Audit of Water Utilities

Tahoe Swiss Village Utility, Inc.

For the Year Ended December 31, 2018

Utility Audits Branch
April 30, 2020

MEMBERS OF THE TEAM

Angie Williams, Director

Raymond Yin, CPA
Program and Project Supervisor

Khusbindar Kaur, CPA
Senior Management Auditor

Sharmin Wellington, CPA
Public Utilities Regulatory Analyst V

Sam Niepoth
Staff Services Management Auditor

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http://www.cpuc.ca.gov/utilityaudits/

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB), formerly known as the Utility Audit, Finance and Compliance Branch (UAFCB)[1], is in the Utility Audits, Risk and Compliance Division (UARCD), which reports directly to the Executive Director of the California Public Utilities Commission (CPUC). Pursuant to the California Public Utilities (PU) Code, Sections 314.5, 314.6, 581, 582, and 584, the CPUC has statutory authority to inspect and audit the books and records of the utilities to ensure that ratepayers' money is well spent. PU Code Section 314.5 specifies that the CPUC shall inspect and audit the books and records for regulatory and tax purposes at least once every three years for utilities serving over 10,000 customers and at least once every five years for utilities serving 10,000 or fewer customers. PU Code Section 314.6(a) states that *"the Commission may conduct financial and performance audits of any entity or program created by any order, decision, motion, settlement, or other action of the Commission."*

Tahoe Swiss Village Utility, Inc. (TSVU) is an investor-owned water company that operates two water districts: Tahoe Swiss Village Utility District and Glenridge Park District. The Tahoe Swiss Village Utility District has 383 service connections, 14 additional units served from an existing connection, 25 public fire hydrants and 29 private fire service connections in Placer County, California. The Glenridge District has 46 flat-rate service connections, 12 public fire hydrants and 5 private fire service connections in El Dorado County, California.

As a regulated water utility, TSVU is required to prepare its financial statements on accrual basis of accounting as set forth in the Uniform System of Accounts (USOA) for Water Utilities that was adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016. The USOA is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

The UAB conducted the audit of TSVU's 2018 Annual Report filed with the CPUC in accordance with applicable PU Code, regulations, and CPUC's directives. The primary objectives of this audit were to ensure the fair presentation of the financial information in TSVU's 2018 Annual Report and to determine whether TSVU complied with the applicable regulations and CPUC's directives. The scope of our audit was limited to the financial information presented in TSVU's 2018 Annual Report filed with the CPUC. In addition, UAB evaluated the effectiveness of the TSVU's internal control over its accounting and reporting functions as it relates to the audit objectives.

Based on our audit, the following findings were identified:

- Finding 1: There are material weaknesses in TSVU's system of internal control over its financial reporting, which present a reasonable possibility that material misstatements on TSVU's Annual Reports may not be prevented or detected timely.

- Finding 2: TSVU did not properly report the balance of the Water Plant in Service account in the Annual Report because TSVU incorrectly omitted capitalizing $23,213 of employee labor expenses. In addition, TSVU excluded $23,955 in the depreciable base for water mains that were built using contributed funds and advances for construction.

[1] Effective January 2020, Utility Audit, Finance and Compliance (UAFCB) was renamed to Utility Audits Branch (UAB).

- Finding 3: TSVU overstated its cash balance as of December 31, 2018 by $27,667 in Account 131 in the Annual Report.

- Finding 4: TSVU did not report $18,000 of Facilities Fees maintained in Account 132, Cash – Special Deposits, in the Annual Report.

- Finding 5: TSVU overstated the Accounts Receivable (Account 141) balance as of December 31, 2018 by $113,510 in the Annual Report.

- Finding 6: Instead of reporting the actual cost in the Annual Report, TSVU reported an estimated value of $5,810 for Materials and Supplies in Account 151.

- Finding 7: TSVU did not prorate the property tax payments to the correct accounting year. As a result, the expense for Account 408, Taxes Other Than Income Taxes, was overstated by $188, while Account 174, Other Current Assets was understated by $4,932 in the annual Report.

- Finding 8: TSVU incorrectly reported $17,200 of advance payments from customers for their 2019 water services as Customer Deposits in Account 233. However, Customer Deposit account should only be used to record amounts deposited by customers as a security for payments of water bill.

- Finding 9: TSVU omitted $60,647 of payroll tax liabilities in the Annual Report.

- Finding 10: TSVU did not calculate and report Accumulated Amortization of Contributions.

- Finding 11: TSVU did not report gross CPUC Users Fee totaling $4,673, which was collected from its customers and remitted to the CPUC, as Other Water Revenue (Account 480) and Regulatory Commission Expense (Account 688).

- Finding 12: TSVU did not properly report Metered Water Revenue and Accounts Receivable using accrual basis of accounting. As a result, Metered Water Revenue (Account 470) was overstated by $2,489 and Accounts Receivable (Account 141), was understated by $13,524 in the Annual Report.

- Finding 13: TSVU incorrectly reported a $2,078 equipment rental expense as Contract Work in Account 650. Also, TSVU did not record expenses using accrual basis of accounting, which resulted in an understatement of Power Expense and Accounts Payable by $461 and $1,384, respectively. In addition, TSVU incorrectly reported $3,471 of management salaries, incurred in connection with preparing documentation for formal matters presented to the CPUC, as Regulatory Commission Expenses.

- Finding 14: TSVU misclassified $9,680 Management Salaries (Account 671) as Office Salaries (Account 670).

- Finding 15: TSVU incorrectly reported $1,209 of Uncollectible Accounts Expense (Account 676) in the Annual Report because a $1,209 billing adjustment was incorrectly treated as an uncollectible write-off of Accounts Receivable.

- Finding 16: TSVU reported $258 of Miscellaneous Non-utility Expenses in the Annual Report; but the Trial Balance showed $3,534. In addition, TSVU incorrectly recorded $2,280 of Regulatory Commission Expense as Miscellaneous Non-utility Expenses in the Annual Report.

RESTRICTED USE OF THIS AUDIT REPORT

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

BACKGROUND

The California Public Utilities Commission (CPUC) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act in 1912 to expand the CPUC's regulatory authority over natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies. In 1946, the Railroad Commission was renamed the California Public Utilities Commission.[2] The California Public Utilities (PU) Code granted CPUC's regulatory authority over Investor-Owned Utilities (IOU) in California. The Utility Audits Branch (UAB), formerly known as Utility Audit Finance, and Compliance Branch (UAFCB)[3], is in the Utility Audits, Risk and Compliance Division (UARCD), which reports directly to the Executive Director of the CPUC. The UAB provides auditing, accounting, financial, and advisory services on regulated utilities and monitors compliance with laws and CPUC directives.

PU Code, Section 314.5(a) states, in part, that:

> *The commission shall inspect and audit the books and records for regulatory and tax purposes as follows… (2) At least once every five years in the case of every electrical, gas, heat, telegraph, telephone, and water corporation serving 10,000 or fewer customers.*

In addition, PU Code, Section 314.6(a) states, *"The commission may conduct financial and performance audits of any entity or program created by any order, decision, motion, settlement, or other action of the commission."* Regulated utilities are required to comply with PU Code Sections 581, 582 and 584 by timely submitting to the CPUC the requested documents in the form and detail prescribed by the CPUC.

On November 10, 2016, CPUC approved Decision (D.) 16-11-006 to update its Uniform System of Accounts (USOA), which is a basis of accounting other than the generally accepted accounting principles in the United States, for the regulated water and sewer IOUs in California. All regulated water utilities are required to comply with the accounting requirements specified in the updated USOA, which became effective on January 1, 2018. Among other requirements, the USOA requires that *"The books of account of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year."* [4]

For the purpose of applying systems of accounts prescribed by the CPUC, regulated water utilities are divided into four classes based on the number of service connections as follows:

Class A Utilities—having more than 10,000 service connections.
Class B Utilities—having between 2,001 service connections and 10,000 service connections.
Class C Utilities—having between 501 service connections and 2,000 service connections.
Class D Utilities—having 500 service connections or less.

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[2] https://www.cpuc.ca.gov/history/
[3] Effective January 2020, Utility Audit, Finance and Compliance (UAFCB) was renamed to Utility Audits Branch (UAB).
[4] D.16-11-006, Page B13.

Classes B, C and D water utilities are commonly referred to as "Small Water Utilities."

Tahoe Swiss Village Utility, Inc. (TSVU) is an investor-owned water company that operates two water districts: Tahoe Swiss Village Utility District and Glenridge District. The Tahoe Swiss Village Utility District has 383 service connections, 14 additional units served from an existing connection, 25 public fire hydrants and 29 private fire service connections. Its service area is located one and a half miles north of the Homewood community in Placer County, California. The Glenridge District has 46 flat-rate service connections, 12 public fire hydrants and 5 private fire service connections. It serves customers in Glenridge Park Subdivision and vicinity, located about one-fourth of a mile north of Meeks Bay in El Dorado County, California.

OBJECTIVE AND SCOPE

UAB conducted the audit of TSVU 2018 Annual Report filed with the CPUC in accordance with applicable PU Code, regulations, and CPUC's directives. The primary objectives of this audit are to ensure the fair presentation of the financial information in TSVU's 2018 Annual Report and to determine whether TSVU complied with the applicable regulations and CPUC's directives. The scope of our audit was the financial information presented in TSVU 2018 Annual Report filed with the CPUC. In addition, UAB evaluated the effectiveness of the TSVU's internal control over its accounting and reporting functions as it relates to the audit objectives.

