

State of Florida



# Public Service Commission

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**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** October 24, 2017

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20170151-WS  
Company Name: Heather Hills Estates Utilities, LLC  
Company Code: WS925  
Audit Purpose: B1c: Certificate Transfer  
Audit Control No.: 2017-205-2-1

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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 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  
Tampa District Office

### Auditor's Report

Heather Hills Estates Utilities, LLC/Heather Hills Utilities, LLC  
Transfer of Certificate

As of April 7, 2017

Docket No. 20170151-WS  
Audit Control No. 2017-205-2-1

October 10, 2017

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

Ron Mavrides  
Audit Manager

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

Tomer Kopelovich  
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 July 21, 2017. We have applied these procedures to the attached schedules prepared by audit staff in support of Heather Hills Estates Utilities, LLC/Heather Hills Utilities, LLC request for Transfer of Certificate in Docket No.20170151-WS.

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 refers to Heather Hills Utilities, LLC Florida Utility Services 1, LLC.

Seller/Utility refers to Heather Hills Estates Utilities, LLC.

#### Utility Information

Heather Hills Estates Utilities, LLC is a Class C Utility that serves 354 water and wastewater customers in Manatee County. Rate base was established by Order No. PSC-11-0436-PAA-WS, issued September 29, 2011. The buyer and seller executed a purchase agreement on December 12, 2016, for \$141,900. The purchase price included the Utility assets, but not office equipment and transportation vehicles. The plants have minimal assets, as the utility is a distribution and collection system only. The water and sewer services are provided by Manatee County.

### **General**

#### Utility Books and Records

**Objective:** The objective was to determine whether the Utility maintains its books and records in conformity with the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We examined the Utility's books and records and determined that they are in compliance with 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 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 obtained the beginning balances for UPIS as of September 29, 2011, established in Docket No.20170151-WS, Order No.PSC-11-0436-PAA-WS. We compiled a schedule of water plant additions from September 29, 2011, through April 7, 2017, using the Utility's annual reports. The Utility did not provide us any invoices for plant additions. However, a few pro-forma items were approved and verified in the last Order, and were added to UPIS. Our recommended adjustments to UPIS are discussed in Finding 1.

### 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.

**Procedures:** We determined the land value established in Order No. 100472-WS. We obtained a Quit Claim Deed that would transfer an easement from the seller to the buyer. The Deed obtained by the staff was not signed, dated, or recorded by the Manatee County Clerk. The easement grants access to utility water and wastewater lines that run under the land owned by the mobile home community.

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

**Objectives:** The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC) is recorded correctly and is in compliance with the Utility's Commission approved service availability charges.

**Procedures:** Audit staff determined there are no CIAC balances remaining for the water plant. The wastewater plant never had CIAC. The development is built out.

### 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 obtained the beginning balances for UPIS as of September 29, 2011, established in Docket No. 100472-WS, Order No. PSC-11-0436-PAA-WS.. We calculated depreciation accumulation from January 1, 2011, to April 7, 2017. Our recommended adjustments to UPIS are discussed in Finding 2.

### Accumulated Amortization of CIAC

**Objectives:** The objectives were to determine whether Accumulated Amortization of CIAC accruals are properly calculated and recorded based on Commission rules and the NARUC USOA.

**Procedures:** Audit staff determined there has not been any CIAC balance since the last Order, and none has been added; therefore, no amortization is needed.

### 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), F.A.C.

**Procedures:** We determined the net book value for this Utility, as of April 7, 2017, to be \$46,781, for both water and wastewater. Given a purchase price of \$141,900, audit staff

calculated an acquisition adjustment of \$95,119. The utility has recorded an acquisition adjustment in their books as \$95,024. This has not been approved by the Commission.

## **Other**

### **Customer Deposits**

**Objectives:** The objective was to determine whether the Utility is charging the correct amount set by Commission tariffs.

**Procedures:** We requested a listing of customer deposits, if any, included in the sale. We reviewed the application and asked the Utility if there were any. There were none. No further work was performed.

### **Billing**

**Objectives:** The objective was to determine that the buyer is billing the customers the correct rates per the last approved tariff.

