

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: March 24, 2017

TO: Office of Commission Clerk

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

RE: Docket No.: 170018-SU
Company Name: Colony Park Development Utilities, LLC
Company Code: SU958
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 17-045-1-1

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

Colony Park Development Utilities, LLC/Merritt Island Utility Co.
Transfer of Certificate
Certificate No. 137-S

As of December 22, 2016

Docket No. 170018-SU
Audit Control No. 17-045-1-1

March 10, 2017

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 February 6, 2017. We have applied these procedures to the attached schedules prepared by the audit staff in support of Colony Park Development Utilities, LLC/Merritt Island Utility Co.'s request for a Transfer of Certificate in Docket No.170018-SU.

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 Merritt Island Utility Company.

Seller refers to Colony Park Development Utilities, LLC.

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

Colony Park Development Utilities, LLC, is a Class C Utility that provides wastewater service to approximately 300 customers in Brevard County, according to the Utility's 2015 annual report. Water service and the Utility's wastewater billings are provided by the City of Cocoa.

The Utility was granted Certificate No. 137-S by Order No. 6365, issued December 2, 1974. This Commission established rate base for the Utility as of December 31, 2007 by Order No. PSC-08-0760-PAA-SU, issued November 17, 2008.

On November 9, 2012, an application was filed for the transfer of the Colony Park wastewater system and Certificate No. 137-S to Colony Park Development Utilities, LLC (Colony Park Development). The Utility maintained that there were no additions since Order PSC-08-0760-PAA-SU, therefore Commission staff used these balances updating for depreciation, and the Commission established Rate Base as of September 27, 2012 by Order PSC-14-0673-PAA-SU, issued December 5, 2014.

Colony Waste Services, LLC purchased Colony Park Development Utilities, LLC in January 2016 but did not notify this Commission. Merritt Island Utility Company, Inc. filed for a transfer of certificate on January 17, 2017 with a transfer date of December 22, 2016 after purchasing the Utility for \$35,000 from Colony Waste Services, LLC.

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: We reviewed the Utility's accounting system by examining the records provided and compared them to the NARUC USOA. Finding 1 discusses the utility's 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 compiled a schedule from September 27, 2012 to December 22, 2016, which included the beginning balances as set in the last Commission Order and traced them to the annual reports. We determined the Utility Plant in Service transfer balance as of December 22, 2016. Finding 2 discusses our recommended adjustment to Utility Plant in Service.

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 compiled a schedule from September 27, 2012 to December 22, 2016, which included the beginning balance as set in the last Commission Order and traced them to the annual reports. We obtained land deeds from the application and property details from the Brevard County Property Appraiser website. We determined the land balance as of December 22, 2016. Finding 3 discusses our recommended adjustment to 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 on its books and records.

Procedures: We compiled a schedule from September 27, 2012 to December 22, 2016, which included the beginning balances as set in the last Commission Order and traced them to the annual reports. We recalculated accumulated depreciation accruals as per Rule 25-30.140 and traced them to the 2015 annual report. We determined the accumulated depreciation balance as of December 22, 2016. Finding 2 discusses our recommended adjustment 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 compiled a schedule from September 27, 2012 to December 22, 2016, which included the beginning balances set in the last Commission Order and traced them to the annual

reports. We determined the CIAC transfer balance as of December 22, 2016. Finding 4 discusses our recommended adjustment to 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 compiled a schedule from September 27, 2012 to December 22, 2016, which included the beginning balances set in the last Commission Order and traced them to the annual reports. We determined the accumulated amortization of CIAC transfer balance as of December 22, 2016. Finding 4 discusses our recommended adjustment to Accumulated Amortization of CIAC .

Other

Acquisition Adjustment

Objectives: The objectives were to determine whether an acquisition adjustment is warranted in this docket and to calculate the adjustment pursuant to Rule 25-30.0371 – Acquisition Adjustment, Florida Administrative Code (F.A.C.).

Procedures: We reviewed Rule 25-30.0371 – Acquisition Adjustment and determined that a negative acquisition adjustment exists when the purchase price is less than the net book value. Per the Utility’s transfer application, they are not requesting an acquisition adjustment. Audit staff requests Commission staff to determine the appropriate disposition of this issue.

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 2017. We recalculated a sample of customers’ bills using the 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 requested a list of customer deposits included in the sale of the Utility and obtained the customer deposit tariff for the seller. We determined that there were no customer deposits included in the sale. No exceptions noted.

