



# REVIEW OF FINANCIAL STATEMENTS

Lukins Brothers Water Company, Inc.

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
January 17, 2023



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

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

**Khusbindar Kaur, CPA  
Lead**

**Judith Mason  
Staff**

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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

January 17, 2023

Ms. Jennifer Lukins, President  
Lukins Brothers Water Company, Inc.  
2031 West Way  
South Lake Tahoe, CA 96150

Dear Ms. Lukins:

**Final Report Transmittal Letter— Review of Lukins Brothers Water Company, Inc.’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 Lukins Brothers Water Company, Inc. (LBWC) 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 statements of income, and retained earnings. The final review report is enclosed.

LBWC’s response to the draft report findings 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/AuditReportsbyIndustry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by March 3, 2023. The CAP should include specific steps and target dates to correct the findings identified. Any revised policies and procedures indicated in LBWC’s revised response dated December 15, 2022, should be included as an attachment to the CAP. Please submit the CAP to the UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov).

We appreciate LBWC’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.

Ms. Jennifer Lukins, President  
Lukins Brother Water Company, Inc.  
January 17, 2023  
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cc: Danny Lukins, Vice President, LBWC  
Jacque Proulx, J P & Company, Accountant, LBWC  
Edmund Viray, Consultant, LBWC  
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  
Judith Mason, Financial Examiner IV, 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 Lukins Brothers Water Company, Inc. (LBWC) 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 by 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 May 12, 1973, LBWC is a Class C water utility with 987 active service connections.<sup>1</sup> LBWC serves approximately 190 metered and 797 unmetered customers within the City of South Lake Tahoe in El Dorado County, California.<sup>2</sup> As a regulated water utility, LBWC 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 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 LBWC 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 LBWC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by the USOA. For the review period, LBWC filed its 2021 Annual Report timely in compliance with the CPUC directives from the Water Division. However, UAB identified one noncompliance issue with the requirements specified under PU Code Section 818, and 12 material misstatements in LBWC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A—Review Findings and Recommendations. These findings and the noncompliance issue are summarized below:

- Finding 1: LBWC recorded and reported \$181,049 of Long-Term Debt owed to its affiliate Danny G. Lukins, General Engineering Contractor (DGL), but failed to obtain authorization from the CPUC as required by PU Code Section 818.

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<sup>1</sup> LBWC's 2021 Annual Report, Schedule D—4 Number of Active Service Connections, Page 35.

<sup>2</sup> Water Division, Resolution W-5209, Page 2.

- Finding 2: LBWC overstated Account 265–Contributions in Aid of Construction (CIAC) by \$356,530 and understated Account 253–Other Credits by the same amount in its 2021 Annual Report because LBWC incorrectly recorded and reported collected but unspent facilities fees as CIAC. The USOA requires utilities to record unspent facilities fees in Account 253–Other Credits until they are used for water plant improvements.
- Finding 3: LBWC understated Account 265–CIAC, Account 272–Accumulated Amortization of Contributions, and Account 403–Depreciation Expense by \$187,051, \$12,087 and \$44,041, respectively; and overstated Account 215–Retained Earnings by \$130,923. LBWC incorrectly recorded \$174,964 of Depreciation Expense from 2018 to 2021 as a reduction to CIAC. Additionally, LBWC incorrectly recorded \$12,087 of Accumulated Amortization of Contributions as a reduction to CIAC.
- Finding 4: LBWC incorrectly recorded and reported \$138,934 of debt forgiveness as Non-Utility Income in Account 421 instead of recording it as a credit to Account 211–Other Paid-in Capital as required by the USOA in its 2021 Annual Report. Specifically, LBWC received \$7,034 debt forgiveness in 2021 and \$131,900 in 2020 for its Payroll Protection Program Loan and Economic Injury Disaster Loan. As a result, LBWC understated Account 211–Other Paid-in Capital by \$138,934, and overstated Account 215–Retained Earnings and Account 421–Non-Utility Income by \$131,900 and \$7,034, respectively.
- Finding 5: LBWC incorrectly recorded and reported \$116,719 of shareholders’ withdrawals in Other Paid-in Capital in Account 211 in its 2021 Annual Report. LBWC’s shareholder withdrew \$4,000, \$2,965, and \$109,754 in 2016, 2020, and 2021, respectively. USOA requires withdrawals from the business by owner or partners other than compensation for services performed to be charged to Retained Earnings. As a result, LBWC understated Account 211–Other Paid-in Capital by \$116,719 and overstated Account 215–Retained Earnings by the same amount.
- Finding 6: LBWC misclassified \$92,471 of salaries for a principal shareholder as Office Salaries and Employee Labor, instead of recording it as Management Salaries. As a result, LBWC understated Account 671–Management Salaries by \$92,471 and overstated Account 670–Office Salaries and Account 630–Employee Labor by \$90,231 and \$2,240, respectively, in its 2021 Annual Report.
- Finding 7: LBWC overstated both Account 265–CIAC and Account 131–Cash by \$91,396 because they incorrectly recorded and reported the balance of unspent infrastructure surcharges related to its Plumas loan twice in its 2021 Annual Report.
- Finding 8: LBWC did not classify the current portion of its Long-Term Debt totaling \$79,059 to the Short-Term Notes Payable account. As a result, LBWC overstated Account 224–Long-Term Debt by \$79,059 and understated Account 232–Short-Term Notes Payable by the same amount in its 2021 Annual Report.
- Finding 9: LBWC did not record and report \$46,392 customer billings for December 2021 in its 2021 Annual Report. As a result, LBWC understated Account 141–Accounts Receivable-

Customers, Account 241–Other Current Liabilities, Account 462–Fire Protection and Hydrant Revenue, Account 470–Metered Water Revenue, and Account 480–Other Water Revenue by \$46,392, \$591, \$1,667, \$36,605, and \$7,530, respectively.

