

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Crestridge Utility Corporation/Crestridge Utilities, LLC  
Transfer of Certificate  
Certificate No. 117-W

**As of April 11, 2014**

Docket No. 140174-WU  
Audit Control No. 14-282-2-1  
**December 05, 2014**

Handwritten signature of Intesar Terkawi in black ink.

Intesar Terkawi  
Audit Manager

Handwritten signature of Linda Hill in blue ink.

Linda Hill  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated October 10, 2014. We have applied these procedures to the attached schedule prepared by the audit staff in support of Crestridge Utility Corporation/Crestridge Utilities, LLC's request for a transfer of Certificate No. 117-W in Docket No.140174-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

## Objectives and Procedures

### **Background**

#### Definitions

Seller refers to Crestridge Utility Corporation.

Buyer/Utility refers to Crestridge Utilities, LLC.

#### Utility Information

Crestridge Utility is a Class C water utility located in Pasco County, Florida. The Utility provides water service to the Crestridge Gardens Subdivision. Created in the 1960's, the Utility serves approximately 615 customers.

An application for the certificate transfer was filed by the Buyer on September 09, 2014. Rate base was last established for the Utility as of March 31, 1992, by Order No. PSC-93-0012-FOF-WU, issued January 05, 1993, in Docket No. 920417-WU. The Utility has also filed for a Staff Assisted Rate Case in Docket No.140175-WU.

### **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 Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

**Procedures:** Audit Staff reviewed the Utility's accounting system. Our recommendations to the Utility's books and records are discussed in Finding 1.

### **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:** We took the beginning balances for UPIS as of March 31, 1992, established in PSC Order 93-0012-FOF-WU and scheduled UPIS activity from that date through April 11, 2014. Using invoices and cancelled checks, we compiled all asset additions and retirements. We toured the plant site on November 07, 2014 to observe and ascertain the condition and existence of utility assets. We determined the UPIS transfer balance for the Utility as of April 11, 2014. Our recommended adjustments to UPIS are discussed in Findings 2 and 3.

#### 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 were recorded in its books and records.

**Procedures:** We determined that Land value in the annual reports is the same that is established by the Commission in Order PSC Order 93-0012-FOF-WU. We inquired and searched for additional activity related to utility land from Pasco County Tax Collector and none was found. No exceptions were noted.

#### Accumulated Depreciation

**Objective:** The objectives were to determine whether Accumulated Depreciation: 1) Accruals are properly calculated and recorded based on Commission Rule 25-30.140-Depreciation, Florida Administrative Code, 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 took the beginning plant balances as reported in Order PSC-93-0012-FOF-WU and beginning Accumulated Depreciation balances from the Analyst's workpapers in Docket No. 920417-WU and depreciated the appropriate plant balances, adjusted for additions and retirements, from March 31, 1992, to April 09, 2014, using the asset lives reflected in Rule 25-30.140, Florida Administrative Code (F.A.C.). Our recommended adjustments to Accumulated Depreciation are discussed in Finding 4.

#### 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 established the beginning balances of CIAC as of March 31, 1992, as established in PSC-93-0012-FOF-WU. We requested CIAC additions since the last rate proceedings. There was none. Our recommended adjustment to CIAC is discussed in Finding 5.

### 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 took the beginning balances of Accumulated Amortization of CIAC established by Order PSC-93-0012-FOF-WU in March 31, 1992, and amortized CIAC using composite rates. CIAC was fully amortized in the year 1999. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 5.

### Acquisition Adjustment

**Objective:** The objective was to determine the acquisition adjustment, if any, based on Audit Staff’s net book value pursuant to Rule 25-3-.0371 (1) – Acquisition Adjustments, F.A.C.

**Procedures:** We determined the Net Book Value for this Utility at the time of transfer. Our recommendation for acquisition adjustment is discussed in Finding 6.

## **Other**

### Rates and Charges

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

**Procedures:** A Staff Assisted Rate Case proceeding is being done concurrently with the Transfer. A detailed analysis of tariffs and whether the Utility is using accurate rates are addressed in this audit.

