

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: May 31, 2019

TO: Office of Commission Clerk

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

RE: Docket No.: 20180214-WS
Company Name: St. John's River Club Utility Company, LLC
Company Code: WS906
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2018-355-1-1

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

St. John's River Club Utility Company, LLC/
St. John's River Estates Utilities, LLC

Transfer of Certificate
Certificate Nos. 542-W and 470-S

As of August 17, 2018

Docket No. 20180214-WS
Audit Control No. 2018-355-1-1
May 24, 2019

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

Debra Dobrac
Audit Manager

A handwritten signature in black ink, appearing to read "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 December 19, 2018. We have applied these procedures to the attached schedules prepared by the audit staff in support of St. John's River Club Utility Company, LLC/St. John's River Estates Utilities, LLC's request for a Transfer of Certificates in Docket No. 20180214-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Buyer/Utility refers to St. John's River Estates Utilities, LLC, which is wholly-owned by St. John's River Estates, LLC (SJRE).

Seller refers to St. John's River Club Utility Company, LLC, which is wholly-owned by St. John's River Club, LLC (SJRC).

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

St. John's River Club Utility Company, LLC is a Class "C" Utility that serves approximately 76 water customers and 75 wastewater customers in Putnam County according to the 2017 annual report.

The utility was formed in 1984 and was operating without Commission approval under the assumption that it was exempt from the Commission's jurisdiction pursuant to Section 367.022(6), Florida Statutes. By Order No. PSC-1992-0330-FOF-WS, issued May 11, 1992, in Docket No. 19910646-WS, the Commission granted the Certificate Nos. 542-W and 470-S for water and wastewater, respectively, to the Utility known at that time as Buffalo Bluff Utilities, Inc. In Docket No. 20000327-WS, Buffalo Bluff Utilities, Inc. applied for a Staff Assisted Rate Case and new rates were approved in Order No. PSC-2000-2500-PAA-WS, issued December 26, 2000. By Order No. PSC-2005-0431-PAA-WS, issued April 20, 2005, in Docket No. 20041096-WS, the Commission approved the transfer of the certificates from Buffalo Bluff Utilities, Inc. to St. John's River Club, L.L.C. and rate base was established as of December 31, 2004 for transfer purposes. By Order No. PSC-2007-0195-FOF-WS, issued March 5, 2007, in Docket No. 20060703-WS, the Commission approved the transfer of the certificates from St. John's River Club, L.L.C. to St. John's River Club Utility Company, LLC.

St. John's River Estates, LLC purchased St. John's River Club, LLC for \$1M on August 17, 2018, which includes the assets of St. John's River Club Utility Company, LLC and other non-regulated assets. St. John's River Estates Utilities, LLC filed an application with this Commission for Transfer of Certificates on December 10, 2018.

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 balances for water and wastewater UPIS, as of December 31, 2004, established in Order No. PSC-2005-0431-PAA-WS, issued April 20, 2005, to the seller's annual reports. We scheduled water and wastewater UPIS activity from December 31, 2004 through August 17, 2018 and traced plant additions to the seller's fixed asset schedule, and supporting invoices. We reconciled the UPIS transfer balances with the seller's general ledger, and determined the UPIS transfer balances as of August 17, 2018. Findings 1 and 2 discuss 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 obtained a Warranty deed between SJRC and SJRE, which included the parcels for the water and wastewater systems. Finding 3 discusses 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 to its books and records.

Procedures: We reconciled the beginning balances for water and wastewater accumulated depreciation, as of December 31, 2004, established in Order No. PSC-2005-0431-PAA-WS, issued April 20, 2005, to the seller's annual reports. We recalculated depreciation accruals for all water and wastewater UPIS accounts to verify that the correct depreciation rates were used. We schedule accumulated depreciation from December 31, 2004 through August 17, 2018 and traced the balances to the seller's fixed asset schedule and the general ledger. We determined the accumulated depreciation transfer balances as of August 17, 2018. Findings 1 and 2 discuss 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 of \$24,655 and \$24,935 for water and wastewater CIAC, respectively, as established in Order No. PSC-2005-0431-PAA-WS, issued April 20, 2005, to the seller's annual reports as of December 31, 2004. We scheduled water and wastewater CIAC activity from December 31, 2004 through August 17, 2018, and traced CIAC additions to the seller's fixed asset schedule. In 2005, we noted on the asset schedule that there were CIAC additions of \$6,550 for water and \$9,350 for wastewater. We supported this amount by noting that the customer base increased by ten customers in the seller's annual report, which we multiplied by the Commission approved tariff rates for both water and wastewater. We reconciled the CIAC transfer balances with the seller's general ledger, and determined the CIAC transfer balances as of August 17, 2018. No exceptions were noted.

