

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: July 12, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160058-WS
Company Name: Sun River Utilities, Inc.
Company Code: WS922
Audit Purpose: B1c - Transfer of Certificate
Audit Control No.: 16-095-1-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Sun River Utilities, Inc. /North Charlotte Waterworks, Inc.
Transfer of Certificate

As of February 4, 2016

Docket No. 160058-WS
Audit Control No. 16-095-1-1

June 28, 2016

A handwritten signature in black ink, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown
Audit Manager

A handwritten signature in blue ink, reading "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated April 1, 2016. We have applied these procedures to the attached schedules prepared by audit staff in support of Sun River Utilities, Inc. /North Charlotte Waterworks, Inc. request for a Transfer of Certificate in Docket No. 160058-WS.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

Background

Definitions

Buyer/Utility refers to North Charlotte Waterworks, Inc.

Seller refers to Sun River Utilities, Inc.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115-Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

Utility Information

Sun River Utilities, Inc. is a Class "C" Utility that provides water and wastewater services to approximately 55 customers in Charlotte and Desoto Counties. The Original Certificate for Nos. 611-W and 527-S was granted on April 19, 1999.

Sun River Utilities, Inc., formerly MSM Utilities, LLC applied for a staff-assisted rate case in Docket No. 050587-WS, which established rate base.

In Docket No. 070112-WS, MSM Utilities, LLC applied for a name change on Certificate Nos. 611-W and 527-S in Charlotte County.

On May 14, 2008, Sun River Utilities, Inc. filed an original certificate application to provide water and wastewater services in Charlotte and Desoto Counties. The utility, which had previously operated solely within Charlotte County, was regulated by the Florida Public Service Commission until Charlotte County rescinded the Commission's jurisdiction on September 25, 2007. The Utility was recertified in Docket 080272-WS.

General

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

Procedures: The audit staff reviewed the utility's accounting system and found it to be not in compliance with the NARUC USOA. Finding 1 discusses utility books and records.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original

cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for water and wastewater UPIS as of December 31, 2005, established in Docket No. 050587-WS, Order No. PSC-06-0684-PAA-WS, with the Seller's books and records. We traced asset additions to supporting documentation. We ensured retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of February 4, 2016. Finding 2 discusses UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We determined that the land was under a 99 year lease with the Seller. Audit staff determined that since Order No. PSC-06-0684-PAA-WS, there was an amendment to the original 99 year lease. Finding 3 discusses Land.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for water and wastewater accumulated depreciation as of December 31, 2005, established in Docket No. 050587-WS, Order No. PSC-06-0684-PAA-WS, with the Seller's books and records. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balance as of February 4, 2016. Finding 4 discusses accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when a contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for water and wastewater CIAC as of December 31, 2005, established in Docket No. 050587-WS, Order No. PSC-06-0684-PAA-WS, with the Seller's books and records. We reviewed the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the cash receipts and the approved tariff. We determined the CIAC transfer balance as of February 4, 2016. Finding 5 discusses CIAC.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility’s last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for accumulated amortization of CIAC for water and wastewater as of December 31, 2005, established in Docket No. 050587-WS, Order No. PSC-06-0684-PAA-WS, with the Seller’s books and records. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the accumulated amortization of CIAC transfer balance as of February 4, 2016. Finding 5 discusses accumulated amortization of CIAC.

Acquisition Adjustment

Objectives: The objective was to determine the Acquisition Adjustment, if any, based on audit staff’s net book value pursuant to Rule 25-30.0371 (1), F.A.C.

Procedures: We determined the net book value for this Utility, as of February 4, 2016, to be (\$5,191) for water and \$15,799 for wastewater. The total cash purchase price for both systems was \$24,045. The Utility requested an acquisition adjustment in its filing. Audit staff could not determine the acquisition adjustment for water or wastewater because of lack of documentation. Therefore, we did not include an acquisition adjustment in our exhibit and we request technical staff to determine the appropriate adjustment for ratemaking purposes. No further work was performed.

Customer Deposits

Objectives: The objective was to determine the disposition of Sun River Utilities, Inc.’s customer deposits

Procedures: Audit staff requested a listing of customer deposits, if any, included in the sale. We determined that there were no customer deposits included in the sale and that the seller did not have a tariff for customer deposits. No further work was performed.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Sun River Utilities, Inc.'s books and records are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USoA)

NARUC, Class C, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting 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, invoices, memoranda, and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, Florida Administrative Code (F.A.C.), requires utilities to maintain their books and records in conformity with the NARUC USoA.

The audit staff noted that Sun River Utilities, Inc. did not separate the water and wastewater systems into their respective accounts. In addition, the Utility only provided the general ledgers from December 31, 2011 through December 31, 2015. We did not have general ledgers from December 31, 2005 through December 31, 2010.

