

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: January 14, 2021

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20200230-WU
Company Name: Sunny Shores Utilities, LLC
Company Code: WU987
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2020-323-1-1

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/cmm

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

Sunny Shores Utilities, LLC.
Staff-Assisted Rate Case

Twelve Months Ended June 30, 2020

Docket No. 20200230-WU
Audit Control No. 2020-323-1-1
January 8, 2020

A blue ink signature of Thomas Wolff, written in a cursive style.

Thomas Wolff
Audit Manager

A blue ink signature of Jonathan Miller, written in a cursive style.

Jonathan Miller
Audit Staff

A blue ink signature of Demetrius Jones, written in a cursive style.

Demetrius Jones
Audit Staff

A blue ink signature of Marisa N. Glover, written in a cursive style.

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 November 20, 2020. We have applied these procedures to the attached schedules prepared by the audit staff in support of Sunny Shores Utilities, LLC.'s request for a Staff-Assisted Rate Case in Docket No. 20200230-WU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

SSU/Utility refers to Sunny Shores Utility, LLC.

The test year for this instant proceeding is the historical twelve months ended June 30, 2020.

NARUC refers to the National Association of Regulatory Utility Commissioners.

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

Background

Sunny Shores Utilities, LLC. (Sunny Shores or Utility) is a Class C utility serving approximately 266 water customers in Manatee County. Sunny Shores is owned by Michael Smallridge. The owner uses Florida Utility Services 1, LLC (FUS1) personnel for billing and customer service. Sunny Shores is a reseller and purchases bulk water service from Manatee County.

Certificate No. 578-W was transferred from Sunny Shores Water Company to Sunny Shores Utilities, LLC as of June 19, 2019. Commission Order No. PSC-2020-0265-PAA-WU established net book value for transfer purposes.

The Utility files an 1120S Federal Tax Return, and is a Subchapter S Corporation.

Utility Books and Records

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

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and compared them to the NARUC USOA. No exceptions were noted.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether 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 into 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 UPIS, as of June 19, 2019 from Order No. PSC-2020-0265-PAA-WU to the general ledger. We scheduled UPIS activity from June 19, 2019 to June 30, 2020. We concluded that the Utility did not perform any additions or

retirements between June 19, 2019 and June 30, 2020. We determined the simple average and year-end balances as of June 30, 2020. No exceptions were noted.

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 case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for land, as of June 19, 2019, to the general ledger. Commission Order No. PSC-2020-0265-PAA-WU established that the Utility did not purchase nor own any land prior to the test year. There were no additions to land during the test year ended June 30, 2020. We determined the simple average and year-end balances as of June 30, 2020. No further work performed.

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 in its books and records.

Procedures: We reconciled the beginning balances for accumulated depreciation, as of June 19, 2019 from Order No. PSC-2020-0265-PAA-WU to the general ledger. We calculated annual accruals to accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C., from June 19, 2019 to June 30, 2020. We determined the simple average and year-end balances as of June 30, 2020. Finding 1 discusses our recommended adjustments to 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 determined our beginning balance of \$0 from Order No. PSC-2020-0265-PAA-WU issued July 27, 2020. We noted the Utility did not have CIAC activity from June 19, 2019 to June 30, 2020. We also note that the Utility does not have a tariff for Service Availability. No further work performed.

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: No work was performed.

Working Capital

Objectives: The objective was to determine whether the Utility's working capital balance is properly calculated in compliance with Commission rules.

Procedures: We calculated the Utility's working capital balance as of June 30, 2020 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 3 discusses our recommended adjustment to working capital.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We determined that the Utility's capital structure consists of Long-term Debt. We determined the year-end Capital Structure balance and its weighted average cost as of June 30, 2020. Finding 5 discusses our recommended adjustment to capital structure.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We determined individual customer consumption for the test year ended June 30, 2020, using the Utility's monthly customer billings. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected in the general ledger. We determined whether the Utility is charging its authorized tariff rates. We also determined the number of miscellaneous service charges by type. We calculated miscellaneous service charges by multiplying the Commission approved tariff by the number we determined and traced the amounts to the general ledger. Finding 2 discusses our recommended adjustment to operating revenues.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance expenses (O&M) are: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed the invoices provided in support of the Utility's O&M expenses for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. Finding 3 discusses our recommended adjustments to O&M expense.

Depreciation and Amortization

Objectives: The objectives were to determine whether the Utility's depreciation and CIAC amortization expense is properly calculated using the Commission authorized rates.

Procedures: We compiled a schedule from audited UPIS items and recalculated depreciation based on depreciation rates authorized by Rule 25-30.140, F.A.C. for the test year. Finding 1 discusses our recommended adjustments to depreciation and amortization expense.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with NARUC USOA.