- Finding 10: LBWC recorded and reported \$21,161 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 its 2021 Annual Report. As a result, LBWC understated both Account 480–Other Water Revenue and Account 688–Regulatory Compliance Expense by \$21,161.
- Finding 11: LBWC did not record \$17,000 of funding received from the California State Water Resources Control Board’s (SWRCB) Proposition 84 Grant program for water plant construction in 2015. As a result, LBWC overstated Account 215–Retained Earnings by \$17,000, and understated Account 265–CIAC by the same amount in its 2021 Annual Report.
- Finding 12: LBWC incorrectly recorded \$15,255 of payables to an affiliate company as Accounts Payable, instead of recording it as Payables to Affiliated Companies as required by the USOA. As a result, LBWC overstated Account 231–Accounts Payable by \$15,255 and understated Account 230–Payables to Affiliated Companies by the same amount in its 2021 Annual Report.
- Finding 13: LBWC incorrectly recorded and reported a prepayment of \$1,500 for water association annual membership dues as a reduction to Accounts Payables, instead of reporting it as Other Current Assets. As a result, LBWC understated both Account 174–Other Current Assets and Account 231–Accounts Payable by \$1,500 in its 2021 Annual Report.

UAB discussed the above findings with LBWC’s management during fieldwork. LBWC’s management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. LBWC 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 October 19, 2022. UAB further discussed these findings with LBWC’s management at the exit conference on November 2, 2022, and LBWC 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 LBWC for comments on November 29, 2022. LBWC submitted its response on December 13, 2022, agreeing with UAB’s findings and recommendations. On December 15, 2022, LBWC submitted a revised response agreeing with UAB’s findings and recommendations. However, LBWC disagreed with the language in UAB’s draft report describing the misstatements in the original Annual Report as “material” misstatements. LBWC’s responses are presented in Appendix B of this report. UAB’s evaluation of LBWC’s responses is in Appendix C of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.



# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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Jennifer Lukins, President  
Lukins Brothers Water Company, Inc.  
2031 West Way  
South Lake Tahoe, CA 96150

## Report on the Financial Statements

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

LBWC's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework prescribed by CPUC's Uniform System of Accounts (USOA) for Water Utilities; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, LBWC'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 LBWC 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 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. LBWC'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, 5, 6, 7, 8, 10, 11, 12, and 13 to the financial statements, UAB identified 12 material misstatements in LBWC's 2021 Annual Report originally filed with CPUC's Water Division on April 22, 2022. These misstatements have been corrected in the accompanying financial statements. Our conclusion is not modified with respect to this matter.

***Other Matter–Views of Responsible Official***

We discussed our review results and findings with LBWC's management during fieldwork. LBWC'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. LBWC submitted its revised financial statements to UAB to correct the material misstatements on October 19, 2022. UAB further discussed these findings with LBWC's management at the exit conference on November 2, 2022, and LBWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial statements in LBWC's revised Annual Report.

UAB issued a draft review report for comments to LBWC on November 29, 2022. LBWC submitted its response on December 13, 2022, agreeing with UAB's findings and recommendations. On December 15, 2022, LBWC submitted a revised response agreeing with UAB's findings and recommendations. However, LBWC disagreed with the language in UAB's draft report describing the misstatements in the original Annual Report as "material" misstatements. LBWC's responses are presented in Appendix B of this report. UAB's evaluation of LBWC's response is in Appendix C of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

***Other Matter–Submission of a Corrective Action Plan***

LBWC's management should submit a corrective action plan (CAP) to the UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by March 3, 2023. The CAP should address how LBWC will implement the recommendations and provide the timeframe of implementation. Any revised policies and procedures indicated in LBWC's revised response dated December 15, 2022, should be included as an attachment to the CAP. If LBWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. LBWC should use the amounts reviewed by the 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 LBWC complied with PU Code Section 818 to obtain its long-term debts, and whether LBWC timely filed its 2020 Annual Report as required by CPUC's Water Division. For the review period, LBWC has timely filed its 2021 Annual Report in compliance with the CPUC's directive from the Water Division. However, LBWC did not comply with the requirements specified under PU Code Section 818 because LBWC did not obtain CPUC's authorization before incurring a long-term debt. This finding is described in Finding 1 of Appendix A-Review Findings and Recommendations.

### ***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 LBWC, 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*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Sacramento, CA  
January 17, 2023

## REVIEWED FINANCIAL STATEMENTS

Lukins Brothers Water Company, Inc.  
**Balance Sheet (As Reviewed)**  
 As of December 31, 2021

<b>ASSETS</b>	
<b>UTILITY PLANT (Note 2)</b>	
Water Plant in Service	\$1,305,361
Water Plant in Service–Grant Funds	2,732,430
Water Plant in Service–Other	2,590,092
Construction Work in Progress–Other	17,917
Accumulated Depreciation of Water Plant	(669,587)
Accumulated Depreciation of Water Plant–Grant Funds	(103,800)
Accumulated Depreciation of Water Plant–Other	(415,069)
<b>Net Utility Plant</b>	5,457,344
 <b>CURRENT AND ACCRUED ASSETS</b>	
Cash	174,480
Cash–Special Deposits (Note 4)	447,926
Accounts Receivable–Customers	89,321
Materials and Supplies (Note 3)	8,232
Other Current Assets (Note 5)	1,500
Deferred Charges	41,726
<b>Total Current and Accrued Assets</b>	763,185
<b>Total Assets and Other Debits</b>	\$6,220,529
 <b>CAPITALIZATION AND LIABILITIES</b>	
<b>CORPORATE CAPITAL AND SURPLUS</b>	
Common Stock	\$25,000
Other Paid-in Capital (Note 8)	759,323
Retained Earnings	370,016
<b>Total Capitalization</b>	1,154,339
 <b>LONG-TERM DEBT</b>	
Long-Term Debt (Note 7)	1,689,283
 <b>CURRENT AND ACCRUED LIABILITIES</b>	
Payables to Affiliated Companies (Note 13)	15,255
Accounts Payable	120,654
Short-Term Notes Payable	79,059
Other Current Liabilities	15,207
<b>Total Current and Accrued Liabilities</b>	230,175

*(Continued on next page)*

Lukins Brothers Water Company, Inc.  
**Balance Sheet (As Reviewed)**  
As of December 31, 2021

<b>DEFERRED CREDITS</b>	
Other Credits	\$356,530
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	
Contributions in Aid of Construction (Note 6)	2,906,089
Accumulated Amortization of Contributions	<u>(115,887)</u>
<b>Net Contributions in Aid of Construction</b>	<u>2,790,202</u>
<b>Total Liabilities and Other Credits</b>	<u><u>\$6,220,529</u></u>

