

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: August 27, 2021

TO: Office of Commission Clerk

FROM: Dale Mailhot, Director, Office of Auditing and Performance Analysis *DM*

RE: Docket No.: 20210095-WU
Company Name: Sunshine Utilities of Central Florida, Inc.
Company Code: WU239
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2021-148-4-2

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.

DM/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

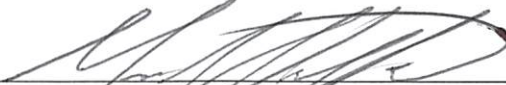
Auditor's Report

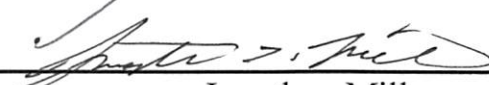
Sunshine Utilities of Central Florida, Inc./
CSWR-Florida Utility Operating Company, LLC

Transfer of Certificate
Certificate No. 363-W

As of May 31, 2021

Docket No. 20210095-WU
Audit Control No. 2021-148-4-2
August 20, 2021


Thomas Wolff
Audit Manager


Jonathan Miller
Audit Staff


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 May 27, 2021. We have applied these procedures to the attached schedules prepared by the audit staff in support Sunshine Utilities of Central Florida, Inc./CSWR-Florida Utility Operating Company, LLC's request for a Transfer of Certificates in Docket No. 20210095-WU

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Buyer/Utility refers to Central States Water Resources (CSWR), LLC, and CSWR-Florida Utility Operating Company, LLC (CSWR-Florida UOC)

Seller refers to Sunshine Utilities of Central Florida, 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

Sunshine Utilities of Central Florida, Inc. is a Class “B” utility that provides water services in Marion County. The Utility serves approximately 3,633 water customers which consists of four separate water systems, Marion County, Ponderosa Pines, Quail Run, and Sandy Acres. However, the Utility does not keep separate books and records for the four systems. In 2012, Sunshine consolidated into two groups for the books and records, per the annual reports. The groups are listed as follows: Ponderosa and Quail Run are group 1, Marion County and Sandy Acres are group 4.

CSWR-Florida Utility Operating Company, LLC is purchasing Sunshine Utilities of Central Florida, Inc. for \$6,000,000, which has an anticipated closing date 45 days after Commission approval. CSWR-Florida Utility Operating Company, LLC filed an application, with this Commission, for Transfer of Certificates on May 5, 2021.

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: Based upon the review of the general ledger provided by the seller, it was not maintained according to the NARUC USOA. However, the buyer stated in its application that the utility books and records will be maintained using the NARUC USOA.

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 recorded 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 balance for UPIS, as of December 31, 2010, established in Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012. We scheduled UPIS activity from December 31, 2010 to May 31, 2021, and traced plant additions to the seller's supporting invoices. We reconciled the UPIS transfer balance with the seller's general ledger, and determined the UPIS transfer balance as of May 31, 2021. Finding 1 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 reconciled the beginning balance for land, as of December 31, 2010, established in Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012 to the general ledger. We noted there were no additions to land since the last proceeding. We determined the year-end balance as of May 31, 2021. 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 to its books and records.

Procedures: We reconciled the beginning balance for accumulated depreciation, as of December 31, 2010, established in Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012. We recalculated depreciation accruals for UPIS accounts to verify that the correct depreciation rates were used. We scheduled accumulated depreciation from December 31, 2010 to May 31, 2021 and traced the balances to the seller's general ledger. We determined the accumulated depreciation transfer balance as of May 31, 2021. Finding 1 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 balance for CIAC, as of December 31, 2010, established in Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012. We scheduled CIAC activity from December 31, 2010 to May 31, 2021, and traced CIAC additions to the seller's general ledger. We determined the CIAC transfer balance as of May 31, 2021. Finding 2 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 balance for accumulated amortization of CIAC, as of December 31, 2010, established in Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012. We recalculated amortization accruals for CIAC accounts to verify that the correct rates were used. We scheduled accumulated amortization of CIAC from December 31, 2010 to May 31, 2021, and traced the balances to the seller's fixed asset schedule and the general ledger. We determined the accumulated amortization of CIAC transfer balance as of May 31, 2021. Finding 2 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) – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this Utility at the time of transfer is less than the purchase price, which would reflect a positive acquisition adjustment pursuant to Rule 25-30.0371(3)-Acquisition Adjustment. The Utility is requesting a positive acquisition adjustment. No further work performed.

