

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:** March 17, 2023

**TO:** Adam J. Teitzman, Commission Clerk, Office of Commission Clerk

**FROM:** Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

**RE:** Docket No.: 20220149-SU  
Company Name: Sebring Ridge Utilities, Inc.  
Company Code: WS345  
Audit Purpose: B1c: Certificate Transfer  
Audit Control No.: 2022-271-1-1

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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 the Commission Clerk. There are no confidential work papers associated with this audit.

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

### Auditor's Report

Sebring Ridge Utilities, Inc./  
CSWR-Florida Utility Operating Company, LLC

Transfer of Wastewater  
Certificate No. 365-S

**As of August 31, 2022**

Docket No. 20220149-SU  
Audit Control No. 2022-271-1-1  
**March 15, 2023**

A handwritten signature in cursive script, appearing to read "Tony Nguyen".

Tony Nguyen  
Audit Manager

A handwritten signature in cursive script, appearing to read "Donna D. Brown".

Donna D. Brown  
Reviewer

## Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
<b>Audit Findings</b>	
1: Books and Records .....	6
2: Utility Plant in Service and Accumulated Depreciation.....	7
3: Land and Land Rights.....	8
4: CIAC and Accumulated Amortization of CIAC.....	9
5: Customer Deposits.....	10
6: Rates and Charges.....	11
<b>Exhibits</b>	
1: Net Book Value.....	11

## 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 & Finance in its audit service request dated September 27, 2022. We have applied these procedures to the attached schedules prepared by Sebring Ridge Utilities, Inc. in its request for a Transfer of Certificate No. 365-S in Docket No. 20220149-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 Utility Operating Company (UOC), LLC, which is wholly owned by CSWR-Florida Utility Holding Company, LLC.

Seller refers to Sebring Ridge Utilities, Inc.

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, Florida Administrative Code.

#### Utility Information

Sebring Ridge Utilities, Inc. is a Class "C" wastewater Utility that serves approximately 531 wastewater customers in Highlands County per the application.

By Order No. 13564, issued August 3, 1984, in Docket No. 19830049-WS, the Commission granted operating certificate Nos. 334-W and 365-S to the Utility. Rate base was established in the last rate case proceeding in Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996, in Docket No. 19950966-WS. The Seller previously provided both water and wastewater services, however, the Utility's water services were transferred to a governmental entity in 2005 per Commission Order PSC-2005-0953-FOF-WU.

On November 11, 2008, Sebring Ridge filed an application for a staff-assisted rate case (SARC). However, on April 22, 2009, the Utility voluntarily withdrew its SARC application.

On August 31, 2022, CSWR-Florida Utility Operating Company, LLC filed an application with this Commission to transfer Certificate No. 365-S. CSWR-Florida UOC, LLC is purchasing Sebring Ridge Utilities, Inc. for \$250,000, with an anticipated closing date of 45 days after Commission approval.

#### Utility Books and Records

**Objective:** The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

**Procedures:** We reviewed the general ledger provided by the Seller and determined the Utility's books and records are not maintained according to the NARUC USOA. The Utility was unable to provide general ledgers prior to 2000 and from January through August 2022. We also noted that the general ledgers only provided total balances. Audit staff used the annual reports from 2000 to 2021, in addition to the general ledger, to review account balances. Finding 1 discusses Utility books and records.

## Net Book Value

### 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 original cost, 3) Retirements are recorded when a replacement asset is put into service, and 4) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We attempted to reconcile beginning balances of UPIS as of December 31, 1994, established in Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996. We scheduled UPIS activity from December 31, 1994, through August 31, 2022. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. Finding 2 discusses utility plant in service.

### Land & Land Rights

**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 are recorded in its books and records.

**Procedures:** We compared the beginning balance for land as of December 31, 1994, established in Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996, with the Seller's books and records. We reviewed land deeds, as well as the Highlands County Property Appraiser website for proof of ownership. 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, Florida Administrative Code – Depreciation, 2) Retirements are recorded when an asset is replaced, and 3) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We attempted to reconcile the beginning balances of accumulated depreciation as of December 31, 1994, using the Commission-approved balances in Order No. PSC-1996-0869-FOF-WS. We calculated accumulated depreciation using the depreciation rates established in Rule 25-30.140(2), Florida Administrative Code, from December 31, 1994, through August 31, 2022. Finding 2 discusses accumulated depreciation.

