REVIEW OF FINANCIAL STATEMENTS

McMor Chlorination, Inc. – Water Operations

For the Year Ended December 31, 2020

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

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Raymond Yin, CPA
Program and Project Supervisor

Khusbindar Kaur, CPA
Lead

Sam Niepoth
Staff

A digital copy of this report can be found at:
[Audit Reports by Industry (ca.gov)]

You can contact our office at:
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Sacramento, CA 95811

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

Transmitted via e-mail

November 7, 2022

Mr. Dennis Gatson
Chief Executive Officer
McMor Chlorination, Inc.
4700 District Boulevard
Bakersfield, CA 93313

Dear Mr. Gatson:

Final Report Transmittal Letter—Review of McMor Chlorination, Inc.'s Water Operations' Annual Report for the Year Ended December 31, 2020

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

We issued the draft review report on September 30, 2022. McMor responded via email on October 13, 2022, that it had no comments to the draft report. Therefore, we are issuing the report as final. We will post the final review report on our website at Audit Reports by Industry (ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by December 22, 2022. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate McMor (Water)'s assistance and cooperation during the engagement, and your willingness to implement corrective actions. If you have any questions regarding this report, please contact Raymond Yin, Program and Project Supervisor, at (415) 703-1818.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page.

cc: Michael Stevenson, CPA, Barbich Hooper King Dill Hoffman, Accountancy Corporation
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce Berry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Sam Niepoth, Associate Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of McMor Chlorination, Inc.'s (McMor) water operations (McMor (Water)) as of December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with standards applicable to reviews of financial statements prescribed by the generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

McMor, which is comprised of water and sewer operations, was incorporated in California on March 11, 2008. McMor acquired its water and sewer systems from the Sears Living Trust, as authorized by CPUC Decision (D.) 16-08-004, dated August 18, 2016. McMor (Water) is a Class D water utility and serves approximately 19 metered water customers[1] near the town of Buttonwillow in Kern County, California.[2] As a regulated water utility, McMor (Water) is required to prepare its financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in D.16-11-006 by the CPUC on November 10, 2016, which is a comprehensive regulatory basis of accounting framework other than the generally accepted accounting principles in the United States of America.

The purpose of this review was to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the USOA. In conjunction with our review of the financial statements, UAB also reviewed, for regulatory purposes, whether McMor (Water) complied with the following:

a) PU Code Section 818 regarding obtaining CPUC's approval before incurring any long-term debts.
b) Timely filing of the 2020 Annual Report as required by the Water Division Memorandum dated January 26, 2021.

Based on our review, except for the balances of the Cash and Retained Earnings accounts, we are not aware of any material modifications that should be made to McMor (Water)'s revised financial statements in order for them to be in accordance with the accounting framework prescribed by the USOA. McMor (Water) has comingled its Cash and Operating Expense accounts with McMor's sewer operations since its inception. As a result, McMor (Water)'s Retained Earnings balance of $49,499 and Cash balance of $8,017 in the revised financial statements are materially misstated. McMor (Water)'s management has yet to determine the effects of this departure from the USOA accounting requirements on McMor (Water)'s financial position. Without performing an in-depth review of McMor's historical accounting records since its inception, UAB is unable to determine the effects of these misstatements on McMor (Water)'s financial position as of December 31, 2020.

[1] McMor (Water) Billing Register for December 29, 2021.
[2] CPUC D. 16-08-004, Page 1.

Determining the cumulative impact on the Cash and Retained Earnings balances as of December 31, 2020, would require UAB to go beyond the scope of this review.

For the review period, UAB did not note any noncompliance with PU Code Section 818; however, McMor (Water) did not file its 2020 Annual Report timely as required by the directives from the CPUC's Water Division, as described in Finding 12 below.

UAB identified 11 material misstatements in McMor (Water)'s Annual Report originally filed with the CPUC's Water Division and a noncompliance with a CPUC directive as described in the Appendix A–Review Findings and Recommendations. These findings are summarized below:

- Finding 1: McMor (Water) understated its Water Plant in Service (WPIS) balance in Account 101 by $86,911 as of December 31, 2020, as a result of several accounting errors and omissions UAB identified during the review.

- Finding 2: McMor (Water) understated Account 108–Accumulated Depreciation of Water Plant and Account 403–Depreciation Expense by $186,770 and $4,860, respectively, and overstated Account 108.3–Accumulated Depreciation of Water Plant–Other by $66,422 in its 2020 Annual Report as a result of several accounting errors and omissions UAB identified during the review.

- Finding 3: McMor (Water) reported the ending deficit Retained Earnings balance of $18,711 that is materially misstated in its 2020 Annual Report. McMor (Water) understated the Retained Earnings reported in its Annual Report by $68,211 as a result of several accounting errors and omissions UAB identified during the review. McMor is also using inconsistent allocation methodologies to allocate operating expenses between its water and sewer operations.

- Finding 4: McMor (Water) materially misstated the ending cash balance of $8,017 in Account 131–Cash in its 2020 Annual Report. McMor uses a joint bank account and commingles its Cash for its water and sewer operations. McMor has been allocating the Cash account balance between its water and sewer operations since its inception instead of keeping its cash receipts and cash disbursements separately for each operation.

- Finding 5: McMor (Water) erroneously reported $70,336 of liabilities in Account 230–Payables to Affiliated Companies in its 2020 Annual Report. McMor (Water) did not have any related party transactions with or any outstanding liabilities to its affiliates. As a result, McMor (Water) overstated Account 230–Payables to Affiliated Companies by $70,336.

- Finding 6: McMor (Water) misclassified $65,503 of Metered Water Revenue as Other Water Revenue in its 2020 Annual Report. As a result, McMor (Water) understated Account 470–Metered Water Revenue by $65,503 and overstated Account 480–Other Water Revenue by the same amount.

- Finding 7: McMor (Water) did not record the total of $32,775 Water Plant Acquisition Adjustments allocated to its water operations at the time of the acquisition in November 2016. Additionally, McMor (Water) omitted recording $13,110 of the related amortization expense between 2017 and 2020. As a result, McMor (Water) understated Account 426–Miscellaneous

Non-Utility Expense and Account 114–Water Plant Acquisition Adjustments by $3,277 and $19,665, respectively.

McMor (Water) also incorrectly recorded $45,000 of goodwill in Account 104–Water Plant Purchased or Sold related to the acquisition of its water plant. McMor (Water) amortized the goodwill by debiting Account 407–SDWBA Loan Amortization Expense and crediting Account 108.1–Accumulated Amortization of SDWBA Loan. The USOA does not allow accounting for goodwill. As a result, McMor (Water) overstated Account 104–Water Plant Purchased or Sold, Account 108.1–Accumulated Amortization of SDWBA Loan, and Account 407–SDWBA Loan Amortization Expense by $45,000, $24,000, and $6,000, respectively.

- Finding 8: McMor (Water) overstated Account 224–Long Term Debt and Account 427–Interest Expense by $39,940 and $1,558, respectively, and understated Account 232–Short-Term Notes Payable by $13,036 in its 2020 Annual Report.

- Finding 9: McMor (Water) overstated its Operating Expense by $10,683 in its 2020 Annual Report. McMor applied inconsistent allocation methodologies to allocate expenses between its water and sewer operations. McMor (Water) also misclassified $1,244 of payments made to its contractors as Materials in Account 640, instead of reporting it in Account 650–Contract Work.