METHODOLOGY

The UAB obtained sufficient and appropriate evidence to determine TSVU's compliance with the applicable regulations and directives in reporting the financial information in its 2018 Annual Report and assessed whether key internal controls over financial reporting are designed, implemented and operating effectively. The specific procedures performed during this audit included, but were not limited to, the following:

1. Obtained an understanding of TSVU's business operation and its accounting system.

2. Performed analytical procedures on the reported financial data to identify significant fluctuations of individual accounts from the prior year to the current year.

3. Assessed whether TSVU's internal controls are designed, implemented, and operating effectively through observation, inquiry, and documentation. Specific procedures included, but were not limited to:
    - Review of TSVU's policies and procedures, and their implementation pertaining to accounting, recording, reporting, and record retention.
    - Inquiries with key company personnel.
    - Review of TSVU's organization chart to evaluate segregation of duties, authorization and approval processes, performance monitoring and controls, and compliance with regulatory requirements and CPUC's directives.

4. Performed risk assessment and determined materiality level based on the auditor's understanding of TSVU's operations, the evaluation of its internal control, and UAB's financial analysis.

5. Determined TSVU's compliance with applicable regulation and CPUC's directives regarding the timeliness of filing the Annual Report; compliance with USOA accounting requirements; treatments of public grants, loans, utility plant, Facilities Fees, and Users Fee; disclosure and accounting treatment of affiliated transactions, etc.

6. Reconciled the amounts reported in the Annual Report to the underlying accounting records presented on the general ledger (G/L) and trial balance for the year ended December 31, 2018.

7. Reviewed the list of water plant assets and related and took a tour of the TSVU's facilities to ensure the physical existence, completeness, rights, and valuation of utility plant.

8. Reconciled Water Plant in Service and depreciation expense balances shown in the Annual Reports to the G/L and reviewed the depreciation calculation.

9. Determined that cash existed and was supported by bank statements and bank reconciliations. Determined that cash balance was properly classified (facilities fees, customer's deposits, contributions) in the financial statements and any restrictions on the use of the funds were properly disclosed.

10. Reconciled the Accounts Receivables reported in the Annual Report and the trial balance to the underlying accounting records such as Accounts Receivable Detail Report by Customer.

11. Analyzed Common Stock account by reviewing common stock certificates, par value, and shares outstanding.

12. Determined and disclosed if any related/affiliated party transactions per D.06-12-029.

13. Performed a search for unrecorded liabilities by sampling subsequent cash disbursements made in 2019 and verifying whether the disbursements should have been reported as an expense for 2018.

14. Determined that contributions were used for intended construction purposes by reviewing the contribution agreement.

15. Recalculated accumulated amortization of Contributions in Aid of Construction to verify the accuracy of the amortization reported in the Annual Report.

16. Determined the occurrence, completeness, accuracy, classification, and cutoff of the recorded expenditures by reviewing relevant supporting documents, such as canceled checks, bank statements, invoices, contracts or agreements, and insurance policies. Performed sample-testing as appropriate.

17. Determined the completeness, accuracy, and cutoff of the recorded revenues by reviewing the billing records and money received from ratepayers; and performing reasonableness tests of reported revenues based on the CPUC approved tariffs for the audit period.

18. Recalculated payroll taxes to verify that payroll tax expense and related liabilities were properly reported in the Annual Report.

AUDIT FINDINGS AND RECOMMENDATIONS

The results of our audit of TSVU's 2018 Annual Report are described below. The audited financial statements and UAB's Audit Adjustments Journal Entries (AJE) are presented in the next section, titled "Audited Financial Statements."

Finding 1: Internal Control Deficiencies

Condition:
UAB identified the following deficiencies in TSVU's system of internal controls:

- TSVU did not have any written policies and procedures, including any policies and procedures relating to:
  - Record retention.
  - Recording and reporting revenues.
  - Payroll.
  - Cash disbursement.
  - Capitalization policies for property, plant, equipment.
  - Abandonment of property, plant, and equipment.
  - Determining obsolete property, plant, and equipment.
  - Inventories, and over-purchased materials and supplies.
  - Inventory counts.
  - Preparing the Annual Report.
- TSVU did not perform periodic reconciliations of:
  - Annual Report to the trial balance.
  - Accounts Receivable Detail Report by Customer to the G/L accounts receivable account.
  - Bank statements to the cash accounts in the G/L.
  - Property, plant, and equipment listing is not reconciled to the G/L.
- TSVU's accounting transactions were recorded using cash basis of accounting instead of accrual basis of accounting as required by the USOA.
- Transactions recorded in the accounting system are not reviewed for accuracy by a second person. Having a review process in place can help ensure that errors in financial recording and reporting are detected and corrected timely.
- TSVU did not maintain a depreciation schedule that includes the following elements:
  - Description of the utility plant.
  - Date of plant acquisition.
  - Acquisition amount.
  - Additions.
  - Deletions/Retirements.

- Asset life.
    - Depreciation method.
    - Annual depreciation expense.
    - Accumulated depreciation.

- TSVU did not perform periodic inventory counts of materials and supplies during the audit period.

- TSVU did not require its employees to submit timesheets to track their work hours.

Criteria:
The USOA states, in part, that:

> *2. General Accounting Instructions*
>
> *A. The books of account of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year.*

Good internal controls and prudent business practices require TSVU to:

- Establish proper written policies and procedures to carry out complex and routine operations.
- Reconcile account balances to underlying accounting records to ensure that errors, if any, are detected and corrected timely.
- Implement a review process to ensure that errors in financial recording and reporting are detected and corrected timely.
- Perform periodic inventory counts to place an accurate amount of materials and supplies is reported in the Annual Report.
- Establish and implement procedures that require all employees to use timesheets to track total hours worked. Timesheets can be used to support wages and salaries paid to employees.

Cause:
Due to the size of the company and lack of staff resources, TSVU does not have an adequate internal control structure in place.

Effect:
A lack of internal controls can impact the reliability and accuracy of the financial information in TSVU's Annual Reports and the effectiveness and efficiency of TSVU's operations.

Recommendations:
TSVU should:

- Ensure that TSVU has a bookkeeper or accountant who is knowledgeable about the USOA and accrual basis of accounting and can properly record routine transactions and prepare the TSVU's Annual Report accurately.
- Implement written policies and procedures which require that:
    - Accounting transactions are timely reviewed for accuracy and completeness.

- All expenses and revenues incurred or earned during the reporting period are properly recorded and reported using accrual basis of accounting.
- Perform and verify periodic inventory counts of materials and supplies.
- Ensure employee timesheets for every pay period are properly filled, signed, and dated.
- Ensure two duly authorized company officials review and sign off employee timesheets for each pay period.

Finding 2: Water Plant in Service Reporting Deficiencies

Condition:
UAB noted the following deficiencies in TSVU's Water Plant in Service account, which resulted in an understatement of $47,168 and $1,974 in the balance of Water Plant in Service and Depreciation Expense, respectively, reported in the Annual Report:

- TSVU did not include employee labor costs that were capitalized during the year in the Water Plant in Service (Account 101) balance in the Annual Report. The employee labor expense was properly reduced by $23,213 for the costs reclassified as Water Plant in Service. However, TSVU failed to add the $23,213 into the account balance of the Water Plant in Service. As a result, Water Mains (Account 331), Services and Meter Installations (Account 333), and Hydrants (Account 335) were understated by $12,735, $9,256, and $1,222, respectively.

- TSVU did not include a water main project, which was built using contributed funds, in the Water Plant in Service balance in the Annual Report. As a result, the Water Plant in Service account was understated by $19,142.

- TSVU did not include a water main project, which was built using construction advances, in the Water Plant in Service balance in the Annual Report. As a result, the Water Plant in Service account was understated by $4,813.

- TSVU did not properly calculate depreciation expense reported on its Annual Report. TSVU incorrectly used a basis of $1,975,049, instead of $2,003,375, to calculate its depreciation expense. TSVU did not include a water main that was constructed using an advance for construction and current year employee labor expenses that were reclassified as Water Plant in Service in its depreciation calculation. Also, TSVU incorrectly took a full year, instead of half-year, depreciation on the utility plant addition during 2018. As a result, depreciation expense was understated by $1,974.

Criteria:
The USOA states, in part, that:

> *2. General Accounting Instructions*
>
> *B. All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other*

records, reports, correspondence, memoranda and information useful in determining the facts regarding a transaction.

CPUC's *Standard Practice U-4-SM*, states, in part, that:

1. Age

Units in the same category added during the year may be considered one-half year old at the end of the accounting year to simplify calculations.

Cause:
TSVU does not have adequate internal control in place to ensure that the Water Plant in Service account balances were properly reported, and asset depreciation was correctly calculated.

Effect:
Submitting inaccurate financial information in the Annual Report, which may be used during TSVU's General Rate Case (GRC) application review process, could potentially impact the water rates for TSVU's ratepayers.

Recommendations:
TSVU should:

- Implement internal controls to ensure that account balances are properly reported.
- Ensure that all water plant, including plant constructed with contributed funds or advances for constructions, are properly reported on the Annual Report.
- Use half-year depreciation convention for water plants placed in service during the year.
- Ensure that all depreciable assets are included in its depreciation calculation.

Finding 3: Cash Reporting Deficiencies

Condition:
UAB noted the following deficiencies in TSVU's Cash account:

- The Cash balance reported on the Annual Report did not agree with the trial balance. The Annual Report showed a balance of $33,461 for the Cash account, while the detailed trial balance recorded $14,098. As a result, the Cash account was overstated by $19,363 in the Annual Report.