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 water and wastewater accumulated amortization of CIAC, as of December 31, 2004, established in Order No. PSC-2005-0431-PAA-WS, issued April 20, 2005, to the seller's annual reports. We recalculated amortization accruals for all water and wastewater CIAC accounts to verify that the correct rates were used. We scheduled accumulated amortization of CIAC from December 31, 2004 through August 17, 2018 and traced the balances to the seller's fixed asset schedule and the general ledger. We determined the accumulated amortization of CIAC transfer balances as of August 17, 2018. Finding 4 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: SJRE paid \$1M for the global purchase of SJRC's assets, but did not assign a dollar value for the water and wastewater systems. We did review the tax property records and noted that the assessed value for the utility land was \$6,600. We also determined that the combined Net Book Value for this Utility was \$8,744. The Utility is not requesting an acquisition adjustment. Therefore, we did not calculate one.

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 October 2018. 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 ledger and inquired about the deposit policy. The Seller's authorized tariff did provide for the collection of customer deposits and no customer deposits were noted on the Seller's books and records. No further work performed.

Audit Findings

Finding 1: Water Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Seller's general ledger, the water UPIS balance was \$99,234 as of August 17, 2018. Audit staff determined the water UPIS balance to be \$85,030 as of August 17, 2018.

The seller provided a fixed asset schedule, a trial balance as of August 17, 2018, and supporting invoices for the plant additions between December 31, 2004 and August 17, 2018. However, audit staff determined that additions of \$14,204 did not have the proper supporting invoices.

The water utility plant is overstated by \$14,204 (\$99,234 - \$85,030) as shown in Table 1-1.

Table 1-1

<u>Account - Description</u>	<u>GL</u> <u>8/17/2018</u>	<u>Audit</u> <u>8/17/2018</u>	<u>Audit</u> <u>Adjustments</u>
304 Structures & Improvements	\$ 3,825	\$ 3,825	\$ -
307 Wells & Springs	20,459	13,229	(7,230)
311 Pumping Equip.	14,598	10,924	(3,674)
320 Water Treatment Equip.	1,224	854	(370)
330 Distribution Reservoirs	7,350	7,350	-
331 Transmission and Distribution Mains	36,075	33,346	(2,729)
333 Services	8,530	8,530	-
334 Meters and Meter Install.	7,172	6,972	(200)
Total:	\$ 99,234	\$ 85,030	\$ (14,204)

According to the Seller's general ledger, the water accumulated depreciation balance was \$83,867 as of August 17, 2018. Audit staff calculated water accumulated depreciation to be \$80,678 using the rates from Rule 25-30.140 – Depreciation, F.A.C. and the audited plant additions and retirements as of August 17, 2018.

Water accumulated depreciation is overstated by \$3,189 as shown in Table 1-2.

Table 1-2

<u>Account - Description</u>	<u>GL</u> <u>8/17/2018</u>	<u>Audit</u> <u>8/17/2018</u>	<u>Audit</u> <u>Adjustments</u>
304 Structures & Improvements	\$ (3,773)	\$ (3,825)	\$ (52)
307 Wells & Springs	(15,935)	(13,229)	2,706
311 Pumping Equip.	(11,464)	(10,505)	959
320 Water Treatment Equip.	(1,224)	(854)	370
330 Distribution Reservoirs	(7,350)	(7,350)	-
331 Transmission and Distribution Mains	(29,054)	(29,853)	(799)
333 Services	(8,316)	(8,322)	(6)
334 Meters and Meter Install.	(6,751)	(6,740)	11
Total:	\$ (83,867)	\$ (80,678)	\$ 3,189

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

Effect on the Filing: The water UPIS balance should be decreased by \$14,204 and the water accumulated depreciation balance should be decreased by \$3,189.

Finding 2: Wastewater Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Seller's general ledger, the wastewater UPIS balance was \$132,899 as of August 17, 2018. Audit staff determined the wastewater UPIS balance to be \$129,985 as of August 17, 2018.

The seller provided a fixed asset schedule, a trial balance as of August 17, 2018, and supporting invoices for the plant additions between December 31, 2004 and August 17, 2018. However, audit staff determined that additions of \$3,914 did not have the proper supporting invoices.

The wastewater utility plant is overstated by \$3,914 (\$132,899 - \$129,985) as shown in Table 2-1.

Table 2-1

Account - Description	GL 8/17/2018	Audit 8/17/2018	Audit Adjustments
354 Structures and Improvements	\$ 49,635	\$ 49,635	\$ -
360 Collection Sewers-Force	8,681	8,681	-
361 Collection Sewers-Gravity	20,587	20,587	-
363 Services to Customers	2,414	2,414	-
370 Receiving Wells	7,354	6,614	(740)
380 Treatment and Disposal Equip.	12,965	12,965	-
381 Plant Swers	31,263	28,089	(3,174)
Total:	\$ 132,899	\$ 128,985	\$ (3,914)

According to the Seller's general ledger, the wastewater accumulated depreciation balance was \$126,343 as of August 17, 2018. Audit staff calculated wastewater accumulated depreciation to be \$125,512 using the rates from Rule 25-30.140 – Depreciation, F.A.C. and the audited plant additions and retirements as of August 17, 2018.

