

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

December 22, 2020

Mr. Michael Herman, Owner  
Susan River Park Water Company, Inc.  
30 South Roop Street  
Susanville, CA 96130

Dear Mr. Herman:

**Final Report Transmittal Letter—Review of Susan River Park Water Company’s 2019 Annual Report for the period of January 1, 2019 through December 31, 2019**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Susan River Park Water Company, Inc.’s (SRPWC) regulatory basis financial statements in the 2019 Annual Report filed with the CPUC, which comprise the balance sheet as of December 31, 2019 and related statements of income, and retained earnings. The final review report is enclosed.

SRPWC’s response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final review report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations by February 5, 2021. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the Utility Audits Branch 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 SRPWC’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

Mr. Michael Herman, Owner  
Susan River Park Water Company, Inc.  
December 22, 2020  
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**cc:** Ms. Rachel Peterson, Acting Executive Director, CPUC  
Mr. Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC  
Mr. Lucian Filler, Deputy Executive Director, CPUC  
Ms. Masha Vorobyova, Assistant Director, UAB  
Mr. Bruce DeBerry, Program Manager, Water Division  
Mr. Raymond Yin, Program and Project Supervisor, UAB  
Ms. Khusbindar Kaur, Senior Management Auditor, UAB  
Ms. Sharmin Wellington, Public Utilities Regulatory Analyst V, UAB  
Mr. Sam Niepoth, Staff Services Management Auditor, UAB

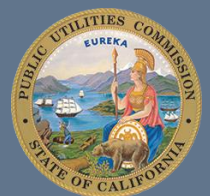


# REVIEW OF FINANCIAL STATEMENTS

Susan River Park Water Company, Inc.

For the Year Ended December 31, 2019

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
December 22, 2020



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

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

**Khusbindar Kaur, CPA  
Lead**

**Sharmin Wellington, CPA  
Staff**

**Sam Niepoth  
Staff**

A digital copy of this report can be found at:  
<http://www.cpuc.ca.gov/utilityaudits/>

You can contact our office at:  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
400 R Street, Suite 221  
Sacramento, CA 95811

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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 Susan River Park Water Company, Inc. (SRPWC) as of December 31, 2019, pursuant to Public Utilities (PU) Code, Sections 314.5, 314.6, 581, 582, and 584 that provides the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under Review Engagement in the Generally Accepted Government Auditing Standards (GAGAS).

SRPWC was incorporated in California on April 2, 2014. SRPWC is a Class D water utility with 50 active service connections. SRPWC serves approximately 50 unmetered customers and six fire hydrants in the vicinity of Lassen County, California. As a regulated water utility, SRPWC 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 16, 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 SRPWC 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 2019 Annual Report as required by the Water Division Memorandum dated January 7, 2020.

Based on our review, we are not aware of any material modifications that should be made to SRPWC's revised financial statements in order for them to be in accordance with the accounting framework established in the USOA. For the review period, UAB did not note any noncompliance with PU Code Section 818; and SRPWC filed its 2019 Annual Report timely in compliance with the CPUC directive from the Water Division. However, UAB identified two material misstatements in SRPWC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A—Review Findings and Recommendations. SRPWC subsequently corrected these misstatements in its revised financial statements submitted to UAB on October 9, 2020. The findings are summarized below:

- Finding 1: SRPWC failed to timely remit to the CPUC the Users Fee totaling \$2,476 for the years 2016, 2017, and 2018. SRPWC paid these past due CPUC Users Fee for prior years in the year 2019. PU Code Section 431 requires utilities to collect Users Fee from customers and remit it to the CPUC at least annually. Also, SRPWC has not remitted to the CPUC the Users Fee for the Year 2014 and still owes \$798 in late payment penalties. In addition, SRPWC incorrectly recorded prior year expenses of \$2,476 attributed to CPUC Users Fee as an expense in its 2019 general ledger (G/L), which resulted in an overstatement in Account 408.3—Taxes Other Than Income Taxes in the 2019 Annual Report. SRPWC also did not accrue \$837 of CPUC Users Fee attributed to the Year 2019 in its books; as a result, both Account 688—Regulatory Commission Expense and Account 231—Accounts Payable were understated by \$837.



- Finding 2: SRPWC misclassified \$28,133 of Management Salaries as Contract Work, causing Management Salaries to be overstated by \$28,133 and Contract Work to be understated by the same amount.