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

**Lukins Brothers Water Company, Inc.**  
**Income Statement (As Reviewed)**  
For Year Ended December 31, 2021

<b>OPERATING REVENUES (Note 10)</b>	
Unmetered Water Revenue	\$938,384
Fire Protection and Hydrant Revenue	19,978
Metered Water Revenue	386,405
Other Water Revenue	373,663
<b>Total Operating Revenue</b>	<u>1,718,430</u>
<b>OPERATING EXPENSES (Note 11)</b>	
<b>Plant Operation and Maintenance Expenses</b>	
Purchased Water	29,775
Power	50,157
Other Volume Related Expenses	1,804
Employee Labor	181,891
Materials	2,715
Contract Work	49,199
Transportation Expense	21,147
Other Plant Maintenance Expenses	21,892
<b>Total Plant Operation and Maintenance Expenses</b>	<u>358,580</u>
<b>Administrative and General Expenses</b>	
Office Salaries	80,810
Management Salaries	176,323
Employee Pensions and Benefits	129,769
Office Services and Rentals	67,426
Office Supplies and Expenses	70,190
Professional Services	77,714
Insurance	149,776
Regulatory Commission Expense (Note 12)	21,161
General Expenses	21,186
<b>Total Administrative and General Expenses</b>	<u>794,355</u>
<b>Total Operating Expenses</b>	1,152,935
Depreciation Expense (Note 2)	76,717
Taxes Other Than Income Taxes	80,167
State Corporate Income Tax Expense	4,271
<b>Total Operating Revenue Deductions</b>	<u>1,314,090</u>
<b>Total Utility Operating Income</b>	404,340

*(Continued on next page)*

Lukins Brothers Water Company, Inc.  
**Income Statement (As Reviewed)**  
For Year Ended December 31, 2021

**OTHER INCOME AND DEDUCTIONS**

Miscellaneous Non-Utility Expense	\$15,337
Interest Expense	<u>103,471</u>
<b>Total Other Income and Deductions</b>	<u>118,808</u>
<b>Net Income</b>	<u><u>\$285,532</u></u>

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

Lukins Brothers Water Company, Inc.  
**Statement of Retained Earnings (As Compiled <sup>3</sup>)**  
For Year Ended December 31, 2020

<b>Retained Earnings, Beginning of Year</b>	\$477,466
<b>CREDITS:</b>	
Net Income	285,532
UAB Adjustment to Non-Utility Income	63,163
Prior Period Adjustment	3,559
<b>Total Credits</b>	<u>352,254</u>
<b>DEBITS:</b>	
UAB Adjustment to Other Paid-in Capital	459,704
<b>Total Debits</b>	<u>459,704</u>
<b>Retained Earnings, End of Year</b>	<u><u>\$370,016</u></u>

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

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<sup>3</sup> UAB compiled the Statement of Retained Earnings based on the reviewed Balance Sheet, Income Statement, and other relevant financial data.



# Lukins Brothers Water Company, Inc.

## Notes to Financial Statements

LBWC was incorporated in California on May 12, 1973. LBWC is a Class C water utility with 987 active service connections.<sup>4</sup> LBWC serves approximately 190 metered and 797 unmetered customers within the City of South Lake Tahoe in El Dorado County, California.<sup>5</sup>

### **Significant Accounting Policies**

The financial statements of LBWC were prepared on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities. Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the 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 maintain separate depreciation reserve by different plant accounts in accordance with Appendix

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<sup>4</sup> LBWC's 2021 Annual Report, Schedule D-4 Number of Active Service Connections, Page 35.

<sup>5</sup> Water Division, Resolution W-5209, Page 2.

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

LBWC utilizes the straight-line remaining life method for each class of asset as prescribed in SP U-4-SM to determine depreciation accruals. LBWC's overall composite depreciation rate is 2.3 percent, which falls within the industry average.

LBWC incorrectly recorded \$187,051 of Depreciation Expense and Amortization of Contributions related to Water Plant as a reduction to CIAC between 2018 and 2021 in its 2021 Annual Report originally filed with the CPUC's Water Division on April 22, 2022. As a result, LBWC overstated Account 215–Retained Earnings by \$130,923, and understated Account 265–CIAC, Account 272–Accumulated Amortization of Contribution, and Account 403–Depreciation Expense by \$187,051, \$12,087, and \$44,041, respectively.

LBWC incorporated UAB's proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC's Water Division on October 19, 2022.

## **(2) Asset Retirement**

The USOA requires that water plant be recorded at original cost. In the 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 the USOA.

LBWC retired \$771 of Meters during the review period.<sup>6</sup>

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

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

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

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<sup>6</sup> LBWC's 2021 Annual Report, Schedule A–1 Utility Plant, Page 12

LBWC did not sell or acquire properties during the review period.

### **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 the 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.

LBWC reported an inventory balance of \$8,232 in Account 151–Materials and Supplies.

### **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 the 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.

LBWC’s Account 132–Cash–Special Deposits comprised of \$356,530 of unspent facilities fees and \$91,396 of unspent loan surcharges collected from customers. The loan surcharges are collected specifically for repaying its Plumas loan authorized in CPUC’s Resolutions W-4886 and W-4970.

### **5. Other Current Assets**

LBWC incorrectly recorded and reported a prepayment of \$1,500 for water association annual membership dues as reduction to Accounts Payables, instead of reporting it as Other Current Assets. However, LBWC incorporated UAB’s proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

### **6. Contributions in Aid of Construction**

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

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

**(1) Facilities Fees**

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

As of December 31, 2021, LBWC used \$291,173 of facilities fees received from its customers for water plant additions and improvements.

As discussed in Findings 2, 3, and 7, UAB noted that LBWC misstated its CIAC account by \$260,875 due to the following accounting and reporting errors:

- LBWC incorrectly recorded and reported \$356,530 of collected but unspent facilities fees as CIAC in Account 265 instead of recording and reporting it as Other Credits in Account 253.
- LBWC understated CIAC by \$187,051 because it incorrectly recorded \$187,051 of Depreciation Expense and Accumulated Amortization related to Water Plant in Service-Other as a reduction to CIAC between 2018 and 2021 in its 2021 Annual Report.
- LBWC overstated both Account 265–CIAC and Account 131–Cash by \$91,396 because it recorded and reported these unspent infrastructure surcharges related to its Plumas loan twice in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022.

However, LBWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

**(2) Government Grants**

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

As of December 31, 2021, LBWC has received \$25,309 of grant funding from South Tahoe Public Utility District for the Lake Tahoe Community Fire Prevention Partnership program and \$2,589,607 of grant fundings from SWRCB for constructing its granulated activated carbon filtration treatment plant and SWRCB’s Proposition 84 Grant Program.

