



# REVIEW OF FINANCIAL STATEMENTS

Mountain Mesa Water Company

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
May 15, 2023



## **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**

**Tir Saephan  
Staff**

**A digital copy of this report can be found at:  
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**You can contact our office at:  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
400 R Street, Suite 221  
Sacramento, CA 95811**

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

May 15, 2023

Ms. Carolyn Hancock, President  
Mountain Mesa Water Company  
6200 Rasmussen Street  
Bakersfield, CA 93303

Dear Ms. Hancock:

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

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

UAB provided a draft review report to MMWC for comments on April 18, 2023. MMWC responded in the letter dated May 1, 2023, that it accepted all of UAB’s findings. MMWC’s response to the draft report findings is incorporated into this final report. We will post the final review report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by June 29, 2023. 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](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov).

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

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page

Ms. Carolyn Hancock, President  
Mountain Mesa Water Company  
May 15, 2023  
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cc: Scott Kissack, Vice President, MMWC  
Chris Aldinger, CPA, Peasley, Aldinger & O'Bymachow An 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  
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Raymond Yin, Program and Project Supervisor, UAB, CPUC  
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Khusbindar Kaur, Senior Management Auditor, UAB, CPUC  
Sam Niepoth, Associate Management Auditor, UAB, CPUC  
Tir Saephan, Staff Services Management Auditor, UAB, CPUC

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## EXECUTIVE SUMMARY

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The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial statements of Mountain Mesa Water Company (MMWC) as of December 31, 2021, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with standards applicable to reviews of financial statements prescribed by the generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

Incorporated in California on August 12, 1957,<sup>1</sup> MMWC is a Class D water utility with 411 active service connections. MMWC serves approximately 365 residential customer service connections, 11 commercial customer service connections and 35 public fire protection service connections in an area approximately three miles east of the community of Lake Isabella, Kern County, California.<sup>2</sup> As a regulated water utility, MMWC is required to prepare its financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 10, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

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

- a) PU Code Section 818 regarding obtaining CPUC's approval before incurring any long-term debts.
- b) Timely filing of the 2021 Annual Report as required by the Water Division Memorandum dated January 20, 2022.

Based on our review, except for the balances of the Other Paid-in Capital and Retained Earnings accounts, we are not aware of any material modifications that should be made to MMWC's revised financial statements in order for them to be in accordance with the accounting framework prescribed by the USOA. Historically, MMWC has an accounting practice of correcting prior year accounting errors by adjusting the Other Paid-in Capital account instead of the Retained Earnings account. MMWC also has a practice of making "plug-in" adjustments to the Other Paid-in Capital account to balance its financial statements due to errors caused by applying "one-sided" entries to its Annual Reports. As a result, MMWC's Other Paid-in Capital balance of \$301,610 and Retained Earnings balance of \$532,994 in the accompanying financial statements are materially misstated. MMWC's management has yet to determine the effects of this departure from the USOA accounting requirements on MMWC's financial position. Without performing an in-depth review of MMWC's historical accounting records since its inception, UAB is unable to determine the effects of these misstatements on MMWC's financial position as of December 31, 2021.

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<sup>1</sup> MMWC's 2021 Annual Report, General Information, Page 4.

<sup>2</sup> MMWC's 2021 Annual Report, Schedule I—Service Connections at End of Year, Page 19.

For the review period, UAB did not note any noncompliance with PU Code Section 818; and MMWC filed its 2021 Annual Report timely in compliance with the CPUC directive from the Water Division. However, UAB identified four material misstatements in MMWC's Annual Report originally filed with CPUC's Water Division on April 25, 2022, in addition to MMWC's noncompliance with the accounting requirements of the USOA as described in Appendix A—Review Findings and Recommendations. These findings are summarized below:

- Finding 1: MMWC reported balances of \$530,085 for Account 215—Retained Earnings and \$295,710 for Account 211—Other Paid-in Capital that are both materially misstated in its 2021 Annual Report. MMWC did not retain any documentation to support any changes in Other Paid-in Capital between 2000 and 2021. MMWC understated Retained Earnings and Other Paid-in Capital by \$2,292 and \$5,901, respectively, as a result of several accounting errors UAB identified during the review. MMWC's accounting records revealed that it has a practice of correcting prior year accounting errors by adjusting Account 211—Other Paid-in Capital instead of Account 215—Retained Earnings. In addition, MMWC's computation of annual retained earnings between 2000 and 2021 contained multiple accounting errors.
- Finding 2: MMWC understated Account 215—Retained Earnings, Account 236—Taxes Accrued, Account 409—State Corporate Income Tax Expense, and Account 410—Federal Corporate Income Tax Expense by \$5,201, \$11,545, \$497, and \$305, respectively; and overstated Account 231—Accounts Payable by \$15,944 in its 2021 Annual Report. Specifically, MMWC misclassified Taxes Accrued as Accounts Payable. Additionally, MMWC's State Corporate Income Tax Expense and Federal Corporate Income Tax Expense did not agree with the taxes shown in its 2021 Tax Returns.
- Finding 3: MMWC understated Account 688—Regulatory Commission Expense and Account 211—Other Paid-in Capital by \$5,788 and \$1,490, respectively; and overstated Account 689—General Expenses by \$4,298 in its 2021 Annual Report. Specifically, MMWC's general ledger (G/L) showed that it incurred \$7,278 of General Expenses in 2021. However, MMWC only reported \$5,787 of General Expenses in its 2021 Annual Report. MMWC incorrectly recorded \$5,788 of water system enforcement fees paid to the California State Water Resources Control Board in Account 689—General Expenses instead of recording it in Account 688—Regulatory Commission Expense.
- Finding 4: MMWC did not reclassify \$4,410 of forgiven and unrefunded advances for construction on an expired construction contract from Account 252—Advances for Construction to Account 211—Other Paid-in Capital as required by the USOA in its 2021 Annual Report. As a result, MMWC overstated Account 252—Advances for Construction by \$4,410 and understated Account 211—Other Paid-in Capital by the same amount.
- Finding 5: MMWC did not maintain its accounting records as required by the USOA. Specifically, MMWC recorded transactions using cash basis of accounting during the review period in its G/L. As a result, UAB noted numerous variances in account balances between the G/L and MMWC's 2021 Annual Report. MMWC relied on its underlying accounting records such as billing registers and the Accounts Receivable Aging Reports from its billing system, CPUC's Resolutions, MMWC's tax returns, and its computation schedules to derive at the reported account balances in its 2021 Annual Report.

UAB discussed the above findings with MMWC during fieldwork. MMWC concurred with the review results and agreed to post UAB's proposed adjusting journal entries to correct the material misstatements identified above. MMWC submitted its revised financial statements to the CPUC's Water Division on March 21, 2023, to correct the material misstatements, except for the reported balances of Other Paid-in Capital and Retained Earnings accounts, as described in Appendix A of this report. UAB further discussed these findings with MMWC's management at the exit conference on April 4, 2023, and MMWC concurred with the review results. At the exit conference, we also stated that the final review report will include the views of responsible officials. Except for the reported balances of Other Paid-in Capital 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 MMWC for comments on April 18, 2023. MMWC responded in the letter dated May 1, 2023, that it accepted all of UAB's findings. MMWC's response is included in Appendix B of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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Mr. Scott Kissack  
Vice President  
Mountain Mesa Water Company  
P.O. Box 2431  
Bakersfield, CA 93303

## Report on the Financial Statements

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

MMWC's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting framework prescribed by CPUC's Uniform System of Accounts (USOA) for Water Utilities; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In addition, MMWC'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 MMWC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our reviews.

***Basis for Qualified Conclusion***

As disclosed in Note 7 to the accompanying financial statements, MMWC's accounting practice entails correcting prior year accounting errors by adjusting the Other Paid-in Capital account instead of the Retained Earnings account. MMWC also has an accounting practice of making "plug-in" adjustments to the Other Paid-in Capital account to balance its financial statements due to errors caused by applying "one-sided" entries to its Annual Reports. As a result, the Other Paid-in Capital balance of \$301,610 and Retained Earnings balance of \$532,994 in the accompanying financial statements are materially misstated. The effect of these departures from the USOA accounting requirements on MMWC'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 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. MMWC's financial statements were prepared based on this regulatory requirement.

We draw attention to Notes to the Financial Statements, in which we describe 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 3, 4, 5, and 7 to the financial statements, UAB identified four material misstatements in addition to MMWC's noncompliance with the accounting requirements of the USOA in MMWC's 2021 Annual Report originally filed with CPUC's Water Division on April 25, 2022. Except for the misstatements related to Other Paid-in Capital and Retained Earnings accounts as disclosed in Note 7, these misstatements have been corrected in the accompanying financial statements. As discussed in Note 7 to the financial statements, UAB does not express a conclusion on the reported balances of Other Paid-in Capital and Retained Earnings as of December 31, 2021, in the accompanying financial statements. However, our conclusion to the rest of the accompanying financial statements is not modified with respect to this matter.

***Other Matter—Views of Responsible Official***

We conducted an exit conference on April 4, 2023, and discussed our review results with MMWC's management and its consultant. MMWC's management concurred with UAB's findings and agreed to make appropriate adjusting journal entries to its accounting records to correct the material misstatements as described in Appendix A of this report. MMWC submitted its revised financial statements to the CPUC's Water Division on March 21, 2023, to correct the material misstatements in each account, except for Other Paid-in Capital and Retained Earnings, as described in Appendix A of this report. At the exit conference, we also stated that the final report will include the views of responsible officials. Except for the reported balances of Other Paid-in Capital 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 MMWC for comments on April 18, 2023. MMWC responded in the letter dated May 1, 2023, that it accepted all of UAB's findings. MMWC's response is included in Appendix B of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

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

MMWC's management should submit a corrective action plan (CAP) to UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by June 29, 2023. The CAP should address how MMWC will implement the recommendations. If MMWC is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement recommendations. MMWC should use the amounts reviewed by UAB as presented in this report as the basis to file its 2022 Annual Report with the CPUC.