- Finding 10: McMor (Water) understated Account 141–Accounts Receivable–Customers, Account 470–Metered Water Revenue, and Account 676–Uncollectible Accounts Expense by $6,809, $461, and $2,291, respectively, in its 2020 Annual Report.

- Finding 11: McMor (Water) overstated Account 688–Regulatory Commission Expense by $342 and understated Account 231–Accounts Payable by $1,068 in its 2020 Annual Report.

- Finding 12: McMor (Water) did not comply with the CPUC's Annual Report filing requirement of April 30, 2021. Instead, McMor (Water) filed its Annual Report on November 3, 2021.

UAB discussed the above findings with McMor (Water) during fieldwork. McMor (Water)'s management concurred with the findings and agreed to make appropriate adjusting journal entries to correct the misstatements identified above. McMor (Water) submitted its revised financial statements to UAB on August 11, 2022, to correct the material misstatements in each account, except for Cash and Retained Earnings, as described in Appendix A of this report. UAB further discussed these findings with McMor (Water)'s management at the exit conference on August 18, 2022, and McMor (Water) concurred with the review results. Except for the Cash and Retained Earnings accounts, UAB is not aware of any material modifications that should be made to the accompanying financial statements. UAB provided a draft review report to McMor for comments on September 30, 2022. McMor responded via email on October 13, 2022, that it had no comments regarding the draft report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Dennis Gatson
Chief Executive Officer
McMor Chlorination, Inc.
4700 District Boulevard
Bakersfield, CA 93313

Report on the Financial Statements

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial statements of McMor Chlorination, Inc.'s (McMor) water operations (McMor (Water)), which comprise the balance sheet as of December 31, 2020, and the related statements of income and retained earnings for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of McMor (Water)'s management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, UAB does not express such an opinion.

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

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

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

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

Basis for Qualified Conclusion

As noted in Notes 4 and 5 of these financial statements, McMor (Water) has been comingling its Cash and Operating Expense accounts with McMor's sewer operations since its inception. As a result, McMor (Water)'s Retained Earnings balance of $49,500 and Cash balance of $8,015 in the accompanying financial statements are materially misstated. The effects of this departure from the USOA accounting requirements on McMor (Water)'s financial position has not been determined by its management.

Qualified Conclusion

Based on our review, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting framework prescribed by the USOA.

Basis of Accounting

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

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

Emphasis of Matter – Correction of Material Misstatements

As discussed in Notes 2 through 9 to the financial statements, UAB identified 11 material misstatements in McMor (Water)'s 2020 Annual Report originally filed with CPUC's Water Division on November 3, 2021. These misstatements have been corrected in the accompanying financial statements. Our conclusion is not modified with respect to this matter.

Other Matter– Views of Responsible Official

We discussed our review results and findings with McMor (Water) during fieldwork. McMor (Water)'s management concurred with the findings and agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements described in Appendix A of this report. McMor (Water) submitted its revised financial statements to UAB to correct the material misstatements in each account, except for Cash and Retained Earnings, as described in Appendix A of this report, on August 11, 2022. UAB further discussed these findings with McMor (Water)'s management at the exit conference on August 18, 2022, and McMor (Water) concurred with the review results. Except for the Cash and Retained Earnings account, UAB is not aware of any material modifications that should be made to the accompanying financial statements. UAB provided a draft review report to McMor for comments on September 30, 2022. McMor responded via email on October 13, 2022, that it had no comments regarding the draft report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

Other Matter–Submission of a Corrective Action Plan

McMor (Water)'s management should submit a corrective action plan (CAP) to UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov no later than December 22, 2022. The CAP should address how McMor (Water) will implement the recommendations and provide the timing of incorporating UAB's review adjustments to McMor (Water)'s books and records. If McMor (Water) 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. McMor (Water) should use the amounts reviewed by UAB as presented in this report as the basis to file a revised 2021 Annual Report with the CPUC.

Report on Other Regulatory Requirements

For regulatory purposes, UAB also reviewed whether McMor (Water) complied with PU Code Section 818 to obtain its long-term debts, and whether McMor (Water) timely filed its 2020 Annual Report as required by CPUC's Water Division. For the review period, UAB did not note any noncompliance with PU Code Section 818. However, McMor (Water) is not in compliance with the CPUC's Annual Report filing requirement because it did not timely file its 2020 Annual Report. CPUC Water Division's Memo dated January 26, 2021, requires that all water and sewer utilities file their 2020 Annual Reports with the CPUC by April 30, 2021. McMor (Water) did not file its Annual Report until November 3, 2021, without obtaining the approval from the CPUC Water Division for a filing extension.

Restricted Use of This Review Report

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

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, CA
November 7, 2022

REVIEWED FINANCIAL STATEMENTS

McMor Chlorination, Inc. (Water)
Balance Sheet (As Reviewed)
As of December 31, 2020

ASSETS	
UTILITY PLANT	
Water Plant in Service (Note 2)	$277,679
Water Plant Acquisition Adjustments (Note 2)	19,665
Accumulated Depreciation of Water Plant (Note 2)	(186,770)
Net Utility Plant	110,574
CURRENT AND ACCRUED ASSETS	
Cash (Note 5)	8,017
Accounts Receivable–Customers	6,809
Total Current and Accrued Assets	14,826
Total Assets and Other Debits	$125,400
CAPITALIZATION AND LIABILITIES	
CORPORATE CAPITAL AND SURPLUS	
Common Stock	$268
Retained Earnings (Note 4)	49,499
Total Capitalization	49,767
LONG-TERM DEBT	
Long-Term Debt (Note 3)	61,529
CURRENT AND ACCRUED LIABILITIES	
Accounts Payable	1,068
Short Term Notes Payable	13,036
Total Current and Accrued Liabilities	14,104
Total Liabilities and Other Credits	$125,400

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

McMor Chlorination, Inc. (Water)
Income Statement (As Reviewed)
For Year Ended December 31, 2020

OPERATING REVENUES	
Metered Water Revenue (Note 6)	$65,964
Other Water Revenue (Note 6)	738
Total Operating Revenue	66,702
OPERATING EXPENSES (Note 7)	
Plant Operation and Maintenance Expenses	
Power	29,627
Contract Work	8,357
Total Plant Operation and Maintenance Expenses	37,984
Administrative and General Expenses	
Uncollectible Accounts Expense	2,291
Office Supplies and Expenses	455
Regulatory Commission Expense	1,570
Net Administrative and General Expenses	4,316
Total Operating Expenses	42,300
Depreciation Expense	5,554
Taxes Other Than Income Taxes	1,441
Total Operating Revenue Deductions	49,295
Total Utility Operating Income	17,407
OTHER INCOME AND DEDUCTIONS	
Miscellaneous Non-Utility Expense	3,277
Interest Expense	4,319
Total Other Income and Deductions	7,596
Net Income	$9,811

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

McMor Chlorination, Inc. (Water)
Statement of Retained Earnings (As Compiled [3])
For Year Ended December 31, 2020

