubt about GBWC's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Other Matter – Views of Responsible Official

We discussed our review results and findings with GBWC's management during fieldwork. GBWC's management concurred with the findings and agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements described in Appendix A of this report. GBWC submitted its revised financial statements to UAB to correct the material misstatements on August 18, 2022. UAB further discussed these findings with GBWC's management at the exit conference on September 1, 2022, and GBWC 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 GBWC for comments on October 27, 2022. GBWC responded in the letter dated October 28, 2022, that it did not disagree with the findings. 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

GBWC's management should submit a corrective action plan (CAP) to UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov no later than December 22, 2022. The CAP should address how GBWC will implement the recommendations and provide the timing of incorporating UAB's review adjustments to GBWC's books and records. If GBWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the

recommendations. GBWC should use the amounts reviewed by UAB as presented in this report as the basis to file its 2022 Annual Report with the CPUC.

Report on Other Regulatory Requirements

For regulatory purposes, UAB also reviewed whether GBWC complied with PU Code Section 818 to obtain its long-term debts, and whether GBWC timely filed its 2021 Annual Report as required by CPUC's Water Division. For the review period, UAB did not note any noncompliance with PU Code Section 818. In addition, GBWC has timely filed its 2021 Annual Report in compliance with the CPUC directive from the Water Division.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of GBWC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC's website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, California
November 7, 2022

REVIEWED FINANCIAL STATEMENTS

Goodyears Bar Water Company **Balance Sheet (As Reviewed)** As of December 31, 2021

ASSETS	
UTILITY PLANT	
Water Plant in Service	\$24,349
Accumulated Depreciation of Water Plant	<u>(24,349)</u>
Net Utility Plant	<u>0</u>
 CURRENT AND ACCRUED ASSETS	
Cash	<u>279</u>
Total Assets and Other Debits	<u><u>\$279</u></u>
 CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Common Stock	\$15,000
Subchapter S Corporation Accumulated Adjustments Account	<u>(14,721)</u>
Total Capitalization	<u>279</u>
Total Liabilities and Other Credits	<u><u>\$279</u></u>

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

Goodyears Bar Water Company
Income Statement (As Reviewed)
For Year Ended December 31, 2021

TOTAL OPERATING REVENUE	\$0
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Contract Work	186
Other Plant Maintenance Expenses	626
Total Plant Operation and Maintenance Expenses	<u>812</u>
Administrative and General Expenses	
Professional Services	275
Net Administrative and General Expenses	<u>275</u>
Total Operating Expenses	1,087
Taxes Other Than Income Taxes	1,044
Total Operating Revenue Deductions	<u>2,131</u>
Net Loss	<u><u>(\$2,131)</u></u>

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

Goodyears Bar Water Company
Statement of Changes in Shareholder's Equity (As Compiled ³)
 For Year Ended December 31, 2021

Shareholders' Equity, Beginning of Year	(\$114,235)
CREDITS:	
UAB Adjustment to Accumulated Depreciation of Water Plant	916
UAB Adjustment to Long-Term Debt	118,365
UAB Adjustment to correct a one-sided expense entry ⁴	244
UAB Cumulative Adjustment to Beginning Balance ⁵	2,350
Total Credits	121,875
DEBITS:	
Net Loss	(2,131)
UAB Adjustment to Water Plant in Service	(5,230)
Total Debits	(7,361)
Shareholders' Equity, End of Year	\$279

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

³ UAB compiled the Statement of Changes in Shareholder's Equity based on the reviewed Balance Sheet and Income Statement, and other relevant financial data.

⁴ UAB adjustment to correct a \$244 expense for property taxes in Account 408—Taxes Other Than Income Taxes that was recorded as a one-sided entry.

⁵ The beginning deficit balance of \$135,664 in Account 206—Subchapter S Corporation Accumulated Adjustments in GBWC's 2021 Annual Report per Schedule A-6 did not agree with the prior year ending deficit balance of \$133,314 shown in GBWC's Working Trial Balance.