LBWC did not record and report \$17,000 funding it received from the SWRCB’s Proposition 84 Grant Program as CIAC in its 2021 Annual Report. However, LBWC incorporated UAB’s proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

**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, 2021, LBWC had the following long-term debts outstanding:

Description	Current Portion	Long- Term Debt	Total Principal Outstanding
Plumas Bank	\$72,292	\$1,483,717	\$1,556,009
DGL	0	181,049	181,049
Toyota Financial	6,767	24,517	31,284
Total Outstanding Principle	\$79,059	\$1,689,283	\$1,768,342

(a) Plumas Bank

In Resolution W-4886, dated October 20, 2011, CPUC authorized LBWC to enter into a loan agreement with Plumas Bank to borrow \$2,000,000. The proceeds of the loan agreement were used to reconstruct LBWC’s water distribution system. Due to a lengthy application process, LBWC eventually obtained the loan from Plumas Bank in August 2013, with an interest rate of 6.5 percent, a term of 20 years, and secured by LBWC’s assets. LBWC has consistently paid its monthly payments over the last nine years.

In Resolution W-4970, dated January 1, 2014, CPUC authorized LBWC to enter into a loan agreement with Plumas Bank to borrow \$110,000 in addition to the \$2,000,000 authorized in Resolution W-4886. The proceeds of the loan were to fund the interest during construction of LBWC’s water distribution system.

(b) Danny G. Lukins, General Engineering Contractor (DGL)

DGL is an engineering contractor owned by Danny Lukins, a shareholder of LBWC. As of December 31, 2021, LBWC owed DGL \$181,049 for unpaid work performed between 2012 and 2018. The loan amount carries a zero percent interest rate, maturing until paid.

LBWC did not obtain CPUC’s authorization for this long-term obligation. This resulted in LBWC’s noncompliance with PU Code Section 818, which requires utilities to obtain CPUC’s approval prior to incurring any long-term debt.

(c) Toyota Financial

In May 2021, LBWC obtained the loan from Toyota Financial. The loan carries an interest rate of 3.99 percent and a term of five years. LBWC has consistently paid its monthly payments over the last 18 months.

LBWC did not classify the current portion of its Long-Term Debt as Short-Term Notes Payable. As a result, LBWC overstated Account 224—Long-Term Debt and understated Account 232—Short-Term Notes Payable. However, LBWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

## 8. Other Paid-in Capital

The Other Paid-in Capital Account includes a utility’s paid-in capital not derived from earnings. This account includes items such as premiums and discounts related to the issuance of capital stock, donations to the utility of its capital stock, and credits arising from the forgiveness of debt.

LBWC incorrectly recorded and reported \$138,934 of debt forgiveness as Non-Utility Income in Account 421 instead of recording it as a credit to Account 211–Other Paid-in Capital. Specifically, LBWC received debt forgiveness totaling \$7,034 in 2021 and \$131,900 in 2020 for its Payroll Protection Program loan and Economic Injury Disaster Loan. As a result, LBWC understated Account 211–Other Paid-in Capital by \$138,934, and overstated Account 215–Retained Earnings, and Account 421–Non-Utility Income by \$131,900 and \$7,034, respectively.

LBWC understated Other Paid-in Capital by \$116,719 because LBWC incorrectly recorded and reported \$116,719 of shareholder withdrawals as Other Paid-in Capital in Account 211 instead of recording the withdrawals as a reduction to Retained Earnings.

LBWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

## **9. 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.

The 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.

As of December 31, 2021, LBWC reported a balance of \$33,134 for its Water Contamination Litigation Expense Balancing Account as authorized by CPUC Decision 10-10-018. LBWC also reported a balance of \$8,592 in its Catastrophic Event Memorandum Account for COVID-19 as authorized by Advice Letter 84.

## **10. Operating Revenues**

LBWC generated approximately 57 percent of its Operating Revenues from Unmetered Water Sales, 21 percent from Metered Water Revenue, 21 percent from Other Water Revenue, and 1 percent from Fire Protection and Hydrant Revenue. LBWC did not record and report \$46,392 customer billings for December 2021 in its 2021 Annual Report. As a result, LBWC understated Account 470–Metered Water Revenue, and Account 480–Other Water Revenue by \$36,605 and \$7,530, respectively. However, LBWC incorporated UAB’s proposed adjustments and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

## **11. Operating Expense**

LBWC misclassified \$92,471 of salaries for a principal shareholder as Office Salaries and Employee Labor, instead of recording it as Management Salaries. However, LBWC incorporated UAB’s proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

## 12. 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. The 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.<sup>7</sup>

LBWC recorded and reported \$21,161 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 its 2021 Annual Report. As a result, LBWC understated both Account 480—Other Water Revenue and Account—688 Regulatory Commission Expense. However, LBWC incorporated UAB’s proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022.

## 13. 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.

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....”

LBWC’s affiliate, DGL, leases heavy duty equipment and performs maintenance services for LBWC. During 2021, the services provided by DGL totaled \$15,255. As of December 31, 2021, LBWC owed DGL \$15,255. LBWC incorrectly recorded this liability as Accounts Payable, instead of recording it as Payables to Affiliated Companies. As a result, LBWC overstated Account 231—Accounts Payable and understated Account 230—Payables to Affiliated Companies. However, LBWC incorporated UAB’s proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC’s Water Division on October 19, 2022

LBWC also has an outstanding long-term debt of \$181,049 owed to DGL for work performed between 2012 and 2018 that has not yet been paid.

## 14. Form of Financial Statements<sup>8</sup>

### (1) Balance Sheet

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

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

<sup>8</sup> Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37



**(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.

LBWC correctly complied with this requirement by presenting their financial statements in the form of a balance sheet and income statement.

**15. 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.

**16. 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 utilities to file an Annual Report with the CPUC every year. For the year being reviewed, LBWC has complied with these requirements.

## APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

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### **Finding 1: Noncompliance with Long-Term Debt Requirements**

**Condition:**

LBWC recorded and reported \$181,049 of Long-Term Debt owed to its affiliate, DGL, a General Engineering Contractor, but failed to obtain authorization from the CPUC. PU Code Section 818 requires regulated utilities to obtain CPUC's authorization prior to incurring any long-term debt. LBWC's outstanding long-term debt owed to its affiliated companies is related to work performed between 2012 and 2018 that has yet to be paid. DGL leases heavy equipment and provides maintenance services to LBWC's water operations.

