

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 23, 2019

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, ^{LD} Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20190116-SU
Company Name: Merritt Island Utility Company, Inc.
Company Code: SU965
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2019-155-1-2

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.

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

Merritt Island Utility Company, Inc.
Staff-Assisted Rate Case

12 Months Ended March 31, 2019

Docket No. 20190116-SU
Audit Control No. 2019-155-1-2
August 20, 2019

A blue ink signature of Thomas Wolff, written over a horizontal line.

Thomas Wolff
Audit Manager

A blue ink signature of Marisa Glover, written over a horizontal line.

Marisa 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 31, 2019. We have applied these procedures to the attached schedules prepared by the audit staff in support of Merritt Island Utility Company, Inc.'s request for a Staff-Assisted Rate Case in Docket No. 20190116-SU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Merritt Island Utility Company, Inc. (MIUC, Inc.) refers to the Utility.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115, Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.).

The test year for the instant proceeding is the historical twelve months ended March 31, 2019.

Background

MIUC, Inc. is a class C wastewater system serving approximately 141 residential and 1 general service bulk customer in Brevard County. Water service is provided by the City of Cocoa. Mobile Home Investors, Inc. was initially granted a certificate in 1974 to operate a wastewater system. In 1976, the FPSC (Commission) approved the transfer of the system and certificate No. 137-S to Colony Park Utilities, Inc. (CPU, Inc.). In 2014, the wastewater system and Certificate No. 137-S were transferred to Colony Park Development Utilities, LLC (CPDU). Each of these transactions included the sale of both the Utility and the Colony Park mobile home park. In 2016, buyer registered with FDEP as Colony Waste Services, LLC (CWS), only wanted the mobile home park and began looking for a buyer. CWS sold the wastewater system to MIUC, Inc. in 2016. MIUC, Inc. is owned and managed by Gary Deremer. Rate base was last established as of December 22, 2016 by Order No. PSC-2017-0366-PAA-SU.

In its SARC application, the Utility is requesting a year-end rate base as of March 31, 2019. The year-end rate base excludes averaging adjustments and is used to allow the Utility to recover its allowed rate of return on significant plant improvements that were made after the acquisition.

The Utility files an 1120S tax return.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its books and records in conformity with NARUC USOA.

Procedures: We reviewed the Utility's accounting system by reviewing the records provided for this proceeding and compared them to the NARUC USOA. No exceptions were noted.

Rate Base

Utility Plant in Service

Objectives: The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at cost, 3)

Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceedings were recorded in its books and records.

Procedures: We reconciled our beginning balance as of December 22, 2016 from Order No. PSC-2017-0366-PAA-SU to the general ledger. We scheduled UPIS activity from December 22, 2016 to March 31, 2019. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the year-end balance as of March 31, 2019. No exceptions were noted.

Land

Objectives: The objectives were to determine whether utility land was: 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 our beginning balance as of December 22, 2016 from Order No. PSC-2017-0366-PAA-SU to the general ledger. We noted that there had been no land additions since December 22, 2016. We determined the year-end land balance as of March 31, 2019. 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 our beginning balance as of December 22, 2016 from Order No. PSC-2017-0366-PAA-SU to the general ledger. We calculated the accumulated depreciation for wastewater using the depreciation rates established by Rule 25-30.140(2), F.A.C from December 22, 2016 to March 31, 2019. We determined the year-end accumulated depreciation balance as of March 31, 2019. Finding 1 discusses our recommended adjustments 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 required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled our beginning balance from Order No. PSC-2017-0366-PAA-SU to the general ledger. This Order also shows that this balance is fully amortized. We noted the Utility did not have CIAC activity from December 22, 2016 to March 31, 2019. We also note that the Utility does not have a tariff for Service Availability. We determined the year-end CIAC balance as of March 31, 2019. 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 verified that CIAC was fully amortized on December 22, 2016. There has been no additional CIAC since the last proceeding. We determined the year-end balances as of March 31, 2019. No exceptions were noted.

Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment

Objectives: The objectives were to determine the year-end balance for the Acquisition Adjustment and Accumulated Amortization of Acquisition Adjustment as of March 31, 2019 and the Amortization of Acquisition Adjustment for the test year as set forth by Rule 25-30.0371, F.A.C.

Procedures: We verified that the acquisition adjustment approved in Order PSC-2017-0366-PAA-SU, issued September 27, 2017, was booked correctly and determined year-end balances. We calculated the Accumulated Amortization of Acquisition Adjustment as of March 31, 2019 by the methods set forth in Rule 25-30.0371, F.A.C. We calculated the Amortization expense for the test year. No exceptions were noted.

Working Capital

Objectives: The objective was to determine the working capital adjustment to be included in rate base per Rule 25-30.433- Rate Proceedings, F.A.C.