Wastewater accumulated depreciation is overstated by \$831 as shown in Table 2-2.

Table 2-2

Account - Description	GL 8/17/2018	Audit 8/17/2018	Audit Adjustments
354 Structures and Improvements	\$ (49,635)	\$ (49,635)	\$ -
360 Collection Sewers-Force	(8,681)	(8,681)	(0)
361 Collection Sewers-Gravity	(18,627)	(19,360)	(733)
363 Services to Customers	(2,353)	(2,355)	(2)
370 Receiving Wells	(7,195)	(6,614)	580
380 Treatment and Disposal Equip.	(10,761)	(10,779)	(17)
381 Plant Swers	(29,091)	(28,089)	1,003
Total:	\$ (126,343)	\$ (125,512)	\$ 831

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 \$3,914 and the wastewater accumulated depreciation balance should be decreased by \$831.

Finding 3: Land and Land Rights

Audit Analysis: According to the Seller's general ledger, the water land balance was \$4,152 as of August 17, 2018. Audit staff reduced the water land to the prior Commission Order balance of \$1,103 as of August 17, 2018.

According to the Seller's general ledger, the wastewater land balance was \$10,960 as of August 17, 2018. Audit staff reduced the wastewater land to the prior Commission Order balance of \$9,838 as of August 17, 2018.

Water and wastewater land additions were noted in the general ledger for 2017 and 2018. However, after a discussion with the Buyer, he stated that the seller did not have any additions during those periods and could not provide any supporting documentation.

Audit staff determined that water land was overstated by \$3,049 (\$4,152 - \$1,103), and wastewater land was overstated by \$1,122 (\$10,960 - \$9,838).

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

Effect on the Filing: The water land balance should be decreased by \$3,049 and the wastewater land balance should be decreased by \$1,122.

Finding 4: Accumulated Amortization of CIAC

Audit Analysis: According to the Seller’s general ledger, the water accumulated amortization of CIAC balance was \$27,520 as of August 17, 2018. Audit staff calculated water accumulated amortization of CIAC to be \$26,829 using the approved rate and the audited CIAC additions and retirements as of August 17, 2018. In Order No. PSC-2005-0431-PAA-WS, the 27 year amortization period or 3.7 percent was approved, and we used that rate in our calculations to be consistent.

According to the Seller’s general ledger, the wastewater accumulated amortization of CIAC balance was \$29,024 as of August 17, 2018. Audit staff calculated wastewater accumulated amortization of CIAC to be \$28,638 using the approved rate as stated above and the audited CIAC additions and retirements as of August 17, 2018.

The recommended audit adjustments are shown in Table 4-1.

Table 4-1

Description	Audit Balance Accum Amort 8/17/2018
Water	26,829
Total:	\$ 26,829
Utility balance - 8/17/2018:	27,520
Audit Adjustment:	\$ (691)
<hr/>	
Wastewater	28,638
Total:	\$ 28,638
Utility balance - 8/17/2018:	29,024
Audit Adjustment:	\$ (386)

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

Effect on the Filing: The water accumulated amortization of CIAC balance should be decreased by \$691 and the wastewater accumulated amortization of CIAC balance should be decreased by \$386.

Exhibits

Exhibit 1: Water Net Book Value

**ST. JOHN'S RIVER ESTATES UTILITIES, LLC
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20180214-WS; ACN 2018-355-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF AUGUST 17, 2018**

Description	Balance per Utilitiy 8/17/2018	Audit Adjustments	Audit Finding	Balance per Audit 8/17/2018
Utility Plant in Service	\$ 99,234	\$ (14,204)	1	\$ 85,030
Land	4,152	(3,049)	3	1,103
Accumulated Depreciation	(83,867)	3,189	1	(80,678)
Contributions in Aid of Construction	(31,205)	-		(31,205)
Accumulated Amortization of CIAC	27,520	(691)	4	26,829
NET BOOK VALUE	\$ 15,834	\$ (14,754)		\$ 1,080

Exhibit 2: Wastewater Net Book Value

**ST. JOHN'S RIVER ESTATES UTILITIES, LLC
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20180214-WS; ACN 2018-355-1-1
SCHEDULE OF WASTEWATER NET BOOK VALUE
AS OF AUGUST 17, 2018**

Description	Balance per Utilitiy 8/17/2018	Audit Adjustments	Audit Finding	Balance per Audit 8/17/2018
Utility Plant in Service	\$ 132,899	\$ (3,914)	2	\$ 128,985
Land	10,960	(1,122)	3	9,838
Accumulated Depreciation	(126,343)	831	2	(125,512)
Contributions in Aid of Construction	(34,285)	-		(34,285)
Accumulated Amortization of CIAC	29,024	(386)	4	28,638
NET BOOK VALUE	\$ 12,255	\$ (4,591)		\$ 7,664