Retained Earnings, Beginning of Year	($27,771)
CREDITS:	
Net Income	9,811
UAB Adjustment to Power	9,076
UAB Adjustment to Payables to Affiliated Companies	70,336
UAB Adjustment to Water Plant in Service	86,911
UAB Adjustment to Accumulated Amortization of SDWBA/SRF loan	24,000
UAB Adjustment to Water Plant Acquisition Adjustments	19,665
UAB Adjustment to Miscellaneous Non-Utility Expense	3,277
UAB Adjustment to Long-Term Debt	26,905
UAB Adjustment to Metered Water Revenues	4,679
UAB Adjustment to Accounts Receivable - Customers	3,960
UAB Adjustment to Contract Work	7,113
UAB Cumulative Adjustment to Beginning Balance[4]	752
Total Credits	266,485
DEBITS:	
UAB Adjustment to Water Plant Held for Future Use	45,000
UAB Adjustment to Materials	18,226
UAB Adjustment to Regulatory Commission Expense	2,943
UAB Adjustment to SDWBA Loan Amortization Expense	6,000
UAB Adjustment to Interest Expense (excluding SDWBA)	1,558
UAB Adjustment to Accumulated Depreciation of Water Plant	115,488
Total Debits	189,215
Retained Earnings, End of Year	$49,499

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

[3] UAB compiled the Statement of Retained Earnings based on the reviewed Balance Sheet, Income Statement, and other relevant financial data.

[4] This amount represents the cumulative adjustment to the reported beginning balance of Retained Earnings as of January 1, 2020. Detailed computation is shown below:

Retained Earnings as of December 31, 2020, as reported	($18,711)
Less: McMor (Water) Reported Net Income in 2020	8,308
Retained Earnings as of January 1, 2020, should be:	(27,019)
Retained Earnings as of January 1, 2020, as reported	(27,771)
UAB Cumulated Adjustment to 2020 beginning balance	$752

McMor Chlorination, Inc. (Water)
Notes to Financial Statements

McMor Chlorination, Inc. (McMor), which is comprised of water and sewer operations, was incorporated in California on March 11, 2008. McMor acquired its water and sewer systems from the Sears Living Trust, as authorized by CPUC D.16-08-004, dated August 18, 2016. McMor's water operations (McMor (Water)) is a Class D water utility and serves approximately 19 metered water customers[5] near the town of Buttonwillow in Kern County, California.[6]

Significant Accounting Policies

The financial statements of McMor (Water) were prepared on the basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities. Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth USOA adopted in Decision (D.) 16-11-006 by the CPUC on November 10, 2016, which is a comprehensive regulatory basis of accounting framework other than the generally accepted accounting principles (GAAP) in the United States of America. The followings describe certain differences in accounting treatments between GAAP and USOA, the company's current accounting practices, and its compliance with applicable regulation and CPUC directives.

1. Purpose of Financial Information and Targeted Audience

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

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

2. Property, Plant and Equipment

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

(1) Depreciation Methodology

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

The USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Water utilities are required to comply with the CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over $100,000, the utility must

[5] McMor (Water) Billing Register for December 29, 2021.
[6] CPUC D. 16-08-004, Page 1.

maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under $100,000, if the utility elects not to separate or maintain the depreciation reserve by accounts, it is appropriate to develop a composite value for remaining life for the entire plant in accordance with Appendix B2 or B3 of SP U-4-SM. The USOA suggested that all utilities maintain a separate accumulated depreciation subaccount for each depreciable plant account; and it is mandatory for water utilities having more than 500 customers.[7] The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

McMor (Water) did not carry over Accumulated Depreciation when it acquired its water system in 2017. McMor (Water) incorrectly used an accelerated tax depreciation methodology to depreciate its assets. UAB recomputed the depreciation using a composite depreciation rate of two percent, which falls within industry average. McMor (Water) also misclassified its accumulated depreciation in Account 108.3–Accumulated Depreciation of Water Plant–Other instead of reporting the Accumulated Depreciation in Account 108–Accumulated Depreciation of Water Plant. As a result, McMor (Water) understated Account 403–Depreciation Expense and Account 108–Accumulated Depreciation by $4,860 and $186,770, respectively, in its 2020 Annual Report; and overstated Account 108.3–Accumulated Depreciation of Water Plant–Other by $66,422. McMor (Water) corrected these misstatements in its revised Annual Report submitted to the CPUC Water Division on August 11, 2022.

(2) Asset Retirement

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

McMor (Water) did not retire any assets during the review period.

(3) Sale and Acquisition of Properties

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

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

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

As discussed in Findings 1 and 7 in Appendix A of this report, McMor (Water) has various accounting and reporting errors regarding water plant related accounts in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. These accounting and reporting errors resulted in various misstatements in the following accounts. Therefore, UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting entries to correct the misstatements:

Adj. No.	Acct No.	Description	DR	CR
1	101	Water Plant in Service	$86,911	
	215	Retained Earnings		$86,911
5	108.1	Accumulated Amortization of SDWBA	$24,000	
	114	Water Plant Acquisition Adjustments	19,665	
	215	Retained Earnings	4,058	
	426	Miscellaneous Non-Utility Expense	3,277	
	104	Water Plant Purchased or Sold		$45,000
	407	SDWBA Loan Amortization Expense		6,000

McMor (Water) corrected the above misstatements by filing a revised 2020 Annual Report with the CPUC's Water Division on August 11, 2022.

3. Long-Term Debt

Water utilities are required to obtain prior authorization from the CPUC before incurring any long-term debt. PU Code Section 818, states that,

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

In D.16-08-004, the CPUC authorized McMor to enter into a ten-year loan agreement with Sears Living Trust to facilitate McMor's acquisition of the water and sewer systems of Interstate 5 Utility Company, Inc. from the Sears Living Trust. The Decision authorized McMor to amortize the $280,000 purchase price of the water and sewer systems at an interest rate of five percent.

As of December 31, 2020, McMor's long-term debt allocation for its water and sewer systems were as follows:

Description	McMor (Water)	McMor (Sewer)	Total
Current Portion	$13,036	$18,061	$31,097
Long-Term Portion	61,529	85,249	146,778
Total Outstanding Principle	$74,565	$103,310	$177,875

The Long-Term Debt reported in McMor (Water)'s 2020 Annual Report did not agree with its loan amortization schedule and payment records. McMor (Water) did not classify the current portion of its Long-Term Debt as Short-Term Notes Payable. As a result, McMor (Water) overstated Account 224–Long-Term Debt by $39,940 and understated Account 232–Short-Term Notes Payable by $13,036 as of December 31, 2020. McMor (Water) corrected these misstatements in its revised 2020 Annual Report submitted to the CPUC's Water Division on August 11, 2022.

4. Retained Earnings

The reported Retained Earnings balance of $49,500 as of December 31, 2020, in the accompanying financial statements are materially misstated. McMor (Water) reported a deficit Retained Earnings balance of $18,711 in its 2020 Annual Report. McMor (Water) understated the Retained Earnings reported in its 2020 Annual Report by $68,211 due to various accounting errors and omissions that UAB identified during this review. McMor used inconsistent allocation methodologies to allocate Operating Expenses between its water and sewer operations where McMor can and should have recorded most of those expenses directly to either operation. Although these noted errors have been corrected in the accompanying Income Statement for the year ended December 31, 2020, prior year expense allocation errors have not been corrected. McMor (Water)'s management has yet to determine the effects of this departure from the USOA accounting requirements on McMor (Water)'s financial position. Determining the cumulative effect on the Retained Earning balance as of December 31, 2020, would require UAB to go beyond the scope of this review. Therefore, we do not express a conclusion on the Retained Earning balance in the accompanying balance sheet as of December 31, 2020.