**Criteria:**

PU Code Section 818 states that:

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

**Cause:**

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

**Effect:**

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

**Recommendation:**

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

### **Finding 2: Incorrect Reporting of Unspent Facilities Fees**

**Condition:**

LBWC incorrectly recorded and reported \$356,530 of collected, but unspent facilities fees, as CIAC in Account 265 in its 2021 Annual Report originally filed with the CPUC's Water Division on April 22, 2022. The USOA requires utilities to record unspent facilities fees in Account 253—Other Credits until they are used for water plant improvements. As a result, LBWC overstated Account 265—CIAC by \$356,530 and understated Account 253—Other Credits by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
1	265	Contributions in Aid of Construction	\$356,530	
	253	Other Credits		\$356,530
		<i>To reclassify unspent facilities fees incorrectly recorded and reported as CIAC.</i>		

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 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.

**265. Contributions in Aid of Construction**

A. This account shall include:

1. All non-refundable contributions of cash, land or other property received by the utility in connection with the construction or extension of its water system.
2. Compensation received from governmental agencies and others for relocation of water mains or other plant, in excess of costs incurred in such relocation.

**Cause:**

LBWC lacks monitoring and review procedures over its accounting and reporting process to ensure that collected but unspent facilities fees are properly recorded as Other Credits in Account 253 as required by the USOA.

**Effect:**

Inaccurate recording of facilities fees as CIAC, instead of Other Credits, in the Annual Report distorted LBWC’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 LBWC’s General Rate Case (GRC) application review process and impact water rates for LBWC’s ratepayers.

**Recommendation:**

LBWC should establish and implement review and monitoring procedures over its accounting and reporting process to ensure that collected but unspent facilities fees are properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 3: Misstated Depreciation Expense and Accumulated Amortization of Contributions**

**Condition:**

LBWC understated Account 265–CIAC, Account 272–Accumulated Amortization of Contributions, and Account 403–Depreciation Expense by \$187,051, \$12,087 and \$44,041, respectively; and overstated Account 215–Retained Earnings by \$130,923. LBWC incorrectly recorded \$174,964 of Depreciation Expense from 2018 to 2021 as a reduction to CIAC. Additionally, LBWC incorrectly recorded \$12,087 of Accumulated Amortization of Contributions as a reduction to CIAC. The depreciation of water plant funded by LBWC should have been recorded and reported in Account 403–Depreciation Expense each year and amortization of contributed water plant should have been recorded in Account 272–Accumulated Amortization of Contributions. LBWC’s Account 101.3–Water Plant in Service–Other includes \$291,944 of water plant funded with facilities fees and the remaining balance of \$2,298,148 is funded through LBWC’s Plumas Bank Loan. LBWC correctly reported contra-credits related to the depreciation of these assets in Account 108.3–Accumulated Depreciation of Water Plant–Other as of December 31, 2021; however, LBWC incorrectly recorded depreciation expense and amortization related to these assets each year from 2018 to 2021 as follows:

Year	Correct Allocation of Amortization and Depreciation		
	Amortization and Depreciation incorrectly recorded as a reduction to Account 265–CIAC	Account 403– Depreciation Expense	Account 272– Accumulated Amortization of Contributions
2018	\$43,641	\$43,641	
2019	44,324	43,641	\$683
2020	44,324	43,641	683
2021	54,762	44,041	10,721
<b>Total</b>	<b>\$187,051</b>	<b>\$174,964</b>	<b>\$12,087</b>

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

Adj. No.	Acct. No.	Description	DR	CR
2	215	Retained Earnings	\$130,923	
	272	Accumulated Amortization of Contributions	12,087	
	403	Depreciation Expense	44,041	
	265	Contributions in Aid of Construction		\$187,051
<i>To correctly record Accumulated Amortization of Contributions and Depreciation Expense incorrectly recorded as a reduction to CIAC from 2018 to 2021.</i>				

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on October 19, 2022.

**Criteria:**

The USOA states, in part, that:

**265. Contributions in Aid of Construction**

A. This account shall include:

1. All non-refundable contributions of cash, land or other property received by the utility in connection with the construction or extension of its water system.
2. Compensation received from governmental agencies and others for relocation of water mains or other plant, in excess of costs incurred in such relocation.

**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.

Note A. See Accounting Instructions – Depreciation, Paragraph 4, for more detailed instructions on depreciation accounting.

**Cause:**

LBWC lacks monitoring and review procedures over its accounting and recording process to ensure depreciation of water plant and amortization of CIAC are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of depreciation of water plant and amortization of understated LBWC's Accumulated Amortization of Contributions, CIAC, and Depreciation Expense in its 2021 Annual Report, which may be used during LBWC's GRC application review process, could potentially impact water rates for LBWC's ratepayers.

**Recommendation:**

LBWC should establish and implement monitoring and review procedures over its accounting and recording process to ensure that depreciation of water plant and amortization of CIAC are recorded in accordance with the accounting requirements of the USOA.

**Finding 4: Misclassified Forgiven Debt**

**Condition:**

LBWC incorrectly recorded and reported \$138,934 of debt forgiveness as Non-Utility Income in Account 421 instead of recording it as a credit to Account 211–Other Paid-in Capital as required by the USOA in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022. Specifically, LBWC received \$7,034 debt forgiveness in 2021 and \$131,900 in 2020 for its Payroll Protection Program Loan and Economic Injury Disaster Loan. As a result, LBWC understated Account 211–Other Paid-in Capital by \$138,934, and overstated Account 215–Retained Earnings and Account 421–Non-Utility Income by \$131,900 and \$7,034, respectively.

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

Adj. No.	Acct. No.	Description	DR	CR
3	215	Retained Earnings	\$131,900	
	421	Non-Utility Income	7,034	
	211	Other Paid-in Capital		\$138,934
		<i>To correctly record forgiveness of debt as Other Paid-in Capital instead of Non-Utility Income.</i>		

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 2022.

**Criteria:**

The USOA states, in part, that:

**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.

**421. Non-Utility Income**

In this account is entered all income not includible in operating revenue accounts 460 through 480.

- Items
- Interest income
- Dividend income
- Gross income from non-water utility operations
- Net gain on sale of non-water utility property

**Cause:**

LBWC lacks monitoring and review procedures over its accounting and recording process to ensure that forgiveness of debt is accurately recorded in Account 211–Other Paid-in Capital as required by the USOA.