Other

Rates and Charges

Objectives: The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained and tested the Utility's billing register for February 2021. We recalculated a sample of customer bills using the Commission approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We reviewed the general ledger to determine if customer deposits were being collected by the utility. The Seller has authorized tariffs for the collection of customer deposits and customer deposits were being recorded in the Seller's books and records. No further work performed.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: Audit Analysis: According to the Seller's general ledger, the total UPIS balance was \$3,331,335 as of May 31, 2021. Audit staff determined the total UPIS balance to be \$3,199,925 as of May 31, 2021. The utility's general ledger is broken out into two groups, Group 1 (Ponderosa Pines & Quail Run) and Group 4 (Marion County – Except Ponderosa Pines & Quail Run) as shown in the tables below.

We reconciled the beginning balance for UPIS from PSC Order No. PSC-2012-0357-PAA-WU, issued July 10, 2012. In the previous audit, the recommended adjustment for Ponderosa Pines was to reduce the UPIS balance by \$20,851, however the balance was inadvertently increased in Order No. PSC-2012-0357-PAA-WU. We corrected this error in our schedule for UPIS. We scheduled the additions from December 31, 2010 to May 31, 2021, and traced to the seller's supporting documentation. We determined the UPIS beginning balances in Seller's general ledger for Group 4, Marion County (except Ponderosa Pines & Quail Run) were not the approved Commission balances in PSC Order No. PSC-2012-0357-PAA-WU. For Group 1, Ponderosa Pines and Quail Run, the UPIS balances were not stated in the Seller's general ledger until 2014, the Seller did not have the correct approved beginning balances for UPIS per Order No. PSC-2012-0357-PAA-WU.

We determined the plant balance to be \$142,617 for Group 1 and \$3,057,308 for Group 4 as of May 31, 2021 as shown in Table 1-1 and Table 1-2.

Table 1-1

Ponderosa Pines & Quail Run	Utility Balance		Audit Balance
	UPIS	Audit	UPIS
Account - Description	As of 5/31/2021	Adjustments	As of 5/31/2021
304 Structures & Improvements	\$ 5,207	\$ -	\$ 5,207
307 Wells & Springs	43,921	(18,629)	25,292
311 Pumping Equip.	26,446	3,438	29,884
320 Water Treatment Equip.	7,882	(1,235)	6,647
330 Distribution Reservoirs	39,572	(3,866)	35,706
331 Transmission and Distribution Mains	11,648	-	11,648
333 Services	10,704	(2,700)	8,004
334 Meters and Meter Install.	12,356	(3,125)	9,231
340 Office Furniture & Equip.	8,223	(766)	7,457
341 Trans. Equip.	1,874	(313)	1,561
343 Tools, Shop and Garage Equip.	1,585	395	1,980
Total :	\$ 169,418	\$ (26,801)	\$ 142,617