- The Cash balance recorded in the detailed trial balance for the Business Checking Account was understated by $31,251. The December 2018 bank statement for the checking account showed an ending Cash balance of $80,944. The detailed trial balance showed that outstanding checks and deposits in transit as of December 31, 2018, totaled $36,461, and $99, respectively. Therefore, the adjusted bank statement balance was $44,582. However, the detailed trial balance for the checking account reported a balance of $13,331, resulting in an understatement of $31,251.

- The Cash balance reported in the detailed trial balance for the Business Savings Account was understated by $15,779 because a deposit made on December 24, 2018, was not recorded in the detailed trial balance at year-end. The deposit was advance payments from customers for 2019 unmetered water services, which should have been recorded as Other Credits, account 253. As a result, Cash and Other Credits reported on the Annual Report were understated by $15,779.

As a result, balances reported in the Annual Report for Cash (Account 131) and Other Credits (Account 253) were understated by $27,667 and $15,779, respectively.

Criteria:
The USOA states, in part:

> *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.*

Good internal control and prudent business practices require that TSVU timely performs periodic bank reconciliations to ensure the accuracy of cash balances.

Cause:
TSVU does not have adequate internal control practices in place to ensure that bank reconciliations were performed accurately and timely.

Effect:
Inaccurate reporting of Cash account balance distorted TSVU's financial position as of December 31, 2018.

Recommendations:
TSVU should perform monthly bank reconciliations and resolve any unreconciled items timely to ensure that Cash balance is accurately and consistently reflected in the trial balance and the Annual Report.

Finding 4: Cash – Special Deposits – Reporting Deficiency

Condition:
TSVU did not report the Facilities Fees it received during the year as Cash – Special Deposits and Other Credits in its Annual Report. TSVU's bank statement for the Special Deposits Trust Account showed a Cash balance of $19,000 as of December 31, 2018. The $19,000 was comprised of $18,000 of Facilities Fees TSVU received during the year and $1,000 that TSVU transferred from its Business Checking Account to the Special Deposits Trust Account. As of December 31, 2018, there were no restrictions on the initial $1,000 deposit; therefore, the funds should have been transferred back to the Business Checking Account and reported as Cash in Account 131. As a result of the inaccurate recording, Cash - Special Deposits (Account 132) and Other Credits (Account 253) were understated by $18,000 and Cash (Account 131) was understated by $1,000.

Criteria:
The USOA states, in part, that:

> *2. General Accounting Instructions*
>
> *The books of account of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year.*
>
> *10. Facilities Fees*
>
> *A. Facilities fees are available for Class B, C, and D water utilities. These fees are also available to Class A water utility districts that serve less than 2,000 service connections.*
>
> *B. Eligible utilities may file an advice letter to institute a facilities fee schedule.*
>
> *C. When facilities fees are received by a water utility, the amount received shall be deposited in Account 132 – Cash-Special deposits and credited to Account 253 – Deferred Credits. Interest earned on these fees shall be debited to Account 132- Cash-Special Deposits and credited to Account 421 – Non-Utility Income.*
>
> *132. Cash - Special Deposit*
>
> *This account shall include cash amounts set aside from general corporate funds, and deposited in a separate account with fiscal agents or others, and designated for a special use. A separate subaccount shall be maintained for each designated special use.*

Cause:
TSVU does not have adequate internal control in place to ensure that account balances for Facilities Fees and Cash – Special Deposits were properly reported in the Annual Report.

Effect:
Inaccurate reporting of Cash, Cash – Special Deposits, and Other Credits account balances distorted TSVU's financial position as of December 31, 2018.

Recommendation:
TSVU should ensure that all account balances, including but not limited to Cash – Special Deposits, are properly reported in the Annual Report to comply with the USOA requirements.

Finding 5: Accounts Receivable Reporting Deficiencies

Condition:
TSVU overstated the ending Accounts Receivable balance reported in Account 141. TSVU reported $115,114 of Accounts Receivable in the Annual Report, but the detailed trial balance and Accounts Receivable Detail Report by Customer showed that Accounts Receivable balance was $183 as of December 31, 2018. UAB reviewed the Accounts Receivable Detail Report and noted that outstanding Accounts Receivable and advance payments from customers for 2019 water services were $1,604 and $1,421, respectively, as of December 31, 2018. As a result, Accounts Receivable – Customers (Account

141) was overstated by $113,510, and Other Credits (Account 253) were understated by $1,421, as of December 31, 2018.

Criteria:
The USOA states, in part, that:

> *2. General Accounting Instructions:*
>
> *All books of account, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, memoranda and information useful in determining the facts regarding a transaction.*
>
> *253. Other Credits*
>
> *This account shall include advance billings, unamortized premium on debt, items in suspense and other credit items not provided for in other accounts. This account shall also include specific revenues (Revenue Balancing Account) that the Commission has authorized the utilities to record for future repayment.*

Cause:
TSVU lacks internal control to ensure that account balances were properly reported in the Annual Report.

Effect:
Inaccurate reporting of Accounts Receivable – Customers, and Other Credits account balances distorted TSVU's financial position as of December 31, 2018.

Recommendations:
TSVU should:

- Implement procedures to ensure that Accounts Receivable and advance payments from customers are separately reported in the Annual Report.
- Ensure that account balances reported in the Annual Report are supported by sufficient accounting records.

Finding 6: Materials and Supplies Internal Control Deficiencies

Condition:
TSVU did not perform inventory counts of assets reported as Materials and Supplies in Account 151. Instead of reporting the actual cost in the Annual Report, TSVU reported an estimated value of $5,810 for Materials and Supplies.

Criteria:
The USOA states, in part, that:

> *151. Materials and Supplies*

A. This account shall include the cost of materials and supplies on hand, purchased for use in plant construction or repair work.

D. Inventories of materials and supplies shall be taken at least annually, and the necessary adjustments shall be made to bring this account into agreement with the actual quantities on hand.

Cause:
TSVU reported an estimated value of Material and Supplies instead of actual cost because they do not have procedures in place to perform periodic inventory counts of assets reported as Materials and Supplies to ensure that the G/L account was in agreement with actual quantities on hand.

Effect:
UAB was unable to determine the accuracy of the reported ending balance of Materials and Supplies in the Annual Report due to lack of supporting documentation to verify the amount. Consequently, the balance of Materials and Supplies reported in the Annual Report may be materially misstated.

Recommendation:
TSVU should implement procedures to perform periodic inventory counts of assets reported in the Materials and Supplies account. Performing monthly or quarterly inventory counts would be appropriate. Going forward, TSVU should follow the USOA guidelines and use actual costs as the materials and supplies in its G/L and Annual Reports.

Finding 7: Property Tax Prepayment Reporting Deficiency

Condition:
TSVU did not prorate property tax payments to the correct accounting year. In 2017, TSVU paid $4,744 of property taxes for the period of January 2018 through June 2018 but incorrectly recorded the payment as an expense for the year of 2017. This expense belongs to the Year 2018 and should have been recorded and reported as such. Likewise, TSVU paid $4,932 of property taxes in 2018 for the period of January 2019 through June 2019 and recorded it as an expense for the year of 2018. The expense account for Taxes Other Than Income Taxes (Account 408) was overstated by $188 and Account 174, Other Current Assets, was understated by $4,932.

Criteria:
The USOA states, in part:

2. General Accounting Instructions

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

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.

Cause:
The TSVU lacks internal controls over its financial reporting to ensure that account balances were reported using accrual basis of accounting.

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

Recommendations:
TSVU should:

- Ensure that all account balances are properly reported in the Annual Report
- Use accrual basis of accounting to comply with the USOA.

Finding 8: Customer Deposits Reporting Deficiency

Condition:
TSVU incorrectly reported a balance of $21,814 for Customer Deposits in Account 233 in the Annual Report. Per TSVU, the Customer Deposits pertained to advance payments received from customers in 2018 for water services in 2019. However, the USOA specifies that Customer Deposits in Account 233 should only be used to record amounts deposited by customers as security for payments of water bill. Advance payments from customers should be recorded as Other Credits in Account 253.

Criteria:
The USOA states, in part, that:

> *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.*
>
> *233. Customer Deposits*
> *This account shall include all amounts deposited with the utility by customers as security for payment of water bills.*

Cause:
TSVU does not have proper internal control in place over financial reporting to ensure that advance payments from customers are reported in the correct account.

Effect:
Inaccurate reporting of Customer Deposits and Other Credits account balances distorted TSVU's financial position as of December 31, 2018.

Recommendation:
TSVU should implement procedures to ensure that advance payments from customers are properly recorded and reported in the Annual Report.

Finding 9: Payroll Taxes Liability Reporting Deficiencies

Condition:
UAB noted the following deficiencies pertaining to TSVU's payroll taxes:

- TSVU did not report the liability for Accrued Taxes (Account 236) in the Annual Report. The total State and Federal payroll taxes reported on the quarterly federal tax return was $68,885. During 2018, TSVU made $8,237 of estimated payroll tax payments; therefore, the TSVU's payroll tax liabilities as of December 31, 2018, was $60,647. As a result, the liability recorded in the Taxes Accrued account was understated by $60,647.

- TSVU did not correctly record the payments it made for its State payroll taxes. TSVU made actual payments totaling $20,172 in 2018 for 2017 and 2018 State payroll taxes. However, only $18,376 of State payroll tax payments were recorded in the 2018 G/L. As a result, Cash (Account 131) was overstated by $1,796 while Taxes Other Than Income Taxes (Account 408) was understated by the same amount.

