

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: December 2, 2021

TO: Office of Commission Clerk

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

RE: Docket No.: 20210133-SU
Company Name: North Peninsula Utilities Corp.
Company Code: SU615
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2021-239-1-1

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.

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

North Peninsula Utilities Corp./
CSWR-Florida Utility Operating Company, LLC's

Transfer of Certificate
Certificate No. 249-S

As of July 31, 2021

Docket No. 20210133-SU
Audit Control No. 2021-239-1-1
November 22, 2021

A handwritten signature in black ink, appearing to read "Demetrius Jones".

Demetrius Jones
Audit Manager

A handwritten signature in blue ink, appearing to read "Thomas Wolff".

Thomas Wolff
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 August 24, 2021. We have applied these procedures to the attached schedules prepared by the audit staff in support North Peninsula Utilities Corp./CSWR-Florida Utility Operating Company, LLC's request for a Transfer of Certificate in Docket No. 20210133-SU

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

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

Seller refers to North Peninsula Utilities Corp. (NPUC)

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

North Peninsula Utilities Corp. is a Class “B” wastewater only Utility that serves approximately 603 wastewater customers in Volusia County.

CSWR-Florida UOC LLC is purchasing North Peninsula Utilities Corp. for \$1,400,000, which has an anticipated closing date 45 days after Commission approval. CSWR-Florida UOC LLC filed an application with this Commission for Transfer of Certificate on August 9, 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 UPIS from the approved balances in Order No. PSC-2019-0461-PAA-SU, issued October 25, 2019. We scheduled UPIS activity from June 30, 2018 through July 31, 2021, and traced plant additions to the seller’s asset schedule provided by the utility’s consultant, and supporting documentation. 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 scheduled land from the approved balances in Order No. PSC-2019-0461-PAA-SU, issued October 25, 2019. There were no additions to land from June 30, 2018 through July 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 accumulated depreciation from the approved balances in Order No. PSC-2019-0461-PAA-SU, issued October 25, 2019. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We schedule accumulated depreciation from June 30, 2018 through July 31, 2021, and traced the balances to the seller's asset schedule provided by the utility's consultant in this application for transfer. 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 CIAC from the approved balances in Order No. PSC-2019-0461-PAA-SU, issued October 25, 2019. We recalculated CIAC activity from June 30, 2018 through July 31, 2021, and traced CIAC additions to supporting documentation provided by utility's consultant in this application for transfer. 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 Accumulated Amortization (AA) of CIAC from the approved balances in Order No. PSC-2019-0461-PAA-SU, issued October 25, 2019. We recalculated amortization accruals for CIAC accounts to verify that the correct rates were used. We scheduled accumulated amortization of CIAC from June 30, 2018 through July 31, 2021 and traced the balances provided by the utility's consultant in this application for transfer. Finding 2 discusses AA 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 January and July 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 inquired about the deposit policy. The Seller's does not have an authorized tariff for the collection of customer deposits and no customer deposits were noted. No further work performed.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: Audit Analysis: According to the schedule provided by the utility consultant, the UPIS balance was \$947,621 as of July 31, 2021. Audit staff determined the UPIS balance to be \$924,950 as of July 31, 2021.

We reconciled the beginning balance of \$892,605 for UPIS from Order No. PSC-2019-0461-PAA-SU issued October 25, 2019, and the schedule provided by the utility's consultant which tied as of June 30, 2018. We scheduled the additions and retirements from June 30, 2018 to July 31, 2021, and traced to supporting documentation. We ensured that retirements were made when capital items were removed or replaced.

We determined the plant balance to be \$924,950 as of July 31, 2021 as shown in Table 1-1.

