

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-**

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**DATE:** December 27, 2018

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20180174-WU  
Company Name: Sunrise Utilities, LLC  
Company Code: WU870  
Audit Purpose: B1c: Certificate Transfer  
Audit Control No.: 2018-275-1-2

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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

Sunrise Utilities, L.L.C./Sunrise Water, LLC

Transfer of Certificate  
Certificate No. 627-W

As of June 15, 2018

Docket No. 20180174-WU  
Audit Control No. 2018-275-1-2  
December 7, 2018

A handwritten signature in black ink, appearing to read "Debra M.", written over a horizontal line.

Debra M. Dobiac  
Audit Manager

A handwritten signature in black ink, appearing to read "Marisa N.", 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 October 2, 2018. We have applied these procedures to the attached schedules prepared by the audit staff in support of Sunrise Utilities, L.L.C./Sunrise Water, LLC's request for a Transfer of Certificate in Docket No. 20180174-WU.

The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definitions

Buyer/Utility refers to Sunrise Water, LLC.

Seller refers to Sunrise Utilities, L.L.C.

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

Sunrise Utilities, L.L.C is a Class “C” Utility that provides water service to approximately 246 customers in Polk County according to the 2017 annual report.

The seller’s water treatment plant (WTP) was placed into service around 1970. The system was operated by Sunrise Water Company, Inc. and was issued a grandfather certificate in 1997. Sunrise Water Company was transferred to Keen Sales, Rental and Utilities, Inc. in 1992. The seller acquired a portion of Keen Sales, Rentals and Utilities, Inc.’s service territory when it was granted Certificate No. 627-W by Order No. PSC-2005-0308-PAA-WU, issued March 20, 2005. Rate base was last established as of December 31, 2014 in Order No. PSC-2016-0126-PAA-WU, issued March 28, 2016.

Sunrise Water, LLC and Alturas Water, LLC purchased Sunrise Utilities, L.L.C. and Alturas Utilities, L.L.C. for \$89,900 on June 15, 2018, and filed an application for Transfer of Certificate on September 14, 2018. Based upon ERCs, the allocated purchase price for Sunrise Utilities, L.L.C. is \$71,111.

#### 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:** No general ledger was provided from the seller. The buyer stated in its application that they will maintain the utility books and records 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 balances for water UPIS, as of December 31, 2014, established in Order No. PSC-2016-0126-PAA-WU, issued March 28, 2016 to the seller's annual reports. We scheduled water UPIS activity from December 31, 2014 through June 15, 2018 and noted that there were no additions or retirements recorded in the seller's annual reports. We reconciled the UPIS transfer balances with the buyer's UPIS schedule and determined the UPIS transfer balances as of June 15, 2018. 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 proceeding were recorded in its books and records.

**Procedures:** We reconciled the beginning balances for water land, as of December 31, 2014, established in Order No. PSC-2016-0126-PAA-WU, issued March 28, 2016 to the seller's annual reports. We obtained a Quit Claim deed that transferred the utility land from Alturas Utilities, L.L.C. to Sunrise Utilities, L.L.C. on November 1, 2016. We also obtained a General Warranty Deed that transferred the utility land from Sunrise Utilities, L.L.C. to Sunrise Water, LLC and determined the land transfer balance as of June 15, 2018. No exceptions were noted.

#### 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 balances for water accumulated depreciation, as of December 31, 2014, established in Order No. PSC-2016-0126-PAA-WU, issued March 28, 2016 to the seller's annual reports. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balances for the water system as of June 15, 2018. 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 balances for water CIAC, as of December 31, 2014, established in Order No. PSC-2016-0126-PAA-WU, issued March 28, 2016 to the seller's annual reports. We scheduled water CIAC activity from December 31, 2014 through June 15, 2018 and noted that there was no CIAC activity recorded in the seller's annual reports. We determined the CIAC transfer balances as of June 15, 2018 and noted that CIAC was fully amortized in 2015. 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:** We reconciled the beginning balances for accumulated amortization of CIAC, as of as of December 31, 2014, established in Order No. PSC-2016-0126-PAA-WU, issued March 28, 2016 to the seller’s annual reports. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the water accumulated amortization of CIAC transfer balances as of June 15, 2018 and noted that CIAC was fully amortized in 2015. No further work was performed.

### 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(2) – Acquisition Adjustments, F.A.C., a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The Utility is not 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 were able to trace the tariff rates from Order No. PSC-2016-0126-PAA-WU to the current tariff to the customer bills. We noted that the seller didn’t have any rate adjustments since its last rate proceeding. We recalculated a sample of customer bills from the July 2018 billing cycle using the approved tariffs. No exceptions were noted.

#### Customer Deposits

**Objectives:** The objectives are to determine the disposition of Sunrise Utilities’ customer deposits and that refunds of customer deposits and accrued interest were completed as directed in Order No. PSC-2016-0126-PAA-WU.

**Procedures:** We noted that the customer deposits on the seller’s books at the time of transfer were transferred to the buyer with the appropriate funding. We also reviewed a customer deposit report dated October 23, 2018 and the seller’s customer billing history. Finding 2 discusses the status of the customer deposits refunds as per Order No. PSC-2016-0126-PAA-WU.