Table 1-2

Marion County (Except Ponderosa Pines & Quail Run)	Utility Balance		Audit	Audit Balance
	UPIS		Adjustments	UPIS
	As of 5/31/2021			As of 5/31/2021
301 Organization	\$ 1,660		\$ (0)	\$ 1,660
304 Structures & Improvements	6,227		(0)	6,227
307 Wells & Springs	75,152		19,562	94,714
309 Supply Mains	136,241		(26,005)	110,236
310 Power Generation Equip.	89,735		3,147	92,882
311 Pumping Equip.	536,109		(26,112)	509,997
320 Water Treatment Equip.	216,916		(19,289)	197,627
330 Distribution Reservoirs	97,948		(13,280)	84,667
331 Transmission and Distribution Mains	1,074,742		(3,021)	1,071,721
333 Services	167,645		(26,422)	141,223
334 Meters and Meter Install.	222,562		3,393	225,956
339 Other Plant And Misc.	25,858		(0)	25,858
340 Office Furniture & Equip.	85,526		(13,895)	71,630
341 Trans. Equip.	115,148		(3,115)	112,033
342 Stores Equip.	4,425		(0)	4,425
343 Tools, Shop and Garage Equip.	37,084		427	37,511
345 Power Operated Equip.	5,200		-	5,200
346 Communication Equip.	10,912		1	10,912
347 Misc. Equip.	17,436		0	17,436
348 Other Tangible Plant	235,393		(0)	235,393
Total:	\$ 3,161,917		\$ (104,609)	\$ 3,057,308

According to the Seller's general ledger, the total accumulated depreciation balance was \$2,686,158 as of May 31, 2021. Audit staff calculated the total accumulated depreciation to be \$2,752,938 using the approved rates from Rule 25-30.140–Depreciation, F.A.C. and the audited plant additions and retirements as of May 31, 2021. The seller's general ledger is broken out into two groups, Group 1 (Ponderosa Pines & Quail Run) and Group 4 (Marion County – Except Ponderosa Pines & Quail Run) as shown in the tables below. The seller does not itemize accumulated depreciation per individual account, they show accumulated depreciation as a total amount. Audit staff determined the seller does not calculate the approved depreciation rates. We also determined that the beginning balances for UPIS were incorrect, according to the Seller's general ledger. Therefore, the accumulated depreciation beginning balances were incorrect in the Seller's general ledger.

We determined that the accumulated depreciation year-end balance to be \$85,601 for Group 1 and \$2,667,877 for Group 4 as of May 31, 2021 as shown in Table 1-3 and Table 1-4, respectively.

Table 1-3

Ponderosa Pines & Quail Run	Utility Balance		Audit Balance
	Accum. Dep.	Audit	Accum. Dep.
	As of 5/31/2021	Adjustments	As of 5/31/2021
301 Organization	\$ -	\$ (5,207)	\$ (5,207)
304 Structures & Improvements	-	(1,695)	(1,695)
307 Wells & Springs	-	(13,577)	(13,577)
311 Pumping Equip.	-	(22,567)	(22,567)
320 Water Treatment Equip.	-	(2,588)	(2,588)
330 Distribution Reservoirs	-	(13,005)	(13,005)
331 Transmission and Distribution Mains	-	(11,648)	(11,648)
333 Services	-	(2,486)	(2,486)
334 Meters and Meter Install.	-	(4,181)	(4,181)
340 Office Furniture & Equip.	-	(5,752)	(5,752)
341 Trans. Equip.	-	(1,529)	(1,529)
343 Tools, Shop and Garage Equip.	-	(826)	(826)
Total :	\$ (87,341)	\$ 2,280	\$ (85,061)

Table 1-4

Marion County (Except Ponderosa Pines & Quail Run)	Utility Balance		Audit Balance
	Accum. Dep.	Audit	Accum. Dep.
	As of 5/31/2021	Adjustments	As of 5/31/2021
301 Organization	\$ -	\$ (1,521)	\$ (1,521)
304 Structures & Improvements	-	(3,148)	(3,148)
307 Wells & Springs	-	(94,714)	(94,714)
309 Supply Mains	-	(47,589)	(47,589)
310 Power Generation Equip.	-	(67,840)	(67,840)
311 Pumping Equip.	-	(492,755)	(492,755)
320 Water Treatment Equip.	-	(197,627)	(197,627)
330 Distribution Reservoirs	-	(28,746)	(28,746)
331 Transmission and Distribution Mains	-	(999,850)	(999,850)
333 Services	-	(55,747)	(55,747)
334 Meters and Meter Install.	-	(177,530)	(177,530)
339 Other Plant And Misc.	-	(25,858)	(25,858)
340 Office Furniture & Equip.	-	(47,172)	(47,172)
341 Trans. Equip.	-	(112,032)	(112,032)
342 Stores Equip.	-	(3,815)	(3,815)
343 Tools, Shop and Garage Equip.	-	(31,628)	(31,628)
345 Power Operated Equip.	-	(5,200)	(5,200)
346 Communication Equip.	-	(22,275)	(22,275)
347 Misc. Equip.	-	(17,436)	(17,436)
348 Other Tangible Plant	-	(235,393)	(235,393)
Total :	\$ (2,598,817)	\$ (69,060)	\$ (2,667,877)