5. Cash

Cash account balance of $8,017 in the accompanying financial statements is materially misstated. McMor uses a joint bank account for its water and sewer operations. McMor has been allocating the Cash account balance between its water and sewer operations since its inception instead of keeping its cash receipts and cash disbursements for each operation separate. This departure from the USOA materially impacts McMor (Water)'s Cash balance as of December 31, 2020. McMor (Water)'s management has yet to determine the effects of this departure from the USOA accounting requirements on McMor (Water)'s financial position. Determining the cumulative effect on the Cash balance as of December 31, 2020, would require UAB to go beyond the scope of this review. Therefore, we do not express a conclusion on the Cash balance in the accompanying Balance Sheet as of December 31, 2020.

6. Operating Revenues

McMor (Water) generated approximately 99 percent of its Operating Revenues from metered water sales. During our review, we noted various accounting and classification issues related to McMor (Water)'s Metered Water Revenues and its use of cash basis accounting instead of accrual basis accounting, as required by the accounting requirements of the USOA, when accounting for its revenues. As discussed in Findings 6 and 10 in Appendix A of this report, McMor (Water)'s revenue balances were materially misstated in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. However, McMor (Water) agreed with and incorporated UAB's proposed adjustments to correct the noted misstatements in its revised 2020 Annual Report submitted to the CPUC's Water Division on August 11, 2022.

7. Operating Expenses

McMor applied inconsistent allocation methodologies to allocate expenses between its water and sewer operations, which resulted in McMor (Water)'s Total Operating Expenses being overstated by $10,683 in its 2020 Annual Report originally filed with the CPUC's Water Division. McMor (Water) also misclassified $1,244 of payments made to its contractors as Materials in Account 640, instead of reporting it in Account 650–Contract Work. However, McMor (Water) corrected this misstatement in its revised 2020 Annual Report submitted to the CPUC's Water Division on August 11, 2022.

8. Water Utility Users Fee

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. The USOA requires water utilities to credit regular operating revenue accounts with amounts of User Fees billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to the CPUC.[8]

During our review, we noted various accounting and reporting errors related to McMor (Water)'s CPUC Users Fee and its use of cash basis accounting instead of accrual basis accounting, as required by the accounting requirements of the USOA, when accounting for the collection and payments of CPUC Users Fee. Finding 11 in Appendix A of this report describes the resulting misstatements in McMor (Water)'s 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. However, McMor (Water) agreed with and incorporated UAB's proposed adjustments to correct the noted misstatements in its revised 2020 Annual Report submitted to the CPUC's Water Division on August 11, 2022.

9. Affiliate Transactions

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

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

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

McMor (Water) had no affiliated transactions during the review period. However, McMor (Water) erroneously reported $70,336 of liabilities in Account 230–Payables to Affiliated Companies in the Annual Report originally filed with the CPUC's Water Division on November 3, 2021. McMor (Water) corrected the misstatement in its revised 2020 Annual Report submitted to the CPUC Water Division on August 11, 2022.

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

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

11. Exclusion of Statement of Cash Flows

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

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

12. Compliance filing of 2020 Annual Report with the CPUC

PU Code, Sections 581, 582, and 584, and the CPUC's directive (i.e., Water Division's annual memorandum to water and sewer utilities) require all regulated water and sewer IOUs to file an Annual Report with the CPUC every year. For the year being reviewed, McMor (Water) is not in compliance with the CPUC's Annual Report filing requirement because it did not timely file its 2020 Annual Report. CPUC Water Division's Memo dated January 26, 2021, requires that all water and sewer utilities file their 2020 Annual Reports with the CPUC by April 30, 2021. McMor (Water) did not file its Annual Report until November 3, 2021, without obtaining the approval from the CPUC Water Division for a filing extension.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Understated Water Plant in Service

Condition:
McMor (Water) understated Account 101–Water Plant in Service (WPIS) by $86,911 in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021, due to the following accounting errors and omissions:

Description	**Overstated/ (Understated)**
McMor (Water) incorrectly reported its 2016 water system acquisition in its 2020 Annual Report and entirely omitted recording the acquisition in its General Ledger (G/L). McMor (Water) reported $67,811 of WPIS in its Annual Report, representing the net book value of assets transferred to McMor (Water). However, McMor (Water) should have recorded and reported the original cost of the water system totaling $245,829 in applicable plant accounts.	($178,018)
McMor (Water) erroneously added $90,000 of goodwill to Account 301–Intangible Plant. The USOA does not allow inclusion of goodwill.	90,000
McMor (Water) reported a $32,957 addition to land in its 2017 Annual Report and carried forward that balance in its books as of December 31, 2020. McMor (Water) could only substantiate the acquisition for a portion of a parcel of land for $1,000 in 2016. McMor (Water) did not make any other land purchases.	31,957
McMor (Water) incorrectly expensed $24,035 of capital repairs to its water tank in 2019 to Account 640–Materials instead of capitalizing it.	(24,035)
McMor (Water) did not report vehicles purchased for $6,815 in 2017.	(6,815)
Total	**($86,911)**

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct No.	Description	DR	CR
1	101	Water Plant in Service (WPIS)	$86,911	
	215	Retained Earnings		$86,911
		To adjust WPIS balance to agree with McMor (Water)'s records and to comply with the accounting requirements of the USOA.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised 2020 Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA states, in part, that:

> **104. Water Plant Purchased or Sold**
> A. This account shall be temporarily charged with the cost and expenses incidental to acquisition of water systems acquired as operating units or systems. The account shall be temporarily credited with the selling price of water systems transferred to others.
>
> B. Within six months from date of acquisition or sale of a water system the utility shall file with the Commission for approval proposed journal entries to clear this account.
>
> Note A. In clearing this account the original cost of acquired plant shall be charged to plant accounts, and accumulated depreciation shall be credited to account 108, Accumulated Depreciation of Water Plant. Any balance (representing 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.
>
> Note B. When an existing water system or operating unit is acquired the utility shall be obligated to obtain from the vendor all existing records, including records of plant construction dates and costs, and records of accumulated depreciation applicable to such properties.
>
> **101. Water Plant in Service**
> A. This account shall include the original cost of all water plant owned and used by the utility in providing water service. The following subaccounts should be maintained, if applicable:
> 101.1 Water Plant in Service – SDWBA
> 101.2 Water Plant in Service – Grant Funds
> 101.3 Water Plant in Service – Other
>
> B. This account is the control account for plant accounts 301 through 379.

D.16-08-004 states, in part, that "Additionally, the parties contracted separately for the sale of 1/6 parcel of land and the business assets of Interstate 5 Utility for the amount of $1,000."[10]

Cause:
McMor (Water) lacks monitoring and review procedures over its accounting and reporting process to ensure that transactions relating to its WPIS acquisitions and additions are accurately recorded in its books and reported in its Annual Reports.

[10] D.16-08-004, Page 7.

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

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that WPIS acquisitions and additions are accurately recorded and reported.

