

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: February 14, 2017

TO: Office of Commission Clerk

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

RE: Docket No.: 160193-WU
Company Name: McLeod Gardens Water Company
Company Code: WU979
Audit Purpose: B1j: Certificate Transfer
Audit Control No.: 16-320-1-1

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

McLeod Gardens Water Company / McLeod Gardens Utilities, Inc.
Transfer of Certificate
Certificate No. 619-W

As of September 1, 2016

Docket No. 160193-WU
Audit Control No. 16-320-1-1
February 13, 2017

A handwritten signature in blue ink that reads "Joan Hudson".

Joan Hudson
Audit Manager

A handwritten signature in blue ink that reads "Marisa Glover".

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 November 15, 2016. We have applied these procedures to the attached schedules prepared by audit staff in support of McLeod Gardens Water Company / McLeod Gardens Utilities, Inc.'s request for a Transfer of Certificate in Docket No. 160193-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 refers to Florida Utility Services 1, LLC.

Utility refers to McLeod Gardens Utilities, LLC.

Seller/MGWC refers to McLeod Gardens Water Company.

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

McLeod Gardens Water Company is a Class “C” Utility that provides water services to approximately 86 residential customers in Polk County per the 2015 annual report. Rate base was last established as of December 31, 2001 per Order No. PSC-02-1733-PAA-WU, issued December 9, 2002, in Docket No. 011677-WU.

In the application to transfer Certificate No. 619-W from the Seller to the Buyer, it states that the Utility was purchased by Florida Utility Services 1, LLC for \$20,300 with a closing date of September 1, 2016.

General

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: The Buyer is in substantial compliance with NARUC USOA. No further work done.

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 reconciled the beginning balances of UPIS from Order No. PSC-02-1733-PAA-WU to the general ledger and/or annual reports and noted that Commission-Ordered

Adjustments (COAs) were not made. The prior docket used a historical test year as of December 31, 2001 and projected test year as of December 31, 2003 so we scheduled UPIS activity from December 31, 2001 through September 1, 2016 and adjusted the projected amounts to actual amounts using supporting documentation. We traced post 2003 asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the UPIS balance for the Utility as of September 1, 2016. Finding 1 discusses 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 reconciled the beginning balance of land from Order No. PSC-02-1733-PAA-WU to the general ledger and/or annual reports and noted that the COAs were not made. We searched the Polk County Clerk of Courts and Polk County Property Appraiser official records and verified the transfer of utility land from the Seller to the Buyer. We determined the land account balance for the Utility as of September 1, 2016. Finding 5 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 balance of the accumulated depreciation from Order PSC-02-1733-PAA-WU to the general ledger and/or annual reports and noted that the COAs were not made. We recalculated depreciation accruals for all and verified that the correct depreciation rates were used. We determined the accumulated depreciation balance for the Utility as of September 1, 2016. Finding 2 discusses 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 for CIAC from Order PSC-02-1733-PAA-WU to the general ledger and/or annual reports and noted that the COAs were not made. We traced additions to the Utility provided CIAC schedule and verified the Plant Capacity charge from the FPSC-approved tariff. We determined the CIAC balance for the Utility as of September 1, 2016. Finding 3 discusses CIAC.

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 balance for the accumulated amortization of CIAC from Order PSC-02-1733-PAA-WU to the general ledger and/or annual reports and noted that the COAs were not made. We recalculated accumulated amortization of CIAC from December 31, 2001 to September 1, 2016 using applicable rates. We determined accumulated amortization of CIAC balance for the Utility as of September 1, 2016. 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: We determined that the Net Book Value for this Utility at the time of transfer is more than the purchase price, which would reflect a negative acquisition adjustment. Pursuant to Rule 25-30.0371(2) – Acquisition Adjustments, F.A.C., “a negative acquisition adjustment exists when the purchase price is less than the net book value.” The Utility is not requesting an acquisition adjustment. No further work was done.

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 December 2016. We recalculated a sample of customers’ bills to verify that the customers were being charged the appropriate FPSC-approved tariff rates. 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 requested from the Buyer to provide us with a list of customer deposits included in the sale of the Utility. We reviewed the trial balance and the general ledger transactions as of September 1, 2016 to verify the disposition of customer deposits. We reviewed the Purchase Agreement submitted by the Buyer to provide information on how the customer deposits were handled during the sale. The customer deposits were refunded prior to the sale so no transfer of customer deposits was made.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: We scheduled the additions from December 31, 2001 through September 1, 2016 and traced to source documentation. We reviewed the Utility's records since the last rate case and determined the Utility did not make the Commission-ordered adjustments. Where applicable, we retired existing plant using 75% of the replacement cost per Commission policy. Order PSC-02-1733-PAA-WU stated projected balance as of December 31, 2003 with a historical audited balance as of December 31, 2001. Audit staff determined the UPIS balance to be \$238,640 as of September 1, 2016, as shown in Table 1-1.

| | Audit Amount | Utility Amount | Variance |
|---|---------------------|-----------------------|------------------|
| Plant Balance as of 12/31/2001 | \$ 185,630 | \$ 80,118 | \$105,512 |
| Total Plant Additions 2002-2015 | 60,032 | 60,130 | (98) |
| Utility Plant Retirements 2002-2015 | (4,447) | (4,802) | 355 |
| Additional Plant Retirements | (4,574) | - | (4,574) |
| Plant Balance as of 12/31/2015 | 236,641 | 135,446 | 101,195 |
| 2016 Plant Addition as of 09/01/2016 | 1,999 | - | 1,999 |
| Total Plant Balance as of 09/01/2016 | \$ 238,640 | \$ 135,446 | \$103,194 |

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

Effect on the Filing: We determined the balance of UPIS as of September 1, 2016 to be \$238,640.