**Report on Other Regulatory Requirements**

For regulatory purposes, UAB also reviewed whether MMWC complied with PU Code Section 818 to obtain its long-term debts, and whether MMWC timely filed its 2021 Annual Report as required by CPUC's Water Division. For the review period, UAB did not note any noncompliance with PU Code Section 818. In addition, MMWC has timely filed its 2021 Annual Report in compliance with the CPUC directive from the Water Division. However, as described in Finding 5 in Appendix A of this report, MMWC did not maintain its accounting system as required by the USOA.

***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 MMWC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC's website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Sacramento, CA  
May 15, 2023

## REVIEWED FINANCIAL STATEMENTS

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### Mountain Mesa Water Company Balance Sheet (As Reviewed)

As of December 31, 2021

<b>ASSETS</b>	
<b>UTILITY PLANT</b>	
Water Plant in Service (Note 2)	\$1,197,465
Accumulated Depreciation of Water Plant (Note 2)	(533,782)
<b>Net Utility Plant</b>	<u>663,683</u>
<b>CURRENT AND ACCRUED ASSETS</b>	
Cash	212,208
Special Deposits	1,000
Accounts Receivable	21,313
<b>Total Current and Accrued Assets</b>	<u>234,521</u>
<b>Total Assets</b>	<u><u>\$898,204</u></u>
<b>CAPITALIZATION AND LIABILITIES</b>	
<b>CORPORATE CAPITAL AND SURPLUS</b>	
Common Stock	\$31,190
Other Paid-in Capital (Notes 7)	301,610
Retained Earnings (Notes 7)	532,994
<b>Total Capitalization</b>	<u>865,794</u>
<b>CURRENT AND ACCRUED LIABILITIES</b>	
Accounts Payable (Note 3)	7,288
Taxes Accrued (Note 3)	11,545
<b>Total Current and Accrued Liabilities</b>	<u>18,833</u>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>	
Contributions in Aid of Construction (Note 6)	21,994
Accumulated Amortization of Contributions	(8,417)
<b>Net Contributions in Aid of Construction</b>	<u>13,577</u>
<b>Total Equity and Liabilities</b>	<u><u>\$898,204</u></u>

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

Mountain Mesa Water Company  
**Income Statement (As Reviewed)**  
 For Year Ended December 31, 2021

<b>OPERATING REVENUES</b>	
Metered Water Revenue	\$342,485
Other Water Revenue	5,160
<b>Total Operating Revenue</b>	<u>347,645</u>
<b>OPERATING EXPENSES</b>	
<b>Plant Operation and Maintenance Expenses</b>	
Power	56,547
Other Volume Related Expenses	16,031
Materials	1,054
Contract Work	118,286
Transportation Expenses	3,334
Other Plant Maintenance Expenses (Note 9)	25,592
<b>Total Plant Operation and Maintenance Expenses</b>	<u>220,844</u>
<b>Administrative and General Expenses</b>	
Management Salaries	9,000
Office Services and Rentals	12
Office Supplies and Expenses	6,280
Professional Services	3,039
Insurance	5,380
Regulatory Commission Expense (Note 4)	10,946
General Expenses (Note 4)	1,489
<b>Net Administrative and General Expenses</b>	<u>36,146</u>
<b>Total Operating Expenses</b>	256,990
Depreciation Expense	26,859
Taxes Other Than Income Taxes	10,497
State Corporate Income Tax Expense (Note 3)	4,935
Federal Corporate Income Tax Expense (Note 3)	11,811
<b>Total Operating Revenue Deductions</b>	<u>311,092</u>
<b>Total Utility Operating Income</b>	<u>36,553</u>
<b>Net Income</b>	<u><u>\$36,553</u></u>

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

Mountain Mesa Water Company  
**Statement of Retained Earnings (As Compiled <sup>3</sup>)**  
For Year Ended December 31, 2021

<b>Retained Earnings, Beginning of Year</b>	\$491,240
<b>CREDITS:</b>	
Net Income	36,553
UAB Adjustment to State Corporate Income Taxes	497
UAB Adjustment to Federal Corporate Income Taxes	305
UAB Adjustment to Accounts Payable	15,944
<b>Total Credits</b>	<u>53,299</u>
<b>DEBITS:</b>	
UAB Adjustment to Taxes Accrued (Note 3)	11,545
<b>Total Debits</b>	<u>11,545</u>
<b>Retained Earnings, End of Year</b>	<u><u>\$532,994</u></u>

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

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

# Mountain Mesa Water Company

## Notes to Financial Statements

Incorporated in California on August 12, 1957,<sup>4</sup> MMWC is a Class D water utility with 411 active service connections. MMWC serves approximately 365 residential service connections, 11 commercial connections and 35 public fire protection connections in an area approximately three miles east of the community of Lake Isabella, Kern County, California.<sup>5</sup>

### **Significant Accounting Policies**

The financial statements of MMWC 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 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 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 maintain separate depreciation reserve by different plant accounts in accordance with

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<sup>4</sup> MMWC's 2021 Annual Report, General Information, Page 4.

