



# REVIEW OF FINANCIAL SCHEDULES

## Suburban Water Systems

For the Year Ended December 31, 2020

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
June 15, 2022



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

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

**Khusbindar Kaur, CPA  
Lead**

**Sam Niepoth  
Staff**

**Tir Saephan  
Staff**

A digital copy of this report can be found at:  
[Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry)

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

June 15, 2022

Mr. Craig Gott, President  
Suburban Water Systems  
1325 N. Grand Avenue, Suite 100  
Covina, CA 91724

Dear Mr. Gott:

**Final Report Transmittal Letter—Review of Suburban Water Systems' Annual Report for the year ended December 31, 2020**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Suburban Water Systems' (SWS) 2020 Annual Report filed with the CPUC. The final review report is enclosed.

Suburban Water Systems' response to the draft report and our evaluation of the response are incorporated into this final report. We will post the final review report on our website at [Audit Reports by Industry \(ca.gov\)](http://AuditReportsbyIndustry.ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendation by August 1, 2022. The CAP should include specific steps and target dates to correct the finding 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 Suburban Water Systems' assistance and cooperation during the engagement, and your willingness to implement corrective actions.

Please contact us at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov) if you have any questions.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: on next page

Mr. Craig Gott, President

Suburban Water Systems

June 15, 2022

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**cc:** Bob Kelly, Vice President of Regulatory Affairs, SWS  
Carmelitha Bordelon, Regulatory Affairs Manager, SWS  
Kiki Carlson, Regulatory Affairs Manager, SWS  
Gigi Baker, Accounting Manager, SWS  
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  
Raymond Yin, Program and Project Supervisor, UAB, CPUC  
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC  
Sam Niepoth, Staff Services 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 schedules in the Annual Report of Suburban Water Systems (SWS) for the year ended December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under Review Engagements in the Generally Accepted Government Auditing Standards (GAGAS).

Incorporated in California in 1907, SWS is a subsidiary of Southwest Water Company. SWS is a Class A water utility with a total of 75,303 metered customer service connections, and 1,251 flat rate customer service connections.<sup>1</sup> SWS serves customers in all or portions of Glendora, Covina, West Covina, La Puente, Hacienda Heights, City of Industry, Whittier, La Mirada, La Habra, Buena Park and unincorporated portions of California's Los Angeles and Orange counties.<sup>2</sup> As a regulated water utility, SWS is required to prepare its Annual Reports 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 schedules in SWS's Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives, including Water Division's Annual Report filing requirements.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in SWS's revised Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. However, UAB identified one material misstatement in SWS's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A—Review Finding and Recommendation. The finding is summarized below:

- Finding 1: SWS reported a total balance of \$8,846,228 in three temporary expense clearing accounts in its Schedule of Operating Expenses. The balances in the clearing accounts should have been transferred to Account 761—Maintenance of Transmission and Distribution Mains, Account 791—Administrative and General Salaries, and Account 799—Miscellaneous General Expenses. As a result, SWS overstated Account 901—Charges by Affiliated Companies—Clearing, Account 903—Transportation Expenses—Clearing, and Account 906—Tools and Work Equipment—Clearing by \$8,283,188, \$543,911, and \$19,129, respectively; and understated expenses in Account 761—Maintenance of Transmission and Distribution Mains, Account 791—Administrative and General Salaries, and Account 799—Miscellaneous General Expenses by \$563,040, \$600,838, and \$7,682,350, respectively.

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<sup>1</sup> SWS 2020 Annual Report, Schedule D-4—Number of Active Service Connections, Page 67.

<sup>2</sup> SWS 2020 Annual Report, General Information, Page 13.

UAB discussed the finding and recommendation with SWS at the exit conference on March 25, 2022. SWS concurred with the finding and agreed to correct the misstatements described in Appendix A of this report. SWS submitted its revised 2020 Annual Report to the CPUC on April 8, 2022, to correct the misstatement. We are not aware of any material modifications that should be made to the accompanying financial schedules in SWS's revised Annual Report. UAB provided a draft review report to SWS for comments on May 6, 2022. SWS submitted its comments on May 20, 2022, regarding the note to financial schedules on page 13 of this report. SWS's response is included in Appendix B of this report. UAB's evaluation of SWS' response is in Appendix C of this report. The review finding and recommendation presented in this report remain unchanged and represent our final determination of this review engagement.



# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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Craig Gott, President  
Suburban Water Systems  
1325 N. Grand Avenue, Suite 100  
Covina, CA 91724

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial schedules in Suburban Water Systems' (SWS) revised Annual Report for the year ended December 31, 2020. SWS's management is responsible for the preparation and fair presentation of the financial schedules in SWS's revised Annual Report in accordance with the accounting framework prescribed by the Uniform System of Accounts (USOA) adopted in CPUC's Decision (D.)16-11-006 and CPUC's directives, including Water Division's Annual Report filing requirements. Our responsibility is to express a conclusion on the financial schedules in the SWS's revised Annual Report based on our review.

Our review was conducted in accordance with the standards of attestation engagement established by the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial schedules in SWS's Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. A review is substantially less in scope than an examination, the objective for which is to obtain reasonable assurance about whether the financial schedules in SWS's Annual Report is in accordance with accounting framework prescribed by the USOA and CPUC's directives, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

We are required to be independent of SWS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in SWS's revised Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. However, UAB identified one material misstatement in SWS's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A—Review Finding and Recommendation. This misstatement has been corrected in the accompanying financial schedules.

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

UAB discussed the review finding with SWS at the exit conference on March 25, 2022. SWS concurred with the finding and agreed to correct the misstatements described in Appendix A of this report. SWS submitted its revised 2020 Annual Report to the CPUC on April 8, 2022, to correct the misstatement. UAB provided a draft review report to SWS for comments on May 6, 2022. SWS submitted its comments on May 20, 2022, regarding the note to financial schedules on page 13 of this report. SWS's response is included in Appendix B of this report. UAB's evaluation of SWS's response is in Appendix C of this report. The review finding and recommendation presented in this report remain unchanged and represent our final determination of this review engagement.



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

SWS's management should submit a corrective action plan (CAP) to the UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by August 1, 2022. The CAP should address how SWS will implement the recommendation. If SWS is unable to implement UAB's recommendation, the CAP should state the reason(s) for not being able to implement the recommendation. SWS should use the amounts reviewed by the UAB as presented in this report as the basis to file its 2021 Annual Report with the CPUC.

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

The purpose of this report is to summarize the results of the review mandated by Public Utilities Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of SWS, 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 website at [Audit Reports by Industry \(ca.gov\)](#).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Sacramento, California  
June 15, 2022

## REVIEWED FINANCIAL SCHEDULES

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### Suburban Water Systems Utility Plant in Service

As of December 31, 2020

#### INTANGIBLE PLANT

Organization	\$24,996
Franchises and Consents	8,040
Other Intangible Plant	4,945,926
<b>Total Intangible Plant</b>	<u>4,978,962</u>

#### LANDED CAPITAL

Land and Land Rights	1,140,553
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#### SOURCE OF SUPPLY PLANT

Wells	10,840,528
Supply Mains	7,133,950
Other Source of Supply Plant	253,491
<b>Total Source of Supply Plant</b>	<u>18,227,969</u>

#### PUMPING PLANT

Structures and Improvements	10,623,666
Pumping Equipment	21,446,738
Other Pumping Plant	254,376
<b>Total Pumping Plant</b>	<u>32,324,780</u>

#### WATER TREATMENT PLANT

Structures and Improvements	1,668,669
Water Treatment Equipment	5,090,406
<b>Total Water Treatment Plant</b>	<u>\$6,759,075</u>

*(Continued on next page)*

Suburban Water Systems  
**Utility Plant in Service (continued)**  
 As of December 31, 2020

**TRANSMISSION AND DISTRIBUTION PLANT**

Structures and Improvements	\$470,468
Reservoirs and Tanks	45,041,595
Transmission and Distribution Mains	133,108,998
Services	45,909,479
Meters	11,822,796
Meter Installations	1,346,539
Hydrants	14,218,017
<b>Total Transmission and Distribution Plant</b>	251,917,892

**GENERAL PLANT**

Structures and Improvements	22,024,306
Office Furniture and Equipment	2,258,151
Transportation Equipment	3,916,241
Communication Equipment	5,243,353
Power Operated Equipment	75,008
Tools, Shop and Garage Equipment	1,305,593
GIS Mapping Facilities	2,391,254
<b>Total General Plant</b>	37,213,906

<b>Total Utility Plant in Service</b>	<b>\$352,563,137</b>
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*(See independent accountant's review report and accompanying notes.)*