Finding 2: Understated Accumulated Depreciation

Condition:
McMor (Water) understated Account 108–Accumulated Depreciation of Water Plant and Account 403–Depreciation Expense by $186,770 and $4,860, respectively, and overstated Account 108.3–Accumulated Depreciation of Water Plant–Other by $66,422 in the 2020 Annual Report originally filed with the CPUC on November 3, 2021, due to the following accounting errors:

	Overstated/(Understated)		
Description	**Account 403**	**Account 108**	**Account 108.3**
McMor (Water) did not carry over $165,517 of Accumulated Depreciation when it acquired its water system in 2016.		($165,517)	
In 2017, McMor (Water) recognized $64,340 of Depreciation Expense using an accelerated tax depreciation methodology instead of using a depreciation methodology approved by the USOA, which yielded Depreciation Expense of $5,073.		59,267	
McMor (Water) did not sufficiently depreciate its water plant from 2018 to 2020. McMor (Water) only recognized $694 of Depreciation Expense each year, using an accelerated tax depreciation. The USOA does not permit the use of accelerated depreciation methodology. As a result, McMor (Water) understated its Accumulated Depreciation and Depreciation Expense by $14,098 and $4,860, respectively, as of December 31, 2020.	($4,860)	(14,098)	
McMor (Water) incorrectly reported $66,422 Accumulated Depreciation of its water plant in Account 108.3–Accumulated Depreciation of Water Plant-Other instead reporting it in Account 108–Accumulated Depreciation of Water Plant.		(66,422)	$66,422
Total	**($4,860)**	**($186,770)**	**$66,422**

Although Depreciation Expense and Accumulated Depreciation were reported in McMor (Water)'s Annual Report, McMor (Water) did not record Accumulated Depreciation or Depreciation Expense in its G/L.

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct No.	Description	DR	CR
2	108.3	Accumulated Depreciation of Water Plant–Other	$66,422	
	215	Retained Earnings	115,488	
	403	Depreciation Expense	4,860	
	108	Accumulated Depreciation of Water Plant		$186,770
		To correct water plant assets' accumulated depreciation balance and current year depreciation expense to agree with the reviewed amounts.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised 2020 Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA states, in part, that:

> **108. Accumulated Depreciation of Water Plant**
> A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service. The following subaccounts should be maintained, if applicable:
> 108.1 Accumulated Amortization of SDWBA
> 108.2 Accumulated Depreciation of Water Plant - Grant Funds
> 108.3 Accumulated Depreciation of Water Plant - Other
>
> B. This account shall be credited with:
> 1. Amounts concurrently charged to account 403, Depreciation Expense, representing currently accruing depreciation of water plant (other than contributed water plant).
>
> Note: Also see Account 104, Water Plant Purchased or Sold.
>
> F. The utility is restricted in the use of this account to the purposes set forth above. It shall not transfer any portion to retained earnings or to other accounts without prior written authorization from this Commission.
>
> Note: Refer to Paragraph 4, Accounting Instructions - Depreciation, for information on depreciation accruals and plant retirement procedures.
>
> **403. Depreciation Expense**
> This account shall be charged with that portion of the depreciation accrual credited to Account 108, Accumulated Depreciation of Water Plant, applicable to all classes of depreciable water plant except plant represented by contributions in aid of

construction. Depreciation shall be accrued on a straight-line remaining life basis. Use of a single composite depreciation rate applied to all depreciable plant is permissible for water utilities with annual revenues of $ 100,000 or less.

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

General Accounting Instructions
4. Depreciation
A. Depreciation charges shall be computed using the straight-line remaining life method (see definition (17)), and composite depreciation rates (see definition (4)).

Cause:
McMor (Water) did not follow the accounting requirements of the USOA to account for its utility plant acquisition and to depreciate its assets. McMor (Water) lacks monitoring and review procedures over its accounting and reporting process to ensure its compliance with the accounting requirements of the USOA regarding utility plant acquisition and asset depreciation.

Effect:
Inaccurate reporting of the balances of the Depreciation and Amortization accounts in the 2020 Annual Report, which may be used during McMor (Water)'s GRC application review process, could potentially impact the water rates for McMor (Water)'s ratepayers.

Recommendations:
McMor (Water) should follow the accounting requirements of the USOA when accounting for any utility plant acquisitions and depreciating its assets. McMor (Water) should also establish and implement monitoring and review procedures over its accounting and reporting process to ensure that it complies with the accounting requirements of the USOA regarding utility plant acquisition and asset depreciation.

Finding 3: Materially Misstated Retained Earnings

Condition:
McMor (Water) reported the ending deficit Retained Earnings balance of $18,711 that is materially misstated in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. McMor (Water) understated the Retained Earnings reported in its Annual Report by $68,211 as a result of cumulative accounting errors and omissions as described throughout Appendix A. McMor also used inconsistent allocation methodologies to allocate operating expenses between its water and sewer operations although most of these expenses can be and should have been directly charged to either operation. Therefore, McMor should only allocate inextricable shared operating expenses between its water and sewer operations in rare circumstances. Since McMor (Water) used consistent accounting methodology in prior years, similar errors likely affected McMor (Water)'s Retained Earnings in prior years.

Criteria:
General Accounting Instructions 2 of the USOA states, in part, that:

> 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.

Cause:
McMor (Water) lacks monitoring and review procedures to ensure that nonshared expenses are charged directly to its water or sewer operations. McMor (Water) also lacks procedures to consistently and accurately allocate inextricable shared operating expenses between its water and sewer operations.

Effect:
McMor (Water)'s management has yet to determine the effects of this departure from the USOA accounting requirements on McMor (Water)'s financial position. Without performing an in-depth review of McMor (Water)'s historical accounting records since its inception, UAB is unable to determine the impact of prior year errors on McMor (Water)'s financial statements. Determining the cumulative impact on the Retained Earnings as of December 31, 2020, would require UAB to go beyond the scope of this review.

Misallocation of expenses between McMor's water and sewer operations in the Annual Report, which may be used during McMor (Water)'s GRC application review process, could potentially impact the water rates for McMor (Water)'s rates payers. Inaccurate reporting of Retained Earnings distorted McMor (Water)'s financial position as of December 31, 2020, which could impact decision makers.

Recommendations:
McMor should establish and implement monitoring and review procedures to ensure that nonshared expenses are charged directly to its water or sewer operations, and to use consistent and accurate methodology to allocate inextricable shared expenses between its water and sewer operations.

Finding 4: Cash Account Comingled Between Water and Sewer Operations

Condition:
McMor (Water) materially misstated the ending cash balance of $8,017 in Account 131–Cash in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. McMor uses a joint bank account and commingles its Cash for its water and sewer operations. McMor has been allocating the Cash account balance between its water and sewer operations since its inception instead of keeping its cash receipts and cash disbursements separately for both operations. Since McMor (Water) used the same joint bank account for its water and sewer operations since its inception, the same issue likely affected McMor (Water)'s Cash balances in prior years.

While reviewing McMor's Cash account, we also noted that McMor is not correctly performing its bank reconciliations. McMor uses QuickBooks bank reconciliation function, which requires the beginning of the period bank statement balance. For December 2020 reconciliation, the beginning bank statement balance in the QuickBooks Cash reconciliation did not agree with the actual bank statement.