<sup>5</sup> MMWC's 2021 Annual Report, Schedule I—Service Connections at End of Year, Page 19.

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.<sup>6</sup> The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

MMWC computes depreciation on a composite depreciation rate of 2.24 percent, which falls within industry average.

## **(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.

MMWC did not retire any assets during the review period.

## **3. Corporate Income Tax Expense and Liabilities**

MMWC misclassified \$15,944 of its income tax liabilities in Account 231—Accounts Payable instead of Account 236—Taxes Accrued as of December 31, 2021. In addition, although MMWC's income tax liabilities shown in its 2021 tax returns were only \$11,545, MMWC accrued \$15,944, resulting in an over-accrual of \$4,399. Additionally, MMWC understated Account 215—Retained Earnings, Account 409—State Corporate Income Tax Expense, and Account 410—Federal Corporate Income Tax Expense based on the corporate income tax expense shown on MMWC's 2021 Tax Returns. As a result, MMWC understated Account 215—Retained Earnings, Account 236—Taxes Accrued, Account 409—State Corporate Income Tax Expense, and Account 410—Federal Corporate Income Tax Expense by \$5,201, \$11,545, \$497, and \$305, respectively; and overstated and Account 231—Accounts Payable by \$15,944 in its 2021 Annual Report originally filed with the CPUC's Water Division on April 25, 2022.

However, MMWC incorporated UAB's proposed adjustment and corrected these misstatements in its revised Annual Report submitted to the CPUC's Water Division on March 21, 2023.

## **4. General Expenses**

MMWC's G/L showed that MMWC incurred \$7,278 of General Expenses in 2021. However, MMWC only reported \$5,787 of General Expenses in its 2021 Annual Report originally filed with CPUC's Water Division on April 25, 2022. As a result, MMWC understated both Account 689—General Expenses and Account 211—Other Paid-in Capital by \$1,490.

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<sup>6</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

In addition, MMWC incorrectly recorded \$5,788 of water system enforcement fees and annual fees paid to the California State Water Resources Control Board in Account 689—General Expenses instead of recording it in Account 688—Regulatory Commission Expense. As a result, MMWC understated Account 688—Regulatory Commission Expense by \$5,788 and overstated Account 689—General Expenses by the same amount.

However, MMWC incorporated UAB’s proposed adjustment and corrected these misstatements in its revised Annual Report submitted to the CPUC’s Water Division on March 21, 2023.

## **5. Advances for Construction**

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

MMWC did not reclassify \$4,410 of forgiven and unrefunded advances for construction on an expired construction contract from Account 252—Advances for Construction to Account 211—Other Paid-in Capital as required by the USOA in its 2021 Annual Report originally filed with CPUC’s Water Division on April 25, 2022. MMWC has been amortizing the outstanding liability in the Advances for Construction account annually by crediting Account 211—Other Paid-in Capital. However, the remaining balance of \$4,410 of this advance has been forgiven and MMWC no longer makes periodic payments for this liability. According to MMWC, it owed the liability to its affiliated company, South Fork Development Company, which was dissolved in 2008. Since MMWC no longer owes the liability reported as Advances for Construction, it should have reclassified the remaining balance to Other Paid-in Capital as required by the USOA. As a result, MMWC overstated Account 252—Advances for Construction by \$4,410 and understated Account 211—Other Paid-in Capital by the same amount.

However, MMWC incorporated UAB’s proposed adjustment and corrected these material misstatements in its revised Annual Report submitted to the CPUC’s Water Division on March 21, 2023.

## **6. Contribution in Aid of Construction (CIAC)**

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

MMWC reported a CIAC balance of \$21,994, which includes \$19,487 that MMWC invested in storage facilities in 1990 as directed by CPUC Resolution W-4113, dated August 21, 2003.<sup>7</sup> MMWC’s CIAC balance also includes \$2,507 of customer connection fees.

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<sup>7</sup> Resolution W-4113, Ordering Paragraph 2, Page 5.

