

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: December 1, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150186-WU
Company Name: Charlie Creek Utilities, LLC
Company Code: WU975
Audit Purpose: Establish Net Book Value
Audit Control No.: 15-265-4-1

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 is no confidential work papers associated with this audit.

LMD/cp

Attachment: Copy of Letter

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Charlie Creek Utilities, LLC.
Application for Original Certificate

As of November 28, 2014

Docket No. 150186-WU
Audit Control No. 15-265-4-1
November 20, 2015

A handwritten signature in blue ink, appearing to read "J. Small".

Jeffery A. Small
Audit Manager

A handwritten signature in blue ink, appearing to read "Gabriela Leon".

Gabriela M. Leon
Audit Staff

A handwritten signature in blue ink, appearing to read "Iliana Piedra".

Iliana H. Piedra
Reviewer

Table of Contents

Purpose	1
Objectives and Procedures.....	2
Audit Findings	
1: Rate Base	5
2: Land and Land Rights.....	7
3: Rates and Charges	8
4: Customer Deposits.....	9

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 September 22, 2015. We have applied these procedures in support of Charlie Creek Utilities, LLC's request for an Original Certificate in Docket No. 150186-WU.

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/Utility refers to Charlie Creek Utilities, LLC.

Seller refers to Highvest, Inc.

Parent refers to Florida Utility Services 1, LLC the Utility's sole owner.

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, Florida Administrative Code (F.A.C.), Uniform System of Accounts for Water and Wastewater Utilities.

Utility Information

On October 22, 2009, the Board of County Commissioners of Hardee County passed and adopted Ordinance No. 2010-02, declaring the privately-owned water and wastewater facilities in Hardee County to be subject to the provisions of Chapter 367, Florida Statutes (FS). Order No. PSC-09-0820-FOF-WS, issued December 14, 2009, acknowledged Ordinance No. 2010-02, effective October 26, 2009.

Charlie Creek Utilities, LLC is a non-exempt utility that provides water service to a geographic area, under the Commission's jurisdiction in Hardee County, Florida, with the potential to serve 266 single family mobile home sites. The Utility's application for an Original Certificate indicates that it was providing water service to approximately 171 customers, as of November 28, 2014. No Annual Reports have been filed as of the date of this report nor have any Regulatory Assessment fees been paid by the buyer or seller.

The buyer and seller executed an asset purchase agreement on November 11, 2014, for \$100. The transaction was finalized on November 28, 2014. The buyer assumed operations in November 2014 and filed an application for Original Certificate on August 21, 2015. Rate base has never been established.

General

Utility Books and Records

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

Procedures: We reviewed the parent's general ledger account structure with descriptions that was provided by the buyer. No material differences from the USOA were noted.

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 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: No records exist to establish a UPIS balance. Additional information is provided in Finding 1.

Land & Land Rights

Objectives: The objectives were to determine whether 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 determined the original cost for land used to provide water service to the Utility's customers, as of November 28, 2014. Our recommended water Land balance is provided in Finding 2.

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: No records exist to establish an accumulated depreciation balance. Additional information is provided in Finding 1.

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 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: No records exist to establish a CIAC balance. Additional information is provided in Finding 1.

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: No records exist to establish an Accumulated Amortization of CIAC balance. Additional information is provided in Finding 1.

Acquisition Adjustment

Objectives: The objectives were 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: The Utility did not request an acquisition adjustment in its filing.

Other

Rates and Charges

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

Procedures: We obtained and tested the Buyer's billing register for the period December 2014 through October 2015. We recalculated a sample of customers' bills using the requested tariffs. Additional information is provided in Finding 3.

Customer Deposits

Objective: The objective was to determine the balance for customer deposits at the time of transfer.

Procedures: We inquired and verified the amount of customer deposits that were transferred from the seller to the buyer at closing. Additional information for Customer Deposits is provided in Finding 4.

Audit Findings

Finding 1: Rate Base

Audit Analysis: The buyer stated that no records exist to establish a net book value for the Utility at the time of purchase. The seller stated that all utility records were destroyed in a fire on August 2, 2013. Published accounts confirmed the seller's assertion.

We obtained the following information from the Florida Department of Environmental Protection (FDEP) website "OCULAS" concerning the Utility's history of operation.

Records obtained from FDEP indicate that the original water treatment plant was placed in service sometime before 1977 and was abandoned and replaced with a new water treatment plant in 1994. As such, we concentrated on supporting the new water treatment plant.