Criteria:
The USOA states, in part, that:

> *2. General Accounting Instructions*
>
> *A. The books of account of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year.*
>
> *236. Taxes Accrued*
>
> *This account shall include all taxes accrued or payable by the utility including property taxes, payroll taxes, withholding taxes, and corporation income taxes.*
>
> *This account shall be credited during each accounting period with the amount of taxes accrued during the period. Such credits may be based upon estimates, but from time to time during the year, the amount of the periodic credits shall be adjusted so as to reflect the correct tax liability. Any amount representing a prepayment of taxes applicable to the period subsequent to the date of the balance sheet shall be shown under Account 174, Other Current Assets.*

Cause:
TSVU lacks internal control over its financial reporting to ensure that account balances were reported using accrual basis of accounting.

Effect:
Inaccurate reporting of Cash (Account 131) distorted TSVU's financial position as of December 31, 2018. Misstated Taxes Other Than Income Taxes (Account 408) in the Annual Report, which may be used during TSVU's GRC application review process, could potentially impact the water rates for TSVU's ratepayers.

Recommendations:
TSVU should:

- Ensure that all payments and prepayments are properly recorded in the accounting records and reported in the Annual Report.
- Comply with the accounting requirements specified by the USOA by using accrual basis of accounting to record and report its financial data.

Finding 10: Accumulated Amortization of Contributions Reporting Deficiency

Condition:
During the review of TSVU's Contributions in Aid of Construction (CIAC) account, UAB noted that TSVU did not calculate and report Accumulated Amortization of Contributions. The USOA requires that contributions of cash reported in CIAC (Account 265) should be amortized over a period equal to the estimated service life of the property that was constructed using the donated funds. We recalculated the accumulated amortization of contributions and determined that the balance in this account should be $6,977 as of December 31, 2018. As a result, Accumulated Amortization of Contributions and Accumulated Depreciation of Water Plant (Account 108) were understated by $6,977.

Criteria:
The USOA states, in part, that:

> *5. Contributions in Aid of Construction*
>
> *Non-refundable contributions of cash or plant facilities donated to the water utility to assist it in constructing, extending or relocating its water facilities shall be credited to an appropriate subaccount of Account 265, Contributions in Aid of Construction. (See Account 265 for description of items includible in this account.)*
>
> *Balances in this account representing contributions of depreciable plant shall be written off over a period equal to the estimated service life of the property involved by charges to an appropriate subaccount of Account 272, Accumulated Amortization of Contributions (instead of to account 403, Depreciation Expense), with contra credits to and credit to an appropriate subaccount of Account 108, Accumulated Depreciation of Water Plant. The charges to this account shall continue until such time as the balance in this account applicable to such properties has been completely amortized. The balance in the account applicable to non-depreciable property shall remain unchanged until such time as the property is sold or otherwise retired. At time of retirement of non-depreciable property, which was acquired by grant funds, the costs thereof shall be credited to the appropriate plant account and charged to this account in order to eliminate any credit balance in the grant account applicable thereto. The net salvage realized on the retirement of grant-funded property shall be recorded as a credit to the appropriate subaccount of Accumulated Depreciation of Water Plant.*

Cause:
TSVU does not have adequate internal control in place to ensure that the amortization of Contributions was properly calculated and reported in the Annual Report.

Effect:

Submitting inaccurate financial information on the Annual Report, which may be used during TSVU's GRC proceeding, could impact the Utility's water rates.

Recommendation:
The TSVU should ensure that amortization of water plant is properly calculated and reported in the Annual Report.

Finding 11: CPUC Users Fee Reporting Deficiencies

Condition:
TSVU treated CPUC Users Fee as a pass-through activity without reporting the revenue and expenses associated with the collections and remission of the Users Fee. TSVU's detailed trial balance showed that during 2018 the TSVU collected from its customers and remitted to the CPUC Users Fee totaling $4,673. As a result, both the Other Water Revenue (Account 480) and Regulatory Commission Expense (Account 688) were understated by $4,673.

Criteria:
The USOA states, in part:

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

Cause:
TSVU lacks adequate internal control to ensure that the collection and remittance of CPUC Users Fee were properly recorded as Other Water Revenue and Regulatory Commission Expense in the G/L and reported as such in the Annual Report.

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

Recommendation:
TSVU should follow the USOA guidelines and record and report CPUC Users Fee in the Annual Report.

Finding 12: Operating Revenues – Reporting Deficiencies

Condition:
TSVU did not report revenues using accrual basis of accounting. Metered Water Revenue totaling $16,013 earned during the period of July through November 2017 was reported as revenue in 2018. Additionally, Metered Water Revenue and Accounts Receivable totaling $13,524 for water consumed by customers during the period of July through November 2018 were not accrued for the Year 2018 as of December 31, 2018. As a result, the 2018 Metered Water Revenue (Account 470) was overstated by $2,489, and Accounts Receivable (Account 141) was understated by $13,524 in the Annual Report.

Criteria:
The USOA states, in part, that:

400. Operating Revenues

This is the revenue control account in which is summarized the total of amounts credited to revenue accounts 460 through 480.

2. General Accounting Instructions:

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

Cause:
TSVU lacks adequate internal control over its financial reporting to ensure that revenues were recorded and reported using accrual basis of accounting.

Effect:
Inaccurate reporting of Accounts Receivable (Account 141) distorted TSVU's financial position as of December 31, 2018. Misstated Other Water Revenue (Account 480) in the Annual Report, which may be used during TSVU's GRC application review process, could potentially impact the water rates for TSVU's ratepayers.

Recommendation:
TSVU should report revenue using accrual basis of accounting as required by the USOA.

Finding 13: Operating Expense Reporting Deficiencies

Condition:
UAB reviewed TSVU's operating expenses and noted the following deficiencies:

- TSVU incorrectly reported a $2,078 expense for equipment rental as Contract Work (Account 650). According to the USOA, Account 650 should only include costs of repair and maintenance work not performed by water company employees. Equipment rental expense should have been recorded as Other Plant Maintenance Expense in Account 664.

- TSVU did not report expenses using accrual basis of accounting. Electricity expense totaling $923 incurred in December 2017 was improperly recorded for the Year 2018. In addition, TSVU did not accrue electricity expenses totaling $1,384 incurred in December 2018 for Year 2018. As a result, Power expenses and Accounts Payable were understated by $461 and $1,384, respectively, as of December 31, 2018.

- TSVU incorrectly reported management salaries, incurred in connection with preparing documentation for formal matters presented to the CPUC, as Regulatory Commission Expense. According to the USOA, Regulatory Commission Expense should not include management salaries. As a result, the Regulatory Commission Expense was overstated by $3,471, while Management Salaries were understated by the same amount.

Criteria:
The USOA states, in part, that:

> *650 – Contract Work*
>
> *This account shall include the cost of all repair and maintenance work not performed by water company employees. Examples of such expenses are pump repairs, repairs of water system leaks by local plumbers, painting of tanks by painting contractors, and testing of water by laboratories. This account shall include materials that are part of a contract price if the cost of such materials is not separately stated, and incidental operation and maintenance expenses not chargeable to accounts 630 or 640. The following subaccounts shall be used, if applicable.*
>
> *2. General Accounting Instructions*
>
> *A. Each utility shall post its accounts monthly and shall close its books at the end of each calendar year.*

Cause:
TSVU lacks adequate internal control over its financial reporting to ensure that expenses were reported in the correct account and expenses were recorded when a liability was incurred.

Effect:
Inaccurate reporting of Accounts Payable (Account 231) distorted TSVU's financial position as of December 31, 2018. Misstated expenses for Contract Work (Account 650), Other Plant Maintenance Expense (Account 664), Power (Account 651), Management Salaries (Account 671), and Regulatory Commission Expense (Account 688) in the Annual Report, which may be used during TSVU's GRC application review process, could potentially impact the water rates for TSVU's ratepayers.

Recommendations:
TSVU should ensure that:
- Expenses are recorded using an accrual basis of accounting.
- Expenses are recorded in the correct accounts pursuant to the USOA.

Finding 14: Payroll Reporting Deficiencies

Condition:
UAB noted the following deficiencies in TSVU's payroll system:

- TSVU incorrectly reported expenses for management salaries as Office Salaries in Account 670. According to the USOA, salaries for managers and owners should be recorded as Management Salaries in Account 671. As a result, expenses for Office Salaries were overstated by $9,680 while Management Salaries was understated by the same amount.

- TSVU did not maintain timecards to support 9 of 19 payroll transactions selected for review during the month of August 2018. In addition, the employee timecards were not signed and dated by the employees or supervisors.

Criteria:
The USOA states, in part, that:

> *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.*
>
> *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.*

Good internal control and prudent business practices require businesses to obtain timely signed timecards from employees to validate each employee's total working hours.

Cause:
TSVU does not have adequate internal control over its financial reporting to ensure that management salaries were recorded in the correct account and all employees submitted signed timecards to validate the total number of hours they work.

Effect:
Inaccurate reporting of Office Salaries and Management Salaries in the Annual Report distorted TWVU's Income Statement for the year ended December 31, 2018. In addition, the lack of review and approval on employee time records could potentially result in employees being paid inaccurately.

Recommendations:
TSVU should:

- Ensure that salaries for managers and owners are properly reported in the Management Salaries account as required by the USOA.
- Implement procedures that require each employee to timely submit timecards to support their work and ensure the timecards are approved by a supervisor.

Finding 15: Uncollectible Accounts Expense Reporting Deficiency

Condition
TSVU incorrectly reported Uncollectible Account expenses in the Annual Report. A metered customer had an excessive water leak during 2018. TSVU billed the customer $2,418 for water usage and recorded the revenue and Accounts Receivable for the same amount. After the customer disputed the invoice, TSVU reached an agreement with the customer to credit the customer's account for half of the billed amount, or $1,209. TSVU properly recorded the adjustment ($1,209) to reduce the Accounts Receivable and revenue in the G/L. However, TSVU incorrectly made an additional increase of $1,209

to the Uncollectible Accounts Expense (Account 676) in its Annual Report. As a result, Uncollectible Accounts Expense was overstated by $1,209 in the Annual Report.