### Contributions-in-Aid-of-Construction

**Objectives:** The objectives were to determine whether contributions-in-aid-of-construction (CIAC): 1) Consisted 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 is replaced, and 4) Adjustments in the Utility's last rate proceeding are recorded in its books and records.

**Procedures:** We attempted to reconcile the beginning balance of CIAC as of December 31, 1994, using the Commission-approved balances in Order No. PSC-1996-0869-FOF-WS. Finding 4 discusses contributions-in-aid-of-construction.

#### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140, Florida Administrative Code – Depreciation, 2) Retirements are recorded when an asset is replaced, and 3) Adjustments required in the Utility’s last rate proceeding are recorded to its books and records.

**Procedures:** We attempted to reconcile the beginning balance of accumulated amortization of CIAC as of December 31, 1994, using the Commission-approved balances in Order No. PSC-1996-0869-FOF-WS. We calculated annual accruals to accumulated amortization of CIAC using composite rates. Finding 3 discusses accumulated amortization of contributions-in-aid-of-construction.

#### Acquisition Adjustment

**Objective:** The objective is to determine the acquisition adjustment, if any, based on audit staff’s net book blue pursuant to Rule 25-30.0371, Florida Administrative Code – Acquisition Adjustments.

**Procedures:** We determined that the net book value for the Utility at the time of the transfer was less than the purchase price, which would reflect a positive acquisition adjustment, pursuant to Rule 25-30.0371 – Acquisition Adjustments. The buyer is requesting a positive acquisition adjustment. No further work was performed.

### **Other**

#### Rates and Charges

**Objective:** The objective is to determine whether the Utility is charging monthly service rates authorized by Commission-approved tariffs.

**Procedures:** We obtained and tested the Utility’s billing registers for July and September 2022. We recalculated a sample of customer bills using Commission-approved tariffs to verify that the Utility is using approved rates. Finding 6 discusses rates and charges.

#### Customer Deposits

**Objective:** The objective is to determine whether the Seller collected customer deposits and whether the balances are transferred to the Buyer.

**Procedures:** We reviewed the general ledger and the Utility’s customer deposit ledger. The Seller has Commission-authorized tariffs for the collection of customer deposits. Audit staff determined that the Utility does collect customer deposits. The seller is not acquiring or assuming responsibility for customer deposits according to the sales agreement, and it will be the responsibility of the Seller to return any customer deposits. We also noted that several of the

Utility's customer deposits were overstated according to staff's recalculation. Finding 5 discusses customer deposits.



## Audit Findings

### **Finding 1: Books and Records**

**Audit Analysis:** Sebring Ridge Utilities, Inc.'s books and records are not maintained in accordance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA)

NARUC USOA for Class "C" Wastewater Utilities states,

"All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda, and information useful in determining the facts regarding a transaction."

Rule 25-30.115, Florida Administrative Code requires utilities to maintain their books and records in conformity with the NARUC USOA.

Audit staff noted that Sebring Ridge Utilities, Inc. did not maintain their books and records in accordance with the NARUC USOA. The general ledger from 2000 to 2021 was provided and only included ending balances for UPIS, CIAC, Accumulated Depreciation, and Accumulated Amortization of CIAC.

## **Finding 2: Utility Plant in Service and Accumulated Depreciation**

**Audit Analysis:** According to the Seller's general ledger, the UPIS balance was \$565,944, as of December 31, 2021. The Utility was not able to provide support as of August 31, 2022, therefore audit staff used the balances as of December 31, 2021. Audit staff determined that the Utility had not made the adjustments required per Commission Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996. Based on available information, we determined the balance for UPIS should be decreased by \$130,192.

For Accumulated Depreciation, we reviewed the general ledger and annual reports. Per these reports, the Utility determined Depreciation to be \$489,155. Audit staff recalculated Accumulated Depreciation using rates from Rule 25-30.140 – Depreciation, F.A.C., and audited plant additions and retirements as of August 31, 2022. We also determined that the Utility had not made the adjustments required per Commission Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996. Based on available information, we determined the balance for Accumulated Depreciation should be decreased by \$80,995.

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

**Effect on the Filing:** The UPIS balance should be \$435,752 and the Accumulated Depreciation balance should be \$408,160, as of August 31, 2022.

