

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Holiday Gardens Utilities, Inc./Holiday Gardens Utilities, LLC  
Transfer of Certificate  
Certificate No. 116-W

**As of April 11, 2014**

Docket No. 140176-WU  
Audit Control No. 14-282-2-2

**December 3, 2014**

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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 schedules prepared by Audit Staff in support of Holiday Gardens Utilities, Inc./Holiday Gardens Utilities, LLC's request for a transfer of Certificate 116-W in Docket No. 140176-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

Buyer/Utility refers to Holiday Gardens Utilities, LLC.

Seller refers to Holiday Gardens Utilities, Inc.

#### Utility Information

Holiday Gardens Utilities, LLC is a Class C water utility that is located in Pasco County. The Utility serves approximately 455 customers in the Holiday Gardens subdivision.

Rate base was last established for the Seller as of March 31, 1992, by PSC Order 93-0013-FOF-WU, issued January 5, 1993, in Docket No. 920418-WU. The Utility has also filed for a Staff Assisted Rate Case in Docket No.140177-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 Commissioners (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We examined the Utility's books and records and determined that they are not in compliance with the NARUC USOA. Our recommendations 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, and are properly classified in compliance with Commission rules and the NARUC USOA, 3) Retirements were made when a replacement asset was put in service and, 4) Adjustments required in the Utility's last rate proceeding were posted to its books and records.

**Procedures:** We reviewed Order No. PSC-93-0013-FOF-WU and the Analyst's workpapers to determine the beginning balances for plant. We obtained plant invoices from the Order date of March 31, 1992, to the transfer date and made additions and retirements accordingly. We toured the plant site and verified that the plant assets were present. Our recommended adjustment to plant is discussed in Finding 2.

#### 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, and 3) Recorded in compliance with the NARUC USOA.

**Procedures:** We verified that the land is owned by the Utility and there have been no additions or sales of land since the last rate case. Our recommended adjustment to Land is discussed in Finding 3.

#### 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:** We determined that there have been no additions to CIAC since the last rate case. Our recommended adjustment to CIAC is discussed in Finding 4.

#### Accumulated Depreciation

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

**Procedures:** We obtained the beginning Accumulated Depreciation balances and depreciated them in compliance with Rule 25-30.140, Florida Administrative Code (F.A.C.), accounting for all additions and retirements, from the last Order to the transfer date. Our recommended adjustment to Accumulated Depreciation is discussed in Finding 5.

#### 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:** We determined the Commission approved CIAC balances as of March 31, 1992. We amortized the remaining CIAC balances at FPSC rates until 2009, when CIAC was fully amortized. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 5.

### Acquisition Adjustment

**Objectives:** The objective was to determine the Acquisition Adjustment, if any, based on Audit Staff's Net Book Value pursuant to Rule 25-3-.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 7.

### **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 is being done concurrently with the Transfer. A detailed analysis of tariffs and whether the Utility is using accurate rates are addressed in that audit.

#### Customer Deposits

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

**Procedures:** We obtained a listing of customer deposits held by the seller and determined that these were transferred to the buyer's records. Our recommended adjustment to Customer Deposits is discussed in Finding 6.

## 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 the NARUC USOA. Accounts are neither classified nor numbered according to the NARUC system. Additionally, the general ledger does not reconcile to the annual reports.

We recommend that the Utility maintain its books in accordance with NARUC USOA.

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

**Effect on Staff Prepared Exhibit:** N/A

## Finding 2: Utility Plant in Service

**Audit Analysis:** Order No PSC-93-0013-FOF-WU issued January 05, 1993, established UPIS balances of \$143,606 as of March 31, 1992. The Utility's general ledger reflects UPIS balances totaling \$187,112 as of April 11, 2014. 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 that total \$180,627. The Utility's UPIS balances by NARUC account are displayed in Table 2-1. Retirements and additions are summarized on Table 2-2.

**Table 2-1**

<u>Acct. No.</u>	<u>Account Description</u>	<u>Utility Bal.</u> <u>4/11/2014</u>	<u>Adjustments</u>	<u>Audit Bal.</u> <u>4/11/2014</u>
304	Structures & Improvements	\$9,615	(\$3,771)	\$5,844
307	Wells & Springs	0	11,612	11,612
309	Supply Mains	64,024	(58,429)	5,595
310	Power Generation Equipment	0	1,323	1,323
311	Pumping Equipment	67,152	(45,000)	22,152
320	Water Treatment Equipment	0	2,271	2,271
330	Distributions Reservoirs & Stand	0	11,328	11,328
331	Transmission & Distribution Mai	30,131	34,266	64,397
333	Services	0	21,801	21,801
334	Meter & Meter Installation	16,189	11,784	27,973
335	Hydrants	0	5,120	5,120
340	Office Furniture & Equipment	0	431	431
345	Power Operated Equipment	0	780	780
		<u>\$187,112</u>	<u>(\$6,485)</u>	<u>\$180,627</u>

Acct. 304 - Structures and Improvements – Decrease account by (\$3,771) to reflect actual invoices verified by Audit Staff.