Criteria:
The USOA states, in part, that:

> *676. Uncollectible Accounts Expense*
>
> *A. This account shall be charged with amounts sufficient to cover losses from uncollectible accounts receivable.*
>
> *C. If the utility writes off bad debts directly as accounts are determined to be uncollectible, the contra credit shall be to Account 141, Accounts Receivable - Customers.*

Cause:
TSVU lacks adequate internal control over its financial reporting to ensure that account balances were accurately reported on the Annual Report.

Effect:
Misstated Uncollectible Accounts Expense (Account 676) in the Annual Report, which may be used during TSVU's GRC application review process, could potentially impact the water rates for TSVU's ratepayers.

Recommendation:
TSVU should implement procedures to ensure that account balances are properly reported on the Annual Report in accordance with the USOA.

Finding 16: Miscellaneous Non-Utility Expense Reporting Deficiency

Condition:
UAB noted the following deficiencies pertaining to TSVU's Miscellaneous Non-Utility Expense account:

- TSVU reported $258 of Miscellaneous Non-utility Expenses in the Annual Report, but the Trial Balance showed $3,534.
- TSVU incorrectly recorded a $2,280 payment for water system fees paid to the State Water Resources Control Board as a non-utility expense. The expense was incurred for the purpose of water utility operations and should have been recorded as an operating expense in the Regulatory Commission Expense (Account 688).

As a result, Miscellaneous Non-Utility Expenses (Account 426) and Regulatory Commission Expense (Account 688) were understated by $454 and $2,280, respectively.

Criteria:
The USOA states, in part, that:

> *426. Miscellaneous Non-Utility Expense*

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

688. Regulatory Compliance Expense
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:
TSVU does not have adequate internal controls in place to ensure that transactions were accurately recorded and reported.

Effect:
Misstated Miscellaneous Non-Utility Expenses (Account 426) and Regulatory Commission Expense (Account 688) in the Annual Report, which may be used during TSVU's GRC application review process, could potentially impact the water rates for TSVU's ratepayers.

Recommendation:
The TSVU should ensure that all operating expenses are properly recorded in the correct account.

CONCLUSION

In conducting this audit, we obtained an understanding of TSVU's internal controls, including any information systems controls that we considered significant within the context of our audit objective. We assessed whether those controls were properly designed, implemented, and operating effectively. Significant deficiencies in internal control were identified during this audit and detailed in the Audits Findings and Recommendation section of this report.

TSVU's management is responsible for the preparation and fair presentation of its 2018 Annual Report filed with the CPUC. The CPUC requires that the statements be in accordance with the accounting requirements as set forth in CPUC's USOA. TSVU's management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its 2018 Annual Report that are free from material misstatements, whether due to fraud or error. In addition, TSVU's management is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC directives.

We conducted our audit in accordance with the applicable PU Code, regulations, and CPUC's directives. We planned and performed the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings, audit adjustments, and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, audit adjustments, and recommendations presented in this report.

TSVU Management should submit an electronic copy of its corrective action plan to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Lucian Filler, Deputy Executive Director of CPUC, at Lucian.Filler@cpuc.ca.gov, and Bruce DeBerry at Bruce.DeBerry@cpuc.ca.gov no later than June 15, 2020. The corrective action plan should address how TSVU will implement the recommendations and provide the timing of incorporating UAB's audit adjustments to TSVU books and records. If TSVU is unable to implement UAB's recommendations, the corrective action plan should state the reason(s) for not being able to implement any of the recommendations. TSVU should use the audited amounts in UAB's audit report as the basis to file its 2019 Annual Report with the CPUC.

VIEWS OF RESPONSIBLE OFFICIAL

On April 8, 2020, UAB provided a draft audit report to TSVU for comments. On April 21, 2020, TSVU provided its comments to UAB, which are included in Appendix D of this report. UAB's evaluations of and rebuttals to those comments are in Appendix E of this report. Where appropriate, UAB modified its preliminary audit findings and recommendations. The audit findings and recommendations presented in this report represent our final determination of this audit.

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: Alice Stebbins, Executive Director, CPUC
Lucian Filler, Deputy Executive Director, CPUC
Bruce DeBerry, Program Manager, Water Division
Raymond Yin, Program and Project Supervisor, UAB
Khusbindar Kaur, Senior Management Auditor, UAB
Sharmin Wellington, Public Utilities Regulatory Analyst V, UAB
Sam Niepoth, Staff Services Management Auditor, UAB

TAHOE SWISS VILLAGE UTILITY, INC.
BALANCE SHEET (AS AUDITED)
As of December 31, 2018

ASSETS	
UTILITY PLANT	
Water Plant in Service (Note 2)	$2,053,870
Water Plant Acquisition Adjustments (Note 2)	23,088
Accumulated Depreciation of Water Plant (Note 2)	(896,201)
Net Utility Plant	1,180,757
CURRENT AND ACCRUED ASSETS	
Cash	62,128
Cash – Special Deposit (Note 4)	18,000
Accounts Receivable – Customers	15,128
Materials and Supplies (Note 3)	5,810
Other Current Assets	4,932
Total Current and Accrued Assets	105,998
Total Assets	$1,286,755
LIABILITIES AND OTHER CREDITS	
CORPORATE CAPITAL AND SURPLUS	
Common Stocks	$40,000
Retained Earnings (Note 8)	1,136,397
Total Corporate Capital and Retained Earnings	1,176,397
CURRENT AND ACCRUED LIABILITIES	
Accounts Payable	1,384
Accrued Taxes	60,647
Total Current and Accrued Liabilities	62,031
DEFERRED CREDITS	
Advances for Construction (Note 5)	962
Other Credits	35,200
Total Deferred Credits	36,162
CONTRIBUTION IN AID OF CONSTRUCTION	
Contributions in Aid of Construction (Note 6)	19,142
Accumulated Amortization of Contributions	(6,977)
Net Contributions in Aid of Construction	12,165
Total Equity and Liabilities	$1,286,755

(The accompanying Notes to Financial Statements are an integral part of these Financial Statements)

TAHOE SWISS VILLAGE UILITY
INCOME STATEMENT (AS AUDITED)
For Year Ended December 31, 2018

OPERATING REVENUES	
Unmetered Water Revenue	$310,309
Fire Protection and Hydrant Revenue	8,044
Metered Water Revenue	18,820
Other Water Revenue	6,571
Total Operating Revenues	343,744
OPERATING EXPENSES	
Plant Operation and Maintenance Expenses	
Power	20,991
Other Volume Related Expenses	580
Employee Labor	11,070
Materials	10,548
Contract Work	9,877
Transportation Expenses	3,725
Other Plant Maintenance Expenses	2,541
Total Plant Operation and Maintenance Expense	59,332
Administrative and General Expenses	
Management Salaries	54,126
Employee Pensions and Benefits	16,587
Office Services and Rentals	4,800
Office Supplies and Expenses	10,394
Professional Services	6,056
Insurance	7,045
Regulatory Commission Expense (Note 7)	7,196
General Expenses	2,902
Total Administrative and General Expenses	109,106
Total Operating Expenses	168,438
Depreciation Expense (Note 2)	51,361
Taxes Other Than Income Taxes	19,434
State Corporate Income Tax Expense	65
Total Operating Revenue Deductions	239,298
Total Utility Operating Income	104,446
OTHER INCOME AND DEDUCTIONS	
Non-Utility Income	(35)
Miscellaneous Non-Utility Expense	1,254
Total Other Income and Deductions	1,219
Net Income	$103,227

(The accompanying Notes to Financial Statements are an integral part of these Financial Statements)

TAHOE SWISS VILLAGE UTILITY, INC.
STATEMENT OF CHANGES IN RETAINED EARNINGS (AS COMPILED [5])
For Year Ended December 31, 2018

Retained Earnings, Beginning of Year	**$1,036,337**
CREDITS:	
Net Income	103,227
UAB Adjustment to Water Plant in Service	47,168
UAB Adjustment to Cash	28,667
UAB Adjustment to Cash - Special Deposit	18,000
UAB Adjustment to Other Current Asset	4,932
UAB Adjustment to Customer Deposits	21,814
UAB Accumulated Amortization of Contributions	6,977
UAB Adjustment to Miscellaneous Non-Utility Expense	996
UAB Adjustment to Operating Expenses	6,205
UAB Cumulative Adjustment to Beginning Balance[6]	68,640
Total Credits	**306,626**
DEBITS:	
UAB Adjustment to Accumulated Depreciation	(5,003)
UAB Adjustment to Accounts Receivable	(99,986)
UAB Adjustment to Depreciation Expense	(1,974)
UAB Adjustment to Other Credits	(35,200)
UAB Adjustment to Operating Revenues	(2,184)
UAB Adjustment to Taxes Accrued	(60,647)
UAB Adjustment to Income Other than Income Taxes	(188)
UCB Adjustment to Accounts Payable	(1,384)
Total Debits	**(206,566)**
Retained Earnings, End of Year	**$1,136,397**

(The accompanying Notes to Financial Statements are an integral part of these Financial Statements)

[5] UAB compiled the Statement of Retained Earnings based on the audited Balance Sheet and Income State, and other relevant financial data. UAB could not attest to the accuracy of the Retained Earnings balance due to the lack of historical information. Attesting to the accuracy of Retained Earnings balance as of December 31, 2018, would require auditing the Retained Earnings from the inception of the company. Due to the limitations of our audit scope, we do not attest to the accuracy of retained earnings.