Procedures: We scheduled TOTI based on documentation provided by the Utility. We included property taxes and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. We recalculated RAFs using the approved RAF rate and the audited revenue balances. Finding 4 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, the accumulated depreciation balance was \$8,220 as of June 30, 2020. Audit staff recalculated accumulated depreciation using the audited UPIS plant balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Audit staff determined that the Utility did not calculate depreciation between the Order date of June 19, 2019 and the beginning of the test year on June 30, 2020. All accounts were affected by this error except for account 333 – Services. In addition to this, on account 336 – Backflow Prevention Devices and 343 – Tools, Shop, and Garage Equip., the Utility double depreciated these account for the test year ending June 30, 2020. We determined that the accumulated depreciation year-end balance is \$8,047 and the simple average is \$7,338 as shown in Table 1-1.

Table 1-1

Account - Description	Utility Balance		Audit Balance	
	Accum Dep	Audit	Accum Dep	Simple
	6/30/2020	Adjustments	6/30/2020	Average
331 Transmission and Distribution Mains	\$ 800	\$ 6	\$ 806	\$ 714
333 Services	29	-	29	27
334 Meters and Meter Install.	6,029	30	6,059	5,551
336 Backflow Prevention Devices	918	(161)	757	675
343 Tools, Shop and Garage Equip.	444	(48)	396	371
Total:	\$ 8,220	\$ (173)	\$ 8,047	\$ 7,338

According to the Utility's general ledger, the depreciation expense was \$1,590 for the twelve months ended June 30, 2020. The utility doesn't calculate depreciation expense per individual account but calculates the depreciation expense as a grand total. We determined that the depreciation expense should be \$1,418 as shown in Table 1-2.

Table 1-2

Account - Description	Utility Balance		Audit Balance	
	Depreciation Expense	Audit	Depreciation Expense	
	6/30/2020	Adjustments	6/30/2020	
331 Transmission and Distribution Mains	\$ -	\$ 184	\$ 184	
333 Services	-	4	4	
334 Meters and Meter Install.	-	1,015	1,015	
336 Backflow Prevention Devices	-	166	166	
343 Tools, Shop and Garage Equip.	-	49	49	
Total:	\$ 1,590	\$ (172)	\$ 1,418	

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

Effect on the Filing: Audit staff determined the year-end balances for accumulated depreciation should be decreased by \$173, as of June 30, 2020 and the simple average is \$7,338. We also determined the depreciation expense should be decreased by \$172 for the test year.

Finding 2: Operating Revenue

Audit Analysis: Sunny Shores Utilities, LLC bills their customers on a quarterly basis, not a monthly basis. The Utility used the base facility charge of \$73.30, which the previous owners had been using, for the first three quarters of the test year. The new base facility charge of \$74.16, which was approved for use in Order PSC-2020-0265-PAA-WS, issued July 27, 2020, was not used by the Utility until the final quarter of the test year. The Utility used the tariff rate for Backflow Maintenance from the previous owner of \$5.32, and not the Commission approved tariff rate of \$5.46. This resulted in the difference between the Utility balance and the Audit balance for the test year.

The Utility's operating revenue was \$93,205 for the twelve months ended June 30, 2020. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register times the most current Commission approved tariff rates. We determined operating revenue to be \$95,278 as shown in Table 2-1.

Table 2-1

NARUC	Description	Utility Balance 6/30/2020	Audit Adjustments	Audit Balance 6/30/2020
461.1	Residential Revenues	\$ 87,929	1,905	\$ 89,834
461.2	Commercial Revenues	\$ 1,442	25	1,467
		\$ 89,371	\$ 1,930	\$ 91,301
474	Other Water Revenues	\$ 3,834	143	\$ 3,977
		\$ 3,834	\$ 143	\$ 3,977
	Grand Total	\$ 93,205	\$ 2,073	\$ 95,278

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

Effect on the Filing: Operating revenue should be increased by \$2,073 for the test year. The fall out effect on TOTI (RAF) is an increase of \$93.

Finding 4: Taxes Other than Income

Audit Analysis: According to the Utility's general ledger, the TOTI balance was \$5,761 for the twelve months ended June 30, 2020. Audit staff determined that the TOTI balance amount should be \$5,854, as shown in Table 4-1.

Table 4-1

Description	Per Utility 06/30/2020	Audit Adjustments	Per Audit 06/30/2020
Payroll Tax	\$ 1,567	\$ 0	\$ 1,567
Regulatory Assessment Fees (RAF)	\$ 4,194	\$ 93	\$ 4,288
Other	\$ -	\$ -	\$ -
Total	\$ 5,761	\$ 93	\$ 5,854

Based on review of the supporting documentation, we recommend the following adjustment:

- Regulatory Assessment Fees (RAF). Should be increased by \$93 based on the audited operating revenue balance.