<u>Date</u>	<u>Document Description</u>
05/09/1991	Permit fees for construction of dry line in Phase 2 of Charlie Creek Mobile Estates - \$1,000.
09/09/1991	Application to construct dry line in Phase 2 Charlie Creek Mobile Estates. Estimated cost of \$37,000.
10/14/1991	Florida Department Environmental Regulation (FDER) Permit WC25-202199 which authorized the construction of water distribution system for Phase 2.
10/15/1992	Permit fees paid in advance for new water treatment plant - \$1,000.
03/26/1993	Permit fees paid in advance for new water treatment plant - \$3,000.
05/14/1993	Application to construct new water treatment plant. Estimated cost of \$38,000.
08/03/1993	Interoffice memorandum filed with DER that describes water treatment plant with inventory of equipment to be installed.
08/05/1993	FDEP Permit WC25-220473 which authorizes the construction of new water treatment plant. Old water plant to be abandoned and wells capped upon completion.
08/31/1998	Notification to FDEP of ownership change from Wauchula Sate Bank to Highvest Corporation.
01/23/2015	Notification to FDEP of ownership change from Highvest Corporation to Charlie Creek Utilities, LLC.

FDER is now FDEP

We toured the Utility's water plant and service territory on November 10, 2015 with the buyer. Based on our tour and information obtained above, the following is an inventory of water plant assets that we observed. No documents were found or known to exist to support the original cost for these assets.

<u>Year</u>	<u>Description</u>
Pre 1991	Phase I - Water distribution system that serves 139 connections consisting of 2 & 4 inch PVC pipe. (length unknown)
1991-1992	Phase II - Water distribution system that serves 122 connections consisting of 2 & 4 inch PVC pipe. (length unknown)
1993	1 each - Concrete cinder block maintenance building with asphalt shingle roof. Approximately 14 x 20 feet

<u>Year</u>	<u>Description</u>
1993	2 each – 4”, 300 feet deep water supply wells steel cased at 120 feet
1993	2 each - Goulds 100gpm submersible pump w/5hp motors (Model 70FG)
1993	2 each - AMCO 2” master service meter at well head observed on plant tour.
1993	2 each - 2” check valves at well head observed on plant tour
1993	1 each – 5,000 gallon horizontal ground storage tank
1993	1 each – 6,000 gallon horizontal ground storage tank
1993	1 each – 6,000 gallon hydro pneumatic tank
Unknown	2 each – 140 gpm high service pump with 7-1/2 hp motors. Baldor motors observed on plant tour. (not original equipment)
1993	1 each – 1/2hp air compressor observed on plant tour
1993	1 each – 40 Kw standby diesel generator (Model Kohler 40ROZJ)
1993	1 each – Automatic Transfer Switch (Model Kohler 30-4000 Ampere)
1993	1 each – Emergency/Standby Switch Gear (Model Kohler 600Volt)
1993	Various 2’ & 4” PVC & steel yard piping (lengths unknown)
Unknown	1 each – Water Specialist 4’ master meter to distribution system
Unknown	1 each – Automatic lead/lag pressure regulating system for supply well control.
2001	120 gallon liquid chlorine storage tank (not original equipment) Estimated date of switch from gas to liquid chlorine treatment.
2015	Hypo chlorination system for pre & post chlorine injection. Pulsatron Chemical feed pump (Not original equipment installed 02/02/2015)

No Utility Plant in Service (UPIS), Contribution in Aid of Construction (CIAC), Accumulated Depreciation or Accumulated Amortization of CIAC balances can be determined at this time.

Effect on the General Ledger: None

Effect on the Filing: None

Finding 2: Land and Land Rights

Audit Analysis: We performed a search of the Official Records (OR), as recorded for Hardee County, Florida to determine the date and value of the land used for providing water service to the Utility's customers.

NARUC, Class C, Accounting Instruction No. 3 - Utility Plant, requires that all utility plant shall be recorded at original cost which is defined as "the cost of such property to the person first devoting it to public service."

We located and used the following information to determine the original cost for utility land.