McMor's G/L also includes a balance of $79,893 in the Undeposited Funds account, which is not reported in the 2020 Annual Report. This amount is likely due to cumulative accounting errors of unreconciled items in the bank account.

Criteria:
General Accounting Instructions 2 of the USOA states, in part, that:

> 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.

Cause:
McMor uses a joint bank account to handle cash transactions for both its water and sewer operations. It also lacks monitoring, review, and reconciliation procedures over its Cash account to ensure that (1) a separate Cash account is maintained for its water and sewer operations; (2) cash reconciliations are performed regularly, timely, and accurately; and (3) the Cash account balance is accurately reported in the Annual Reports.

Effect:
McMor (Water)'s management has yet to determine the effects of this departure from the USOA accounting requirements on McMor (Water)'s financial position. Without performing an in-depth review of McMor (Water)'s historical accounting records since its inception, UAB is unable determine the impact of prior year errors on McMor (Water)'s financial statements. Determining the cumulative impact on the Cash balance as of December 31, 2020, would require UAB to go beyond the scope of this review.

Inaccurate reporting of Cash distorted McMor (Water)'s financial position and available working capital as of December 31, 2020, which could potentially impact the water rates for McMor (Water)'s ratepayers during McMor (Water)'s GRC review process.

Recommendations:
McMor should use a separate bank account for its water and sewer operations to handle their respective cash transactions. McMor should also establish and implement monitoring, review, and reconciliation procedures over its Cash account to ensure that the Cash balance is properly accounted for in its books and accurately reported to the CPUC via its Annual Reports.

Finding 5: Erroneously Reported Payables to Affiliated Companies

Condition:
McMor (Water) erroneously reported $70,336 of liabilities in Account 230–Payables to Affiliated Companies in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. Our discussion with McMor (Water) personnel confirmed that McMor (Water) did not have any related party transactions or any outstanding liabilities to its affiliated companies.

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
3	230	Payables to Affiliated Companies	$70,336	
	215	Retained Earnings		$70,336
		To remove Payables to Affiliated Companies which is not supported by underlying accounting records.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised 2020 Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA States, in part, that:

> **General Accounting Instructions 2**
> 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.
>
> **230. Payables to Affiliated Companies**
> A. This account shall include amounts owed to affiliated companies on notes, drafts, acceptances, or other similar evidence of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.
>
> Note: The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note, draft, acceptance, indebtedness, or other open account.

Cause:
McMor (Water) lacks monitoring and review procedures over its accounting and reporting process to ensure that only the liabilities that exist are recorded in its books and reported in its Annual Reports to the CPUC.

Effect:
Inaccurate reporting of Payables to Affiliated Companies (Account 230) distorted McMor (Water)'s financial position as of December 31, 2020, and understated its available working capital, which could potentially impact the water rates for its ratepayers during its GRC review process.

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that only the liabilities that exist are recorded in its books and reported in its Annual Reports to the CPUC.

Finding 6: Misclassified Metered Water Revenue

Condition:
McMor (Water) misclassified $65,503 of Metered Water Revenue as Other Water Revenue in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. As a result, McMor (Water) understated Account 470–Metered Water Revenue by $65,503 and overstated Account 480–Other Water Revenue by the same amount.

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
4	480	Other Water Revenue	$65,503	
	470	Metered Water Revenue		$65,503
		To reclassify Metered Water Revenue incorrectly recorded and reported as Other Water Revenue		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA States, in part, that:

> **470. Metered Water Revenue**
> A. This account shall include all revenue from metered water service. Surcharge revenues approved by the Commission applicable to metered customers shall be recorded in this account. Separate subaccounts shall be maintained for each type of surcharge approved by the Commission unless otherwise authorized or directed by the Commission.
>
> **480. Other Water Revenue**
> This account shall include revenue from water operations other than the delivery of water or provision of fire protection. This account shall be appropriately subdivided.

Cause:
McMor (Water) lacks monitoring and review procedures over its accounting and reporting process to ensure accurate classification of revenues.

Effect:
Inaccurate reporting of Operating Revenue in the Annual Report, which may be used during McMor (Water)'s GRC application review process, could potentially impact the water rates for McMor (Water)'s ratepayers during the GRC review process.

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures over its accounting and reporting process to ensure accurate classification of revenues.

Finding 7: Inaccurate Reporting of Water Plant Acquisition Adjustments

Condition:
McMor did not properly account for the acquisition of the water and sewer systems of Interstate 5 Utility Company, Inc. it acquired from the Sears Living Trust. In aggregate, McMor (Water) overstated Account 104–Water Plant Purchased or Sold, Account 108.1–Accumulated Amortization of SDWBA Loan, Account 215–Retained Earnings, and Account 407–SDWBA Loan Amortization Expense, by $45,000, $24,000, $4,058 and $6,000, respectively; and understated Account 114–Water Plant Acquisition Adjustments and Account 426–Miscellaneous Non-Utility Expense by $19,665 and $3,277, respectively in its 2020 Annual Report.

McMor incorrectly reported $78,182 that it paid above the net book value of the water and sewer system it acquired in 2016. USOA accounting instructions and CPUC D.16-08-004 required McMor to record the difference in purchase price and net book value in Account 114–Water Plant Acquisition Adjustments and amortize the balance in Account 426–Miscellaneous Non-Utility Expense over a ten-year period. Of the $78,182 of Water Plant Acquisition Adjustments authorized by the CPUC, approximately $32,775, or 42 percent, should be allocated to McMor's water operations based on the allocation of respective total value of the water and sewer system acquired by McMor. During the review, UAB noted the following accounting errors and omissions relating to the difference between the net book value and purchase price of the water system:

- McMor (Water) did not record the total of $32,775 of Water Plant Acquisition Adjustments allocated to its water operations at the time of the acquisition in 2016. McMor (Water) also omitted $13,110 ($32,775 ÷ 10 × 4) of the related amortization expense between 2017 and 2020. As a result, McMor (Water) misstated the following accounts:

Account	**Overstated/ (Understated)**
Account 114–Water Plant Acquisition Adjustments	($19,665)
Account 426–Miscellaneous Non-Utility Expense	(3,277)

- McMor (Water) incorrectly recorded $45,000 of goodwill in Account 104–Water Plant Purchased or Sold related to the acquisition of its water plant. Additionally, McMor (Water) amortized the goodwill by debiting Account 407–SDWBA Loan Amortization Expense and crediting Account 108.1–Accumulated Amortization of SDWBA Loan. Because the USOA does not allow accounting for goodwill, McMor (Water)'s Annual Report should not have included the $45,000 of goodwill and the related amortization. As a result, McMor (Water) misstated the following accounts:

Account	**Overstated/ (Understated)**
Account 104–Water Plant Purchased or Sold	$45,000
Account 108.1–Accumulated Amortization of SDWBA Loan	24,000
Account 407–SDWBA Loan Amortization Expense	6,000

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
5	108.1	Accumulated Amortization of SDWBA	$24,000	
	114	Water Plant Acquisition Adjustments	19,665	
	215	Retained Earnings	4,058	
	426	Miscellaneous Non-Utility Expense	3,277	
	104	Water Plant Purchased or Sold		$45,000
	407	SDWBA Loan Amortization Expense		6,000
		To remove goodwill and related amortization reported in the Annual Report and record Water Plant Acquisition Adjustments accumulated balance authorized by CPUC's D.16-08-004 but was omitted in the 2020 Annual Report.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised 2020 Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA states, in part, that:

> **104. Water Plant Purchased or Sold**
> A. This account shall be temporarily charged with the cost and expenses incidental to acquisition of water systems acquired as operating units or systems. The account shall be temporarily credited with the selling price of water systems transferred to others.
>
> B. Within six months from date of acquisition or sale of a water system the utility shall file with the Commission for approval proposed journal entries to clear this account.
>
> Note A. In clearing this account the original cost of acquired plant shall be charged to plant accounts, and accumulated depreciation shall be credited to account 108, Accumulated Depreciation of Water Plant. Any balance (representing 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.
>
> Note B. When an existing water system or operating unit is acquired the utility shall be obligated to obtain from the vendor all existing records, including records of plant construction dates and costs, and records of accumulated depreciation applicable to such properties.
>
> **114. Water Plant Acquisition Adjustments**
> A. This account shall include the difference between (1) the cost to the utility of water plant acquired as an operating unit or system by purchase, merger, or

otherwise, and (2) the net of amounts distributed to the plant accounts, the accumulated depreciation account and other appropriate accounts.

B. No transfers shall be made from this account unless prior written authorization has been obtained from the Commission. If authorization is obtained to amortize the balance in this account, the contra charge shall be to Account 426, Miscellaneous Non-Utility Expense.

CPUC D.16-08-004 states, in part, that:

Since McMor is paying more than the recorded book value for the Interstate 5 Utility systems McMor should account for the difference in the purchase price amount through Account 114, the Water Plant Acquisition Account. The balance of $78,182 should be amortized over a 10-year period through Account 426, Miscellaneous Non-Utility Expense, per the instructions provided in the Uniform System of Accounts. [11]

Cause:
McMor (Water) lacks monitoring and review procedures over its accounting for water plant acquisition to ensure its compliance with the accounting requirements specified in D.16-08-004 and the USOA.

Effect:
Inaccurate reporting of Accumulated Amortization of SDWBA Loan (Account 108.1), Water Plant Purchased or Sold (Account 104), SDWBA Loan Amortization Expense (Account 407), Water Plant Acquisition Adjustments (Account 114) and Miscellaneous Non-Utility Income (Account 426) distorted McMor (Water)'s financial position as of December 31, 2020; and could potentially impact the water rate for McMor (Water)'s ratepayers during the GRC review process.

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures over its accounting for water plant acquisition to ensure compliance with the accounting requirements specified in D.16-08-004 and the USOA.

Finding 8: Inaccurate Reporting of Long-Term Debt

Condition:
McMor (Water) overstated Account 224–Long Term Debt and Account 427–Interest Expense by $39,940 and $1,558, respectively, and understated Account 232–Short-Term Notes Payable by $13,036 in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. Our review of McMor (Water)'s Long-Term Debt account revealed the following accounting errors:

[11] CPUC D.16-08-004, Page 8.

Description	Overstated/(Understated) Account 224	Account 232	Account 427
McMor (Water) reported a long-term debt balance of $101,470 in its 2020 Annual Report. Its loan amortization schedule and payment records only support a long-term debt balance of $74,565.	$26,905		
McMor (Water) did not classify the current portion of its Long-Term Debt totaling $13,036 as Short-Term Notes Payable.	13,036	($13,036)	
McMor did not accurately allocate Interest Expense between its water and sewer operations. McMor allocated 57 percent of Interest Expense to its water operations and 43 percent of Interest Expense to its sewer operations. However, 58 percent of the related long-term debt was allocated to the acquisition of its sewer plant in Service and 42 percent was allocated to acquisition of its water plant.			$1,558
Total	**$39,941**	**($13,036)**	**$1,558**

Additionally, while reviewing McMor (Water)'s Long-Term Debt, we noted that McMor (Water) did not record its outstanding long-term debt as a liability in its G/L. Instead, McMor (Water) recorded both its interest and principal payments related to its long-term debt as an expenditure.

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
6	224	Long-Term Debt	$39,941	
	215	Retained Earnings		$25,347
	232	Short-Term Notes Payable		13,036
	427	Interest Expense		1,558
		To correct the Long-Term Debt balance to agree with the loan agreement and loan payment schedule; to reclassify current portion of the Long-Term debt to Short-Term Notes Payable; and to adjust interest expense to reflect proper allocation of interest expense between the company's water and sewer operations.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised 2020 Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA States, in part, that:

> **224. Long-Term Debt**
> A. This account shall include all notes, conditional sales contracts or other evidences of indebtedness payable more than one year from date of issue.
>
> B. A separate subaccount shall be maintained for each obligation outstanding.
>
> **232. Short-Term Notes Payable**
> This account shall include the face value of all notes, or other similar evidences of indebtedness, payable on demand or within a period not exceeding one year from the date of issue

Cause:
McMor (Water) lacks monitoring and review procedures over the recording and reporting of long-term debt to ensure accuracy and compliance with the USOA accounting requirements and CPUC D.16-08-004.

Effect:
Understated Short-Term Notes Payable misstated McMor (Water)'s available working capital and short-term liquidity. Overstated Long-Term Debt distorted McMor (Water)'s financial position as of December 31, 2020. Inaccurately reported Interest Expense reduces the comparability of McMor (Water)'s financial statements with other small water utilities. Consistent financial presentation among small water utilities aids decision makers in analyzing the performance and financial position of McMor (Water) relative to other water utilities in California.

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures over the recording and reporting of long-term debt to ensure accuracy and compliance with the accounting requirements of the USOA.

Finding 9: Overstated Operating Expenses

Condition:
McMor (Water) overstated its Operating Expense by $10,683 in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021, due to the following accounting errors:

- McMor applied inconsistent allocation methodologies to allocate expenses between its water and sewer operations. Additionally, while reviewing McMor's supporting accounting records, we discovered that most of the operating expenses can be and should have been charged directly to either its sewer or water operations. Due to the incorrect and inconsistent allocation of operating expenses between its water and sewer operations, McMor (Water) misstated its operating expenses as follows:

Account	Overstated/ (Understated)
Account 640–Materials	$18,226
Account 688–Regulatory Commission Expense	1,533
Account 615–Power	(9,076)
Account 650–Contract Work	(7,113)
Total Operating Expense	**3,570**

- McMor (Water) misclassified $1,244 of payments made to its contractors as Materials in Account 640, instead of reporting it as Contract Work in Account 650. As a result, McMor (Water) overstated Account 640–Materials by $1,244 and understated Account 650–Contract Work by the same amount.

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
7	215	Retained Earnings	$3,570	
	615	Power	9,076	
	650	Contract Work	8,357	
	640	Materials		$19,470
	688	Regulatory Commission Expense		1,533
		To adjust Operating Expenses to reflect proper allocation between the company's water and sewer operations and to reclassify Contract Work expense incorrectly booked as Materials expense; and to remove unsubstantiated Regulatory Commission Expense.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised 2020 Annual Report to the CPUC's Water Division on August 11, 2022.

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

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

640. Materials
This account shall include all materials and supplies used in operation and maintenance of the water system, other than repair and maintenance materials charged to Account 650, Contract Work and chemicals charged to Account 618, Other Volume Related Expenses.

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.

