

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 20, 2012

TO: Office of Commission Clerk

FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 110238-WS
 Company Name: Sunrise Utilities, Inc.
 Company Code: WU870
 Audit Purpose: Staff-Assisted Rate Case
 Audit Control No: 11-241-2-1

RECEIVED - FPSC
 12 JAN 20 AM 12:19
 COMMISSION
 CLERK

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 were no confidential work papers associated with this audit.

CJP/klh

Attachments: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

00383 JAN 20 12

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Sunrise Utilities, LLC
Staff-Assisted Rate Case Audit

12-Month Period Ending September 30, 2011

Docket No. 110238-WU
Audit Control No. 11-241-2-1
January 17, 2012

Simon O. Ojada
Audit Manager

Jocelyn Y. Stephens
Audit Staff

Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated August 26, 2011. We have applied these procedures to the attached schedules prepared by the audit staff in support of Sunrise Utilities, LLC's request for a staff-assisted rate case in Docket No. 110238-WU.

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

Objectives and Procedures

General

Utility Information

Sunrise Utilities, LLC. (Sunrise or Utility) is a Class C utility that provides water services to customers in Polk County, Florida. The Utility is owned by Leslie Szabo. The Utility serves approximately 244 water customers.

Regulatory Proceedings

Sunrise was issued Certificate No. 582-W by Order No. PSC-05-0308-PAA-WU, as a result of a Commission approved transfer of the Utility from Keen Sales, Rental, and Utilities, Inc. Rate base was established as of the transfer date, February 10, 2004. Sunrise's last application for a staff-assisted rate case was in 2009 in Docket No.090497-WU. The Utility withdrew its application and the docket was closed. However, Audit Number 09-341-2-1 was completed and filed in the docket prior to the docket being closed.

Rate Base

Utility Plant in Service

Objectives: Our objectives were to: 1) Determine that property exists and is owned by the Utility and that Utility Plant in Service (UPIS) additions are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA), 2) Verify that the proper retirements of UPIS were made when a replacement item was put in service, and 3) Verify that the adjustments to UPIS ordered by the FPSC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We determined the UPIS balances as of December 31, 2009 that were established in Audit Number 09-341-2-1, in Docket No. 090497-WU. We reviewed and sampled additions to plant for the period January 1, 2010, through September 30, 2011, to verify the UPIS balances for this proceeding. We ensured that retirements were made when a capital item was removed or replaced. We toured the utility plant sites to observe whether plant additions were completed and in service, and to ascertain if a retirement was needed.

Land & Land Rights

Objectives: Our objectives were to: 1) Determine that utility land is recorded at original cost and is owned or secured under a long-term lease, and 2) Obtain warranty deeds or other evidence of ownership of land purchased after December 31, 2009.

Procedures: We obtained land balances as of February 10, 2004, that were established in Docket No. 040159-WU. We reconciled the Utility's land balances for this proceeding to the balances established in Docket No. 040159-WU. No additions or deletions to the land account were noted.

Contributions-in-Aid-of-Construction

Objectives: Our objectives were to: 1) Determine that additions to Contributions in Aid of Construction (CIAC) are properly recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, and 3) Verify that the adjustments to CIAC ordered by the FPSC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We determined the CIAC balances as of December 31, 2009 that were established in Audit Number 09-341-2-1, in Docket No. 090497-WU. We reviewed and sampled additions to CIAC for the period January 1, 2010, through September 30, 2011, to verify the Utility's CIAC balances for this rate case proceeding.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to Accumulated Depreciation ordered by the FPSC in the Utility's last rate case proceeding were recorded in its general ledger, 2) Determine that accruals to Accumulated Depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We determined the Accumulated Depreciation balances as of December 31, 2009 that were established in Audit Number 09-341-2-1, in Docket No. 090497-WU. We reviewed and sampled additions to Accumulated Depreciation for the period January 1, 2010, through September 30, 2011, to verify the Utility's Accumulated Depreciation balances for this proceeding. We ensured that retirements to Accumulated Depreciation were made when a capital item was removed or replaced.

Accumulated Amortization of CIAC

Objectives: Our objectives were to: 1) Determine that accruals to Accumulated Amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to Accumulated Amortization of CIAC ordered by the FPSC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We determined the Accumulated Amortization of CIAC balances as of December 31, 2009 that were established in Audit Number 09-341-2-1, in Docket No. 090497-WU. We reviewed and sampled additions to Accumulated Amortization of CIAC for the period January 1, 2010, through September 30, 2011, to verify the Utility's Accumulated Amortization of CIAC balances for this proceeding.

Working Capital

Objective: Our objective was to calculate the Utility's working capital balance per Commission rule.

Procedures: We calculated the Utility's working capital adjustment as of September 30, 2011, using one-eighth of Operation and Maintenance (O&M) expense as required by Commission Rule 30.433(2), Florida Administrative Code (F.A.C.).

Net Operating Income

Operating Revenue

Objectives: Our objectives were to 1) Determine that utility revenues are properly recorded in compliance with Commission rules, and 2) Verify that rates are based on the Utility's Commission approved tariff rates.

Procedures: We verified the Utility's revenues for the 12-month period ending September 30, 2011, by tracing them to the Utility's general ledger and the billing register system. We verified that the Utility is using the Commission authorized tariff rates by recalculating a sample of customer bills in the test period.

Operation and Maintenance Expense

Objectives: Our objectives were to 1) Determine that O&M expenses are properly recorded in compliance with NARUC USOA and Commission rules, and 2) Verify that O&M expenses are representative of ongoing utility operations.