Suburban Water Systems  
**Depreciation and Amortization Reserves**  
 As of December 31, 2020

	Utility Plant	Limited- Term Utility Investments	Utility Plant Acquisition	Other Property	Recycled Water Utility Plant
Reserves, Beginning of Year	\$117,053,746	\$988,404	\$(33,068)	\$42,860	\$(830)
Credits					
Charged to Account 503	11,764,336				2,568
Charged to Account 504		72,970			
Charged to Account 505			(1,500)		
Salvage recovered	26,235				
Total credits	<u>11,790,571</u>	<u>72,970</u>	<u>(1,500)</u>	<u>0</u>	<u>2,568</u>
Debits					
Book cost of property retired	(612,345)				(2,377)
Cost of removal	(2,827,475)				
Total debits	<u>(3,439,820)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,377)</u>
<b>Reserve, End of Year</b>	<b><u><u>\$125,404,497</u></u></b>	<b><u><u>\$1,061,374</u></u></b>	<b><u><u>\$(34,568)</u></u></b>	<b><u><u>\$42,860</u></u></b>	<b><u><u>\$(639)</u></u></b>

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

Suburban Water Systems  
**Advances for Construction**  
 As of December 31, 2020

Balance beginning of year	\$8,228,860
Additions during year	86,490
Gross-up Tax	19,582
Subtotal - Beginning balances plus additions	8,334,932
Charges during year	
Refunds	
Proportionate cost basis	294,235
Present worth basis	2,236
Total refunds	296,471
Subtotal - Charges during year	296,471
<b>Balance end of year</b>	<b>\$8,038,461</b>

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

Suburban Water Systems  
**Contributions in Aid of Construction**  
 As of December 31, 2020

	Depreciable	Non- Depreciable	Total
Balance beginning of year	\$20,513,044	\$262,790	\$20,775,834
Add: Credits to account during year			
Contributions received during year	<u>980,253</u>	<u>          </u>	<u>980,253</u>
Total credits	980,253	0	980,253
Deduct: Debits to account during year			
Depreciation charges for year	<u>(1,079,524)</u>	<u>          </u>	<u>(1,079,524)</u>
Total debits	<u>(1,079,524)</u>	<u>0</u>	<u>(1,079,524)</u>
<b>Balance end of year</b>	<b><u><u>\$20,413,773</u></u></b>	<b><u><u>\$262,790</u></u></b>	<b><u><u>\$20,676,563</u></u></b>

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



Suburban Water Systems  
**Operating Revenues**  
 For Year Ended December 31, 2020

**WATER SERVICE REVENUES**

Metered Sales to General Customers	
Residential Sales	\$62,509,705
Commercial Sales	16,371,187
Industrial Sales	1,769,792
Sales to Public Authorities	3,873,990
Sub-total	<u>84,524,674</u>
Private Fire Protection Service	1,488,981
Sales to Other Water Utilities for Resale	39,913
Sub-total	<u>1,528,894</u>
<b>Total Water Service Revenues</b>	<u>86,053,568</u>

**OTHER WATER REVENUES**

Miscellaneous Service Revenues	208,985
Rent from Water Properties	4,800
Other Water Revenues	(199,406)
Recycled Water Revenues	957,111
<b>Total Other Water Revenues</b>	<u>971,490</u>
<b>TOTAL OPERATING REVENUES</b>	<u><u>\$87,025,058</u></u>

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

Suburban Water Systems  
**Operating Expenses**  
 For Year Ended December 31, 2020

**SOURCE OF SUPPLY EXPENSE**

Operation	
Miscellaneous expenses	\$4,465,962
Purchased Water	15,959,922
<b>Total Source of Supply Expense</b>	<u>20,425,884</u>

**PUMPING EXPENSES**

Operation	
Pumping labor and expenses	569,210
Fuel or power purchased for pumping	3,365,984
Maintenance	
Maintenance of power pumping equipment	707,883
<b>Total Pumping Expenses</b>	<u>4,643,077</u>

**WATER TREATMENT EXPENSES**

Operation	
Operation labor and expenses	923,682
Chemicals and filtering materials	(14,439)
Maintenance	
Maintenance of water treatment equipment	24,667
<b>Total Water Treatment Expenses</b>	<u>933,910</u>