## 7. Other Paid-in Capital and Retained Earnings

MMWC reported balances of \$530,085 for Account 215–Retained Earnings and \$295,710 for Account 211–Other Paid-in Capital that are both materially misstated in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 25, 2022, for the following reasons:

- MMWC did not retain documentation to support an increase of \$280,409 in Account 211–Other Paid-in Capital between 2000 and 2021.
- MMWC historically has an accounting practice of applying “one-sided” entries in its Annual Reports, which caused the imbalance in the balance sheets in the Annual Reports. To balance its financial statements, MMWC has been making plug-in adjustments to Account 211–Other Paid-in Capital account every year.
- MMWC understated Account 215–Retained Earnings and Account 211–Other Paid-in Capital by \$2,292 and \$5,901, respectively, as a result of several accounting errors as described in Finding 1 in Appendix A of this report.
- MMWC’s accounting records revealed that it has a practice of correcting prior year accounting errors by adjusting Account 211–Other Paid-in Capital instead of Account 215–Retained Earnings account.
- MMWC’s annual Retained Earnings computation between 2000 and 2021 contained several errors.

MMWC’s management has not determined the effects of this departure from the USOA accounting requirements on MMWC’s financial position. Determining the cumulative effect on the Other Paid-in Capital and Retained Earnings balances as of December 31, 2021, would require UAB to go beyond the scope of this review. Therefore, we do not express a conclusion on the balances for Other Paid-in Capital or Retained Earnings in the accompanying balance sheet as of December 31, 2021.

## 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.<sup>8</sup>

MMWC correctly recorded and reported the CPUC Users Fee in its operating revenue and timely remitted the Users Fee to the CPUC during the review period.

## 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

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<sup>8</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.

required to comply with the rules specified in D.10-10-019 and SP U-21-W for all the transactions with its affiliates.

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

MMWC has a land easement agreement with its affiliated company, Kissack Ranch Partnership. The easement agreement allows MMWC to construct, maintain, operate, and replace or remove an underground water pipeline. MMWC pays \$18,000 annually to Kissack Ranch Partnership for the easement agreement and records and reports it in Account 664—Other Plant Maintenance Expenses.

## 10. Form of Financial Statements<sup>9</sup>

### (1) Balance Sheet

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

### (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.

MMWC correctly complied with this requirement by presenting its 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 purposes, the Statement of Cash Flows is not required and therefore excluded from this review report.

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<sup>9</sup> Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

## **12. Compliance filing of 2021 Annual Report with the CPUC**

PU Code Sections 581, 582, and 584, and the CPUC's directive (i.e., Water Division's annual memorandum to water and sewer utilities) require all regulated water and sewer IOUs to file an Annual Report with the CPUC every year. For the year being reviewed, MMWC has complied with these requirements.

## APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

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### Finding 1: Materially Misstated Other Paid-in Capital and Retained Earnings

#### Condition:

MMWC reported balances of \$530,085 for Account 215—Retained Earnings and \$295,710 for Account 211—Other Paid-in Capital that are both materially misstated in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 25, 2022, for the following reasons:

- MMWC could not provide supporting documents to substantiate the \$295,710 reported balance in its Other Paid-in Capital account as of December 31, 2021. MMWC’s balance increased by \$280,409 between 2000 and 2021. However, MMWC is unsure how the \$280,409 was derived, nor could MMWC provide documents to substantiate the remaining balance of \$15,301 ( $\$295,710 - \$280,409 = \$15,301$ ) recorded in this account.
- MMWC confirmed that historically it has a practice of applying “one-sided” entries in its Annual Reports, which caused the imbalance in the balance sheets in the Annual Reports. To balance its financial statements, MMWC has been making plug-in adjustments to Account 211—Other Paid-in Capital every year.
- MMWC understated Account 215—Retained Earnings and Account 211—Other Paid-in Capital by \$2,292 and \$5,901, respectively, as a result of accounting errors as described in detail in Findings 2, 3, and 4 below.
- MMWC’s accounting records revealed that it has a practice of correcting prior year accounting errors by adjusting the Other Paid-in Capital account instead of the Retained Earnings account.
- Between 2000 and 2021, MMWC’s Annual Reports showed that its net income totaled \$332,392. Beginning Retaining Earnings for 2001 was \$161,633. Therefore, the ending Retained Earnings as of 2021 should be \$494,025 ( $\$161,663 + 332,392$ ). However, MMWC reported an ending Retained Earnings balance of \$530,085 in its 2021 Annual Report, resulting in a variance of \$36,060 ( $\$530,085 - \$494,025 = \$36,060$ ). Attempting to explain the noted variance, MMWC provided a schedule computing Retained Earnings that showed that MMWC did not correctly compute and report Retained Earnings during the years shown below:

<u>Year Ended</u>	<u>Overstated/ (Understated)</u>
December 31, 2001	\$721
December 31, 2004	(1)
December 31, 2009	6,787
December 31, 2011	28,573
December 31, 2018	(4)
December 31, 2019	4
December 31, 2020	128
December 31, 2021	(128)
<b>Total</b>	<b><u>\$36,060</u></b>

Based on the review evidence that MMWC provided to UAB, it appears that these differences were likely reported as a change to Other Paid-in Capital in their respective years instead of being reported in the Retained Earnings account.