[6] UAB included a cumulative adjustment to the reported beginning balance of Retained Earnings as of January 1, 2018. The Balance Sheet included in the TSVU's Annual Report did not foot. UAB determined that the cumulative adjustment was necessary to correct the beginning balance of Retained Earnings as of January 1, 2018. See Note 8 of the Financial Statements and Appendix C.

Regulated water utilities are required to prepare their financial statements on the accrual basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities adopted in Decision (D.) 16-11-006 by the California Public Utilities Commission (CPUC) on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The following describes certain differences in accounting treatments between GAAP and USOA, the company's current accounting practices, and its compliance with applicable regulation and CPUC directives.

1. Purpose of Financial Information and Targeted Audience

The objective of preparing financial statements in accordance with GAAP is to provide information that is useful in making decisions about providing resources to the entity. Users of the financial information include existing and potential investors, lenders, and other creditors.

The purpose of using USOA to prepare financial statements is to have the utilities provide financial transparency of their water operations on a consistent basis. The primary user of the financial information is the CPUC for ratemaking and other compliance purposes.

2. Property, Plant, and Equipment

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

(1) Depreciation Methodology

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

USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Water utilities are required to comply with the CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over $100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under $100,000, if the utility elects not to separate or maintain the depreciation reserve by accounts, it is appropriate to develop a composite value for remaining life for the entire plant in accordance with Appendix B2 or B3 of SP U-4-SM. The USOA suggested that all utilities maintain a separate accumulated depreciation subaccount for each depreciable plant account; and it is mandatory for water utilities with more than 500 customers.[7] The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

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

TSVU computes depreciation on a composite depreciation rate of 2.7%. The CPUC's SP U-04-SM, Paragraph 22, specifies that the annual composite depreciation rate generally falls within the range of 2.0% to 3.5%.

(2) Asset Retirement

USOA requires that water plant be recorded at the original cost. In USOA's depreciation schedule, the difference between the estimated cost of removal and the salvage value is included in the depreciable base to obtain the annual depreciation expense. When retiring an asset, the cost of removal will reduce the balance of Account 108, Accumulated Depreciation of Water Plant, while the cash received from the salvage value or sale price will increase the balance of Account 108, Accumulated Depreciation of Water Plant. The gain or loss from the asset retirement that is recognized under GAAP is recorded in Account 108, Accumulated Depreciation of Water Plant under the USOA.

(3) Water Plant Acquisition Adjustments

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

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

The TSVU reported an acquisition adjustment of $23,088 for the year ended December 31, 2018. This adjustment is the difference between (1) the cost of acquiring the Tahoe Swiss Village district in 1987 and the Glenridge district in 1989 and (2) the net amounts distributed to the plant accounts for these acquisitions.

3. Inventory

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

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

The TSVU reported an estimated balance of $5,810 in the materials and supplies accounts, instead of reporting the actual account balance.

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 about the timing of the use, the restricted cash can be classified as Other Assets.

Under USOA, the restricted funds are recorded to Account 132, Cash–Special Deposits, which should include cash amounts set aside from general corporate funds, deposited in a separate account with fiscal agents or others, and designated for a special use. A separate subaccount shall be maintained for each designated special use. Interest earned from this account shall be credited to Account 421, Non-Utility Income.

The TSVU had a restricted cash balance of $18,000 as of December 31, 2018; however, the amount was not reported on the Annual Report.

5. Advances for Construction

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

As of December 31, 2018, the TSVU reported a balance of $962 for advances for construction.

6. Contribution in Aid of Construction (CIAC)

CIAC account records non-refundable contributions of cash, land or other property donated to the water utility to assist it in constructing, extending, or relocating its water system. The funds can be from governmental agencies and others. The balances in this account shall be written off over the period of its estimated service life by charging to Account 272, Accumulated Amortization of Contributions instead of Deprecation Expense account, with contra credits to the appropriate subaccount of Account 108, Accumulated Depreciation of Water Plant.

The TSVU reported a balance of $19,142 for CIAC; however, the TSVU did not amortize the CIAC.

(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, 2018, the TSVU had $18,000 of unspent Facilities Fees, but did not report it on the Annual Report.

7. Water Utility Users Fee

PU Code, Sections 431 and 433 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. USOA requires water utilities to credit regular operating revenue accounts with amounts of Users Fee billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to the CPUC.[8]

The TSVU collected and remitted $4,673 Users Fee to the CPUC; however, it was not reported on the 2018 Annual Reports per the USOA guidelines.

8. Retained Earnings

UAB compiled the Statement of Retained Earnings based on the audited Balance Sheet and Income Statement, and other relevant financial data. UAB could not attest to the accuracy of Retained Earnings balance due to lack of historical information on them. Attesting to the accuracy of Retained Earnings balance as of December 31, 2018, would require auditing the Retained Earnings from the inception of the company. Due to the limitations of our audit scope, we do not attest to the accuracy of retained earnings.

The Balance Sheet included in the TSVU's Annual Report was not in balance. Total Assets reported on the Balance Sheet was $1,292,977 and Total Equity and Liabilities equaled $1,203,028, resulting in a variance of $89,949. Refer to Appendix C for Memorandum adjustments that were applied by UAB.

9. Form of Financial Statements[9]

(1) Balance Sheet

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

(2) Income Statement

The form of Income Statement reflects the classification of revenues and expenses in ratemaking. Operating revenues and expenses are referred to as "above the line" because they

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

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

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 affect the form of the income statement, the classification of revenues and expenses, and decisions of management in incurring expenses.

10. 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 audit report.

11. Compliance filing of 2018 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 audited, TSVU complied with these requirements.

UAB'S AUDIT ADJUSTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Audit Adj. No.	Annual Report			Acct.			
	Sch.	Line	Col.	No.	Description	Debit	Credit
1	A	2	b	101	Water Plant in Service	$23,213	
	A	6	c	215	Retained Earnings		$23,213
					To increase the balance in the Water Plant in Service account relating to labor expense that was capitalized during the year.		
2	A	1	c	101	Water Plant in Service	$23,955	
	A	6	c	215	Retained Earnings		$23,955
					To adjust the Water Plant in Service account to include plant built using contributed funds and advances for construction.		
3	A	14	b	108	Accumulated Depreciation	$1,974	
	B	6	c	403	Depreciation Expense		$1,974
					To adjust the depreciation expense account.		
4	A	30	c	131	Cash	$27,667	
	A	34	c	253	Other Credits		$15,779
	A	3	c	215	Retained Earnings		11,888
					To adjust the balance reported for the Cash account.		

Audit Adj. No.	Annual Report Sch.	Line	Col.	Acct. No.	Description	Debit	Credit
5	A	31	c	132	Cash - Special Deposit	$18,000	
	A	30	c	131	Cash	1,000	
	A	27	c	253	Other Credits		$18,000
	A	6	c	215	Retained Earnings		1,000
					To adjust the balance reported for the Special Deposit account.		
6	A	6	c	215	Retained Earnings	$114,931	
	A	32	c	141	Accounts Receivables - Customers		$113,510
	A	27	c	253	Other Credits		1,421
					To adjust the Accounts Receivables balance.		
7	A	36	c	174	Other Current Asset	$4,932	
	B	8	c	408	Taxes Other than Income Taxes		$188
	A	6	c	215	Retained Earnings		4,744
					To record the property tax prepayment made in 2018.		
8	A	19	c	233	Customer Deposits	$21,814	
	A	6	c	215	Retained Earnings		$21,814
					To adjust the balance reported in the Customer Deposits Account.		
9	A	6	c	215	Retained Earnings	$60,647	
	A	20	c	236	Taxes Accrued		$60,647
					To adjust the taxes accrued balance on the Annual Report.		
10	A	34	c	272	Accumulated Amortization of Contributior	$6,977	
	A	14	b	108	Accumulated Depreciation of Water Plant		$6,977
					To record accumulated amortization of contributions.		

Audit Adj. No.	Annual Report Sch.	Line	Col.	Acct. No.	Description	Debit	Credit
11	B-2	26	b	688	Regulatory Commssion Expense	$4,673	
	B-1	26	b	480	Other Water Revenue		$4,673
					To record CPUC Users Fees per the USOA guidelines.		
12	A	32	c	141	Accounts Receivables – Customers	$13,524	
	B-1	17	b	470	Metered Revenues	2,489	
	A	6	c	215	Retained Earnings		$16,013
					To adjust the metered revenues account for the prior year revenues that were recorded in the current year.		
13	B-2	13	b	664	Other Plant Maintenance Expenses	$2,078	
	B-2	11	b	650	Contract Work Expense		$2,078
					To reclassify expenses that were incorrecly recorded as contract work.		
14	B-2	4	b	615	Power	$461	
	A	6	c	215	Retained Earnings	923	
	A	17	c	231	Accounts Payable		$1,384
					To correctly record Power expense and to accrue December 2018 accounts payable relating to power.		
15	B-2	19	B	671	Management Salaries	$3,471	
	B-2	26	B	688	Regulatory Commission Expense		$3,471
					To reclassify management expense that was incorrectly reported as Regulatory Commission Expense.		
16	B-2	19	b	671	Management Salary	$9,680	
	B-2	18	b	670	Office Salary		$9,680
					To reclassify management salary that was recorded as office salary.		

Audit Adj. No.	Annual Report Sch.	Line	Col.	Acct. No.	Description	Debit	Credit
17	A	6	B	215	Retained Earnings	$1,209	
	B-2	21	B	676	Uncollectible Account Expense		$1,209
					Audit Adjustment to correct incorrect use of Uncollectable Account Expense.		
18	B	16	c	426	Miscellaneous Non-utility Expense	$996	
	B-2	26	b	688	Regulatory Commission Expense	2,280	
	A	6	c	215	Retained Earnings		$3,276
					To adjust the miscellaneous Non-utility Expense Account.		