UAB provided a draft review report to SRPWC for comments on November 23, 2020. SRPWC provided its comments to UAB on December 4, 2020, agreeing with the review results and recommendations. However, SRPWC disagreed with the cause of Finding 1 and the effect of Finding 2. SRPWC's responses are included in Appendix B of this report. After evaluating SRPWC's comments, UAB modified the cause of Finding 1 to incorporate SRPWC's suggestions; but the effect of Finding #2 remains unchanged. UAB's evaluations of those responses are in Appendix C of this report.

# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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Mr. Michael Herman, Owner  
Susan River Park Water Company, Inc.  
30 South Roop Street  
Susanville, CA 96130

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the financial statements of Susan River Park Water Company, Inc. (SRPWC), which comprise the balance sheet as of December 31, 2019, and the related income statement and statement of retained earnings for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of SRPWC'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***

SRPWC's management is responsible for the preparation and fair presentation of its 2019 financial statements in accordance with the accounting framework established under CPUC's Uniform System of Accounts (USOA) for Water Utilities. SRPWC's management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of its 2019 financial statements that are free from material misstatement, whether due to fraud or error. In addition, SRPWC'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 engagements 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 of the USOA. For regulatory purposes, UAB also reviewed whether SRPWC complied with PU Code Section 818 to obtain its long-term debts, and whether SRPWC timely filed its 2019 Annual Report as required by CPUC's Water Division. We believe that the results of our review provide a reasonable basis for our conclusion.

## ***Accountant's Conclusion***

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the accounting framework of the USOA. However, UAB identified two material misstatements in SRPWC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A – Review Findings and Recommendations. These misstatements have been corrected in the accompanying financial statements.

For the review period, UAB did not note any noncompliance issue with PU Code Section 818. In addition, SRPWC has timely filed its 2019 Annual Report in compliance with the CPUC directive from the Water Division.



### ***Basis of Accounting***

For regulatory purposes, the CPUC adopted, through Decision (D.) 16-11-006 on November 16, 2016, the updated USOA, which is a comprehensive 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 of the USOA. SRPWC's financial statements were prepared based on this regulatory requirement.

We draw attention to 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.

### ***Views of Responsible Official***

UAB provided a draft review report to SRPWC for comments on November 23, 2020. SRPWC provided its comments to UAB on December 4, 2020, agreeing with the review results and recommendations. However, SRPWC disagreed with the cause of Finding 1 and the effect of Finding 2. SRPWC's responses are included in Appendix B of this report. After evaluating SRPWC's comments, UAB modified the cause of Finding 1 to incorporate SRPWC's suggestions; but the effect of Finding 2 remains unchanged. UAB's evaluations of those responses are in Appendix C of this report. The review findings and recommendations presented in this report represent our final determination of this review engagement.

### ***Other Matter - Submission of a Corrective Action Plan***

SRPWC's management should submit a corrective action plan to the UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by February 5, 2021. The corrective action plan should address how SRPWC will implement the recommendations and provide the timing of incorporating UAB's review adjustments to SRPWC's books and records. If SRPWC 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. SRPWC should use the amounts reviewed by the UAB as presented in this report as the basis to file its 2020 Annual Report with the CPUC.

### ***Restricted Use of This Review Report***

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

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

# REVIEWED FINANCIAL STATEMENTS

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Susan River Park Water Company, Inc.  
**Balance Sheet (As Reviewed)**  
As of December 31, 2019

<b>ASSETS</b>	
<b>UTILITY PLANT</b>	
Water Plant in Service (Excluding SDWBA & Prop 50)	\$136,004
Accumulated Depreciation of Water Plant	(22,948)
<b>Net Utility Plant</b>	<u>113,056</u>
<b>CURRENT AND ACCRUED ASSETS</b>	
Cash	<u>1,033</u>
<b>Total Current and Accrued Assets</b>	<u>1,033</u>
<b>Total Assets</b>	<u><u>\$114,089</u></u>
<b>LIABILITIES AND OTHER CREDITS</b>	
<b>CORPORATE CAPITAL AND SURPLUS</b>	
Common Stock	\$1,000
Other Paid-in Capital	69,100
Retained Earnings	43,152
<b>Total Corporate Capital and Retained Earnings</b>	<u>113,252</u>
<b>CURRENT AND ACCRUED LIABILITIES</b>	
Accounts Payable	<u>837</u>
<b>Total Current and Accrued Liabilities</b>	<u>837</u>
<b>Total Equity and Liabilities</b>	<u><u>\$114,089</u></u>