**TRANSMISSION AND DISTRIBUTION EXPENSES**

Operation	
Storage facilities expenses	159,558
Maintenance	
Maintenance of reservoirs and tanks	19,934
Maintenance of trans. and distribution mains	1,878,882
Maintenance of services	513,126
Maintenance of meters	36,481
Maintenance of hydrants	10,120
<b>Total Transmission and Distribution Expenses</b>	<u>\$2,618,101</u>

*(Continued on next page)*

Suburban Water Systems  
**Operating Expenses (Continued)**  
 For Year Ended December 31, 2020

**CUSTOMER ACCOUNT EXPENSES**

## Operation

Meter reading expenses	\$405,857
Customer records and collection expenses	1,523,145
Uncollectible accounts	154,831
<b>Total Customer Account Expenses</b>	<b>2,083,833</b>

**SALES EXPENSES**

## Operation

Advertising expenses	305,336
<b>Total Sales Expenses</b>	<b>305,336</b>

**ADMINISTRATIVE AND GENERAL EXPENSES**

## Operation

Administrative and general salaries	4,813,172
Office supplies and other expenses	1,632,840
Property insurance	542,610
Injuries and damages	460,200
Employees' pensions and benefits	4,169,119
Franchise requirements	1,020,630
Regulatory commission expenses	1,458,959
Outside services employed	237,875
Miscellaneous general expenses	7,910,949
Maintenance	
Maintenance of general plant	158,982
<b>Total Administrative and General Expenses</b>	<b>22,405,336</b>

**MISCELLANEOUS**

Rents	642,752
Administrative expenses transferred – Cr.	(1,734,312)
<b>Total Miscellaneous</b>	<b>(1,091,560)</b>

**TOTAL OPERATING EXPENSES****\$52,323,917**

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

# Suburban Water Systems

## Notes to Financial Schedules

Incorporated in California in 1907, SWS is a subsidiary of Southwest Water Company. SWS is a Class A water utility with a total of 75,303 metered customer service connections, and 1,251 flat rate customer connections.<sup>3</sup> SWS serves customers in all or portions of Glendora, Covina, West Covina, La Puente, Hacienda Heights, City of Industry, Whittier, La Mirada, La Habra, Buena Park and unincorporated portions of California's Los Angeles and Orange counties.<sup>4</sup>

Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the 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 followings describe certain differences in accounting treatments between GAAP and USOA, the company's current accounting practices, and its compliance with applicable regulation and CPUC directives.

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

The objective of preparing financial information 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 schedules 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 (e.g., Account 100-1, Utility Plant in Service) from those for non-water operations (e.g., Account 110, Other Physical Property), for ratemaking purposes. The cost of additions, replacements and betterments to utility plant is capitalized.

#### (1) Depreciation Methodology

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

USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Class A water utilities are required to comply with the USOA and CPUC's Standard Practice (SP) U-4-W when determining depreciation accruals. Specifically, depreciation reserve is determined for each primary plant account by dividing the original cost of depreciable utility plant, net of estimated salvage value and depreciation reserve, by the estimated remaining life of the surviving plant of

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<sup>3</sup> SWS 2020 Annual Report, Schedule D-4—Number of Active Service Connections, Page 67.

<sup>4</sup> SWS 2020 Annual Report, General Information, Page 13.

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

SWS uses the estimated straight-line remaining life depreciation method for each class of utility plant. SWS utilities depreciation methodology approved by the CPUC D.19-05-029.

## **(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 250, Reserve for Depreciation of Utility Plant, while the cash received from the salvage value or sale price will increase the balance of Account 250, Reserve for Depreciation of Utility Plant. The gain or loss from the asset retirement that is recognized under GAAP is accumulated in Account 250, Reserve for Depreciation of Utility Plant under the USOA.

SWS retired \$612,345 of assets during 2020 this primarily consisted of Transmission and Distribution Plant.<sup>5</sup>

## **3. Advances for Construction**

Advances for Construction are contributed property or cash which is refundable either wholly or in part. SWS reported a balance of \$8,038,461 in the Advances for Construction account as of December 31, 2020.

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

Contributions in Aid of Construction (CIAC), Account 265, records non-refundable contributions of cash, services, or property from states, municipalities, or other governmental agencies, individuals and others for construction purposes. Depreciation accrued on the depreciable portion of properties included in this account is charged to this account rather than to Account 503–Depreciation. The charges to this account for depreciation continue until such time as the balance in this account applicable to depreciable property is completely amortized. SWS reported a balance of \$20,676,563 for Constructions in Aid of Construction.