APPENDICES

APPENDIX A—BALANCE SHEETS (AS REPORTED) [10]

	As of	
	12/31/2018	12/31/2017
ASSETS		
UTILITY PLANT		
Water Plant in Service	$2,006,702	$1,826,186
Construction Work in Progress – Water Plant	0	1,525
Accumulated Depreciation of Water Plant	(891,198)	(837,863)
Water Plant Acquisition Adjustment	23,088	23,088
Net Utility Plant	1,138,592	1,012,936
CURRENT AND ACCRUED ASSETS		
Cash	33,461	117,194
Other Investments	0	67,489
Accounts Receivable – Customers	115,114	8,425
Materials and Supplies	5,810	5455
Total Current and Accrued Assets	154,385	198,563
Total Assets[11]	$1,292,977	$1,211,499
CAPITALIZATION AND LIABILITIES		
CORPORATE CAPITAL AND SURPLUS		
Common Stocks	$40,000	$45,000
Retained Earnings	1,121,110	1,036,337
Total Corporate Capital and Surplus	1,161,110	1,081,337
CURRENT AND ACCRUED LIABILITIES		
Customer Deposits	21,814	0
Total Current and Accrued Liabilities	21,814	0
DEFERRED CREDITS		
Advances for Construction	962	1,203
Total Deferred Credits	962	1,203
CONTRIBUTIONS IN AID OF CONSTRUCTION		
Contributions in Aid of Construction	19,142	19,142
Accumulated Amortization of Contributions	0	0
Net Contributions in Aid of Construction	19,142	19,142
Total Equity and Liabilities[9]	$1,203,028	$1,101,682

[10] The reported amounts were derived directly from TSVU's 2017 and 2018 Annual Reports for both Tahoe Swiss Village Utility District and Glenridge Park District. They do not represent the audited amounts. They are included here for disclosure purposes only.

[11] The Balance Sheet included in the TSVU's Annual Report was not in balance. Total Assets reported on the Balance Sheet was $1,292,977 and Total Equity and Liabilities equaled $1,203,028, resulting in a variance of $89,949. Refer to Appendix C and Financial Statement Disclosure Note 8.

APPENDIX B—INCOME STATEMENTS (AS REPORTED) [12]

	For the Year of	
	2018	2017
OPERATING REVENUES		
Unmetered Water Revenue	$312,207	$303,625
Fire Protection Revenue	8,044	$7,295
Metered Water Revenue	21,309	17,754
Total Operating Revenue[13]	320,251	328,674
OPERATING EXPENSES		
Plant Operation and Maintenance Expenses		
Power	20,530	16,995
Other Volume Related Expenses	580	603
Employee Labor	11,070	11,265
Materials	10,548	9,488
Contract Work	9,877	6,631
Transportation Expenses	5,803	22,264
Other Plant Maintenance Expenses	463	234
Total Plant Operation and Maintenance Expenses	58,871	67,480
Administrative and General Expenses		
Office Salaries	9,680	9,020
Management Salaries	40,975	41,507
Employee Pensions and Benefits	16,587	17,895
Uncollectible Accounts Expense	1,209	200
Office Services and Rentals	4,800	4,800
Office Supplies and Expenses	10,394	10,565
Professional Services	6,056	7,860
Insurance	7,045	6,882
Regulatory Commission Expense	3,714	2,916
General Expenses	2,902	2,978
Net Administrative and General Expenses	103,362	104,623
Total Operating Expenses	162,233	172,103
Depreciation Expense	53,335	48,502
Taxes Other Than Income Taxes	19,622	17,988
State Corporate Income Tax Expense	65	2,321
Total Operating Revenue Deductions	235,255	240,914
TOTAL UTILITY OPERATING INCOME	84,996	87,760
OTHER INCOME AND DEDUCTIONS		
Non-Utility Income	35	31
Interest Expense	(258)	(337)
Total Other Income and Deductions	(223)	(306)
NET INCOME	$84,773	$87,454

[12] The reported amounts were derived directly from TSVU's 2017 and 2018 Annual Reports for Tahoe Swiss Village Utility District and Glenridge Park District. They do not represent the audited amounts. They are included here for disclosure purposes only.

[13] TSVU's Schedule B-1 – Operating Revenues contained a mathematical error which resulted in an understatement of Total Operating Revenues reported on the Income Statement. Refer to Appendix C.

APPENDIX C—UAB MEMO ADJUSTMENTS

The Balance Sheet included in the TSVU's Annual Report was not in balance. Total Assets reported on the Balance Sheet was $1,292,977 but the Total Equity and Liabilities equaled $1,203,028, resulting in a variance of $89,949 (Refer to Appendix B – Income Statement – As Reported). Based on the UAB's audit of the Balance Sheet, Income Statement, and other relevant financial data, it was noted that the TSVU's Schedule B-1 – Operating Revenues contained a mathematical error which resulted in an understatement of Total Operating Revenues reported on the Income Statement. In addition, UAB noted that the TSVU did not use double-accounting entries to report transactions in the Annual Report. The UAB applied the following adjustments to the TSVU financial reports in order to balance the Balance Sheet.

Adj. No.	Annual Report			Acct. No.	Description	Debit	Credit
	Sch.	Line	Col.				
1	A	6	B	215	Retained Earnings		$68,640
2	B-1	26	B	400	Operating Revenues		21,309
							$89,949

APPENDIX D—TSVU'S RESPONSES

Tahoe Swiss Village Utility, Inc.
Post Office Box 102
Homewood, CA. 96141

Utility Audits Branch
400 R Street
Sacramento, CA 95811

April 21, 2020

This document is TSVU, Class D Water Company's response to Utility Audits Branch Draft dated April 8, 2020.

Executive Summary second paragraph, corrections are needed with information regarding service connections of the two water systems. TSVU end of year 2018 there were 383 service connections, 14 additional units served from an existing service connection, 25 public fire hydrants and 29 private fire services, a connection serving a residential fire sprinkler service. Glenridge Park Water had 46 flat rate, 12 public fire hydrants and 5 private fire service connections serving a residential fire sprinkler service.

Describing the operations and accounting for Glenridge Park, SWRCB Division of Water regulates water quality separately from Tahoe Swiss, Placer County, for public health Rules and Regulations. Additionally, the CPUC Division of Water in GRC Resolution W-4484 dated July 8, 2004 requires TS keep two sets of Plant Accounts one for TSVU and Glenridge Park Water. Continuing, that GRC ordered Glen ridge Park track variable expenses separately; but 6 fixed expenses the "ten-percent" allocation with TS at a calculated rate of 10% to 90%. In the initial meeting of UAB's team and TS that 10% rule and water plant information was conveyed.

Finding 1: Correct there is no written policies and procedures for all noted items. I have been the President and General Manager of the utility since 1987; Steve Glazer is the only full-time employee. My first accountant was, John Fulton CPA, he performed that function with written ledgers; those were shown to the Audit Team during their inspection. I gained a great deal of knowledge by working with John for almost ten years. Finally purchasing the Sage Business Works accounting system. During the audit period TS provided all documents that the audit team requested; except not all time cards! My current CPA is Shawna McLaughlin; we have worked together for more than ten years. I have a complete and fairly accurate record of every improvement that has been installed in the water company. One review that the Audit Team requested was to input information on an excel sheet from 1987. I was able to provide very accurately those entries in the ledgers.

Finding 2: TSVU 2018 Annual Report -Schedule E -Employees and Their Compensation. TS correctly reported Employee Labor Salaries charged to Expense and Salaries Charged to Plant Accounts in the amount of $23,213. When TS has an improvement project we write weekly checks to its employees, often confirmed with a weekly time card before it's written. The Sage Accounting program for the payroll account cannot change from an expense account to a plant account. I track that on an excel spreadsheet. Before the end of the year I try to remember to make an entry for a General Ledger adjustment, debits of$23,212.75 to Water Mains, Services and Hydrants and a Credit of$23,212.75 for Employee Labor. However, I did not make that entry until 10/17/2019, my mistake.

Finding 3: TSVU agrees.

Finding 4: TS disagrees with this finding, all information pertinent to Facilities Fees was reported on the 2018 Annual Report page 33 Schedule M. Facility Fees Data,
Bank Name, Address, Account number, date opened and account balance at end of year. The audit is correct TS did not include that balance in Schedule A Account 132, but will do so in 2019. This year 2020, TS transferred M. Market minimum balance of $1,000 back into TS into checking account.

Finding 5: TS agrees

Finding 6: TS Annual Report is not just an estimate. I'm an experienced sales-engineer, worked for Groeniger (now Ferguson) Water Works supply company for several years selling pipes, valves, fittings and accessories for the maintenance and capital improvements for water companies to general engineering contractors. Currently, when I place an order for an improvement project I have two suppliers provide me with written estimates. I have professional experience and a good grasp on what materials cost. In my opinion the $5,810 amount for materials and supplies is a valid number, if anything it is an amount that is lower than actual costs of inventory. When I have any spare time, I will perform an inventory, and then request a supplier to provide current values.

Finding 7: The finding is correct; during my entire ownership of TS when the utility receives Placer and El Dorado Counties Private Water Company Statements we supply financial data for the year ending the previous year. In 2019 we provided amounts of improvements for 2018. The county invoices for 2019-2020 Secured Property Tax Bill but the values are from the previous year. We receive the billing in August, TS has always paid the entire amount before the end of the year. Each year is always the same, we pay both installments usually at the same time, and so it averages out. When TS has applied for a GRC, staff of the CPUC always gets copies of the County Tax bill in the calculation of acceptable expenses. The finding is correct we have never paid the county tax bill in two installments. However, the county offers the option to pay both installments in the year in which it's billed. TS will endeavor to pay the tax bill as presented ½ of the total amount on or before the due date.