### Customer Deposits

**Objective:** The objective was to determine the transfer balance for customer deposits.

**Procedures:** We inquired the Utility about customer deposits. We were presented with a list of customers deposits of \$100 for a total of 4 customers. The tariff amount is \$25 as of April 11, 2014. The liability for these deposits is to be assumed by the Buyer.

## Audit Findings

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

**Audit Analysis:** NARUC, Class C, Accounting Instructions, states:

All books of accounts, together with records and memoranda supporting entries therein, shall be kept in such a manner as to support fully 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.

The Utility did not maintain a general ledger per NARUC accounts. Accounts are neither classified nor numbered according to the NARUC system. General ledger does not reconcile to the annual report. The utility uses the cash basis of accounting method.

We recommend that the Utility maintain its books in accordance with NARUC USOA and be required to convert to the accrual basis method of accounting for all future reporting periods.

**Effect on the General Ledger:** For Informational purposes only.

**Effect on the Filing:** Not applicable

## Finding 2: Utility Plant in Service

**Audit Analysis:** The Utility's general ledger reflects an UPIS balance of \$88,525 as of April 11, 2014. Order No PSC-93-0012-FOF-WU issued January 05, 1993, established UPIS balances of \$205,930 as of March 31, 1992.

Audit Staff compiled UPIS additions since the last rate proceeding in 1992 through April 11, 2014, using invoices and cancelled checks presented by the Utility to calculate UPIS balances as of April 11, 2014. The Utility's UPIS balances by NARUC account are displayed in Table 2-1. Additions and retirements are summarized in Table 2-2.

**Table 2-1**

<b>Acct. No.</b>	<b>Account Description</b>	<b>Utility Bal. 4/11/2014</b>	<b>Adjustments</b>	<b>Audit Bal. 4/11/2014</b>
304	Structures & Improvements	\$5,000	\$3,255	\$8,255
307	Wells & Springs	0	9,837	9,837
309	Supply Mains	1,129	1,817	2,946
310	Power Generation Equipment	0	3,000	3,000
311	Pumping Equipment	60,062	(16,092)	43,970
320	Water Treatment Equipment	0	405	405
330	Distrib. Reservoirs & Standpipes	0	28,751	28,751
331	Transmission & Distrib. Mains	4,401	41,341	45,742
333	Services	0	12,509	12,509
334	Meter & Meter Installation	17,933	41,388	59,321
335	Hydrants	0	2,812	2,812
339	Other Plant & Misc. Equip.	0	600	600
340	Office Furniture & Equipment	0	560	560
		<b>\$88,525</b>	<b>\$130,183</b>	<b>\$218,708</b>

Acct. 304 – Structures and Improvements – Increase account by \$3,255 for plant addition invoices compiled by the audit staff.

Acct. 307 – Wells & Springs – Increase account by \$9,837, the balance that was established by Order PSC-93-0012-FOF-WU for the account.



**Finding 2 Cont'd)**

Acct. 309 – Supply Mains – Increase account by \$1,817, the balance that was established by Order PSC-93-0012-FOF-WU for the account.

Acct. 310 – Power Generation Equipment – Increase account by \$3,000, the balance that was established by Order PSC-93-0012-FOF-WU for the account.

Acct. 311 – Pumping Equipment – Decrease account by \$16,091 for unsupported additions.

Acct. 320 – Flow Measuring Devices – Increase account by \$405, the balance that was established by Order PSC-93-0012-FOF-WU for the account.

Acct. 330 – Distribution Reservoirs & Standpipes – Increase account by \$28,751; \$18,214 was established by Order PSC-93-0012-FOF-WU, and \$10,537 represents the plant additions compiled by the audit staff.

Acct. 331 – Transmission & Distribution Mains – Increase account by \$41,341 that represents the difference between the balance of \$45,742 that was established by Order PSC-93-0012-FOF-WU and the Utility's balance of \$4,401.

Acct. 333 – Services – Increase account by \$12,509, the balance that was established by Order PSC-93-0012-FOF-WU.