Acct. 307 – Wells & Springs – Increase account by \$11,612, to reflect the balance established by Order PSC-93-0013-FOFWU which totaled \$11,515 and several additions that totaled \$97.



**Finding 2 (Cont'd)**

Acct. 309 – Supply Mains – Order PSC-93-0013-FOF-WU established a balance of \$3,025, which together with several additions totaled \$5,595. Utility records of \$64,024 included \$58,429 in unsupported amounts. Decrease account by (\$58,429).

Acct. 310 – Power Generation Equipment – Increase account by \$1,323, the balance that was established by Order PSC-93-0013-FOF-WU.

Acct. 311 – Pumping Equipment – Decrease account by (\$45,000) for unsupported additions.

Acct. 320 - Flow Measuring Devices – Increase account by \$2,271, the balance that was established by Order PSC-93-0013-FOF-WU.

Acct. 330 - Distribution Reservoirs & Standpipes – Increase account by \$11,328 for the \$4,462 established by Order PSC-93-0013-FOF-WU, and the \$6,866 for plant additions compiled by the Audit Staff.

Acct. 331 - Transmission & Distribution Mains – Increase account by \$34,266 for the difference between the balance of \$64,345 that was established by Order PSC-93-0013-FOF-WU, additions of \$52, and the Utility's balance of \$30,131.

Acct. 333 - Services – Increase account by \$21,801, the balance that was established by Order PSC-93-0013-FOF-WU.

Acct. 334 - Meter & Meter Installations – Increase account by \$11,784 for the difference between the Utility and Audit Staff's balances (\$16,189 – \$27,973).

Acct. 335 - Hydrants – Increase account by \$5,120 for the difference between the Utility and Audit Staff's balances. (\$0-\$5,120).

Acct. 340 - Office Furniture & Equipment – Increase account by \$431 to the balance established by Order PSC-93-0013-FOFWU.

Acct. 345 - Power Operated Equipment - Increase account by \$780.

**Finding 2 (cont'd)**

**Table 2-2**

Description	Balance at 3/31/1992	Additions	Retirements	Adj. Bal 4/11/2014
304 Structures & Improvements	\$5,094	\$3,000	(\$2,250)	\$5,844
305 Collecting & Impounding	\$0	\$0	\$0	\$0
306 Lake, River & Other	\$0	\$0	\$0	\$0
307 Wells & Springs	\$11,515	\$388	(\$291)	\$11,612
308 Infiltration Galleries and Tunnels	\$0	\$0	\$0	\$0
309 Supply Mains	\$3,025	\$10,279	(\$7,709)	\$5,595
310 Power Generation Equip.	\$1,323	\$0	\$0	\$1,323
311 Pumping Equip.	\$8,535	\$54,470	(\$40,853)	\$22,152
320 Water Treatment Equip.	\$2,271	\$0	\$0	\$2,271
330 Distribution Reservoirs	\$4,462	\$27,463	(\$20,597)	\$11,328
331 Transmission and Distribution Mai	\$64,345	\$210	(\$158)	\$64,397
333 Services	\$21,801	\$0	\$0	\$21,801
334 Meters and Meter Install.	\$13,934	\$22,917	(\$8,878)	\$27,973
335 Hydrants	\$4,457	\$2,651	(\$1,988)	\$5,120
336 Backflow Prevention Devices	\$0	\$0	\$0	\$0
339 Other Plant And Misc.	\$0	\$0	\$0	\$0
340 Office Furniture & Equip.	\$431	\$0	\$0	\$431
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	\$780	\$0	\$780
346 Communication Equip.	\$0	\$0	\$0	\$0
347 Misc. Equip.	\$0	\$0	\$0	\$0
348 Other Tangible Plant	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$141,193</b>	<b>\$122,158</b>	<b>(\$82,724)</b>	<b>\$180,627</b>

**Effect on the General Ledger:** The Utility should decrease UPIS balance by (\$6,485) as of April 11, 2014.

**Effect on Staff Prepared Exhibits:** Reduce UPIS by (\$6,485).

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

**Audit Analysis:** Audit staff obtained from the Utility a deed for the land and a written statement that there has been no change in land ownership since the last rate proceeding. The land was properly recorded at the historical cost of \$ 2,414 in the annual report, but was overstated in the general ledger. Order No. PSC-93-0013-FOF-WU also correctly stated the land cost, but incorrectly included it in UPIS.