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

Susan River Park Water Company, Inc.  
**Income Statement (As Reviewed)**  
 For Year Ended December 31, 2019

**OPERATING REVENUES**

Unmetered Water Revenue	\$64,432
<b>Total Operating Revenues</b>	64,432

**OPERATING EXPENSES**

**Plant Operation and Maintenance Expenses**

Power	3,644
Contract Work	32,701
Transportation Expense	3,623
Other Plant Maintenance Expense	4,640
<b>Total Plant Operation and Maintenance Expense</b>	44,608

**Administrative and General Expenses**

Office Supplies and Expenses	1,899
Professional Services	4,607
Insurance	2,103
Regulatory Commission Expense	837
General Expense	4,623
<b>Total Administrative and General Expenses</b>	14,069
<b>Total Operating Expenses</b>	58,677

Depreciation Expense	3,125
Taxes Other Than Income Taxes	2,915
State Corporate Income Tax Expense	847
<b>Total Operating Revenue Deductions</b>	65,564

<b>Net Loss</b>	(\$1,132)
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*(See independent accountant's review report and accompanying notes.)*

Susan River Park Water Company, Inc.  
**Statement of Retained Earnings (As Compiled <sup>1</sup>)**  
For Year Ended December 31, 2019

Retained Earnings, Beginning of Year	\$46,760
<b>CREDITS:</b>	0
Total Credits	<u>0</u>
<b>DEBITS:</b>	
Net Loss	(1,132)
Adjustment for Prior Year Expenses	<u>(2,476)</u>
Total Debits	<u>(3,608)</u>
<b>Retained Earnings, End of Year</b>	<u><u>\$43,152</u></u>

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

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<sup>1</sup> UAB compiled the Statement of Retained Earnings based on the reviewed Balance Sheet and Income Statement, and other relevant financial data.

# Susan River Park Water Company, Inc.

## Notes to Financial Statements

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

### 1. Purpose of Financial Information and Targeted Audience

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

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

### 2. Property, Plant and Equipment

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

#### (1) Depreciation Methodology

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

USOA requires utilities to use the "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Water utilities are required to comply with the CPUC's Standard Practice (SP) U-4-SM and SP U-4-M when determining depreciation accruals. Specifically, for the water plant with over \$100,000, the utility must maintain separate depreciation reserve by different plant accounts in accordance with Appendix B1 of SP U-4-SM; for the water plant under \$100,000, if the utility elects not to separate or maintain the depreciation reserve by accounts, it is appropriate to develop a composite value for remaining life for the entire plant in accordance with Appendix B2 or B3 of SP U-4-SM. The USOA suggested that all utilities maintain a separate accumulated depreciation subaccount for each depreciable plant account; and it is mandatory for water utilities having more than 500 customers.<sup>2</sup> The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned SPs.

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<sup>2</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 4 on Page B14.

Susan River Park Water Company, Inc. (SRPWC) uses the straight-line depreciation method based on the useful life of the water plant assets.

## **(2) Asset Retirement**

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

SRPWC did not acquire or retire any assets during the review period.

## **3. Cash and Cash for Restricted Use**

Under GAAP, if the restricted funds are considered to offset the current liability, the funds may be included as current asset classification. If the funds are set aside for use in the near future for the liquidation of long-term debts, payments to sinking funds, then the funds should be classified as non-current assets. If unsure of the timing of the use, the restricted cash can be classified to Other Assets.

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

SRPWC Cash balance was \$1,033 and it did not report any balance for Cash for Restricted Use for the year ended December 31, 2019.

## **4. Water Utility Users Fee**

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. USOA requires water utilities to credit regular operating revenue accounts with amounts of User Fees billed to customers and charge Account 688, Regulatory Commission Expense, with fees paid to the CPUC.<sup>3</sup>

SRPWC failed to timely or annually remit its CPUC Users Fee to the CPUC. SRPWC paid its past-due prior years 2016, 2017, and 2018 CPUC Users Fee totaling \$2,476 in the Year 2019. SRPWC has not remitted to the CPUC Users Fee for 2014 and still owes \$798 in late payment penalties. SRPWC did not record 2019 CPUC Users Fees totaling \$837 in its 2019 general ledger in Account 688—Regulatory Commission Expense and Account 231—Accounts Payable. As a result, Account 688—Regulatory Commission Expense and Account 231—Accounts Payable were understated by \$837.