**Criteria:**

General Accounting Instructions 2 of the USOA states, in part, 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.

The USOA states, in part, that:

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

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

**215. Retained Earnings (for corporations only)**

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

B. The account shall be credited with:

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

C. The account shall be charged with:

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

**Cause:**

MMWC lacks policies and procedures to ensure that:

- Source documents are retained to support changes in its Other Paid-in Capital account;
- Accounting transactions are accurately and completely recorded in its books and reported in its Annual Reports using double entry method as required by the USOA; and
- Prior year accounting errors are corrected by adjusting the Retained Earnings account.

**Effect:**

MMWC's management has yet to determine the effects of this departure from the USOA accounting requirements on MMWC's financial position.

Inaccurate reporting of Other Paid-in Capital and Retained Earnings distorted MMWC financial position as of December 31, 2021, and reduced the comparability of MMWC'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 MMWC relative to other small water utilities in California.

**Recommendations:**

MMWC should establish and implement appropriate policies and procedures to ensure that source documents are properly retained to support changes in the Other Paid-in Capital account; accounting transactions are accurately and completely recorded in its books and reported in its Annual Reports using double entry method; and justified prior year accounting errors are adjusted through Account 215–Retained Earnings.

**Finding 2: Incorrectly Reported Corporate Income Tax Expense and Liabilities****Condition:**

MMWC understated Account 215–Retained Earnings, Account 236–Taxes Accrued, Account 409–State Corporate Income Tax Expense, and Account 410–Federal Corporate Income Tax Expense by \$5,201, \$11,545, \$497, and \$305, respectively; and overstated Account 231–Accounts Payable by \$15,944 in its 2021 Annual Report originally filed with the CPUC's Water Division on April 25, 2022. MMWC's underlying accounting records revealed the following errors regarding income taxes:

- MMWC misclassified \$15,944 of its income tax liabilities in Account 231–Accounts Payable instead of Account 236–Taxes Accrued as of December 31, 2021. In addition, MMWC's income tax liabilities shown in its 2021 tax returns were only \$11,545, MMWC accrued \$15,944, resulting in an over-accrual of \$4,399. In aggregate, MMWC overstated Account 231–Accounts Payable by \$15,944, and understated Account 236–Taxes Accrued and Account 215–Retained Earnings by \$11,545 and \$4,399, respectively.
- MMWC understated Account 215–Retained Earnings, Account 409–State Corporate Income Tax Expense, and Account 410–Federal Corporate Income Tax Expense by \$802, \$497, and \$305, respectively, as shown below:

<b>Account</b>	<b>2021 Tax Return</b>	<b>2021 Annual Report</b>	<b>Overstated / (Understated)</b>
Account 409–State Corporate Income Tax Expense	\$4,935	\$4,438	(\$497)
Account 410–Federal Corporate Income Tax Expense	11,811	11,506	(305)
Total	\$16,746	\$15,944	(\$802)

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

AJE No.	Acct. No.	Description	DR	CR
1	231	Accounts Payable	\$15,944	
	409	State Corporate Income Tax Expense	497	
	410	Federal Corporate Income Tax Expense	305	
	215	Retained Earnings		\$5,201
	236	Taxes Accrued		11,545
		<i>To reclassify income tax liability incorrectly recorded as Accounts Payable and correct the corporate income tax expenses and liabilities balances to agree with MMWC's income tax returns</i>		

MMWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on March 21, 2023.

**Criteria:**

The USOA states in part:

**236. Taxes Accrued**

A. This account shall include all taxes accrued or payable by the utility including property taxes, payroll taxes, withholding taxes, and corporation income taxes.

**409. State Corporate Income Tax Expense**

A. This is the tax expense account to which State Corporate Franchise Taxes for the current calendar year are charged.

B. This account will be used only by incorporated utilities.

**410. Federal Corporate Income Tax Expense**

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

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

**Cause:**

MMWC lacks monitoring and review procedures over its accounting and reporting process to ensure corporate income tax expenses and liabilities are accurately recorded in its books and reported in its Annual Report.

**Effect:**

Inaccurate reporting of Account 236—Taxes Accrued distorted MMWC financial position as of December 31, 2021, and reduced the comparability of MMWC'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 MMWC's relative to other small water utilities in California.

Inaccurate reporting of Account 409–State Corporate Income Tax Expense and Account 410–Federal Corporate Income Tax Expense in the Annual Report, which may be used during MMWC’s General Rate Case (GRC) application review process, could potentially impact the water rates for MMWC’s ratepayers.

**Recommendation:**

MMWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that corporate income tax expenses and liabilities are accurately recorded in its books and reported in its Annual Reports.