Goodyears Bar Water Company

Notes to Financial Statements

GBWC was incorporated in California on September 16, 1976. GBWC is a Class D water utility with 13 active service connections.⁶ GBWC's service area is in the vicinity of Sierra County, California.⁷

Significant Accounting Policies

The financial statements of GBWC were prepared on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities. Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth USOA adopted in Decision (D.) 16-11-006 by the CPUC on November 10, 2016, which is a comprehensive regulatory basis of accounting framework other than the generally accepted accounting principles (GAAP) in the United States of America. The 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.

The 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

⁶ GBWC's 2021 Annual Report, Schedule I–Service Connections End of Year, Page 19.

⁷ GBWC's 2021 Annual Report General Information, Page 4.

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.⁸ The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

GBWC did not maintain a depreciation schedule to support the accumulated depreciation reported in its Annual Report. As discussed in Finding 4 in Appendix A of this report, GBWC's WPIS has been fully depreciated as of December 31, 2021. However, GBWC over-depreciated its WPIS and reported a total accumulated depreciation balance exceeding its WPIS balance by \$916 in Account 108—Accumulated Depreciation of Water Plant.

In addition, GBWC reported \$29,579 in Account 101—WPIS in its 2021 Annual Report but could only provide supporting documents for \$24,349, resulting in an overstatement of WPIS by \$5,230.

GBWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC's Water Division on August 18, 2022.

(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.

GBWC did not retire any assets during the review period.

3. Subchapter S Accumulated Adjustments Account

As discussed in Findings 1, 2, and 3 in Appendix A of this report, GBWC understated its Account 206—Subchapter S Accumulated Adjustments Account by \$114,514 due to the following accounting and reporting errors:

- GBWC incorrectly reported \$118,365 of contributions from its shareholders in Account 224—Long-Term Debt instead of reporting the contributions in Account 206.
- GWC incorrectly reported \$6,429 of paid-in capital in Account 211—Other Paid-in Capital instead the S Corporation's paid in capital in Account 206 as required by the USOA.
- GBWC incorrectly reported its net loss of \$2,131 as a debit to Account 215—Retained Earnings instead of as a debit to Account 206—Subchapter S Corporation Accumulated Adjustments.

⁸ D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

- GBWC incorrectly posted the year-end closing entry twice to transfer its net loss of \$1,887 to the equity section of the Balance Sheet.
- The beginning deficit balance of \$135,664 in Account 206–Subchapter S Corporation Accumulated Adjustments in GBWC’s 2021 Annual Report per Schedule A-6 did not agree with the prior year ending deficit balance of \$133,314 shown in GBWC’s Working Trial Balance, resulting an understatement of \$2,350.
- GBWC incorrectly reported a \$244 expense for property taxes in Account 408–Taxes Other Than Income Taxes as a one-sided entry.
- GBWC overstated its WPIS balance by \$5,230.
- GBWC overstated its Accumulated Depreciation of Water Plant by \$916.

However, GBWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on August 18, 2022.

4. Taxes Other Than Income Taxes

GBWC incorrectly reported \$800 of its state franchise tax expense in Account 410–Federal Corporate Income Tax Expense, instead of reporting it in Account 408–Taxes Other Than Income Taxes in the 2021 Annual Report. As a result, GBWC overstated Account 410–Federal Corporate Income Tax Expense by \$800 and understated Account 408–Taxes Other Than Income Taxes by the same amount. However, GBWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on August 18, 2022.

5. 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.⁹

GBWC is not billing its customers for the water services to provide a service for their community. Since no water service revenue is generated, GBWC neither collected CPUC Users Fees from its customers nor remitted CPUC Users Fee to the CPUC.