## Audit Findings

### **Finding 1: Accumulated Depreciation**

**Audit Analysis:** According to the Utility's transfer application, the accumulated depreciation balance was \$86,449 as of June 30, 2018. Audit staff calculated accumulated depreciation as of the transfer date of June 15, 2018 and determined that the balance should be \$86,245.

Water accumulated depreciation is overstated by \$204 as shown in Table 1-1.

**Table 1-1**

<b>Account - Description</b>	<b>Audit Balance Accum Dep 6/15/2018</b>
108 301-Organization Costs	\$ 350
108 302-Franchise Fees	-
108 304-Structures and Improvements	4,100
108 307 Wells & Springs	16,848
108 309 Supply Mains	(203)
108 310 Power Generation Equip.	10,167
108 311 Pumping Equip.	7,872
108 320 Water Treatment Equip.	4,055
108 330 Distribution Reservoirs	18,152
108 331 Transmission and Distribution Mains	9,380
108 334 Meters and Meter Install.	12,899
108 340 Office Furniture & Equip.	237
108 348 Other Tangible Plant	2,388
<b>Total:</b>	<b>\$ 86,245</b>
<b>Utility balance - 6/30/2018:</b>	<b>86,449</b>
<b>Audit Adjustment:</b>	<b>\$ (204)</b>

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

**Effect on the Filing:** The water accumulated depreciation balance should be decreased by \$204.



## **Finding 2: Customer Deposits**

**Audit Analysis:** Based on a customer deposit report dated October 23, 2018 from the buyer, we determined that the customer deposit balance should be \$6,035 as of June 15, 2018.

According to Order No. PSC-2016-0126-PAA-WU,

...it appears that Sunrise is in violation of Rule 25-30.311, F.A.C., in regard to its customer deposits. During our review of the Utility's deposit records, we noted that the Utility failed to properly record the amount of each deposit, failed to pay the appropriate amount of interest on customer deposits, and failed to refund residential customer deposits after 23 months.

The seller was ordered to provide monthly reports beginning April 15, 2016, until it had satisfactorily refunded the appropriate amount of customer deposits and applied the appropriate interest on customer deposits. We obtained a copy of the seller's monthly status report filed in Docket No. 20140220-WU for August 2016. The seller reported that the interest payments for the customer deposit accounts were completed as of August 2015, and that the deposit refunds were completed.

Subsequent to the 2014 rate proceeding, a Management Audit of Alturas Utilities, L.L.C. and Sunrise Utilities, L.L.C., PA-16-11-005, was completed and a report was issued in June 2017. Commission audit staff concluded that there was no evidence of annual interest payments to customers and the seller failed to comply with portions of Order No. 2016-0126-PAA-WU in Docket No. 20140220-WU.

We reconciled the customer deposit report dated October 23, 2018 with the customer deposit report provided in Docket No. 20140220-WU. We noted the following.

1. Of the 67 deposits that totaled \$3,427 to be refunded, we found that 27 deposits that totaled \$1,316 were refunded by December 2016. Two residential customers, who were to have been refunded \$52 each, were no longer listed on the latest customer deposit report. Audit staff was unable to determine if those refunds had been made. It appears that the remaining customers were not refunded their deposits.
2. No interest activity is recorded on the customer deposit reports. Technical staff calculated interest of \$1,094 through October 2015 on the deposits to be refunded as of July 2015. Based on the seller's billing history, we noted that there are currently 245 customers and that 61 customers had interest on deposits applied to their November 5, 2015 bills in the amount of \$302.
3. Of the 21 deposits that were in excess of \$52 and held less than 23 months in the amount of \$808 to be refunded, we found that 11 deposits in excess of \$52 and held less than 23 months in the amount of \$413 were still listed on the October 23, 2018 customer deposit report. Seven residential customers that were to be refunded \$271 had their full deposits refunded. Three residential customers, who were to have been refunded \$124, were no longer listed on the latest customer deposit report. Audit staff was unable to determine if those refunds had been made.
4. Technical staff had determined that 11 customer account balances required corrections totaling \$469. We found that three customer account balances had been corrected, seven

customer account balances had not been corrected, and that one customer account was no longer listed on the latest customer deposit report.

**Effect on the General Ledger:** None.

**Effect on the Filing:** Based on the work performed, audit staff was unable to determine with any clarity the amount not refunded as per Order No. PSC-2016-0126-PAA-WU. For those deposits that were not refunded, we noted that interest has continued to accrue to date. We defer the final disposition of this issue to technical staff.

Exhibits

**Exhibit 1: Net Book Value - Water**

**SUNRISE UTILITIES, L.L.C./SUNRISE WATER, LLC  
TRANSFER OF CERTIFICATE AUDIT  
DOCKET NO. 20180174-WU; ACN 2018-275-1-2  
SCHEDULE OF WATER NET BOOK VALUE  
AS OF JUNE 15, 2018**

Description	Balance per Utility 6/30/2018	Audit Adjustments	Audit Finding	Balance per Audit 6/15/2018
Utility Plant in Service	\$ 109,300	\$ -		\$ 109,300
Land	553	-		553
Accumulated Depreciation	(86,449)	204	1	(86,245)
Contributions in Aid of Construction	-	(12,393)		(12,393)
Accumulated Amortization of CIAC	-	12,393		12,393
<b>NET BOOK VALUE</b>	<b>\$ 23,404</b>	<b>\$ 204</b>		<b>\$ 23,608</b>