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<sup>3</sup> D.16.11-006 dated November 10, 2016, General Accounting Instructions 9 on Pages B18 and B19.  
Review of Susan River Park Water Company, Inc.  
For the Year Ended December 31, 2019



## 5. Form of Financial Statements <sup>4</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.

## 6. 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.

## 7. Compliance filing of 2019 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, SRPWC has complied with these requirements.

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<sup>4</sup> Regulated Utilities Manual—A Service for Regulated Utilities by Deloitte & Touché USA LLP, pages 36-37.

# APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

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## **Finding 1: Noncompliance with CPUC Users Fee Requirements**

### **Condition:**

**Our review identified the following issues with CPUC User Fee requirements:**

- SRPWC failed to timely remit to the CPUC the Users Fee totaling \$2,476 for the years 2016, 2017, and 2018. SRPWC paid these past due CPUC Users Fee for prior years in the year 2019. PU Code Section 431 requires utilities to collect Users Fee from customers and remit it to the CPUC at least annually. Also, SRPWC has not remitted to the CPUC the Users Fee for the Year 2014 and still owes \$798 in late payment penalties. In addition, SRPWC incorrectly recorded prior year expenses of \$2,476 attributed to CPUC Users Fee as an expense in its 2019 G/L, which resulted in an overstatement of \$2,476 in Account 408.3—Taxes Other Than Income Taxes in the 2019 Annual Report. SRPWC subsequently corrected these misstatements in its revised financial statements submitted to UAB on October 9, 2020.
- SRPWC did not utilize accrual basis of accounting to accrue \$837 of CPUC Users Fee attributed to the Year 2019 in its books. As a result, both Account 688—Regulatory Commission Expense and Account 231—Accounts Payable were understated by \$837.

### **Criteria:**

Public Utilities Code Section 431 states, in part, that:

- (a) The commission shall annually determine a fee to be paid by every electrical, gas, telephone, telegraph, water, sewer system, and heat corporation and every other public utility providing service directly to customers or subscribers and subject to the jurisdiction of the commission other than a railroad...

The USOA in D.16-11-006 states that:

#### General Instructions 9 - Water Utility Users Fee:

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.

#### 231. Accounts Payable

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

Resolution M-4839 states:

(e) For every public utility with annual gross intrastate revenues of seven hundred fifty thousand dollars (\$750,000) or less, the commission shall annually establish uniform fees to be paid by each such public utility, if the revenues collected thereby are consistent with paragraph (2) of subdivision (a) and subdivision (c).

**Cause:**

SRPWC lacked adequate policies and procedures for recording, reporting, and remitting the CPUC Users Fee, which resulted in SRPWC's noncompliance with CPUC's directives, including the USOA. Per SRPWC, they lacked adequate working capital to remit prior years' Users Fee, resulting in noncompliance with CPUC's directives, including the USOA. SRPWC also lacked monitoring procedures to ensure CPUC Users Fee were timely remitted.

**Effect:**

Inaccurate reporting of Taxes Other Than Income Taxes, Accounts Payable, and Regulatory Commission Expense balances distorted SRPWC's financial position as of December 31, 2019, which could impact the water tariff rates during the general rate case.

**Recommendations:**

SRPWC's management should develop and implement written policies and procedures governing accounting and reporting relating to CPUC Users Fee to ensure SRPWC's compliance with CPUC's directives, including the USOA accounting requirements. Regarding the unpaid CPUC Users Fee and late payment penalties, SRPWC should immediately work with CPUC's Water Division to make arrangement for payment. SRPWC should also develop and implement monitoring procedures to ensure CPUC Users Fee billed to and collected from its customers are properly earmarked and used for intended purposes, and timely submitted to the CPUC. Additionally, SRPWC should utilize the accrual basis of accounting as prescribed by the USOA to record its transactions.