6. Going Concern – Substantial Doubt Alleviated by Management’s Plans

GBWC is not billing its customers for the water services it provides; thus, GBWC is not generating any water service revenue to cover its operating costs. GBWC’s owners are not billing its customers since they consider providing the utility service as a contribution to their community. This is not a sustainable business model and could result in GBWC’s inability to continue as a going concern. For several years, GBWC’s owners have been providing contributions to cover its minimal operating expenses. GBWC’s owners also have the option to work with the CPUC’s Water Division to establish tariff rates for its customers to cover its operating costs. In addition, the owners are currently considering all options including selling GBWC’s assets to another company.

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

7. Form of Financial Statements¹⁰

(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.

As discussed in Finding 3 in Appendix A of this report, GBWC submitted an unbalanced Balance Sheet in its 2021 Annual Report originally filed with the CPUC’s Water Division on March 3, 2022. However, GBWC incorporated UAB’s proposed adjustments and corrected the Balance Sheet in its revised 2021 Annual Report submitted to the CPUC’s Water Division on August 18, 2022.

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 and therefore excluded from this review report.

9. Compliance filing of 2021 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, GBWC has complied with these requirements.

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

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Understated Subchapter S Corporation Accumulated Adjustments Account

Condition:

GBWC understated its ownership equity reported in Account 206—Subchapter S Corporation Accumulated Adjustments Account by \$122,663 in its 2021 Annual Report originally filed with the CPUC’s Water Division on March 3, 2022. Our review of GBWC’s accounting records revealed the following misstatements:

- GBWC understated \$118,365 of contributions from its shareholders in Account 224—Long-Term Debt. Since this contribution from the shareholders is not a loan that GBWC needs to repay, it should have been reported in Account 206—Subchapter S Corporation Accumulated Adjustments Account. Therefore, GBWC overstated Account 224—Long-Term Debt by \$118,365 and understated Account 206—Subchapter S Corporation Accumulated Adjustments Account by the same amount.
- GBWC overstated \$6,429 of paid-in-capital in Account 211—Other Paid-in Capital. GBWC is an S Corporation. The USOA requires Subchapter S Corporations to use Account 206—Subchapter S Corporation Accumulated Adjustments Account for reporting all paid-in capital not derived from earnings. Therefore, GBWC overstated Account 211—Other Paid-in Capital by \$6,429 and understated Account 206—Subchapter S Corporation Accumulated Adjustments Account by the same amount.
- GBWC incorrectly reported its net loss of \$2,131 as a debit to Account 215—Retained Earnings instead of as a debit to Account 206—Subchapter S Corporation Accumulated Adjustments Account. As a result, GBWC understated Account 215—Retained Earnings by \$2,131 and overstated Account 206—Subchapter S Corporation Accumulated Adjustments Account by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
1	211	Other Paid-in Capital	\$6,429	
	224	Long-Term Debt	118,365	
	206	Subchapter S Corporation Accumulated Adjustments		\$122,663
	215	Retained Earnings		2,131
		<i>To adjust Account 206—Subchapter S Corporation Accumulated Adjustments Account to agree with the reviewed amount.</i>		

GBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on August 18, 2022.

Criteria:

USOA states, in part, that:

206. Subchapter S Corporation Accumulated Adjustments Account

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

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

C. This account shall be credited with:

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

D. This account shall be charged with:

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

224. Long-Term Debt

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

B. A separate subaccount shall be maintained for each obligation outstanding.

Note: Prior authorization must be obtained from this Commission before any long-term indebtedness may be incurred by the utility. (Public Utilities Code, Section 818.)

211. Other Paid-in Capital (for corporations only)

A. This account shall include all non-Subchapter S Corporation's paid-in capital not derived from earnings. It shall include such items as premiums and discounts related to the issuance of capital stock, donations to the utility of its capital stock, credits arising from the forgiveness of debt of the utility; credits arising out of a reorganization of the utility, or in connection with its recapitalization.