**Effect:**

Inaccurate reporting of forgiveness of debt as Other Paid-in Capital in Account 211 instead of Non-Utility Income in Account 421 in LBWC’s Annual Report, distorted LBWC’s financial position as of December 31, 2021, which could impact decision-makers. Inaccurately reported Other Paid-in Capital and Non-Utility Income reduce the comparability of LBWC’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 LBWC relative to other small water utilities in California.

**Recommendation:**

LBWC should establish and implement review and monitoring procedures over its accounting and recording process to ensure that forgiveness of debt is properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 5: Misclassified Shareholders’ Withdrawals**

**Condition:**

LBWC incorrectly recorded and reported \$116,719 of shareholders’ withdrawals as Other Paid-in Capital in Account 211 in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022. LBWC’s shareholders withdrew \$4,000, \$2,965, and \$109,754 in 2016, 2020, and 2021, respectively. USOA requires withdrawals from the business by owner or partners other than compensation for services performed to be charged to Retained Earnings. As a result, LBWC understated Account 211–Other Paid-in Capital by \$116,719 and overstated Account 215–Retained Earnings by the same amount.

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

Adj. No.	Acct. No.	Description	DR	CR
4	215	Retained Earnings	\$116,719	
	211	Other Paid-in Capital		\$116,719
		<i>To reclassify shareholders’ withdrawals incorrectly recorded as reduction to Other Paid-in Capital.</i>		

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 2022.

**Criteria:**

The USOA States, in part, that:

**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:**

LBWC lacks monitoring and review procedures over its accounting and reporting process to ensure that withdrawals by shareholders are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

Understated Other Paid-in Capital misstated LBWC's financial position as of December 31, 2021, which may be used during LBWC's GRC application review process, could potentially impact water rates for LBWC's ratepayers. Inaccurately reported Other Paid-in Capital and Retained Earnings reduce the comparability of LBWC'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 LBWC relative to other small water utilities in California.

**Recommendation:**

LBWC should establish and implement monitoring and review procedures to ensure that withdrawals by shareholders are properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 6: Misclassified Management Salaries**

**Condition:**

LBWC misclassified \$92,471 of salaries for a principal shareholder as Office Salaries and Employee Labor, instead of recording it as Management Salaries as required by the USOA. As a result, LBWC understated Account 671–Management Salaries by \$92,471 and overstated Account 670–Office Salaries and Account 630–Employee Labor by \$90,231 and \$2,240, respectively, in its 2021 Annual Report originally filed with the CPUC's Water Division on April 22, 2022.

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



Adj. No.	Acct. No.	Description	DR	CR
5	671	Management Salaries	\$92,471	
	630	Employee Labor		\$2,240
	670	Office Salaries		90,231
		<i>To reclassify Management Salaries that were incorrectly recorded as Employee Labor and Office Salaries.</i>		

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on October 19, 2022.

**Criteria:**

The USOA States, in part, that:

**630. Employee Labor**

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

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

Note A. Wages of managers, owners, or principal stockholders who perform any of the above functions shall not be included in this account but shall be included in Account 671, Management Salaries.

**670. Office Salaries**

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

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

**671. Management Salaries**

A. This account shall include the portion of salaries of managers, owners, partners or principal stockholders of a utility, chargeable to utility operations.

B. No portion of such salaries shall be allocated to other expense accounts even though the owner or manager may perform other duties (e.g., billing, collecting, and maintenance) in addition to managing the utility.

**Cause:**

LBWC lacks monitoring and review procedures over its accounting and recording process to ensure management salaries are properly classified in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of Management Salaries in LBWC’s Annual Report, which may be used during LBWC’s GRC application review process, could impact water rates for LBWC’s ratepayers.

**Recommendation:**

LBWC should establish and implement review and monitoring procedures over its accounting and recording process to ensure that management salaries are properly classified in compliance with the accounting requirements of the USOA.

**Finding 7: Overstated Cash and Contributions in Aid of Construction**

**Condition:**

LBWC recorded and reported \$91,396 of unspent infrastructure surcharges related to its Plumas loan twice in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022. As a result, LBWC overstated both Account 131–Cash and Account 265–CIAC by \$91,396 due to the following accounting errors:

- During its monthly billing and cash collection processes, LBWC recorded and reported the surcharges billed to its customers as Other Water Revenue and the related cash receipts in Account 131–Cash. However, the surcharges collected from customers are restricted for a special purpose. Thus, LBWC should have recorded and reported the cash receipts for these surcharges in Account 132–Cash–Special Deposits, instead of general cash in Account 131. As a result, LBWC overstated general cash by \$91,396.
- During its year-end reporting process, LBWC also reported the \$91,396 of unspent surcharges as Cash–Special Deposits in Account 132 and CIAC in Account 265. These surcharges should not have been reported as CIAC because they were collected specifically for repaying the LBWC Plumas Bank Loan authorized in the CPUC in Resolutions W-4886 and W-4970. Account 265–CIAC should only be used for reporting non-refundable contributions of cash, land or other property donated to a utility for constructing or extending its water system. As a result, LBWC overstated Account 265–CIAC by \$91,396.

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

Adj. No.	Acct. No.	Description	DR	CR
6	265	Contributions in Aid of Construction	\$91,396	
	131	Cash		\$91,396
<i>To remove infrastructure surcharges related to the Plumas loan that was reported twice in the Annual Report.</i>				

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 2022.

**Criteria:**

The USOA states, in part, that:

**131. Cash**

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

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

131.1 Cash on Hand

131.2 Cash in Bank

**265. Contributions in Aid of Construction**

A. This account shall include:

1. All non-refundable contributions of cash, land or other property received by the utility in connection with the construction or extension of its water system.

2. Compensation received from governmental agencies and others for relocation of water mains or other plant, in excess of costs incurred in such relocation.

**Cause:**

LBWC lacks monitoring and review procedures over its accounting, recording, and reporting processes to ensure that loan surcharges are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of Cash and CIAC in LBWC's Annual Report, which may be used during LBWC's GRC application review process, could potentially impact water rates for LBWC's ratepayers. Inaccurate reporting of Cash distorted LBWC's financial position as of December 31, 2021, misstated its available working capital, and reduced the comparability of LBWC'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 LBWC relative to other small water utilities in California.

**Recommendation:**

LBWC should establish and implement monitoring and review procedures over its accounting, recording, and reporting processes to ensure loan surcharges are properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 8: Misclassified Current Portion of Long-Term Debt****Condition:**

LBWC did not classify the current portion of its Long-Term Debt totaling \$79,059 to the Short-Term Notes Payable account. As a result, LBWC overstated Account 224—Long-Term Debt by \$79,059 and understated Account 232—Short-Term Notes Payable by the same amount in its 2021 Annual Report originally filed with the CPUC's Water Division on April 22, 2022.