**Finding 3: Inaccurate Reporting of Operating Expenses**

**Condition:**

MMWC understated Account 688–Regulatory Commission Expense and Account 211–Other Paid-in Capital by \$5,788 and \$1,490, respectively; and overstated Account 689–General Expenses by \$4,298 in its 2021 Annual Report originally filed with the CPUC’s Water Division on April 25, 2022, due to the following accounting errors:

- MMWC’s G/L showed that it incurred \$7,278 of General Expenses in 2021. However, MMWC only reported \$5,787 of General Expenses in its 2021 Annual Report. MMWC incorrectly reported the difference of \$1,490 as an adjustment to the Account 211–Other Paid-in Capital account in its Annual Report. As a result, MMWC understated both Account 689–General Expenses and Account 211–Other Paid-in Capital by \$1,490.
- MMWC incorrectly recorded \$5,788 of water system enforcement fees paid to the California State Water Resources Control Board in Account 689–General Expenses instead of recording it in Account 688–Regulatory Commission Expense. As a result, MMWC understated Account 688–Regulatory Commission Expense by \$5,788 and overstated Account 689–General Expenses by the same amount.

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

AJE No.	Acct. No.	Description	DR	CR
2	688	Regulatory Commission Expense	\$5,788	
	211	Other Paid-in Capital		\$1,490
	689	General Expenses		4,298
		<i>To reclassify Regulatory Commission Expense incorrectly reported as General Expenses and to reclassify General Expenses incorrectly reported as an adjustment to Other Paid-in Capital.</i>		

MMWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC’s Water Division on March 21, 2023.

**Criteria:**

The USOA States in Part:

**688. Regulatory Compliance Expense**

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

**689. General Expense**

This account shall include all expenses not includible in other operating expense accounts. General expenses include advertising, subscriptions, collection agency fees and Water Association dues.

**Cause:**

MMWC lacks monitoring and review procedures over its accounting and reporting process to ensure that expenses are accurately recorded in its books and reported in its Annual Reports.

**Effect:**

Inaccurate reporting of general expenses in the Annual Reports, which may be used during MMWC's GRC application review process, could potentially impact the water rates for MMWC's ratepayers.

**Recommendation:**

MMWC should establish and implement monitoring and review procedures over its accounting and reporting process to ensure that expenses are accurately recorded in its books and reported in its Annual Report.

**Finding 4: Incorrectly Reported Advances for Construction****Condition:**

MMWC incorrectly reported a liability of \$4,410 as Advances for Construction in Account 252 in its 2021 Annual Report originally filed with the CPUC's Water Division on April 25, 2022. MMWC has been amortizing the outstanding liability in the Advances for Construction account annually by crediting Account 211—Other Paid-in Capital. However, the remaining balance of \$4,410 of this advance has been forgiven and MMWC no longer makes periodic payments for this liability. According to MMWC, it owed the liability to its affiliated company, South Fork Development Company, which was dissolved in 2008. Since MMWC no longer owes the liability reported as Advances for Construction, it should have reclassified the remaining balance to Other Paid-in Capital as required by the USOA. Therefore, MMWC overstated Account 252—Advances for Construction by \$4,410 and understated Account 211—Other Paid-in Capital by the same amount.

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

AJE No.	Acct. No.	Description	DR	CR
3	252	Advances for Construction	\$4,410	
	211	Other Paid-in Capital		\$4,410
		<i>To remove expired Advances for Construction from MMWC's affiliated company.</i>		

MMWC applied this adjusting journal entry to correct its books and submitted a revised 2021 Annual Report to the CPUC's Water Division on March 21, 2023.

**Criteria:**

The USOA States in part:

**252. Advances for Construction**

A. This account shall include construction advances from subdividers and others, which are subject to refund in accordance with the provisions of the utility's water main extension rules.

B. Any balances in this account representing the unrefunded balances of expired contracts, or discounts resulting from termination of contracts in accordance with the utility's water main extension rules, shall be transferred to Account 265, Contributions in Aid of Construction.

**Cause:**

MMWC lacks policies and procedures over its accounting and reporting process to ensure that forgiven and unrefunded advances for construction are timely reclassified from Account 252—Advances for Construction to Account 211—Other Paid-in Capital as required by the USOA.

**Effect:**

Inaccurate reporting of Advances for Construction distorted MMWC financial position as of December 31, 2021, and reduced the comparability of MMWC'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 MMWC's relative to other small water utilities in California.

**Recommendation:**

MMWC should establish and implement accounting policies and procedures to ensure that forgiven and unrefunded advances for construction are timely reclassified from Account 252—Advances for Construction to Account 211—Other Paid-in Capital as required by the USOA.

**Finding 5: Noncompliance with USOA Accounting Requirements****Condition:**

Our review disclosed deficiencies in MMWC's accounting system which constitutes a noncompliance with the accounting requirements of the USOA.

During the review period, MMWC recorded transactions in its G/L using cash basis of accounting and did not record noncash expenses and transactions, such as depreciation expense and asset retirements in its G/L.