**Effect on the General Ledger:** The Utility should decrease the land balance by (\$645.10) as of April 11, 2014.

**Effect on Staff Prepared Exhibits:** Reduce Land by (\$645.10).

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

**Audit Analysis:** The Utility's general ledger reflected CIAC and Accumulated Amortization of CIAC balances of (\$1,325) and \$1,325, respectively. 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 March 31, 1992, until 2009, when it was fully amortized at \$85,629.72.

**Effect on the General Ledger:** The Utility should increase(credit) CIAC by (\$84,304.72) and increase(debit) Accumulated Amortization of CIAC by \$84,304.72 on its books as of April 11, 2014.

**Effect on Staff Prepared Exhibit:** Increase CIAC by \$84,304. increase Accumulated Amortization of CIAC by \$84,305.

**Finding 5: Accumulated Depreciation**

**Audit Analysis:** The Utility’s general ledger reflects an Accumulated Depreciation balance of \$81,170. Audit Staff calculated Accumulated Depreciation since the last rate proceedings through April 11, 2014, using the UPIS balances, plant additions and retirements, and depreciation rates prescribed in Rule 25-30.140, F.A.C. to be \$158,442. The Accumulated Depreciation per Utility and Audit Staff is displayed in Table 5-1:

**Table 5-1  
Accumulated Depreciation**

<u>Acct. No.</u>	<u>Account Description</u>	<u>Utility Bal. 4/11/2014</u>	<u>Adjustments</u>	<u>Audit Bal. 4/11/2014</u>
304	Structures & Improvements	\$0	\$5,844	\$5,844
307	Wells & Springs	0	11,612	11,612
309	Supply Mains	0	3,263	3,263
310	Power Generation Equipment	0	1,323	1,323
311	Pumping Equipment48	,698	(36,284)	12,414
320	Water Treatment Equipment	0	2,271	2,271
330	Distributions Reservoirs & Standpi	0	5,169	5,169
331	Transmission & Distribution Mains	21,123	43,271	64,394
333	Services	0	21,801	21,801
334	Meter & Meter Installation	11,349	13,648	24,997
335	Hydrants	0	4,199	4,199
340	Office Furniture & Equipment	0	431	431
345	Power Operated Equipment	0	780	780
		<u>\$81,170</u>	<u>\$77,328</u>	<u>\$158,498</u>

**Effect on the General Ledger:** The Utility should increase its Accumulated Depreciation balance by \$77,272, as of April 11, 2014.

**Effect on Staff Prepared Exhibit:** Increase Accumulated Depreciation by \$77,272.

## **Finding 6: Customer Deposits**

**Audit Analysis:** We obtained a listing of customer deposits from the seller. These amounts are authorized in the tariff, and we determined that these were transferred to the buyer's records. Customer Deposits of \$96 were determined to exist. We could not determine whether the Utility is accruing interest. The Utility booked these deposits as Miscellaneous Revenue. A liability account has not been established in the general ledger for either the deposits or the accrued interest.

**Effect on the General Ledger:** The Buyer should establish a liability account for Customer Deposits balance of \$96 and related accrued interest as of April 11, 2014.

**Effect on Staff Prepared Exhibit:** N/A

## **Finding 7: Acquisition Adjustment**

**Audit Analysis:** The audit staff determined that the Net Book Value for this Utility at the time of transfer is \$24,544. 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 \$156,081. No acquisition adjustment was requested.

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

**Effect on Staff Prepared Exhibit:** N/A

Exhibit

**Exhibit 1: Net Book Value**

**Holiday Gardens Utilities, LLC  
Net Book Value - Water  
As of April 11, 2014**

	<b>Utility</b>		<b>Audit</b>
	<b>Balance</b>	<b>Adjustments</b>	<b>Balance</b>
Plant	\$187,112	(\$6,485)	\$180,627
Land	\$3,059	(\$645)	\$2,414
Accumulated Depreciation	(\$81,170)	(\$82,460)	(\$163,630)
CIAC	(\$1,325)	(\$84,305)	(\$85,630)
Accumulated Amortization - CIAC	\$1,325	\$84,305	\$85,630
Net Book Value	<u>\$109,001</u>	<u>(\$89,590)</u>	<u>\$19,411</u>