## **5. Operating Revenues**

SWS generated about 97 percent of its revenue from metered water sales, and about three percent from Fire Protection Services and Sales to Other Water Utilities for Resale.

## **6. 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. A percentage of gross revenues is added to customer bills and paid by the water utilities to the CPUC. Class A water utilities pay a percentage of gross revenues quarterly.

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<sup>5</sup> SWS 2020 Annual Report, Schedule A-1a–Utility Plant in Service, Page 21.

SWS recorded CPUC Users Fee as a pass-through activity and remitted the Users Fee to the CPUC on a quarterly basis.

## **7. Compliance filing of 2020 Annual Report with the CPUC**

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



## APPENDIX A—REVIEW FINDING AND RECOMMENDATION

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### **Finding 1: Uncleared Balances in Clearing Accounts**

#### **Condition:**

SWS reported a total balance of \$8,846,228 in three temporary expense clearing accounts in its Schedule of Operating Expenses instead of transferring the expenditures to applicable accounts in the Annual Report originally filed with the CPUC's Water Division on August 3, 2021. Specifically, SWS reported balances of \$8,283,188 in Account 901—Charges by Affiliated Companies—Clearing; \$543,911 in Account 903—Transportation Expenses—Clearing; and \$19,129 in Account 906—Tools and Work Equipment—Clearing. The balances in the clearing accounts should have been transferred to Account 761—Maintenance of Transmission and Distribution Mains, Account 791—Administrative and General Salaries, and Account 799—Miscellaneous General Expenses. As a result, SWS overstated Account 901—Charges by Affiliated Companies—Clearing, Account 903—Transportation Expenses—Clearing, and Account 906—Tools and Work Equipment—Clearing by \$8,283,188, \$543,911, and \$19,129, respectively; and understated expenses in Account 761—Maintenance of Transmission and Distribution Mains, Account 791—Administrative and General Salaries, and Account 799—Miscellaneous General Expenses by \$563,040, \$600,838, and \$7,682,350, respectively.

SWS corrected these misstatements in its Revised Annual Report submitted to the CPUC on April 8, 2022.

#### **Criteria:**

The USOA in D.16-11-006 establishes Accounts 901 to 906 for utilities to record temporary expenses and requires these accounts be substantially cleared by transferring the expenses in the temporary accounts to operating expenses, or other appropriate accounts, on a basis that will distribute the expenses equitably no later than the end of the calendar year. Specifically, the USOA states, in part, that:

#### **143. Clearing Accounts**

This caption shall include undistributed balances in clearing accounts (see Accounts 901 to 906) at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the calendar year unless items held therein relate to a future period.

#### **901. Charges by Affiliated Companies—Clearing**

A. This account shall include all charges made by affiliated companies against the utility for any purpose whatsoever, except interest, including charges for management, supervision, purchasing, construction, accounting, engineering, legal, financial, rent, advertising, materials and supplies, equipment and other property, commissions, taxes and other items.

B. This account shall be cleared by charging the appropriate accounts with the expenditures applicable thereto.

C. The records supporting this account shall be so kept as to show the nature of each charge together with the account or accounts to which each charge is cleared. Note - The mandatory use of this account may be suspended upon order of the Commission if equivalent information is readily obtainable from other records of the utility.

Note - The mandatory use of this account may be suspended upon order of the Commission if equivalent information is readily obtainable from other records of the utility.

**903. Transportation Expenses—Clearing**

A. This account shall include the cost of supervision, labor and expenses incurred in the operation and maintenance of the general transportation equipment of the utility including direct taxes and depreciation on transportation equipment.

B. This account shall be cleared by apportionment to operating expenses, utility plant or other accounts on a basis which will distribute the expenses equitably. Credits to this account shall be made in such details as to permit ready analysis thereof.

**906. Tools and Work Equipment—Clearing** (The use of this account is optional)

A. This account shall include the cost of supervision, labor and expenses incurred in the operation and maintenance of the general tools and work equipment of the utility including direct taxes and depreciation on such equipment.

B. This account shall be cleared by an apportionment to operating expenses, utility plant, or other appropriate accounts on a basis which will distribute the expenses equitably according to the use of the equipment. Credits to this account shall be made in such detail as to permit ready analysis thereof.