### **Finding 3: Land and Land Rights**

**Audit Analysis:** According to the Seller's general ledger and annual reports, the land balance was \$19,712, as of December 31, 2021. The Utility was not able to provide support as of August 31, 2022, therefore audit staff used the balances as of December 31, 2021. Audit staff determined that the Utility had not made the adjustments required per Commission Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996. In addition, we determined that the Seller had not acquired additional land since the last staff-assisted rate case.

Based on the available information, we determined the balance for land and land rights should be increased by \$26,004 (\$45,716 - \$19,712).

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

**Effect on the Filing:** The land and land rights balances should be \$45,716, as of August 31, 2022.

#### **Finding 4: CIAC and Accumulated Amortization of CIAC**

**Audit Analysis:** According to the Seller's general ledger and annual reports, CIAC was \$578,043, as of December 31, 2021. The Utility was not able to provide support prior to 2000, nor from January through August 31, 2022. As such, audit staff used the balances as of December 31, 2021. Audit staff determined that the Utility had not made the adjustments required per Commission Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996. Based on the available information, we determined the balance for CIAC should be decreased by \$298,468 (\$578,043 - \$279,575).

For Accumulated Amortization, we reviewed the general ledger and annual reports. Based on these reports, the Utility determined Accumulated Amortization of CIAC to be \$530,761. We also determined that the Utility had not made the adjustments required per Commission Order No. PSC-1996-0869-FOF-WS, issued July 2, 1996. Audit staff recalculated the Accumulated Amortization of CIAC using composite rates. Based on the available information, we determined the balance for Accumulated Amortization of CIAC should be decreased by \$316,272 (\$530,761 - \$214,489).

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

**Effect on the Filing:** The CIAC balance should be \$279,575 and the Accumulated Amortization of CIAC balance should be \$214,489, as of August 31, 2022.

## **Finding 5: Customer Deposits**

**Audit Analysis:** According to the Seller's customer deposit report, the total amount of customer deposits was \$2,750, as of November 17, 2022. Audit staff reviewed and recalculated the customer deposits noted in the report. We noted that several of the Utility's customer deposits were overstated. We determined that the Seller collected \$75 from fifteen customers. In addition, there was one customer in which only \$25 was collected. Per the Commission-approved tariff, the Seller is only authorized to collect \$50. Based on the available information, we determined the balance for customer deposits should be decreased by \$375 (\$2,750 - \$2,375)

In addition, we noted that per the sales agreement, the Seller is not acquiring or assuming responsibility for customer deposits. It will be the responsibility of the Seller to return any customer deposits.

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

**Effect on the Filing:** The customer deposit balance should be \$2,375, as of August 31, 2022.

## **Finding 6: Rates and Charges**

**Audit Analysis:** Audit staff tested sixteen residential bills for the months December 2022 and February 2023. We also tested five general service bills for the month of February 2023. We noted that there was one residential bill in which the Seller charged a flat rate of \$11.34, instead of the authorized tariff rate of \$16.17. In addition, we also noted that the five general service bills were charged a base rate of \$39.63, instead of the tariff rate of \$40.43. The Seller also charged \$4.12 per 1,000 gallons, instead of \$4.20 as authorized in the tariff.

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

**Effect on the Filing:** None. This finding is for informational purposes only.

Exhibits

**Exhibit 1: Net Book Value**

**SEBRING RIDGE UTILITIES, INC.  
TRANSFER OF CERTIFICATE AUDIT  
DOCKET NO. 20220149-SU; ACN 2022-271-1-1  
SCHEDULE OF WASTEWATER NET BOOK VALUE  
AS OF AUGUST 31, 2022**

Description	Balance per Utility	Audit	Audit	Balance per Audit
	As of 08/31/2022	Adjustments	Finding	As of 08/31/2022
Utility Plant in Service	\$ 565,944	\$ (130,192)	2	\$ 435,752
Land	19,712	26,004	3	45,716
Accumulated Depreciation	(489,155)	80,995	2	(408,160)
Contributions in Aid of Construction	(578,043)	298,468	4	(279,575)
Accumulated Amortization of CIAC	530,761	(316,272)	4	214,489
<b>NET BOOK VALUE</b>	<b>\$ 49,219</b>	<b>\$ (40,997)</b>		<b>\$ 8,222</b>