Finding 2: Utility Plant in Service

Audit Analysis: The schedule provided by the buyer reflects a balance of \$387,705 for water UPIS and \$225,930 for wastewater UPIS as of December 31, 2015. Audit staff determined that the UPIS balance should be \$380,489 for water and \$188,894 for wastewater as of February 4, 2016, based on the Commission approved balances from Order No. PSC-06-0684-PAA-WS. We were unable to verify additions noted in the annual report beginning in 2009 and the general ledger and trace them to source documentation. Audit staff also noted that there were several items, which the seller expensed instead of capitalizing.

We determined utility water UPIS to be overstated by \$7,217 and wastewater UPIS to be overstated by \$37,036, as shown in Table 1-1 and Table 1-2, respectively.

Table 1-1

Description	Acct.	Balance per Seller as of 02/04/16	Audit Adjustment	Balance per Audit as of 02/04/16
Structures & Improvements	304	\$ 135,520	\$ -	\$ 135,520
Wells & Springs	307	\$ 15,870	\$ (2,100)	\$ 13,770
Supply Mains	309	\$ 10,025	\$ -	\$ 10,025
Pumping Equip.	311	\$ 4,000	\$ 348	\$ 4,348
Water Treatment Equip.	320	\$ 141,116	\$ (7,987)	\$ 133,129
Distribution Reservoirs	330	\$ 23,500	\$ -	\$ 23,500
Transmission and Distribution Mains	331	\$ 35,107	\$ 1,752	\$ 36,859
Services	333	\$ 11,425	\$ -	\$ 11,425
Meters and Meter Install.	334	\$ 7,054	\$ 770	\$ 7,825
Hydrants	335	\$ 2,800	\$ -	\$ 2,800
Other Plant And Misc.	339	\$ 1,020	\$ -	\$ 1,020
Tools, Shop and Garage Equip.	343	\$ 268	\$ -	\$ 268
		\$ 387,705	\$ (7,217)	\$ 380,489

Table 1-2

Description	Acct.	Balance per Seller as of 02/04/16	Audit Adjustment	Balance per Audit as of 02/04/16
Collection Sewers - Gravity	361	\$ 62,241	\$ -	\$ 62,241
Special Collecting Structures	362	\$ 16,915	\$ -	\$ 16,915
Services to Customers	363	\$ 17,010	\$ -	\$ 17,010
Receiving Wells	370	\$ 25,000	\$ -	\$ 25,000
Treatment and Disposal Equipment	380	\$ 67,200	\$ 528	\$ 67,728
Office Furniture and Equipment	390	\$ 37,564	\$ (37,564)	\$ -
		\$ 225,930	\$ (37,036)	\$ 188,894

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: The UPIS water balance should be decreased by \$7,217 and the UPIS wastewater balance should be decreased by \$37,036.

Finding 3: Land

Audit Analysis: Sun River Utilities, Inc. (Seller) has a 99 year lease agreement with Waterfront Homes of Charlotte LLC for the utility land. We determined that since Order No. PSC-06-0684-PAA-WS, there was an amendment to the original 99 year lease. North Charlotte Waterworks, Inc. (Buyer) noted in it's application that it has had difficulty obtaining the required long-term lease of the land as required by Florida Administrative Rule 25-30.037(2)(s). The Buyer has requested assistance from the Commission in securing a 99 year lease agreement.

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: None.

For informational purposes only.

Finding 4: Accumulated Depreciation

Audit Analysis: The schedule provided by the buyer reflects an accumulated depreciation balance of \$376,437 for water and \$206,133 for wastewater, as of December 31, 2015. Audit staff determined that the accumulated depreciation balance should be \$364,494 for water and \$166,530 for wastewater as of February 4, 2016, based on the Commission approved balances from Order No. PSC-06-0684-PAA-WS.

The differences noted between the Utility and audit staff are due to the Utility's accumulated depreciation only being provided as of December 31, 2015. In addition audit staff was unable to verify additions noted in the annual report and general ledger, resulting in variances in the calculation of accumulated depreciation.

We determined utility water accumulated depreciation to be overstated by \$11,943 and wastewater accumulated depreciation to be overstated by \$39,603, as shown in Table 4-1 and Table 4-2, respectively.

Table 4-1

Description	Acct. No.	Balance as per the Utility 02/04/2016	Audit Adjustment	Balance as per Audit 02/04/2016
Structures and Improvements	304	\$ 135,520	\$ -	\$ 135,520
Wells and Springs	307	\$ 13,070	\$ (500)	\$ 12,570
Supply Mains	309	\$ 10,025	\$ -	\$ 10,025
Pumping Equipment	311	\$ 4,000	\$ 123	\$ 4,123
Water Treatment Equipment	320	\$ 137,841	\$ (4,713)	\$ 133,128
Distribution Reservoirs and Standpipes	330	\$ 23,500	\$ -	\$ 23,500
Transmission and Distribution Mains	331	\$ 30,946	\$ (5,032)	\$ 25,914
Services	333	\$ 10,930	\$ 27	\$ 10,957
Meters and Meter Installations	334	\$ 7,054	\$ (1,302)	\$ 5,752
Hydrants	335	\$ 2,345	\$ 106	\$ 2,451
Other Plant Miscellaneous Equipment	339	\$ 1,020	\$ (654)	\$ 366
Tools, Shop and Garage Equipment	343	\$ 186	\$ 2	\$ 188
Total		\$ 376,437	\$ (11,943)	\$ 364,494