**Finding 2: Improperly Reporting Management Salaries**

**Condition:**

SRPWC misclassified \$28,133 of compensation paid to its owner in the original Annual Report filed with the Water Division. SRPWC's owner was paid as an independent contractor; therefore, he was not compensated as an employee of SRPWC. However, SRPWC incorrectly reported the owner's compensation in Account 671—Management Salaries, instead of Account 615—Contract Work. As a result, Management Salaries account was overstated by \$28,133 and Contract Work account was understated by the same amount. SRPWC corrected these misstatements in its revised financial statements submitted to the UAB on October 9, 2020.

**Criteria:**

Internal Revenue Service Code Section 4.23.8.2 states:

A worker's status or classification (i.e., employee, independent contractor, or other non-employee) determines what taxes are paid and who is responsible for reporting and paying these taxes. Generally, if an employer employee relationship exists, the employer is liable for FICA, FUTA, and FITW under IRC 3101, IRC 3102, IRC 3111, IRC 3301, IRC 3402, and IRC 3403, respectively. But there are special rules that may apply. For example, certain

workers are subject to FICA taxes even though they are independent contractors under the common law test. These workers are commonly called "statutory employees".

The USOA States:

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.

671. Management Salaries:

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

**Cause:**

SRPWC lacked adequate policies and procedures for recording and reporting its accounting transactions, which resulted in SRPWC's noncompliance with USOA guidelines by recording the contractor's compensation.

**Effect:**

Inaccurate reporting of Management Salaries distorted SRPWC's financial position as of December 31, 2019, which could impact the water tariff rates during the general rate case.

**Recommendations:**

SRPWC should develop and implement written policies and procedures for recording and reporting its accounting transactions to ensure its compliance with USOA and applicable guidelines. SRPWC should also ensure that it uses the correct accounts when reporting its financial information in its Annual Report.

## APPENDIX B—SRPWC'S RESPONSE

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SRPWC submitted the following response to UAB's draft report via email on December 4, 2020.

SUSAN RIVER PARK WATER COMPANY, INC

### Response to Finding #1

The current owner of SRPWC inherited the water company with significant cash flow shortfalls, and has been diligently working to improve financial stability. The recent rate increase has helped alleviate these shortfalls. The owner submitted timely reports while maintaining open and ongoing communication with the CPUC about making payments. Most prior year payments were submitted in 2019, while the remaining balance will be paid soon. Therefore, the problem described in the finding was already being remedied and steps are being taken to make sure all future payments will be remitted timely.

### Suggested change to Finding #1 Cause:

SRPWC lacked adequate working capital to pay User Fees when due, resulting in noncompliance with CPUC's directives including the USOA.

### Response to Finding #2

SRPWC will change its accounting policies to reflect updated guidance for reporting of management compensation.

### Suggested change to Finding #2 Effect:

Reporting the compensation of management as Account 671-Management Salaries instead of Account 615-Contract Work caused the Annual Report to show these costs inconsistently with reports from other water companies.

## APPENDIX C—UAB'S EVALUATION OF SRPWC'S RESPONSE

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SRPWC submitted its response to UAB's draft report on December 4, 2020. The response has been incorporated into Appendix B of this report. In evaluating SRPWC's response, we noted that SRPWC agreed with the findings and recommendations but disagreed with the cause for Finding #1 and the effect of Finding #2. UAB's evaluation of SRPWC's response is presented below:

### **Finding 1: Noncompliance with CPUC Users Fee Requirements**

SRPWC stated they inherited significant cash flow shortfalls from the previous owner and most prior year payments were remitted in the year 2019. SRPWC clarified that the untimely remittance of CPUC Users Fee resulted from the lack of adequate working capital to pay Users Fees when due.

UAB appreciates that SRPWC has taken steps to remediate the finding. UAB has incorporated the additional cause into the finding and added an additional recommendation regarding unpaid CPUC Users Fee and late payment penalties.

### **Finding 2: Improperly Reporting Management Salaries**

SRPWC has agreed to change its policies to reflect the updated guidance for reporting of management compensation. However, SRPWC suggested to modify the effect of the finding.

UAB appreciates that SRPWC has agreed to update its policies to reflect UAB's recommendations for reporting management's compensation. However, UAB finds that the effect stated in the report is relevant to the Utility's operating condition; therefore, the finding remains unchanged as presented in this report.