1. The Utility's service territory encompasses the Charlie Creek Mobile Estates subdivision which was established on July 17, 1972, as recorded in Platt Book 3, page 37, public records of Hardee County, Florida.
2. Records obtained from the Florida Department of Environmental Protection (FDEP) indicate that potable water service was initially provided from a water treatment plant that was located on Lot 3, Block G, of the Charlie Creek Mobile Estates subdivision.
3. Warranty Deed dated June 29, 1990, transferred approximately 70 acres of vacant land from C&R Mobile Home Sales, Inc. to Wauchula State Bank, as recorded in OR Book 394, page 274, by the Clerk of the Court in Hardee County, Florida.
4. Records obtained from FDEP indicate that the original water treatment plant was abandoned and replaced with a new water treatment plant in 1994. The new water treatment plant was constructed by Wauchula State Bank on the 70 acre parcel of land identified above.
5. Corporate Warranty Deed dated October 12, 1994, carved out and transferred 2.41 acres of land and utility plant assets from Wauchula State Bank to Wauchula State Bank, as recorded in OR Book 475, page 251, by the Clerk of the Court in Hardee County, Florida.
6. Corporate Warranty Deed dated August 24, 1998, transferred 2.41 acres of land and utility plant assets from Wauchula State Bank to Highvest Corporation, as recorded in OR Book 555, page 133, by the Clerk of the Court in Hardee County, Florida.
7. Corporate Warranty Deed dated November 28, 2014, transferred 2.41 acres of land and utility plant assets from Highvest Corporation to Charlie Creek Utilities, LLC, as recorded in Document Number 201425006808, by the Clerk of the Court in Hardee County, Florida.

The 2.41 acre water plant site was extracted from a 40 acre parcel that was included in the 70 acres purchased by Wauchula State Bank in Item No. 3 above. An examination of the deed indicates that Wauchula State Bank paid C&R Mobile Home Sales, Inc. \$350,000 for the 70 acres or \$5,000 per acre. The purchase price was calculated using \$1,925 in documentary stamps indicated on the face of the deed divided by the county clerk's 1990 recording fee of \$0.55 per \$100 in purchase price ($(\$1,925 / \$0.55) \times \$100$).

The land value is \$12,050, as of November 28, 2014 ($\$5,000 \times 2.41$ acres).

Effect on the General Ledger: Increase land by \$12,050

Effect on the Filing: None

Finding 3: Rates and Charges

Audit Analysis: The Utility's application included proposed tariffs with accompanying rate schedules for the following water services.

- Original Sheet 12.0 – General Service Rate Schedule
- Original Sheet 13.0 - Residential Service Rate Schedule
- Original Sheet 14.0 – Customer Deposits
- Original Sheet 15.0 – Meter Test Deposit
- Original Sheet 16.0 – Miscellaneous Service Charges
- Original Sheet 19.0 – Service Availability Charges

Rule 25-30.034 (1) (g), Application for Certificate of Authorization for Existing Utility Currently Charging for Service requires such applications to include a statement specifying on what date and under what authority the current rates and charges were established.

The Utility's application states that it does not know the date or under what authority the current rates and charges were established. The buyer maintains that the tariff rates currently charged were provided by the seller.

We searched Hardee County Commission's ordinances, resolutions and meeting minutes from 1993 through 2009, the year the Commission assumed jurisdiction, for evidence to support the current tariff rates. No discussion or action for this utility or any other utility operation was found.

The seller provided audit staff with the following information.

- The current rates were set with no oversight from the Hardee County Commission.
- The seller inherited the current utility rate structure when the system was purchased from Wauchula State Bank in 1998.
- The seller adopted minimal increases over the years to recover the cost to provide water service.
- No documents exist to support the rates currently charged and passed on to the buyer.

We obtained the buyer's billing schedules for the period November 2014 through November 2015 to confirm that the rates being charged are consistent with the tariffs provided in its application and the rates previously charged by the seller. No exceptions were found with the residential rates, customer deposit rates or miscellaneous service charges. No activity was found for general service, meter testing or service availability charges.

Effect on the General Ledger: None

Effect on the Filing: None

Finding 4: Customer Deposits

Audit Analysis: The asset purchase agreement between the buyer and seller was silent concerning the existence of customer deposits at the time of sale. The Utility stated that although no customer deposits were transferred at the time of sale the seller maintained that customer deposits were authorized and collected in the past.

We obtained a document that confirms the seller's assertion. In a letter, dated August 26, 1998, Wauchula State Bank provided a list of permits, services, contracts and customer deposits to be transferred to Highvest Corporation when the seller purchased the utility. We could not determine what had been collected or if at all refunded.

The Utility began collecting a \$65 deposit from new customers in January 2015. A review of the Utility's customer deposit log indicates that 35 deposits have been collected and 7 deposits have been refunded since then. The Utility's balance for customer deposits is \$1,820, as of November 5, 2015.

Effect on the General Ledger: None

Effect on the Filing: None