UAB noted the following discrepancies between MMWC's G/L and its 2021 Annual Report:

- MMWC's G/L included a debit balance in the following accounts; however, MMWC did not report these account balances in its 2021 Annual Report.

<u>G/L Account</u>	<u>Per G/L</u>
Loan - Ranch	\$52,907
Kissack Ranch Note Payable	17,516
Loan-Westamerica	866

We confirmed with MMWC that these account balances in the G/L are erroneous and should have been removed.

- MMWC's G/L and working trial balance did not include any activities or balances for the accounts shown below:

<u>Account</u>	<u>Annual Report</u>	<u>Notes</u>
Cash - Special Deposits	\$1,000	
Accounts Receivable - Customers	21,313	
Common Stock	31,190	
Other Paid-in Capital	295,710	See Finding 1
Accounts Payable	23,232	
Contributions in Aid of Construction	21,994	
Accumulated Amortization of Contributions	8,417	
Other Water Revenue	5,160	
Regulatory Commission Expense	5,158	See Finding 3
Depreciation Expense	26,859	
State Corporate Income Tax Expense	4,438	See Finding 2
Federal Corporate Income Tax Expense	11,506	See Finding 2

MMWC relied on its underlying accounting records such as billing registers and the Accounts Receivable Aging Reports from its billing system, CPUC's Resolutions, MMWC's tax returns, and its computation schedules to derive at the reported account balances in its 2021 Annual Report.

- MMWC's G/L and its 2021 Annual Report had the following discrepancies:

<b>Account</b>	<b>Per G/L</b>	<b>Per Annual Report</b>	<b>Variance</b>	<b>Note</b>
Water Plant in Service	\$1,374,013	\$1,197,465	\$176,548	Note A
Accumulated Depreciation	(231,288)	(533,782)	302,494	Note A
Metered Water Revenue	360,717	342,485	18,232	Note B

Note A: MMWC did not record transactions to remove the retired assets from its G/L and MMWC did not record annual depreciation expense in its G/L. MMWC provided a depreciation schedule to substantiate the balance reported in its 2021 Annual Report.

Note B: MMWC only recorded cash receipts in its G/L. MMWC provided billing registers from its billing system to support the total revenues reported in its 2021 Annual Report.

General Accounting Instruction 2 of the USOA requires utilities to maintain their accounting using double entry method and posting its accounting transactions in its accounting system at least monthly and that the reported amounts be fully supported by underlying accounting records.

**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.

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.

**Cause:**

MMWC lacks an effective and efficient accounting system to ensure that all accounting transactions, including non-cash transactions such as depreciation expense, asset retirement and amortization, and all liabilities and assets are accurately and completely recorded in its accounting system and reported in its Annual Report. MMWC also lacks monitoring and review procedures to ensure that erroneous account balances are removed from the accounting system.

**Effect:**

Lack of an effective and efficient accounting system results in noncompliance with the accounting requirements of the USOA. It can also cause material misstatements in MMWC's financial reporting. Inaccurate and materiality misstated financial information in MMWC's Annual Report, which may be used during MMWC's GRC application review process, could potentially impact the water rates for MMWC's ratepayers.

**Recommendations:**

MMWC should strengthen its accounting procedures to ensure that all accounting transactions including non-cash transactions such as depreciation expense, asset retirement and amortization, and all liabilities and assets are accurately and completely recorded in its accounting system and reported in its Annual Report. MMWC should also establish and implement monitoring and review procedures to ensure accurate reporting of account balances and timely correction of accounting errors.

## APPENDIX B—UTILITY'S RESPONSE

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**Mountain Mesa Water Company, Inc.**  
P.O. Box 2431  
Bakersfield, CA 93303-2431

May 1, 2023

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

RE: Reply to Utility Audits, Risk and Compliance Division Utility Audits Branch regarding review of financial statements for Mountain Mesa Water Company for the year ended December 31, 2021.

### FINDING #1

Mountain Mesa Water Company (MMWC) accepts this finding and as a result, beginning with the year 2022, MMWC is now including in its QuickBooks General Ledger all transactions and utilizing QuickBooks to ensure the CPUC Report agrees with the General Ledger.

### FINDING #2

MMWC accepts this finding and as a result has made this correction in the Revised CPUC Report for 2021 filed March 21, 2023.

### FINDING #3

MMWC accepts this finding and has made this correction in the Revised CPUC Report for 2021 filed March 21, 2023.

### FINDING #4

MMWC accepts this finding and as a result has made this correction in the Revised CPUC Report for 2021 filed March 21, 2023.

Angie Williams, Director  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
Page 2

FINDING #5

MMWC accepts this finding and as a result, beginning January 1, 2022 has fully utilized QuickBooks to include all known transactions so that from now on the General Ledger will agree to the CPUC Report.

Yours truly,

A handwritten signature in black ink, appearing to read "Scott Kissack", written over a white background.

Scott Kissack  
Mountain Mesa Water Company