Table 1-1

Account - Description	Utility Balance		Audit Balance	
	UPIS	Audit	UPIS	UPIS
	7/31/2021	Adjustments	7/31/2021	
352 Franchises	\$ 6,310	\$ -	\$ 6,310	
354 Structures & Improvements	152,378	14,542	166,920	
360 Collection Sewers - Force	296,865	25,738	322,603	
361 Collection Sewers - Gravity	5,379	31	5,410	
363 Services to Customers	30,436	(566)	29,870	
364 Flow Measuring Devices	4276	(1,401)	2875	
370 Receiving Wells	14044	(12,766)	1278	
371 Pumping Equipment	66852	(15,965)	50887	
380 Treatment and Disposal - Equipment	371,081	(32,284)	338797	
	\$ 947,621	\$ (22,671)	\$ 924,950	

According to the schedule provided by the utility consultant, the utility's accumulated depreciation balance was \$708,509 as of July 31, 2021. Audit staff calculated accumulated depreciation to be \$723,577 using the approved rates from Rule 25-30.140-Depreciation, F.A.C. and the audited plant additions and retirements as of July 31, 2021. We ensured that retirements to accumulated depreciation were made when capital items were removed or replaced.

We determined the accumulated depreciation year-end balance to be \$723,577 as of July 31, 2021 as shown in Table 1-2.

Table 1-2

Account - Description	Utility Balance		Audit Balance
	Accum. Dep. 7/31/2021	Audit Adjustments	Accum. Dep. 7/31/2021
352 Franchises	\$ (6,310)	\$ -	\$ (6,310)
354 Structures and Improvements	(145,279)	(20,192)	(165,471)
360 Collection Sewers - Force	(263,313)	(59,290)	(322,603)
361 Collection Sewers - Gravity	(3,623)	(65)	(3,688)
363 Service to Customers	(29,191)	(645)	(29,836)
364 Flow Measuring Devices	(1,427)	429	(998)
370 Receiving Wells	(3,699)	2,498	(1,201)
371 Pumping Equipment	(4,963)	17,567	12,604
380 Treatment and Disposal - Equipment	(250,704)	44,630	(206,074)
	\$ (708,509)	\$ (15,068)	\$ (723,577)

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

Effect on the Filing: The wastewater UPIS balance should be decreased by \$22,671 and the accumulated depreciation balance should be increased by \$15,068.

Finding 2: CIAC and Accumulated Amortization of CIAC

Audit Analysis: According to the schedule provided by the utility’s consultant, the CIAC balance was \$641,756 as of July 31, 2021. Audit staff determined the CIAC balance to be \$641,725 as of July 31, 2021.

Audit staff noted CIAC was fully amortized as of December 31, 2007 per Order PSC-2019-0461-PAA-SU, issued October 25, 2019. The Commission approved an averaging adjustment of \$731 to reflect a new customer connection that the Utility did not record. The Utility recorded the adjustment in the amount of \$762.

Based on the procedures performed above, audit staff has determined the CIAC to be \$641,725 as of July 31, 2021. As shown in Table 2-1:

Table 2-1

Account - Description	Utility Balance		Audit Balance	
	CIAC	Audit	CIAC	
	7/31/2021	Adjustments	7/31/2021	
Main Extension Charge	\$ 641,756	\$ (31)	\$ 641,725	
Total:	\$ 641,756	\$ (31)	\$ 641,725	

Based on the procedures performed above, audit staff has determined AA of CIAC to be \$641,080 as of July 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	
		7/31/2021	Adjustments	7/31/2021	
Main Extension Charge	0.0287	\$ (641,073)	\$ (7)	\$ (641,080)	
Total:		\$ (641,073)	\$ (7)	\$ (641,080)	

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 \$641,725 and \$641,080, as of July 31, 2021.

Exhibits

Exhibit 1: Net Book Value

**NORTH PENINSULA UTILITIES CORP.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20210133-SU; ACN 2021-239-1-1
SCHEDULE OF WASTEWATER NET BOOK VALUE
AS OF JULY 31, 2021**

Description	Balance per Utility As of 7/31/2021	Audit Adjustments	Audit Finding	Balance per Audit As of 7/31/2021
Utility Plant in Service	\$ 947,621	\$ (22,671)	1	\$ 924,950
Land	46,800	-		46,800
Accumulated Depreciation	(708,509)	(15,068)	1	(723,577)
Contributions in Aid of Construction	641,756	(31)	2	641,725
Accumulated Amortization of CIAC	(641,073)	(7)	2	(641,080)
NET BOOK VALUE	\$ 286,595	\$ (37,777)		\$ 248,818