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

Effect on the Filing: Audit Staff determined the TOTI to be \$5,854 for the test year ended June 30, 2020.

Finding 5: Long-Term Debt

Audit Analysis: According to the Utility’s general ledger, the Long-Term Debt consists of two loan instruments, a mortgage and loan, both from Capital City Bank. The mortgage was originated prior to the test year, on June 10, 2019, with a maturity date of June 10, 2024 and an interest rate of 7.95%. The other loan, which was obtained to purchase a trailer for use by Sunny Shores, was originated during the test year, on September 13, 2019, with a maturity date of September 15, 2022 and an interest rate of 5.20%. The Long-Term Debt balance was (\$38,412) as of June 30, 2020. Audit staff determined that the Long-Term Debt balance amount should be (\$42,034), using the Simple Average, as shown in Table 5-1.

Table 5-1

Description	Balance Per Utility 6/30/2020	Audit Adjustment	Audited Simple Average Balance as of 6/30/20
Long-term Debt	\$ (38,412)	\$ (3,622)	\$ (42,034)
Total Long-term Debt	\$ (38,412)	\$ (3,622)	\$ (42,034)

Based on review of the supporting documentation, we recommend the following adjustment:

- Long-Term Debt. The Utility included both the principle payment amount of \$8,198 (\$7,710+\$488) and the interest payment amount of \$3,511 (\$3,436+\$75) in their calculation for their balance as of June 30, 2020. We removed the amount paid to interest and just included the principal payment amount in our calculations.

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

Effect on the Filing: Audit staff determined the Long-Term Debt to be (\$42,034) as of June 30, 2020.

Exhibits

Exhibit 1: Rate Base

<p align="center"> SUNNY SHORES UTILITIES, LLC STAFF-ASSISTED RATE CASE DOCKET NO. 20200230-WU; ACN 2020-323-1-1 SCHEDULE OF WATER RATE BASE AS OF JUNE 30, 2020 </p>					
Description	Utility 6/30/2020	Audit Adjustments	Audit Finding	Audit 6/30/2020	Simple Average
Utility Plant in Service	\$ 26,774	\$ -		\$ 26,774	\$ 26,774
Land	-	-		-	-
Accumulated Depreciation	(8,218)	172	1	(8,046)	(7,338)
Contributions in Aid of Construction	-	-		-	-
Accumulated Amortization of CIAC	-	-		-	-
Working Capital Allowance:	-	12,025	3	12,025	12,025
RATE BASE	\$ 18,556	\$ 12,197		\$ 30,753	\$ 31,461

Exhibit 2: Capital Structure

SUNNY SHORES UTILITIES, LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 20200230-WS; ACN: 2020-323-1-1
CAPITAL STRUCTURE
AS OF JUNE 30, 2020

Capital Component	Balance Per Utility as of 06/30/2020	Audit Adjustment	Balance Per Audit as of 06/30/2020	Simple Average	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Long Term Debt	\$ 38,412	\$ 3,622	\$ 42,034	\$ 42,034	100.00%	7.85%	7.85%
Short Term Debt	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Accumulated Deferred Income Tax	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Investment Tax Credits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Customer Deposits	\$ -	\$ -	\$ -	\$ -	0.00%		0.00%
Total	\$ 38,412	\$ 3,622	\$ 42,034	\$ 42,034	100.00%		7.85%

2019 Equity Formula used as approved at the June 11, 2019 Agenda Conference:

$$\text{Return} = 6.05 + (1.800/\text{equity ratio})$$

$$\text{Return} = 6.05 + (1.800/1.000)$$

$$\text{Return} =$$

7.85

Exhibit 3: Net Operating Income

SUNNY SHORES UTILITIES, LLC
STAFF-ASSISTED RATE CASE
DOCKET NO. 20200230-WU; ACN 2020-323-1-1
SCHEDULE OF WATER NET OPERATING INCOME
FOR TEST YEAR ENDED JUNE 30, 2020

Description	Balance per Utility 6/30/2020	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2020
Operating Revenues	\$ 93,205	\$ 2,073	2	\$95,278
Operation & Maintenance Expenses	97,272	(1,068)	3	96,203
Depreciation Expense	1,590	(173)	1	1,417
Amortization Expense	-	-		
Taxes Other than Income	5,761	93	4	5,854
Income Tax Expense	-	-		-
Total Operating Expenses:	\$ 104,622	\$ (1,148)		\$ 103,475
Net Operating Income (Loss)	\$ (11,417)	\$ 3,221		\$ (8,197)