Procedures: We calculated the working capital balance as of March 31, 2019 using one-eighth of operation and maintenance expense as required by Rule 25-30.433 (2), F.A.C. Finding 2 discusses our recommendation to working capital.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We determined that the Utility's capital structure is composed of common equity. We noted the utility does not have a tariff for customer deposits, and does not collect customer deposits. We determined the year-end Capital Structure balances and its weighted average cost as of March 31, 2019. No exceptions were noted.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether revenues are: 1) Representative of the Utility's operations for the test year 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with NARUC USOA.

Procedures: We determined individual customer consumption for the test year using the monthly billing registers provided by the City of Cocoa. We calculated test year revenues based on billing determinates and compared our calculated revenue amount to the revenues reflected on the Regulatory Assessment Fee Filing. We determined whether the Utility is charging its authorized tariff rates. Finding 3 discusses our recommended adjustments to operating revenue.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether Operation and Maintenance Expense (O&M) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed the invoices provided in support of the Utility's O&M Expense for the test year. We ensured that all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. The utility also performed work on two of their percolation ponds and work on service territory maps. Both of these expenses are non-recurring and are being amortized over a 5-year period. The work on the percolation ponds was required by the Florida DEP and cost \$7,800. It included the removal of vegetation, trees, bushes and cleaning out of the ponds. The work on the service territory maps and legal description was related to the engineering required for the amendment Docket No. 20170142-SU and cost \$6,220.87. These costs are on the Net Operating Income Exhibit as a separate line item. Finding 2 discusses our recommended adjustments to O&M expense. Finding 4 discusses the non-reoccurring expenses.

Depreciation Expense

Objectives: The objectives were to determine whether depreciation expense is properly calculated and recorded in compliance with the NARUC USOA.

Procedures: We calculated the depreciation expense for the test year using the rates established by Rule 25-30.140, F.A.C. Finding 1 discusses our recommended adjustments for depreciation expense.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We scheduled the Utility's TOTI based on documents provided by the utility. We included property taxes, payroll taxes, and regulatory assessment fees (RAF) for the test year and confirmed their utility classification. We recalculated RAF's using the approved RAF rate and the audited revenue balances. Finding 3 discusses our recommended adjustments to TOTI.

Audit Findings

Finding 1: Accumulated Depreciation and Depreciation Expense

Audit Analysis: Order No. PSC-2017-0366-PAA-SU, set Accumulated Depreciation at \$153,287 as of December 22, 2016. We scheduled accumulated depreciation from December 22, 2016 to March 31, 2019 using the audited UPIS balances and the depreciation rates established by Rule 25-30.140, F.A.C. We noted that the Utility did not calculate any accumulated depreciation from December 22, 2016 to December 31, 2016. The Utility also calculates their accumulated depreciation on a month-by-month basis as a cumulative amount of all their accounts, not by separate accounts. Due to this, the Utility provided a depreciation schedule to show the monthly breakdown of their depreciation by account. We reviewed this schedule and determined the schedule agreed to the general ledger balance. Audit staff determined the accumulated depreciation balance was \$161,705 as of March 31, 2019, and depreciation expense was \$7,000 for the twelve months ended March 31, 2019 as shown in Table 1-1 and Table 1-2.

Table 1-1

Merritt Island Utility Company, Inc. Account - Description	Utility Balance		Audit	Audit
	Accum Dep 3/31/2019	Audit	Adjustments	Balance Accum Dep 3/31/2019
354 Structures and Improvements	\$ 24,912	\$	28	\$ 24,940
360 Collection Sewers-Force	27,785		391	28,176
363 Services to Customers	448		6	454
364 Flow Measuring Devices	3,500		-	3,500
365 Flow Measuring Installations	19		-	19
370 Receiving Wells	13,066		690	13,756
371 Pumping Equipment	2,071		(2,090)	(19)
380 Treatment and Disposal Equipment	29,330		1,205	30,535
389 Other Plant and Misc. Equip./Intangible Plt	1,787		3	1,790
393 Tools, Shop, and Garage Equipment	1,202		(2)	1,200
398 Other Tangible Plant	57,354		-	57,354
Total:	\$ 161,474	\$	231	\$ 161,705

Table 1-2

Merritt Island Utility Company, Inc. Account - Description	Utility Depreciation Expense Balance 3/31/2019	Audit Depreciation Expense Balance 3/30/2019	Audit Depreciation Expense Balance 3/31/2019
354 Structures and Improvements	\$ 1,117	\$ 0	\$ 1,117
360 Collection Sewers-Force	1,524.73	195	1,720.00
363 Services to Customers	47.25	(2)	45.00
364 Flow Measuring Devices	-	-	-
365 Flow Measuring Installations	12.40	(0)	12.00
370 Receiving Wells	(23.85)	24	-
371 Pumping Equipment	284.20	146	430.00
380 Treatment and Disposal Equipment	3,192.59	483	3,676.00
389 Other Plant and Misc. Equip./Intangible Plt	119.26	(119)	-
393 Tools, Shop, and Garage Equipment	4.96	(5)	-
398 Other Tangible Plant	-	-	-
Total:	\$ 6,278	\$ 722	\$ 7,000

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

Effect on the Filing: Audit staff determined the year-end balances for accumulated depreciation to be \$161,705, as of March 31, 2019. We also determined depreciation expense to be \$7,000 for the test year.