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

Adj. No.	Acct. No.	Description	DR	CR
7	224	Long-Term Debt	\$79,059	
	232	Short-Term Notes Payable		\$79,059
		<i>To reclassify Short-Term Notes Payable recorded in Long-Term Debt</i>		

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 2022.

**Criteria:**

The USOA states, in part, that:

**232. Short-Term Notes Payable**

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

**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.

**Cause:**

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

**Effect:**

Understated short-term liabilities misstated LBWC’s available working capital and short-term liquidity as of December 31, 2021, which may be used during LBWC’s GRC application review process, could potentially impact water rates for LBWC’s ratepayers.

**Recommendation:**

LBWC 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 9: Unrecorded Customer Billings**

**Condition:**

LBWC did not record and report \$46,392 of customer billings for December 2021 in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022. As a result, LBWC understated Account 141–Accounts Receivable-Customers, Account 241–Other Current Liabilities, Account 462–Fire Protection and Hydrant Revenue, Account 470–Metered Water Revenue, and Account 480–Other Water Revenue by \$46,392, \$591, \$1,667, \$36,604, and \$7,530, respectively.

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

Adj. No.	Acct. No.	Description	DR	CR
8	141	Accounts Receivable-Customers	\$46,392	
	241	Other Current Liabilities		\$591
	462	Fire Protection and Hydrant Revenue		1,667
	470	Metered Water Revenue		36,604
	480	Other Water Revenue		7,530

*To record omitted December 2021 billings to customers.*

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 2022.

**Criteria:**

The USOA states, in part, that:

**141. Accounts Receivable – Customers**

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

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

**241. Other Current Liabilities**

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

B. Include herein pension accruals prior to the time they are transmitted to the trustee, accruals of vacation pay, etc.

C. A separate subaccount shall be maintained for each class of liability.

**462. Fire Protection and Hydrant Revenue**

A. Include herein all revenue from public agencies and others for hydrant charges, private fire protection service, street sprinkling, sewer flushing and similar sources.

**470. Metered Water Revenue**

A. This account shall include all revenue from metered water service. Surcharge revenues approved by the Commission applicable to metered customers shall be recorded in this account. Separate subaccounts shall be maintained for each type of surcharge approved by the Commission unless otherwise authorized or directed by the Commission.

**480. Other Water Revenue**

This account shall include revenue from water operations other than the delivery of

water or provision of fire protection. This account shall be appropriately subdivided.

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

**Cause:**

LBWC lacks review and monitoring procedures to ensure that revenues are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of Accounts Receivable-Customers, and Operating Revenue in its 2021 Annual Report, which may be used during LBWC’s GRC application review process, could potentially impact water rates for LBWC’s ratepayers.

**Recommendation:**

LBWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that Accounts Receivable-Customers, and Operating Revenue are properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 10: Unrecorded CPUC Users Fee**

**Condition:**

LBWC recorded and reported \$21,161 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 required by the USOA in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022. As a result, LBWC understated both Account 480– Other Water Revenue and Account 688–Regulatory Commission Expense by \$21,161.

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

Adj. No.	Acct. No.	Description	DR	CR
9	688	Regulatory Commission Expense	\$21,161	
	480	Other Water Revenue		\$21,161
<i>To record CPUC user fees remittances recorded as a pass through during the year.</i>				

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 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.

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

**688. Regulatory Compliance Expense**

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

**Cause:**

LBWC lacks monitoring and review procedures over its accounting and reporting process to ensure that CPUC Users Fee are properly accounted for in compliance with the accounting requirements of 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 LBWC’s GRC application review process, could potentially impact water rates for LBWC’s ratepayers.

**Recommendation:**

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

**Finding 11: Understated Contributions in Aid of Construction**

**Condition:**

LBWC did not record \$17,000 funding received from the SWRCB’s Proposition 84 Grant program for water plant construction in 2015. As a result, LBWC overstated Account 215–Retained Earnings by \$17,000, and understated Account 265–CIAC by the same amount in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022.

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

Adj. No.	Acct. No.	Description	DR	CR
10	215	Retained Earnings	\$17,000	
	265	Contributions in Aid of Construction		\$17,000
		<i>To record contributions from the 2015 Proposition 84 grant that was omitted from CLAC.</i>		

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 2022.

**Criteria:**

USOA states, in part, that:

**265. Contributions in Aid of Construction**

A. This account shall include:

1. All non-refundable contributions of cash, land or other property received by the utility in connection with the construction or extension of its water system.
2. Compensation received from governmental agencies and others for relocation of water mains or other plant, in excess of costs incurred in such relocation.

**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:**

LBWC lacks monitoring and review procedures over its accounting and recording process to ensure that contributed assets are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

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

**Recommendation:**

LBWC should establish and implement review and monitoring procedures over its accounting and recording process to ensure that contributed capital is properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 12: Misclassified Payables to Affiliated Companies**

**Condition:**

LBWC incorrectly recorded \$15,255 of payables to an affiliate company as Accounts Payable, instead of recording it as Payables to Affiliated Companies. As a result, LBWC overstated Account 231—Accounts Payable by \$15,255 and understated Account 230—Payables to Affiliated Companies by the same amount in its 2021 Annual Report originally filed with the CPUC's Water Division on April 22, 2022.



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

Adj. No.	Acct. No.	Description	DR	CR
11	231	Accounts Payable	\$15,255	
	230	Payables to Affiliated Companies		\$15,255

*To reclassify payables to Affiliated Companies.*

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 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.

**231. Accounts Payable**

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

**Cause:**

LBWC lacks monitoring and review procedures to ensure that payables to its affiliate are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of Accounts Payable and Payables to Affiliated Companies in the Annual Report distorted LBWC’s financial position as of December 31, 2021, and reduces the comparability of LBWC’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 LBWC relative to other small water utilities in California.

**Recommendation:**

LBWC should establish and implement monitoring and review procedures to ensure that payables to its affiliate are properly accounted for in compliance with the accounting requirements of the USOA.

**Finding 13: Misclassified Prepayment**

**Condition:**

LBWC incorrectly recorded and reported a prepayment of \$1,500 for water association annual membership dues as reduction to Accounts Payables, instead of reporting it as Other Current Assets. As a result, LBWC understated both Account 174—Other Current Assets and Account 231—Accounts Payable by \$1,500 in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 22, 2022.