Table 4-2

Description	Acct. No.	Balance as per the Utility 02/04/2016	Audit Adjustment	Balance as per Audit 02/04/2016
Collection Sewers - Gravity	361	\$ 52,126	\$ 5,956	\$ 58,082
Special Collecting Structures	362	\$ 16,915	\$ -	\$ 16,915
Services to Customers	363	\$ 16,285	\$ 268	\$ 16,553
Receiving Wells	370	\$ 12,000	\$ 167	\$ 12,167
Treatment and Disp. Equipmen	380	\$ 67,200	\$ (4,387)	\$ 62,813
Office Furniture & Equipment	390	\$ 37,564	\$ (37,564)	\$ -
Other Plant & Misc. Equipment	398	\$ 4,043	\$ (4,043)	\$ -
Total		<u>\$ 206,133</u>	<u>\$ (39,603)</u>	<u>\$ 166,530</u>

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: The accumulated depreciation water balance should be decreased by \$11,943 and the accumulated depreciation wastewater balance should be decreased by \$39,603.

Finding 5: Contributions in Aid of Construction (CIAC) and Accumulated Amortization of CIAC

Audit Analysis: The schedule provided by the buyer reflects a CIAC balance of \$90,899 for water and \$96,691 for wastewater as of December 31, 2015. Audit staff was unable to verify the additions to CIAC in the amount of \$1,059 for water and \$3,525 for wastewater, but did note that these amounts maybe included in the 2006, 2007, or 2008 Annual Report and general ledgers. The 2006, 2007, and 2008 annual reports and general ledgers were not available.

The schedule provided by the buyer reflects an accumulated amortization of CIAC balance of \$70,003 for water and \$110,991 for wastewater as of December 31, 2015. Audit staff calculated accumulated amortization of CIAC to be \$68,654 for water and \$89,601 for wastewater using amortization rates per the last rate case.

CIAC is overstated by \$1,059 for water and \$3,525 for wastewater, as shown in Table 5-1. Accumulated Amortization is overstated by \$1,349 for water and \$21,390 for wastewater, as shown in Table 5-2.

Table 5-1

Water Account - Description	Acct.	Balance per Seller as of 02/04/16	Audit Adjustment	Balance per Audit as of 02/04/16
Contributions in Aid of Construction	271	\$ (90,899)	\$ 1,059	\$ (89,840)
Accumulated Amortization of CIAC	272	\$ 70,003	\$ (1,349)	\$ 68,654

Table 5-2

Wastewater Account - Description	Acct.	Balance per Seller as of 02/04/16	Audit Adjustment	Balance per Audit as of 02/04/16
Contributions in Aid of Construction	271	\$ (99,691)	\$ 3,525	\$ (96,166)
Accumulated Amortization of CIAC	272	\$ 110,991	\$ (21,390)	\$ 89,601

Effect on the General Ledger: The Utility should determine the effect on the general ledger.

Effect on the Filing: The CIAC balance should be decreased by \$1,059 for water and \$3,525 for wastewater. The accumulated amortization of CIAC balance should be decreased by \$1,349 for water and \$21,390 for wastewater.

Exhibits

Exhibit 1: Net Book Value – Water

**NORTH CHARLOTTE WATERWORKS, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 160058-WS; ACN 16-095-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF FEBRUARY 4, 2016**

Water				
Description	Balance per Utility 02/04/16	Audit Adjustments	Audit Finding	Balance per Audit 02/04/16
Utility Plant in Service	\$ 387,705	\$ (7,216)	2	\$ 380,489
Land	\$ -	-		-
Accumulated Depreciation	\$ (376,437)	11,943	4	(364,494)
Contributions in Aid of Construction	\$ (90,899)	1,059	5	(89,840)
Accumulated Amortization of CIAC	\$ 70,003	(1,349)	5	68,654
NET BOOK VALUE	\$ (9,628)	\$ 4,437		\$ (5,191)

Exhibit 2: Net Book Value - Wastewater

**NORTH CHARLOTTE WATERWORKS, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 160058-WS; ACN 16-095-1-1
SCHEDULE OF WASTEWATER NET BOOK VALUE
AS OF FEBRUARY 4, 2016**

Wastewater				
Description	Balance per Utility 02/04/16	Audit Adjustments	Audit Finding	Balance per Audit 02/04/16
Utility Plant in Service	\$ 225,930	\$ (37,036)	2	\$ 188,894
Land	\$ -	\$ -		-
Accumulated Depreciation	(206,133)	39,603	4	(166,530)
Contributions in Aid of Construction	(99,691)	3,525	5	(96,166)
Accumulated Amortization of CIAC	110,991	(21,390)	5	89,601
NET BOOK VALUE	\$ 31,097	\$ (15,298)		\$ 15,799