Acct. 334 – Meter & Meter Installations – Increase account by \$41,388; \$39,280 was established by Order PSC-93-0012-FOFWU, and \$2,108 that represents the difference between Utility's and audit staff balances (\$17,933 – \$20,041).

Acct. 335 – Hydrants – Increase account by \$2,812; \$2,400 was established by Order PSC-93-0012-FOF-WU, and \$412 that represents the compiled plant additions by the audit staff.

Acct. 339 – Other Plant & Miscellaneous Equipment – Increase account by \$600, the balance that was established by Order PSC-93-0012-FOF-WU.

Acct. 340 – Office Furniture & Equipment – Increase account by \$560, the balance that was established by Order PSC-93-0012-FOF-WU.

**Finding 2 (Cont'd)**

**Table 2-2**

Description	Balance at 3/31/1992	Additions	Retirements	Adj. Bal 4/11/2014
304 Structures & Improvements	\$3,600	\$4,655	\$0	\$8,255
305 Collecting & Impounding	\$0	\$0	\$0	\$0
306 Lake, River & Other	\$0	\$0	\$0	\$0
307 Wells & Springs	\$9,837	\$0	\$0	\$9,837
308 Infiltration Galleries and Tunnels	\$0	\$0	\$0	\$0
309 Supply Mains	\$2,946	\$0	\$0	\$2,946
310 Power Generation Equip.	\$3,000	\$0	\$0	\$3,000
311 Pumping Equip.	\$23,500	\$21,751	(\$1,281)	\$43,970
320 Water Treatment Equip.	\$405	\$0	\$0	\$405
330 Distribution Reservoirs	\$18,214	\$40,953	(\$30,416)	\$28,751
331 Transmission and Distribution Mains	\$45,742	\$0	\$0	\$45,742
333 Services	\$12,509	\$0	\$0	\$12,509
334 Meters and Meter Install.	\$39,280	\$23,251	(\$3,210)	\$59,321
335 Hydrants	\$2,400	\$413	\$0	\$2,813
336 Backflow Prevention Devices	\$0	\$0	\$0	\$0
339 Other Plant And Misc.	\$600	\$0	\$0	\$600
340 Office Furniture & Equip.	\$560	\$0	\$0	\$560
341 Trans. Equip.	\$0	\$0	\$0	\$0
342 Stores Equip.	\$0	\$0	\$0	\$0
343 Tools, Shop and Garage Equip.	\$0	\$0	\$0	\$0
344 Lab Equip	\$0	\$0	\$0	\$0
345 Power Operated Equip.	\$0	\$0	\$0	\$0
346 Communication Equip.	\$0	\$0	\$0	\$0
347 Misc. Equip.	\$0	\$0	\$0	\$0
348 Other Tangible Plant	\$0	\$0	\$0	\$0
Water Plant	\$162,593	\$91,023	(\$34,907)	\$218,709

**Effect on the General Ledger:** The Utility should increase UPIS balance by \$130,183 as of April 11, 2014.

**Effect on Staff Prepared Exhibit:** UPIS balance should be increased by \$130,183 as of April 11, 2014.

### **Finding 3: Retirement**

**Audit Analysis:** The Utility's 2013 Annual Report and general ledger reflects total retirements of \$109,492. Audit Staff requested an explanation of the above stated retirement without a corresponding plant asset replacement. The Utility's explanation was that the hydraulic tank, generator, pump, and meters in Well No. 2 were destroyed by lightening in 2012. The Utility did not replace any of the destroyed items in Well No. 2. Well No. 2 is no longer operational. The Utility is using the other two wells that are operational to provide water for its customers. Audit staff toured Well No. 2 and confirmed that the hydraulic tank was removed, and that the well, generator and the pump were not in use. Although the Utility was not able to provide adequate supporting documentation for the retirements, audit staff made no adjustment to the Utility balance.

**Effect on the General Ledger:** Retirements to be determined by the Analyst and the Engineer.

**Effect on Staff Prepared Exhibit:** None.

## **Finding 4: Accumulated Depreciation**

**Audit Analysis:** The Utility’s general ledger reflects an Accumulated Depreciation balance of \$39,641. Audit staff calculated Accumulated Depreciation since the last rate proceeding through April 11, 2014 using the audit UPIS balances, plant additions and retirements, and depreciation rates prescribed in Rule 25-30.140, F.A.C. to be \$164,016.