**Procedures:** Billing is done quarterly. We obtained 14 customer bills for the quarter ending June 2017. We recalculated these customers' bills using the approved tariffs. No exceptions were noted.

## Audit Findings

### **Finding 1: UPIS**

**Audit Analysis:** The UPIS balances for water per Utility were adjusted by staff are due to unverified purchases of meters (account 334), reallocation of Supply Mains (account 309) and Hydrants (account 335) to properly reflect verified Commission ordered adjustments of \$12,294, and additions to lines (account 331) for amount that was a Commission approved balance but not recorded by the Utility. There were no adjustments to wastewater UPIS.

**Effect on the General Ledger:** Decrease UPIS by \$4,332.

**Effect on the Filing:** Decrease UPIS by \$4,332.

As of 4/7/2016		Plant in Service	Audit	Plant in Service
Acct#	Account Description	Utility Bal 4/7/2017	Adjustment	Balance per Audit 4/7/2017
309	Supply Mains	\$ 12,120	\$ (932)	\$ 11,188
331	Lines	\$ 55,559	\$ 5,998	\$ 61,557
334	Meters	\$ 25,384	\$ (9,371)	\$ 16,013
335	Hydrants	\$ 1,133	\$ (27)	\$ 1,106
<b>Total Utility Plant in Service</b>		<b>\$ 94,196</b>	<b>\$ (4,332)</b>	<b>\$ 89,864</b>



**Finding 2: Accumulated Depreciation**

**Audit Analysis:** We compiled a schedule of water plant additions which included beginning balances as set in the last Commission Order No. PSC-11-0436-PAA-WS issued September 29, 2011. The only plant additions were made to the water plant for pro-forma supply mains and hydrants that were subsequently verified by the Commission, but not recorded by the Utility, which increased water plant accumulated depreciation by \$3,452. The wastewater plant was fully depreciated as of the last Order, and there have been no additions to it.

Table 2-1

**Water Plant Accumulated Depreciation**

As of 4/7/2016		Accum. Dep.	Audit	Accum. Dep.
Acct#	Account Description	Utility Bal 4/7/2017	Adjustment	Balance per Audit 4/7/2017
309	Supply Mains	\$ (2,367)	\$ (664)	\$ (3,031)
331	Lines	\$ (41,330)	\$ (222)	\$ (41,552)
334	Meters	\$ (4,581)	\$ (2,515)	\$ (7,096)
335	Hydrants	\$ (165)	\$ (51)	\$ (216)
<b>Total Accumulated Depreciation</b>		<b>\$ (48,443)</b>	<b>\$ (3,452)</b>	<b>\$ (51,895)</b>

**Effect on the General Ledger:** The Utility should increase water plant Accumulated Depreciation by (\$3,452).

**Effect on the Filing:** The Utility should increase water plant Accumulated Depreciation by (\$3,452).

Exhibits

**Exhibit 1: Net Book Value**

**Heather Hills Estates Utilities, LLC**

**Net Book Value**

**As of April 7, 2017**

**Water**

<b>Description</b>	<b>Balance per Utility</b>	<b>Adjustment</b>	<b>Balance per Audit</b>
Utility Plant in Service	\$ 94,196	\$ (4,332)	\$ 89,864
Land	\$ 389	\$ -	\$ 389
Accumulated Depreciation	\$ (48,443)	\$ (3,452)	\$ (51,895)
Contribution in Aid of Construction	\$ (26,625)	\$ -	\$ (26,625)
Accumulated Amortization of CIAC	\$ 26,625	\$ -	\$ 26,625
<b>Net Book Value</b>	<b>\$ 46,142</b>	<b>\$ (7,784)</b>	<b>\$ 38,358</b>

**Wastewater**

<b>Description</b>	<b>Balance per Utility</b>	<b>Adjustment</b>	<b>Balance per Audit</b>
Utility Plant in Service	\$ 72,512	\$ -	\$ 72,512
Land	\$ 389	\$ -	\$ 389
Accumulated Depreciation	\$ (72,262)	\$ (250)	\$ (72,512)
Contribution in Aid of Construction			
Accumulated Amortization of CIAC			
<b>Net Book Value</b>	<b>\$ 639</b>	<b>\$ (250)</b>	<b>\$ 389</b>