**Items**

1. Books and stationery. Building service.
2. Communication service.
3. Depreciation to tools and work equipment.
4. Fuel and lubricants for equipment, including sales and excise taxes thereon.
5. Injuries to persons and damage to property of others in the operation of tools and work equipment. Insurance.
6. License fees for equipment.
7. Pay and expenses of operators, mechanics, and the like. Rent of tools and work equipment.
8. Repairs to tools and work equipment. Shop expenses.
9. Taxes, direct.

Note – The use of this account is optional. If not used, maintenance of the equipment, to the extent applicable to operating expenses, shall be charged to Account 805.

**Cause:**

SWS explained that it did not transfer the balances in the clearing account to other accounts because it would be prohibitively time consuming to identify the specific operating expense accounts to clear

out these balances. SWS did not have an established accounting mechanism to clear out the expenses in its temporary accounts at the end of the year by allocating the expenses equitably to other appropriate accounts.

**Effect:**

SWS did not comply with accounting and reporting requirements in the USOA regarding clearing the balances recorded in the temporary clearing accounts (Accounts 901, 903, and 906). As a result, the ending balances for Accounts 761, 791, 799, 901, 903, and 906 were not accurately stated. Inaccurate reporting of these account balances in SWS's 2020 Annual Report reduced the comparability of operating expense data among Class A water utilities.

**Recommendation:**

SWS should design and implement an accounting mechanism to efficiently and equitably allocate the year-end balances in the temporary expense clearing accounts to other appropriate accounts as required by the USOA.

## APPENDIX B—UTILITY'S RESPONSE

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1325 N. Grand Ave. Ste. 100, Covina, CA 91724-4044  
Phone: 626.523.0001, Fax: 626.331.4848  
www.swwc.com

### Via Email

May 20, 2022

Ms. Khusbindar Kaur  
Utility Audits Branch  
California Public Utilities Commission  
400 R Street, Suite 221  
Sacramento, CA 95811

Re: Utility Audit Branch's Review of Suburban Water Systems' Annual Report for the year ended December 31, 2020

Dear Ms. Kaur:

Suburban Water Systems (Suburban) appreciates this opportunity to provide comments on the Utility Audit Branch's (UAB) Draft Review Report of Suburban' Annual Report for the year ended December 31, 2020 dated May 6, 2022 (Draft Report). The Draft Report identified one finding related to misstatement of clearing accounts.

#### Suburban's Response

Suburban's comment is limited to the Draft Report's Notes To Financial Schedules, Note 2:

Property Plant and Equipment:

(1) Depreciation Methodology

Specifically, depreciation reserve is determined for each primary plant account by dividing the original cost of depreciable utility plant, net of estimated salvage value and depreciation reserve, by the estimated remaining life of the surviving plant of the account.

This footnote does not correctly reflect Standard Practice U-4-W, Standard Practice For Determination of Straight-Line Remaining Life Depreciation Accruals:

Applicant shall review annually the accruals to depreciation reserve which shall be determined for each primary plant account by dividing the original cost of depreciable utility plant less estimated future net salvage less depreciation reserve by the estimated remaining life of the surviving plant of the account; and the results of the reviews shall be submitted annually this Commission. (emphasis added) (p.44)

In order to accurately paraphrase Standard Practice U-4-W, Note 2 should be amended as follows:

Specifically, accruals to the depreciation reserve is are determined for each primary

plant account by dividing the original cost of depreciable utility plant, net of estimated future net salvage value and less depreciation reserve, by the estimated remaining life of the surviving plant of the account.

Please feel free to contact me if you have any questions regarding this letter at [bkelly@swwc.com](mailto:bkelly@swwc.com).

Sincerely,

A handwritten signature in blue ink that reads "Robert Kelly". The signature is written in a cursive style.

Robert Kelly  
Vice President Regulatory Strategy

Cc: Raymond Yin, Program and Project Supervisor, UAB, CPUC

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

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We appreciate SWS's comments submitted on May 20, 2022. In its response, SWS requested a change to the Notes to the Financial Schedules. Specifically, SWS requested a change to Note 2 to the Financial Schedules on page 13 of this report regarding depreciation methodology to reflect the verbiage from CPUC's Standard Practice (SP) U-4-W. UAB evaluated its description in Note 2 on page 13 of the report and determined that it accurately described the requirement for depreciation methodology for utility plant in service. CPUC's SP U-4-W provides general guidance but it does not require the depreciation methodology to be presented verbatim in the UAB's report. Therefore, the above referenced Note 2 to the Financial Schedules remain unchanged.