Account 330 –Distributions Reservoirs and Standpipes has a negative balance as a result of a retirement that exceeded the Commission approved balance for this account. Audit staff used 75% of the cost of an addition for the retirement amount as we could not determine the original cost. The Analyst may need to evaluate if this is the appropriate retirement treatment.

Accumulated Depreciation per the Utility and Audit Staff are displayed in Table 4-1:

**Table 4-1  
Accumulated Depreciation**

<b>Acct. No.</b>	<b>Account Description</b>	<b>Utility Bal. 4/11/2014</b>	<b>Adjustments</b>	<b>Audit Bal. 4/11/2014</b>
304	Structures & Improvements	\$0	\$5,961	\$5,961
307	Wells & Springs	0	9,837	9,837
309	Supply Mains	0	2,300	2,300
310	Power Generation Equipment	0	7,364	7,364
311	Pumping Equipment	0	33,515	33,515
320	Water Treatment Equipment	0	1,871	1,871
330	Distributions Reservoirs & Standpipe	0	(10,162)	(10,162)
331	Transmission & Distribution Mains	39,641	6,101	45,742
333	Services	0	12,509	12,509
334	Meter & Meter Installation	0	50,236	50,236
335	Hydrants	0	3,683	3,683
339	Other Plant & Misc. Equip.	0	600	600
340	Office Furniture & Equipment	0	560	560
		<b>\$39,641</b>	<b>\$124,375</b>	<b>\$164,016</b>

**Effect on the General Ledger:** The Utility should increase its Accumulated Depreciation balance by \$124,375 as of April 11, 2014.

**Effect on Staff Prepared Exhibit:** Accumulated depreciation should be increased by \$124,375 as of April 11, 2014.

## **Finding 5: CIAC and Accumulated Amortization of CIAC**

**Audit Analysis:** The Utility's general ledger did not reflect CIAC or Accumulated Amortization of CIAC balances. There were no additions to CIAC since the last rate case. Audit Staff used the balances of CIAC and Accumulated Amortization of CIAC from the last rate proceeding and calculated the Accumulated Amortization of CIAC as of April 11, 2014. CIAC was fully amortized in the year 1999 in the amount of \$86,055.

**Effect on the General Ledger:** The Utility should record CIAC and Accumulated Amortization of CIAC of \$86,055 on its books as of April 11, 2014.

**Effect on Staff Prepared Exhibit:** CIAC and Accumulated Amortization of CIAC should be increased by \$86,055 as of April 11, 2014.

## **Finding 6: Acquisition Adjustment**

**Audit Analysis:** The audit staff determined that the Net Book Value for this Utility at the time of transfer is \$60,694. However, the total sale price of \$450,000 in the sales contract combines the sale amount of Crestridge Utilities and Holiday Gardens Utilities. The Buyer allocated \$269,375 to Crestridge utilities and \$180,625 to Holiday Gardens. The allocation of the purchase price was determined by the number of customers at the time of transfer.

The Acquisition adjustment was calculated to be \$208,681. No acquisition adjustment was requested.

**Effect on the General Ledger:** To be determined.

**Effect on the Filing:** Not Applicable.

Exhibit

**Exhibit 1: Net Book Value**

**Crestridge Utilities, LLC  
Net Book Value as of April 11, 2014  
Docket No. 140174-WU**

	<b>Net Value Per Utility <u>4/11/2014</u></b>	<b><u>Adjustments</u></b>	<b>Net Value Per Audit <u>4/11/2014</u></b>
Utility Plant in Service	\$88,525	\$130,184	\$218,709
Land	\$6,000	\$0	\$6,000
Accumulated Depreciation	(\$39,641)	(\$124,374)	(\$164,015)
CIAC	\$0	(\$86,055)	(\$86,055)
Amortization of CIAC	\$0	\$86,055	\$86,055
Net Rate Base	<u>\$54,884</u>	<u>\$5,810</u>	<u>\$60,694</u>