Finding 8: TS agrees and shall now make the entry to record advance payments of water bill to account 253. Only use 222 for security payments, which TS has never required for water service.

Finding 9: Agrees there have been issues with state and federal payroll taxes module on Sage Business Works. TS will strive to make the noted corrections and seek assistance from Sage Business Works.

Finding 10: TS agrees with this finding. Contributions need to depreciate at the same amount as it goes into plant. Contributions are not included in rate base for any GRC proceedings!

Finding 11: TSVU and Glenridge have always paid the CPUC user fee when invoiced from the CPUC. The user fee is a surcharge, currently 1.23% of the water bill for the flat rate, metered, fire protection. The Sage Business Works Accounts Receivables module classifies and maintains an account balance detail report. At the end of the year I write a check to the CPUC at the end of the year in the amount of the balance. In TSVU last General Rate Base approved by the Commission Resolution W-5015 on January 15,2015. A review of the summary of earnings adopted Appendix A Operating Expenses account 688 Regulatory Commission Expense only allowed $2,000. That amount did not include the CPUC user fee surcharge. TS from now on will include the user fee surcharge in B-2 expenses (account 688) and Schedule B-1 Other water Revenue (480)

Finding 12: Per the adopted tariffs of TS, invoices for all water bills are once a year and due in advance. Future year's water bills are sent to all customers by December 1st for all types of water services flat, metered, fire protection. The bill is payable in two installments, equally due on January 1st and July 1st delinquent after 19 days. However, with the adoption of SB998 that will provide additional time allowed for paying water bills. This utility has snow on the ground for up to 6-7 months a year. TS tries to read the 11 meters, weather permitting; on or before December 1st second reading is close to, July 1st It is consistently done that way we have never included any meter readings to be invoiced three times in one year. There is always an exception, if a property changes ownership, then the seller is provided one last water bill at COE. Buyer pays a service establishment charge.

Finding 13: TS agrees with the finding. The rental of equipment (a ditch compactor) was entered as Contract Work in Account 650. "This account shall include the cost of all repair and maintenance." One fact, these machines are very labor intensive to service and maintain. Small engines are very expensive to keep operating and tuned up for high altitude. Therefor, it might be appropriate to expense it as a "mechanic" also known as contract labor.

No explanation or exception, but noted for understatement of Power and accounts payable by $461 and $1,384 respectively. In management of the company expenses to account 688 they shall be tracked, including this audit. TS, a small Class D water company has filed for all new rules and regulations that are required to be filed in a timely manner to comply with all CPUC matters.

Finding 14: TS, as previously noted, in its last GRC, Resolution W-5015 allowed in expenses. **Total Operating Expenses:** "The Division's estimate…For estimating TSVU"s office supplies & expenses, office and management salary expenses. Adjusted for inflation to TY 2013. Division finds TSVU's operating expense estimates reasonable. Included in that Resolution, **Ordered:** 4. Audit, Finance and Compliance Branch shall conduct a to be completed by December 31, 2015. That audit did not make any suggested changes to these expenses.

Finding 15: TS disagrees with this finding. The customer in question is one of my 11- metered customers. On July 2, 2018 this customer was invoiced for water use from November 30,2017 to July 1, 2018. The meter read was $2,385.16; CPUC user fee was $33.39 for a total invoiced amount of $2,418.55. The customer wrote a letter dated August 7, 2019 of protest to the CPUC Consumer Affairs Branch. Received CAB 10th of August 2018 12:01 pm #461105. In Paul Souza's letter he requested a credit adjustment of $2,200.

The CAB division called me informing me of the customer's complaint and request.
The negotiated amount of the credit was finally agreed to be one-half of the invoiced amount. In the Accounts receivable module on Sage Business Works the customers billed was credited by $1,209. Which correctly became Uncollectable Accounts Expense for 2018.

Finding 16: TS agrees with this finding, annually the State Water Resources Control Boards invoice is paid. In its accounting setup when TS was first invoiced account 426 was created to track that expense. From now on TS shall include that in account 688 Regulatory Commission

Expense. TS, from now on will show it as Other Water Revenue account 480.

TSVU's management is responsible for the correct preparation and fair presentation of Annual Reports. TSVU's management is responsible for the design, implementation, and maintenance of internal controls. TS is responsible for the development of its policies and procedures to ensure full compliance with applicable regulations and CPUC directives.

TSVU shall work diligently and professionally to comply with all of the UAB recommendations in the Executive Summary. Make all accounting entries to record expenses and plant values that will follow all CPUC Codes, Regulations and follow Uniform System Of Accounts within its means.

Respectively Submitted,

(TSVU representative’s name and signature are intentionally removed by UAB for privacy)

APPENDIX E—EVALUATION OF TSVU'S RESPONSES

Tahoe Swiss Village Utility, Inc. (TSVU) submitted its comments to Utility Audits Branch's (UAB's) draft report on April 21, 2020. The responses have been reviewed and incorporated into our final report. In evaluating TSVU's comments, we noted that TSVU only disagreed with UAB's Audit Findings 4 and 15. Therefore, we devoted our evaluation to address TSVU comments that disagreed with our findings. UAB's evaluation of TSVU's comments are presented below.

Updating Service Connection Data

UAB updated the service connection data of TSVU's Tahoe Swiss Village Utility District and Glenridge District on pages 1 and 5 of UAB's draft report based on the updated information provided by TSVU in its response dated April 21, 2020. UAB appreciates TSVU's feedback.

Finding 1: Internal Control Deficiencies

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 2: Water Plant in Service Reporting Deficiencies

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 3: Cash Reporting Deficiencies

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 4: Cash–Special Deposits – Reporting Deficiency

TSVU disagrees with Finding 4. TSVU explained that all information pertaining to Facilities Fees was reported in Schedule M (Facilities Fees Data) of the Annual Report. However, TSVU acknowledged that this finding correctly stated that that TSVU did not include the Facilities Fees balance in Account 132, Cash–Special Deposit, in Schedule A (Balance Sheet) of the Annual Report.

TSVU is required to ensure that the information included in all schedules of the Annual Report are complete and accurate. This includes ensuring that information presented in Schedule A (Balance Sheet) and Schedule B (Income Statement) are reported following the guidelines in the Uniform System of Accounts (USOA). Schedule A of TSVU's Annual Report was incomplete because it did not report the Facilities Fees balance in Account 132, Cash–Special Deposit. TSVU further stated that it will include the Facilities Fees balance in Account 132, Cash–Special Deposit, in the 2019 Annual Report.

For the reasons stated above, UAB's Finding 4 remains unchanged. UAB appreciates that TSVU agreed to prospectively implement UAB's recommendation of this finding.

Finding 5: Accounts Receivable Reporting Deficiencies

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 6: Materials and Supplies Internal Control Deficiencies

TSVU does not object to this finding. UAB appreciates that TSVU is willing to prospectively implement UAB's recommendation.

Finding 7: Property Tax Prepayment Reporting Deficiency

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 8: Customer Deposits Reporting Deficiency

TSVU does not object to this finding. UAB appreciates that TSVU is willing to prospectively implement UAB's recommendation.

Finding 9: Payroll Taxes Liability Reporting Deficiencies

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 10: Accumulated Amortization of Contributions Reporting Deficiency

TSVU does not object to this finding. TSVU should implement UAB's recommendation of this finding.

Finding 11: CPUC Users Fee Reporting Deficiencies
TSVU does not object to this finding. UAB appreciates that TSVU is willing to prospectively implement UAB's recommendation.

Finding 12: Operating Revenues – Reporting Deficiencies
TSVU agreed with Finding 12. TSVU should implement UAB's recommendation for this finding.

Finding 13: Operating Expense Reporting Deficiencies

TSVU agreed with Finding 13. TSVU should implement UAB's recommendation for this finding.

Finding 14: Payroll Reporting Deficiencies

TSVU agreed with Finding 14. TSVU should implement UAB's recommendation for this finding.

Finding 15: Uncollectible Accounts Expense Reporting Deficiency

TSVU disagrees with Finding 15. TSVU stated that the customer in question disputed his water bill by filing a protest with CPUC's Consumer Affairs Branch (CAB). TSVU explained that with the assistance of CAB, TSVU reached an agreement with the customer to issue him a credit of $1,209, or half of the billed amount. TSVU further stated that the customer's bill was credited in its accounting software and recorded as Uncollectible Accounts Expense in 2018.

UAB disagrees with TSVU's assertion that the credit issued to the customer was recorded in the accounting software as "Uncollectible Accounts Expense." UAB reviewed TSVU's 2018 Detailed Trial Balance during the audit and noted that the credit memo issued to the customer was recorded as a reduction to Accounts Receivable and revenue. Furthermore, TSVU also incorrectly made an additional increase of $1,209 to the Uncollectible Accounts Expense in Account 676 in its Annual Report. The credit memo should not be reported as both an addition to Uncollectable Accounts Expense and a reduction to revenues. Additionally, Accounts Receivables should only be written off as an Uncollectible Accounts Expense when a customer defaults on a debt owed to the utility.

For the reasons stated above, UAB's Finding 15 and related recommendations remain unchanged.

Finding 16: Miscellaneous Non-Utility Expense Reporting Deficiency

TSVU does not object to this finding. UAB appreciates that TSVU is willing to prospectively implement UAB's recommendation.