B. Each type of paid-in capital shall be carried in a separate subaccount.

215. Retained Earnings (for corporations only)

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

B. The account shall be credited with:

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

C. The account shall be charged with:

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

Cause:

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

Effect:

Inaccurate reporting in Account 206–Subchapter S Corporation Accumulated Adjustments Account, Long-Term Debt, Other Paid-in Capital, and Retained Earnings distorted GBWC's financial position as of December 31, 2021, which could impact decision-makers.

Recommendation:

GBWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that changes in ownership are properly accounted for in compliance with the USOA accounting requirement.

Finding 2: Overstated Water Plant in Service**Condition:**

GBWC overstated Account 101–WPIS by \$5,230 due to lack of supporting documentation. GBWC reported a balance of \$29,579 in Account 101–WPIS in its 2021 Annual Report originally filed with the CPUC's Water Division on March 3, 2022. However, GBWC's accounting records could only substantiate a WPIS balance of \$24,349.

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

Adj. No.	Acct. No.	Description	DR	CR
2	206	Subchapter S Corporation Accumulated Adjustments Account	\$5,230	
	101	Water Plant in Service (Excluding SDWBA/SRF, Grant Funds)		\$5,230
		<i>To adjust the reported Water Plant in Service to agree with GBWC's accounting records.</i>		

GBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on August 18, 2022.

Criteria:

The USOA states, in part, that:

General Accounting Instructions**2. Records**

A. Each utility shall so keep its books of account, and such other books, records, and memoranda which support, or are necessary to an understanding of, the entries in such books of account, as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all of the facts relevant thereto.

B. The books and records referred to herein include not only accounting records in a limited technical sense but all other records such as minute books, stock books, reports, correspondence, memoranda, and the like, which may be useful in developing the history of or facts regarding any transaction.

101. Water Plant in Service

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

101.1 Water Plant in Service - SDWBA

101.2 Water Plant in Service - Grant Funds

101.3 Water Plant in Service – Other

B. This account is the control account for plant accounts 301 through 379.

Cause:

GBWC lacks consistent record retention procedures to ensure the WPIS balance is accurately recorded and reported.

Effect:

Inaccurate reporting of WPIS in GBWC's Annual Report, which may be used during GBWC's future General Rate Case (GRC) application review process, could potentially impact water rates for GBWC's ratepayers.

Recommendation:

GBWC should establish and implement record retention procedures to ensure that historical records for the WPIS are properly retained to support amounts reported in the Annual Reports.

Finding 3: Unbalanced Balance Sheet

Condition:

GBWC's Balance Sheet did not balance in its 2021 Annual Report originally filed with the CPUC's Water Division on March 3, 2022. The Total Assets and Other Debits of \$4,593 did not equal Total Liabilities and Other Credits of \$112, which resulted in a \$4,481 variance. UAB's review of GBWC's underlying accounting records revealed that the variance is due to the following:

- GBWC incorrectly posted the year-end closing entry twice to transfer its net loss to the equity section of the Balance Sheet. As a result, GBWC understated Account 206–Subchapter S Corporation Accumulated Adjustments Account by \$1,887 as of December 31, 2021.
- The beginning deficit balance of \$135,664 in Account 206–Subchapter S Corporation Accumulated Adjustments Account in GBWC's 2021 Annual Report per Schedule A-6 did not agree with the prior year ending deficit balance of \$133,314 shown in GBWC's Working Trial Balance. As a result, GBWC understated Account 206–Subchapter S Corporation Accumulated Adjustments Account by \$2,350.
- GBWC incorrectly recorded and reported \$244 property tax expense in Account 408–Taxes Other Than Income Taxes as a one-sided entry. GBWC's shareholders contributed to

GBWC to pay for the utility's property tax expense. Therefore, GBWC should have credited Account 206–Subchapter S Corporation Accumulated Adjustments Account.