Finding 2: Accumulated Depreciation

Audit Analysis: We reviewed the Utility’s records since the last rate case and determined that the Utility did not record the Commission-ordered adjustments and used different rates for Accounts 311 and 339 that were not in compliance with Rule 25-30.140 F.A.C. We recalculated depreciation accruals for all water accounts from December 31, 2001 through September 1, 2016 using our audited UPIS balances and the depreciation rates established by Rule 25-30.140, F.A.C. Audit staff determined the Accumulated Depreciation as of September 1, 2016 to be \$(138,698), as shown in Table 2-1.

| TABLE 2-1 | | | |
|---|---------------------|-----------------------|--------------------|
| | Audit Amount | Utility Amount | Variance |
| Accum. Depreciation Balance per Order 12/31/2001 | \$ (17,179) | \$ (18,578) | \$ 1,399 |
| Depreciation Expense Additions 2002-2015 | (125,554) | (97,067) | \$ (28,487) |
| Retirements 2002-2015 | 9,022 | 2,389 | \$ 6,633 |
| Accum. Depreciation Balance as of 12/31/2015 | (133,711) | (113,256) | (20,455) |
| 2016 Depreciation Expense as of 09/01/2016 | (4,987) | - | (4,987) |
| Total Accum. Depreciation as of 09/01/2016 | \$ (138,698) | \$ (113,256) | \$ (25,442) |

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

Effect on the Filing: We determined the balance of Accumulated Depreciation as of September 1, 2016 to be \$(138,698).

Finding 3: Contributions in Aid of Construction

Audit Analysis: We scheduled the additions to CIAC from December 31, 2001 through September 1, 2016. We reviewed the Utility’s records since the last rate case and determined that the Utility did not record the Commission-ordered adjustments. Audit staff determined the CIAC balance to be \$(122,996) as of September 1, 2016, as shown in Table 3-1.

| <u>TABLE 3-1</u> | | | |
|--------------------------------|----------------------------|------------------------------|------------------------|
| | <u>Audit Amount</u> | <u>Utility Amount</u> | <u>Variance</u> |
| CIAC Balance as of 12/31/2001 | \$ (114,731) | \$ (15,700) | \$ (99,031) |
| Total CIAC Additions 2002-2015 | (8,265) | (8,265) | - |
| CIAC Balance as of 12/31/2015 | (122,996) | (23,965) | (99,031) |
| 2016 CIAC Additions | - | - | - |
| CIAC Balance as of 09/01/2016 | <u>\$ (122,996)</u> | <u>\$ (23,965)</u> | <u>\$ (99,031)</u> |

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

Effect on the Filing: We determined the balance of CIAC as of September 1, 2016 to be \$(122,996).

Finding 4: Accumulated Amortization of CIAC

Audit Analysis: We recalculated amortization accruals for all water CIAC accounts from December 31, 2001 through September 1, 2016, using our audited balances for CIAC. We reviewed the Utility’s records since the last rate case and determined that the Utility did not record the Commission-ordered adjustments. Audit staff determined the ending balance to be \$59,620 as shown in Table 4-1.

| TABLE 4-1 | | | |
|--------------------------------------|---------------------|-----------------------|------------------|
| | Audit Amount | Utility Amount | Variance |
| AA of CIAC Balance as of 12/31/2001 | \$ 7,021 | \$ 1,455 | \$ 5,566 |
| Total AA of CIAC Additions 2002-2016 | 52,599 | 10,193 | 42,406 |
| AA of CIAC Balance as of 09/01/2016 | <u>\$ 59,620</u> | <u>\$ 11,648</u> | <u>\$ 47,972</u> |

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

Effect on the Filing: We determined the balance of Accumulated Amortization of CIAC as of September 1, 2016 to be \$59,620.

Finding 5: Land and Land Rights

Audit Analysis: The Utility's general ledger reflects Land balance of zero as of September 1, 2016. The Utility did not record the Commission-ordered adjustments, therefore we adjusted the land by this amount of \$7,000 to reflect the original cost of the land associated with utility use that was established in the last Order.

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

Effect on the Filing: We determined the balance of Land as of September 1, 2016 to be \$7,000.

Exhibits

Exhibit 1: Net Book Value

| MCLEOD WATER GARDENS COMPANY TRANSFER OF CERTIFICATE AUDIT DOCKET NO. 160193-WU; ACN 16-320-1-1 SCHEDULE OF WATER NET BOOK VALUE AS OF SEPTEMBER 1, 2016 | | | | |
|---|------------------------------------|----------------------|------------------|----------------------------------|
| Description | Balance per Utility 9/1/2016 | Audit Adjustments | Audit Finding | Balance per Audit 9/1/2016 |
| Utility Plant in Service | \$ 135,446 | \$ 103,194 | 1 | \$ 238,640 |
| Land and Land Rights | - | 7,000 | 5 | 7,000 |
| Accumulated Depreciation | (113,256) | (25,442) | 2 | (138,698) |
| Contributions in Aid of Construction | (23,965) | (99,031) | 3 | (122,996) |
| Accumulated Amortization of CIAC | 11,648 | 47,972 | 4 | 59,620 |
| NET BOOK VALUE | \$ 9,873 | \$ 33,693 | | \$ 43,566 |