Finding 2: Operation and Maintenance Expense and Working Capital

Audit Analysis: Audit staff reviewed all expenses to determine if the transactions were made in the proper period, amount, classification, and whether the expenses were utility related. Our recommended adjustments are shown in Table 2-1.

Table 2-1

Description	NARUC Acct.	Per Utility GL as of March 31, 2019	Variance	Per Audit as of March 31, 2019
Salaries & Wages - Officers, Etc.	703	\$ 5,000	\$ -	\$ 5,000
Sludge Removal Exp	711	4,000	-	4,000
Purchased Power	715	5,764	-	5,764
Chemicals	718	2,425	-	2,425
Contractual Services - Engineering	731	1,200	-	1,200
Contractual Services - Acct.	732	400	-	400
Contractual Services - Legal	733	366	-	366
Contractual Services - Other	736	46,123	-	46,123
Insurance Expense	755	1,528	(203)	1,324
Miscellaneous Expenses	775	3,595	(710)	2,885
Total Utility Expenses		\$ 70,400	\$ (914)	\$ 69,487
			Working Capital	\$ 8,686

Based on supporting documentation, we recommend the following adjustments.

- Account 755 – Insurance Expense. We noted that the Utility’s general ledger showed \$1,528 for prepaid insurance expense for the period of 6/28/18 to 6/26/19. Audit staff reviewed the insurance declarations page provided by the Utility and noted the policy total is \$1,324. We decreased this account by \$204 using supporting documentation provided by the company.
- Account 775 – Miscellaneous Expense. We noted that the Utility’s general ledger had a balance of \$3,595 as of March 31, 2019. This account consists of transfer and permit fees, Annual Report fees, Services performed on road repairs, and Billing Fees from City of Cocoa. The road repairs, which were to repair potholes due to a cracked sewer line on LaFitte Court, were \$943, and a one-time occurrence. We removed \$756 ($\$943/5=189$, $\$189*4=\756) from this expense to reflect this expense being amortized over a 5-year period and only including one year amortization for the test year. We increased this account by \$46 ($\$5+\41), for City of Cocoa charges recorded incorrectly in the general ledger, using supporting documentation provided by the Utility. The adjustment for this account is a decrease of \$710 ($\$46-\756).

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

Effect on the Filing: Audit staff determined the O&M expense to be \$69,487. Working capital was calculated to 1/8 of O&M to be \$8,686 for the test year ended March 31, 2019.

Finding 3: Operating Revenue

Audit Analysis: Merritt Island Utility Company, Inc. used the approved tariff rates to charge their residential customers, all of which have 5/8” meters. The Utility has one general service and one bulk service customer. There was a tariff price index that was effective on June 13, 2018. Base Facility Charge and gallonage charge (per 1000 gallons) for Residential customers went from \$10.75 to \$10.91 and \$2.87 to \$2.91, General Service customers went from \$10.75 to \$10.91 and \$3.44 to \$3.49, and Bulk Service customers went from \$1,289.47 to \$1,309.20 and \$3.44 to \$3.49.

The Utility’s operating revenue was \$66,595 for the twelve months ended on March 31, 2019. Audit staff recalculated revenue by determining the number of bills and gallons consumed from the billing register times the most current Commission approved tariff rate (annualized). We determined operating revenue for water to be \$64,247 as shown in Table 3-1. There are approved miscellaneous services fees but the Utility did not charge any.

Table 3-1

For the 12 Month Test Year Ended 3/31/19				
NARUC	Description	Utility Bal (RAF) 3/31/19	Audit Adj	Audit Bal 3/31/19
521	Metered Water Revenue	\$ 66,595	(2,348)	\$ 64,247
		\$ 66,595	(2,348)	\$ 64,247
	Other Wastewater Revenues:			
	Late Fees	\$ -	-	\$ -
	Connection Fees	-	-	-
	Disconnection Fees	-	-	-
	Other Fees	-	-	-
		\$ -	\$ -	\$ -
	Grand Total	\$ 66,595	\$ (2,348)	\$ 64,247

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

Effect on the Filing: Audit staff determined the operating revenues to be \$64,247 for the test year ended March 31, 2019. The fall out effect on TOTI (RAF) is a decrease of \$106.