Procedures: We verified O&M expenses for the 12-month period ending September 30, 2011, by tracing all invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and recurring nature. Our recommended adjustments to O&M expenses are discussed in Finding 1.

Depreciation and CIAC Amortization Expense

Objectives: Our objectives were to 1) Determine that Depreciation and CIAC Amortization expenses are properly recorded in compliance with Commission rules, and 2) Verify that the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations are accurately represented.

Procedures: We verified the calculation of Depreciation expense and CIAC Amortization expense for the 12-month period ending September 30, 2011, by recalculating a sample of expenses using the rates established by Commission Rule 30.140, F.A.C.

Taxes Other Than Income

Objectives: Our objectives were to 1) Determine that Taxes Other Than Income (TOTI) expenses are properly recorded in compliance with Commission rules, and 2) Verify the reasonableness of ongoing utility operations.

Procedures: We verified water plant TOTI expenses for the 12-month period ending September 30, 2011, by tracing the taxes to original source documentation. We reviewed the 2010 regulatory assessment fee returns. Our recommended adjustments to Taxes Other Than Income are discussed in Finding 2.

Capital Structure

Objectives: Our objectives were to 1) Determine that the components of the Utility's capital structure are properly recorded in compliance with Commission requirements, and 2) Respective cost rates used to arrive at the overall weighted cost of capital are properly presented in compliance with Commission requirements.

Procedures: We examined capital structure components to assure that they represent utility debt, capital stock, retained earnings, and customer deposits. We reviewed short-term debt balances to original documents and verified the terms and interest rate of each note payable.

Audit Findings

Finding 1: Operation and Maintenance Expense (O&M)

Audit Analysis: The Utility classified the Utility Operator's expense of \$3,356 and Book Keeper's expenses of \$1,988 as Contractual Services – Professional. These expenses should have been classified as Contractual Services – Other. Therefore we reclassified those expenses.

Effect on the General Ledger:

636 Contractual Services – Other	\$5,344	
631 Contractual Services – Professional		\$5,344

Effect on the Rate Case: None

Finding 2: Taxes Other Than Income

Audit Analysis: The Utility reported total revenue of \$67,568 and paid Regulatory Assessment Fee (RAF) of \$3,041 for the 12 month period ending December 31, 2010. We computed the total revenue for the test period October 1, 2010 through September 30, 2011, and arrived at \$66,140 and RAF of \$2,976, a difference of \$65.

Effect on the General Ledger: None, for rate making purposes only.

Effect on the Rate Case: The RAF for the test period should be \$2,976.

Exhibits

Exhibit 1: Water Rate Base

Sunrise Utilities, LLC
Average Rate Base for the 12 Months Ended September 30, 2011
Docket No. 110238-WU

Description	Per Utility	Audit Adjust	Per Audit
Utility Plant In Service	\$118,911	\$0	\$118,911
Land and Land Rights	\$553	\$0	\$553
Less: Non-Used & Useful	\$0	\$0	\$0
Construction Work In Progress	\$0	\$0	\$0
Contributions-In-Aid-of- Construction	(\$12,798)	\$0	(\$12,798)
Accumulated Amortization of CIAC	\$8,869	\$0	\$8,869
Accumulated Depreciation	(\$63,279)	\$0	(\$63,279)
Working Capital (a)	\$0	\$5,962	\$5,962
Net Rate Base (b)	\$52,256	\$5,962	\$58,218

Notes to above schedule:

- a) Working Capital is calculated as 1/8th of the test year Operation and Maintenance expense balance displayed in Exhibit 2 of this report.
- b) All amounts are rounded to the nearest whole dollar.

Exhibit 2: Water Net Operating Income

Sunrise Utilities, LLC.
12-Month Period Ended September 30, 2011
Docket No. 110238-WU

Description	Per Utility	Audit Adjustment	Per Audit
Revenues	\$66,140	\$0	\$66,140
Operation & Maintenance Expense	\$50,397	\$0	\$50,397
Depreciation Expense	\$5,326	\$0	\$5,326
CIAC Amortization Expense	(\$397)	\$0	(\$397)
Taxes Other Than Income	\$5,399	(\$65)	\$5,334
Provision for Income Tax	\$0	\$0	\$0
Operating Expense	\$60,725	(\$65)	\$60,660
Net Operating Income (a)	\$5,415	\$65	\$5,480

Note to above schedule:

a) All amounts are rounded to the nearest whole dollar.

Exhibit 3: Capital Structure

Sunrise Utilities, LLC
Average 12-Month Period Ended September 30, 2011
Docket No. 110238-WU

<u>Class of Capital</u>	<u>Simple Avg Per Utility</u>	<u>Pro- Rata</u>	<u>Simple Avg Per Audit</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long Term Debt	\$46,112	49%	\$46,112	48.51%	3.75%	1.82%
Short Term Debt	\$0	0%	\$0	0.00%	0.00%	0.00%
Common Equity	\$48,886	51%	\$48,886	51.43%	10.26%	5.28%
Sub-Total	\$94,998	100%	\$94,998	99.95%		7.10%
Customer Deposits	\$51	0%	\$51	0.05%	6.00%	0.00%
Total (a)	\$95,049	100%	\$95,049	100.00%		7.10%

Notes to above schedule:

a) All amounts are rounded to the nearest whole dollar.

b) Equity cost based on FPSC Order No. 11-0287-PAA-WS issued 7/5/11.