UAB proposed, and GBWC agreed and incorporated, the following memorandum entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
3	206	Subchapter S Corporation Accumulated Adjustments Account		\$1,887
	206	Subchapter S Corporation Accumulated Adjustments Account		2,350
	206	Subchapter S Corporation Accumulated Adjustments Account		244
		<i>To correct the Subchapter S Corporation Accumulated Adjustments Account to bring the Balance Sheet in balance.</i>		

GBWC applied this memorandum entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on August 18, 2022.

Criteria:

Small Water USOA states, in part, that:

206. Subchapter S Corporation Accumulated Adjustments Account

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

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

C. This account shall be credited with:

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

D. This account shall be charged with:

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

Cause:

GBWC lacks effective review and oversight procedures over its accounting and recording process to accurately report the Subchapter S Corporation Accumulated Adjustments in Account 206.

Effect:

Inaccurate reporting in GBWC's Annual Report, which may be used during GBWC's GRC application review process, could impact future water rates for GBWC's ratepayers.

Recommendation:

GBWC should establish and implement review and oversight procedures over its accounting and recording process to ensure compliance with the USOA requirement.

Finding 4: Overstated Accumulated Depreciation of Water Plant**Condition:**

GBWC overstated Account 108—Accumulated Depreciation of Water Plant by \$916. GBWC did not maintain a depreciation schedule to support the accumulated depreciation reported in its 2021 Annual Report originally filed with the CPUC’s Water Division on March 3, 2022. GBWC could only substantiate a WPIS balance of \$24,349 as of December 31, 2021. However, GBWC reported a balance of \$25,265 for Account 108—Accumulated Depreciation of Water Plant. Since GBWC’s WPIS is fully depreciated as of December 31, 2021, the balance for Account 108—Accumulated Depreciation of Water Plant should not have exceeded the WPIS balance of \$24,349.

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

Adj. No.	Acct. No.	Description	DR	CR
4	108	Accumulated Depreciation of Water Plant	\$916	
	206	Subchapter S Corporation Accumulated Adjustments Account		\$916
		<i>To adjust the Accumulated Depreciation of Water Plant to reflect fully depreciated Water Plant in Service.</i>		

GBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on August 18, 2022.

Criteria:

The USOA states, in part, that:

108. Accumulated Depreciation of Water Plant

A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service. The following subaccounts should be maintained, if applicable:

- 108.1 Accumulated Amortization of SDWBA
- 108.2 Accumulated Depreciation of Water Plant - Grant Funds
- 108.3 Accumulated Depreciation of Water Plant – Other

B. This account shall be credited with:

1. Amounts concurrently charged to account 403, Depreciation Expense, representing currently accruing depreciation of water plant (other than contributed water plant).
2. Amounts concurrently charged to Account 265, Accumulated Amortization of Contributions, representing amortization of contributed water plant.
3. Salvage value, sales price, insurance settlements and other amounts recovered from plant retired.
4. Amounts representing the balance of accumulated depreciation and amortization of water plant acquired from others.

C. A separate subaccount, Account 108.1, Accumulated Amortization of SDWBA Loan, shall be maintained for utilities with Safe Drinking Water Bond Act loans.

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

D. This account shall be charged with:

1. Original cost of depreciable water plant retired.
2. Cost of removal of plant retired.

E. The utility should maintain separate subaccounts corresponding with the depreciable plant accounts, in which the accumulated depreciation total is segregated. Such a segregation of accumulated depreciation is mandatory for utilities having more than 500 customers.

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

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

Cause:

GBWC lacks consistent record retention procedures to ensure that the accumulated depreciation of water plant is accurately recorded and reported.

Effect:

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

Recommendation:

GBWC should establish and implement record retention procedures to ensure that historical records for the accumulated depreciation of water plant are properly retained to support amounts reported in the Annual Reports.