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

Adj. No.	Acct. No.	Description	DR	CR
12	174	Other Current Assets	\$1,500	
	231	Accounts Payable		\$1,500
<i>To correctly record prepayment of annual dues.</i>				

LBWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on October 19, 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.

B. This account shall include the book cost of all notes receivable and accounts receivable, other than from customers for water service, maturing or collectible within one year.

C. This account shall include all other current assets not provided for in other balance sheet accounts.

D. Separate subaccounts shall be maintained for each class of current asset included in this account.

**231. Accounts Payable**

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

**Cause:**

LBWC lacks monitoring and review procedures over its accounting and recording process to ensure that prepayments are properly accounted for in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of Other Current Asset in LBWC's Annual Report, which may be used during LBWC's GRC application review process, could potentially impact water rates for LBWC's ratepayers.

**Recommendation:**

LBWC should establish and implement monitoring and review procedures over its accounting and recording process to ensure that prepayments are properly accounted for in compliance with the accounting requirements of the USOA.

## APPENDIX B—UTILITY'S RESPONSE

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# LUKINS BROTHERS WATER COMPANY, INC.

SINCE 1947

December 13, 2021

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

**RE: Review of Financial Statements of Lukins Brothers Water Company, Inc. For the Year Ended December 31, 2021**

Dear Ms. Williams,

Lukins Brothers Water Company, Inc. (LBWC) has received the draft Review of Financial Statements of Lukins Brothers Water Company, Inc. For the Year Ended December 31, 2021 (Review), prepared by staff of the Utility Audits, Risk and Compliance Division (UAB) of the California Public Utilities Commission (CPUC).

The Draft Review of LBWC identified one noncompliance issue with the requirements specified under PU Code Section 818, and 12 material misstatements in LBWC's original 2021 Annual Report filed with the CPUC's Water Division.

During the exit interview, UAB Staff identified the 12 material misstatements, and LBWC Management agreed to make necessary adjusting journal entries to correct the misstatements. On October 19, 2022, LBWC submitted the Revised 2021 Annual Report the UAB and to CPUC Water Division correcting the 12 identified misstatements.

Regarding the Noncompliance finding with Long-Term Debt Requirements. PU Code 818 requires that utilities obtain CPUC authorization prior to incurring any long-term debt. LBWC has revised its policies and procedures for obtaining long-term debt to include compliance with PU Code 818 and obtain CPUC approval prior to obtaining any future long-term debt.

As a result of the UAB findings, LBWC has initiated an extensive review of its current procedures over its accounting, recording, and reporting processes to ensure that all aspects of our accounting are accurately recorded as required by the Uniform System of Accounting. LBWC expects to implement revised policies and procedures once completed.

Sincerely,



Jennifer Lukins  
Lukins Brothers Water Company, Inc.

2031 West Way • South Lake Tahoe, CA 96150 • Ph. (530) 541-2606 • Fax (530) 541-1746

## APPENDIX B—UTILITY'S REVISED RESPONSE

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# LUKINS BROTHERS WATER COMPANY, INC.

SINCE 1947

December 15, 2022

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

**RE: REVISED RESPONSE of Review of Financial Statements of Lukins Brothers Water Company, Inc. For the Year Ended December 31, 2021**

Dear Ms. Williams,

Lukins Brothers Water Company, Inc. (LBWC) has received the draft Review of Financial Statements of Lukins Brothers Water Company, Inc. For the Year Ended December 31, 2021 (Review), prepared by staff of the Utility Audits, Risk and Compliance Division (UAB) of the California Public Utilities Commission (CPUC).

The Draft Review of LBWC identified one noncompliance issue with the requirements specified under PU Code Section 818, and 12 misstatements in LBWC's original 2021 Annual Report filed with the CPUC's Water Division.

During the exit interview, UAB Staff identified the 12 misstatements, and LBWC Management agreed to make necessary adjusting journal entries to correct the misstatements. On October 19, 2022, LBWC submitted the Revised 2021 Annual Report the UAB and to CPUC Water Division correcting the 12 identified misstatements. LBWC disagrees with the UAB's language in the Draft Report stating "material" misstatements, as these are category adjustments/ journal entries, and not material misstatement that effect LBWC's fundamental performance.

Regarding the Noncompliance finding with Long-Term Debt Requirements. PU Code 818 requires that utilities obtain CPUC authorization prior to incurring any long-term debt. LBWC has revised its policies and procedures for obtaining long-term debt to include compliance with PU Code 818 and obtain CPUC approval prior to obtaining any future long-term debt.

As a result of the UAB findings, LBWC has initiated an extensive review of its current procedures over its accounting, recording, and reporting processes to ensure that all aspects of our accounting are accurately recorded as required by the Uniform System of Accounting. LBWC expects to implement revised policies and procedures once completed.

Sincerely,  
  
Jennifer Lukins

2031 West Way • South Lake Tahoe, CA 96150 • Ph. (530) 541-2606 • Fax (530) 541-1746

## APPENDIX C—UAB'S EVALUATION OF UTILITY'S RESPONSES

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LBWC submitted its comments regarding the review report on December 13, 2022. On December 15, 2022, LBWC submitted a revised comments regarding the review report. In both responses, LBWC agreed with UAB's identified misstatements and described its planned corrective actions to ensure accurate reporting of financial data in its future. LBWC also stated that it has revised its policies and procedures for obtaining long-term debt to ensure compliance with PU Code Section 818 by obtaining CPUC's prior approval for any future long-term debt. We appreciate LBWC's willingness to take corrective actions to remedy the noncompliance issue identified by UAB during the review. We request that LBWC submits a copy of its revised policies and procedures regarding long-term debt along with its Corrective Action Plan to the UAB by March 3, 2023.

In its revised response submitted on December 15, 2022, LBWC disagreed with UAB's description of misstatements as "material" in the draft report. LBWC stated it believes that the misstatements are category adjustments/journal entries and are not material misstatement that effected LBWC's fundamental performance.

We disagree with LBWC's position. Information is considered material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific entity. A material misstatement is information in the financial statements that is sufficiently incorrect that it may impact the economic decisions of someone relying on those statements. We determined the misstatements described in this report to be material because they are significant enough to influence the decision-making ability of the users of the financial statements. Our findings and recommendations outlined in this report remain unchanged.