Finding 4: Amortized Operation and Maintenance Expenses

Audit Analysis: Audit Analysis: The utility incurred two non-recurring expense during the test year that were not included in operation and maintenance expenses and amortized them both over a 5-year period. The first expense was for engineering work on service territory maps and legal description for the new service area that was required for the amendment Docket 20170142-SU. This expense, \$6,220.87, was incurred in July 2018 and the 5-year amortization period started in August 2018. The monthly amortization expense for this expense is \$104. The second expense was the cleaning out of 2 perc ponds and was required by the Florida Department of Environmental Protection. This expense, \$7,800, was incurred in February 2019 and the 5-year amortization period started the same month. The monthly amortization expense for this expense is \$130.

The utility's general ledger reflects 8 months of amortization for the engineering expense and 2 months for the perc pond cleaning. Audit staff annualized these expenses for rate making purposes and the recommended adjustments are below in Table 4-1.

Table 4-1

Acct. Name	Total Amount	Amortization Period	Utility Balance 03/31/19	Variance	Audit Annualized Balance 03/31/19
Engineering for Service Territory Maps	\$ 6,220.87	5 years	\$ 829	\$ 419	\$ 1,248
Pond Cleaning per Florida DEP	\$ 7,800.00	5 years	\$ 260	\$ 1,300	\$ 1,560
Total:			\$ 1,089	\$ 1,719	\$ 2,808

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

Effect on the Filing: Audit Staff determined the annual amortization of the allocated operation and maintenance expenses to be \$2,808, with an adjustment of \$1,719 needed to annualize these expenses.

Exhibits

Exhibit 1: Rate Base

**MERRITT ISLAND UTILITY COMPANY, INC.
STAFF ASSISTED RATE CASE
DOCKET NO. 20190116SU; ACN: 2019-155-1-2
RATE BASE SCHEDULE
AS OF MARCH 31, 2019**

Description	Balance per Utility 3/31/2019	Audit Adjustments	Audit Finding	Balance per Audit 3/31/2019
Utility Plant in Service	\$ 296,849	\$ -		\$ 296,849
Land	30,479	-		30,479
Accumulated Depreciation	(161,473)	460	1	(161,013)
Contributions in Aid of Construction	(23,500)	-		(23,500)
Accumulated Amortization of CIAC	23,500	-		23,500
Acquisition Adjustment (AA)	(175)	-		(175)
Accumulated Amortization of AA	40	0		40
Working Capital Allowance	-	8,686	2	8,686
TOTAL RATEBASE	\$ 165,720	\$ 9,146		\$ 174,865

Exhibit 2: Capital Structure

MERRITT ISLAND UTILITY COMPANY, INC.
STAFF-ASSISTED RATE CASE
DOCKET NO. 20190116-SU; ACN: 2019-155-1-2
CAPITAL STRUCTURE
AS OF MARCH 31, 2019

Capital Component	Balance Per Utility as of 03/31/2019	Audit Adjustment	Balance Per Audit as of 03/31/2019	Ratio	Cost Rate	Weighted Average Cost
Common Equity	\$ 150,000	\$ -	\$ 150,000	100.00%	7.85%	7.85%
Long Term Debt	-	-	-	-	-	-
Short Term Debt	-	-	-	-	-	-
Accumulated Deferred Income Tax	-	-	-	-	-	-
Investment Tax Credits	-	-	-	-	-	-
Customer Deposits	-	-	-	-	-	-
Total	\$ 150,000	\$ -	\$ 150,000	100.00%		7.85%

Exhibit 3: Net Operating Income

MERRITT ISLAND UTILITY COMPANY, INC.
STAFF ASSISTED RATE CASE
Dkt: 20190116-SU; ACN: 2019-155-1-2
NET OPERATING INCOME
FOR TWELVE MONTHS ENDED MARCH 31, 2019

Description	Amount Per Utility 03/31/19	Audit Adjustment	Audit Finding	Amount Per Audit 03/31/2019
Operating Revenues	\$ 66,595	\$ (2,348)	3	\$ 64,247
Operation & Maintenance Expenses	\$ 70,400	\$ (913)	2	\$ 69,487
Depreciation Expense	\$ 6,274	\$ 726	1	\$ 7,000
Amortization Expense - CIAC	\$ -	\$ -		\$ -
Amortization Expense - Acq. Adjustment	\$ (25)	\$ -		\$ (25)
Amortization Expense - Other	\$ 1,089	\$ 991	4	\$ 2,080
Taxes Other Than Income	\$ 2,997	\$ (106)	3	\$ 2,891
Total Operating Expenses:	\$ 80,735	\$ 698		\$ 81,433
Net Operating Income (Loss)	\$ (14,140)	\$ (3,046)		\$ (17,186)