Cause:
McMor lacks monitoring and review procedures over the accounting and reporting of its operating expenses to ensure that they are accurately charged to its water or sewer operations and properly reported in its Annual Reports for the water and sewer operations in accordance with the accounting requirements of the USOA.

Effect:
Inaccurate reporting of operating expenses in the Annual Report, which may be used during McMor (Water)'s GRC application review process, could potentially impact the water rates for McMor (Water)'s ratepayers.

Recommendation:
McMor should establish and implement monitoring and review procedures over its accounting and reporting of operating expense to ensure that expenses are accurately charged to it water or sewer operations and properly reported in its Annual Report for the water and sewer operations in accordance with the accounting requirements of the USOA.

Finding 10: Understated Accounts Receivable

Condition:
McMor (Water) understated Account 141–Accounts Receivable, Account 470–Metered Water Revenue, and Account 676–Uncollectible Accounts Expense by $6,809, $461, and $2,291, respectively, in its 2020 Annual Report originally filed with the CPUC's Water Division on November 3, 2021. These misstatements occurred because McMor (Water) used cash basis of accounting instead of accrual basis of accounting to record and report revenues and Accounts Receivable as required by the USOA. UAB noted the following omissions by McMor (Water):

Description	Overstated/(Understated) Account 141	Account 470	Account 676
McMor (Water) did not accrue $5,140 of Operating Revenues and Accounts Receivable earned during the December 2020 accounting period. McMor (Water) also incorrectly reported $4,679 of Operating Revenues earned in 2019 in its 2020 Annual Report.	($5,140)	($461)	
McMor (Water) did not report $3,960 of outstanding Accounts Receivable shown on its Accounts Receivable Aging Report as of December 31, 2020.	(3,960)		
McMor (Water) did not record or report $2,291 of Uncollectible Accounts Expense resulting from a customer who filed for bankruptcy in 2020.	2,291		($2,291)
Total	**($6,809)**	**($461)**	**($2,291)**

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
8	141	Accounts Receivable	$6,809	
	676	Uncollectible Accounts Expense	2,291	
	215	Retained Earnings		$8,639
	470	Metered Water Revenue		461
		To record the omitted Uncollectible Accounts Expense and Accounts Receivable in McMor (Water)'s 2020 Annual Report.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC's Water Division on August 11, 2022.

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.
>
> 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.

141. Accounts Receivable – Customers
This account shall include amounts due from customers for water service.

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

Cause:
McMor (Water) used cash basis of accounting to record and report its revenues and receivables. McMor (Water) lacks effective review and monitoring procedures to ensure that revenues are recorded and reported using accrual basis of accounting as required by the USOA.

Effect:
Inaccurate reporting of Accounts Receivable, and Operating Revenue in its 2020 Annual Report, which may be used during McMor (Water)'s GRC application review process, could potentially impact the water rates for McMor (Water)'s ratepayers.

Recommendations:
McMor (Water) should update its accounting policy to ensure that revenues and receivables are recorded and reported using accrual basis of accounting. McMor (Water) should also establish and implement monitoring and review procedures over its accounting and reporting process to ensure compliance with the accounting requirements of the USOA.

Finding 11: Inaccurate Recording of CPUC Users Fee

Condition:
McMor (Water) understated Accounts Payable by $1,068 and overstated Regulatory Commission Expense by $342 in its Annual Report originally filed with the CPUC's Water Division on November 3, 2021. McMor (Water) incorrectly used cash basis of accounting to record and report CPUC Users Fee. McMor (Water) did not accrue $1,068 of CPUC Users Fee incurred in 2020 but not paid until 2021. Additionally, McMor (Water) reported $1,410 of CPUC Users Fee for 2019 in its 2020 Annual Report. As a result, McMor (Water) misstated the following accounts:

Account	**Overstated/ (Understated)**
Account 688–Regulatory Commission Expense	$342
Account 231–Accounts Payable	(1,068)
Account 215–Retained Earnings	1,410

McMor (Water) also incorrectly recorded and reported the collection of $738 CPUC Users Fee as a reduction to Power expense instead of reporting it as Other Water Revenue. As a result, McMor (Water) misstated the following accounts:

Account	Overstated/ (Understated)
Account 615–Power	($738)
Account 480–Other Water Revenue	(738)

UAB proposed, and McMor (Water) agreed and incorporated, the following adjusting journal entry to correct the misstatements identified above:

Adj. No.	Acct. No.	Description	DR	CR
9	215	Retained Earnings	$1,410	
	615	Power	738	
	231	Accounts Payable		$1,068
	480	Other Water Revenue		738
	688	Regulatory Commission Expense		342
		To adjust the CPUC Users Fee to agree with the company's records and to comply with the accounting requirements of the USOA.		

McMor (Water) applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC's Water Division on August 11, 2022.

Criteria:
The USOA states, in part, that:

General Accounting Instructions 2
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.

9. Water Utility Users Fee
Public Utilities Code Sections 401 through 415 provide that the Commission shall annually set a fee to be paid by water utilities to cover the costs incurred by the Commission in regulating them. A percentage of gross revenues is added to customer bills and paid by the water companies to the Commission.

A. Class A water utilities pay a percentage of gross revenues quarterly; Class B, C, and D water utilities pay a designated amount, based on gross revenues, on January 15 of the following year. Sales of water for resale and Interdepartmental water sales should be excluded from gross revenues when computing the Water Utility Users fee.

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

615. Power
This account shall include the cost of power and fuel used to operate pumps.

Note: Fuel and electricity used to heat and light offices shall be charged to Account 681, Office Supplies and Expense.

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

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

Cause:
McMor (Water) lacks monitoring and review procedures over its accounting and reporting process to ensure compliance with the accounting requirements of the USOA.

Effect:
Inaccurate reporting of Accounts Payable (Account 231) distorted McMor (Water)'s financial position as of December 31, 2020, and understated its available working capital, which could impact the water rates for its ratepayers during its GRC review process. Inaccurate reporting of Other Water Revenue and Operating Expenses in the Annual Report, which may be used during McMor (Water)'s GRC review process, could also potentially impact the water rates for McMor (Water)'s ratepayers.

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures to ensure compliance with the accounting requirements of the USOA.

Finding 12: Late filing of Annual Report

Condition:
McMor (Water) did not comply with the CPUC's Annual Report filing requirement because it did not timely file its 2020 Annual Report. CPUC Water Division's Memo dated January 26, 2021, requires that all water and sewer utilities file their 2020 Annual Reports with the CPUC by April 30, 2021. McMor (Water) did not file its Annual Report until November 3, 2021, without obtaining the approval from the CPUC Water Division for a filing extension.

Criteria:
CPUC Water Division Memorandum dated January 26, 2021, requires that all water and sewer utilities regulated by the CPUC file their 2020 annual reports on or before April 30, 2021.

Cause:
McMor (Water) lacks monitoring and review procedures to ensure the timely filing of its 2020 Annual Report with the CPUC's Water Division.

Effect:
McMor (Water) did not comply with the filing requirements of the CPUC's Water Division regarding its 2020 Annual Report. Unavailability of the Annual Report in a timely manner could impact decision making by the CPUC's decision makers and the public.

Recommendation:
McMor (Water) should establish and implement monitoring and review procedures to ensure that it complies with CPUC's Annual Report filing requirements.