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

Effect on the Filing: The total UPIS balance should be decreased by \$131,410 and the total accumulated depreciation balance should be increased by \$66,780.

Finding 2: CIAC and Accumulated Amortization of CIAC

Audit Analysis: According to the Seller’s general ledger, the total CIAC balance was \$2,036,044 as of May 31, 2021. Audit staff determined the total CIAC balance to be \$2,033,029 as of May 31, 2021. The seller’s general ledger is broken out into two groups, Group 1 (Ponderosa Pines & Quail Run) and Group 4 (Marion County – Except Ponderosa Pines & Quail Run) as shown in the tables below.

We scheduled the additions to CIAC from December 31, 2010 to May 31, 2021, and traced to supporting documentation. We determined that the Seller did not start with the Commission approved balances in Order No. PSC-2012-0357-PAA-WU for CIAC or AA of CIAC. Audit staff recalculated CIAC and AA of CIAC using the audited UPIS plant balances and depreciation rates established by Rule 25-30.140(2), F.A.C. We also recalculated AA of CIAC using the audited CIAC balances and the rates established by the Rule noted above.

Based on the procedures performed above, audit staff has determined the CIAC to be \$19,340 for Group 1 and \$2,013,689 as of May 31, 2021 as shown in Table 2-1:

Table 2-1

Account - Description	Utility Balance		Audit Balance	
	CIAC	Audit	CIAC	
	As of 5/31/2021	Adjustments	As of 5/31/2021	
Quail Run & Ponderosa Pines	\$ (21,539)	\$ 2,199	\$ (19,340)	
Marion County (Except QR & PP)	(2,014,505)	\$ 816	(2,013,689)	
Total:	\$ (2,036,044)	\$ 3,015	\$ (2,033,029)	

Based on the procedures performed above, audit staff has determined AA of CIAC to be \$13,690 for Group 1 and \$1,723,094 for Group 4 as of May 31, 2021. As shown in Table 2-2.

Table 2-2

Account - Description	FPSC Rates	Utility Balance		Audit Balance	
		AA of CIAC	Audit	AA of CIAC	
		As of 5/31/2021	Adjustments	As of 5/31/2021	
Quail Run & Ponderosa Pines	0.03205	\$ 8,641	\$ 5,049	\$ 13,690	
Marion County (Except QR & PP)	0.03205	1,565,388	\$ 157,706	1,723,094	
Total:		\$ 1,574,029	\$ 162,755	\$ 1,736,784	

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

Effect on the Filing: Audit staff determined the balance for CIAC and AA of CIAC to be \$2,033,029 and \$1,736,784, as of May 31, 2021.

Exhibits

Exhibit 1: Net Book Value

**SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20210095-WU; ACN 2021-148-4-2
SCHEDULE OF WATER NET BOOK VALUE
AS OF MAY 31, 2021**

Group 1 & 4 - Combined			
Description	Balance per Utility As of 5/31/2021	Audit Adjustments	Balance per Audit As of 5/31/2021
Utility Plant in Service	\$ 3,331,335	\$ (131,410)	\$ 3,199,925
Land	80,777	-	80,777
Accumulated Depreciation	(2,686,158)	(66,780)	(2,752,938)
Contributions in Aid of Construction	(2,036,044)	3,015	(2,033,029)
Accumulated Amortization of CIAC	1,574,029	162,755	1,736,784
NET BOOK VALUE	\$ 263,939	\$ (32,420)	\$ 231,519