Finding 5: Misclassified State Franchise Tax Expense

Condition:

GBWC misclassified \$800 State franchise tax expense as Federal Corporate Income Tax Expense in Account 410 rather than Taxes Other Than Income Taxes in Account 408 in its 2021 Annual Report originally filed with the CPUC's Water Division on March 3, 2022. As a result, GBWC overstated Account 410—Federal Corporate Income Tax Expense by \$800 and understated Account 408—Taxes Other Than Income Taxes by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
5	410	Federal Corporate Income Tax Expense	\$800	
	408	Taxes Other Than Income Taxes		\$800

To reclassify the state franchise tax to the correct account.

GBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on August 18, 2022.

Criteria:

USOA states, in part, that:

408. Taxes Other Than Income Taxes

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

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

408.1 Property Taxes

408.2 Payroll Taxes

408.3 Other Taxes and Licenses

Note A: Vehicle license fees shall be included in operating expense Account 660, Transportation Expense.

Note B: Assessments for support of regulatory commissions shall be charged to operating expense Account 688, Regulatory Commission Expense.

410. Federal Corporate Income Tax Expense

A. This account will be used only by incorporated water utilities.

B. This account will be charged with federal income taxes for the current calendar year.

C. See Accounting Instruction 7 – Federal Income Taxes.

Cause:

GBWC lacks monitoring and review procedures to ensure that state franchise tax expenses are properly classified as Taxes Other Than Income Taxes in Account 408.

Effect:

Inaccurate reporting of state franchise tax expenses distorted GBWC's 2021 Income Statement. Inaccurate reporting of Federal Income Tax Expense and Taxes Other Than Income Taxes reduces the comparability of GBWC's financial statements with other small water utilities. Consistent financial presentation among small water utilities aids decision makers in analyzing the performance and financial position of GBWC relative to other small water utilities in California.

Recommendation:

GBWC should establish and implement monitoring and review procedures to ensure that state franchise tax expenses are properly classified and reported in accordance with the accounting requirements specified in the USOA.

Finding 6: Noncompliance with USOA Accounting Requirements**Condition:**

GBWC used cash basis of accounting to record its accounting transactions during the review period. The USOA requires utilities to use accrual basis of accounting. Cash basis of accounting recognizes expenses when they are paid, and revenue when cash is received. Accrual basis of accounting recognizes expenses and revenues in the period in which expenses are incurred, or revenues are earned.

Criteria:

USOA states, in part, that:

2. General Accounting Instructions

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

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

C. Utilities may further subdivide any of the accounts provided that such subdivisions do not impair the integrity of the accounts, or they may maintain such additional accounts as are included in the Uniform System of Accounts for Class A Water Utilities.

Cause:

GBWC's accounting policies and procedures lack guidance on utilizing accrual basis of accounting when recording and reporting its accounting transactions to ensure compliance with the USOA.

Effect:

The use of cash basis of accounting can result in material misstatements in total operating revenues, operating expenses, liabilities, or assets reported in the Annual Report. Inaccurately reported account balances in the Annual Report could impact water rates for GBWC's ratepayers.

Recommendation:

GBWC should update its accounting policy and procedures to ensure compliance with the accounting requirements specified by the USOA by using accrual basis of accounting to record and report its accounting transactions.

APPENDIX B— UTILITY'S RESPONSE

GOODYEARS BAR WATER COMPANY

4700 Rustic Oak Way
Carmichael, Ca 95608
Ph: (916) 955-1521

10/27/22

Angie Williams
Director
Utility Audits, Risk and Compliance Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298

Re: CPUC Draft Review of GBWC December 31, 2021 Annual Report

After reviewing the draft findings and recommendations from the audit department, we do not disagree with the findings. None of the discrepancies or misstatements were intentional. Our understanding of how the annual report should be completed is much better now including how the various balance sheet items should be reported. Our understanding was helped by the audit process and we look forward to receiving the final version.

Please be advised that we have entered into an agreement to sell the water system. In the event that the sale does not go through, we are giving you formal notice that our plan is to abandon the system since it has been operating at a loss for many years and we are unable to justify the continued expense and bureaucratic red tape associated with providing the water as a community service.

Respectfully,



Everett A. Smart
Secretary, Treasurer