Audit Findings

Finding 1: Books and Records

Audit Analysis: Rule 25-30.115, F.A.C., requires Florida utilities to maintain their books and records in conformity with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, states,

Each utility shall keep its books of account, and all other books, records and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information to any item included in any account. Each entry shall be supported by such detailed information will permit a ready identification, analysis and verification of all facts relevant thereto.

The Seller's records are not consistent with the NARUC USOA. The Seller did not have general ledgers; therefore, audit staff utilized the annual reports. In addition, no support was provided from the Sellers. The Buyer is aware of the requirements of our Rules.

Finding 2: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: As per the seller’s 2015 Annual Report, Utility Plant in Service was \$138,494. Audit staff determined that the Utility did not record the ordered adjustment balances as per the last Commission Order. We also determined that there have been no new additions to plant, since the last Commission Order. Audit staff calculated Utility Plant in Service to be \$166,776 as of December 22, 2016.

As per the seller’s 2015 Annual Report, accumulated depreciation was \$169,417. We determined that the Utility did not record the ordered adjustment balances as per the last Commission Order. Audit staff calculated accumulated depreciation to be \$153,286 as of December 22, 2016.

Utility Plant in Service is understated by \$28,282 and accumulated depreciation is overstated by \$16,131, as shown in Tables 2-1 and 2-2.

Table 2-1

Description	Annual Report 12/31/2015	Variance	Audit 12/22/2016
Composite Account	\$ -	\$ 57,354	\$ 57,354
351 Organization	29,950	\$ (29,950)	-
354 Structures & Improvements	30,479	\$ (322)	30,157
360 Collection Sewers - Force	28,128	\$ -	28,128
363 Services to Customers	500	\$ -	500
364 Flow Measuring Devices	3,500	\$ -	3,500
370 Receiving Wells	13,066	\$ -	13,066
371 Pumping Equipment	3,536	\$ -	3,536
380 Treatment and Disposal Equipment	27,546	\$ -	27,546
389 Other Plant and Miscellaneous Equipment	1,789	\$ -	1,789
393 Tools, Shop, and Garage Equipment	-	\$ 1,200	1,200
Total Wastewater Plant	\$ 138,494	\$ 28,282	\$ 166,776

Table 2-2

Account - Description	Annual Report 12/31/2015	Audit Adjustments	Audit 12/22/2016
Accumulated Depreciation	\$ (169,417)	\$ 16,131	\$ (153,286)

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

Effect on the Filing: The Utility Plant in Service balance should be \$166,776 and the accumulated depreciation balance should be \$153,286.

Finding 3: Land

Audit Analysis: As per the seller’s 2015 Annual Report, Land was \$30,506. Audit staff determined that the Utility did not record the ordered adjustment balance as per the last Commission Order. We also determined that there have been no new additions to land since the last Commission Order. We calculated land to be \$30,479 as of December 22, 2016.

Land is overstated by \$27 as shown in Table 3-1.

Table 3-1

Account - Description	Annual Report 12/31/2015	Audit Adjustments	Audit 12/22/2016
353 Land	\$ 30,506	\$ (27)	\$ 30,479

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

Effect on the Filing: The land balance should be \$30,479.

Finding 4: Contribution In Aid of Construction (CIAC) and Accumulated Amortization of CIAC

Audit Analysis: As per the seller’s 2015 Annual Report, Contribution in Aid of Construction was \$0. Audit staff determined that the Utility did not record the ordered adjustment balance of \$23,500 as per the last Commission Order. No additions were made since the last Commission Order.

As per the seller’s 2015 Annual Report, Accumulated Amortization of CIAC was \$0. We determined that the Utility did not record the ordered adjustment balance as per the last Commission Order. No additions were made since the last Commission Order.

CIAC is understated by \$23,500 and considered fully amortized. Accumulated amortization of CIAC is understated by \$23,500, as shown in Table 4-1.

Table 4-1

Account - Description	Annual Report 12/31/2015	Audit Adjustments	Audit 12/22/2016
271 Contributions in Aid of Construction	\$ -	\$ (23,500)	\$ (23,500)
272 Accumulated Amortization of CIAC	\$ -	\$ 23,500	\$ 23,500

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

Effect on the Filing: The CIAC balance should be \$23,500 and the Accumulated Amortization of CIAC balance should be \$23,500.

