

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: January 23, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis *LD*
RE: Docket No.: 140175-WU
Company Name: Crestridge Utilities, LLC
Company Code: WU971
Audit Purpose: Staff-Assisted Rate Case
Audit Control No: 14-282-2-3

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: 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

Crestridge Utilities, LLC
Staff-Assisted Rate Case

Twelve Months Ended September 30, 2014


Docket No. 140175-WU
Audit Control No. 14-282-2-3
December 19, 2014



Simon Ojada
Audit Manager



Intesar Terkawi
Audit Staff



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Audit Staff



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 9, 2014. We have applied these procedures to the attached schedules prepared by audit staff in support of Crestridge Utilities, LLC's request for a Staff-Assisted Rate Case in Docket No. 140175-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

Utility refers to Crestridge Utilities, LLC.

Certificate Transfer refers to the pending transfer of Certificate 117-W in Docket No. 140174-WU as of April 11, 2014.

Test year refers to the historical 12-months ended September 30, 2014.

Utility Information

Crestridge Utilities, LLC is a Class C water utility serving approximately 615 customers in Pasco County. 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 audit staff has incorporated the audit work done in the certificate transfer audit, ACN 14-282-2-1, in this audit where applicable.

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: We reviewed the Utility's books and records as of the certificate transfer date. We determined that the Utility's books and records are not in compliance with the NARUC USOA. Our recommendation for the Utility's Books and Records are discussed in Finding 1.

Rate Base

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 obtained UPIS balances as of April 11, 2014, that audit staff determined in ACN 14-282-2-1 certificate transfer audit. We reviewed and scheduled documentation to support the additions and retirements to plant for the period April 11, 2014, to September 30, 2014. We determined the year end and average balances as of September 30, 2014. Our recommended adjustments to UPIS are discussed in Finding 2.

Land and 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 obtained the land balance as of April 11, 2014, that was determined in the certificate transfer audit. There were no additions to or sale of land. No exceptions were noted.

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, Florida Administrative Code (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 Accumulated Depreciation balances as of April 11, 2014, that were determined in the certificate transfer audit. We calculated the accruals to Accumulated Depreciation using the additions and retirements from April 11, 2014, to September 30, 2014, and the asset lives reflected in Rule 25-30.140 F.A.C. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 3.

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 obtained the CIAC balance as of April 11, 2014, that was determined in the certificate transfer audit. We verified with the Utility that there were no additions to CIAC. No exceptions were noted.

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 obtained the Accumulated Amortization of CIAC balance as of April 11, 2014, that was determined in the certificate transfer audit. The Utility's CIAC is fully amortized. No exceptions were noted.

Working Capital

Objective: The objective was to calculate the Utility's Working Capital balance in compliance with Commission rules.

Procedures: We calculated Working Capital as of September 30, 2014, using one-eighth of Operation and Maintenance (O&M) Expense as required by Rule 25-30.433(2), F.A.C. Our working capital allowance is calculated in Finding 7.

Capital Structure

Objective: The objective was to determine the components of the Utility's capital structure.

Procedures: We reviewed the Utility's general ledger and determined that the Utility's Capital Structure is composed of common equity, notes payable, and customer deposits. Our recommended adjustments to Customer Deposits are discussed in Finding 4.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether Revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We summarized the Utility's gallonage by customer account for the test year using the Utility's Billing Report. We normalized the number of bills issued by adjusting for customers moving in or out to reflect 12 months of bills for each property. We calculated Revenues for water using the number of bills and gallonages. We compared the calculated Revenues obtained with the water Revenues reported in the general ledger. We also verified several customers' bills to determine if the correct tariff rates were used. We reviewed Miscellaneous Revenues to include late fee charges, returned check charges, and reconnect fees and compared to the tariffs. We verified that non-utility revenues were not included in revenues. Our recommended adjustments to Revenues are discussed in Finding 6.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether O&M Expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed all O&M invoices for the test year. We ensured all expenses were correctly classified, and verified that they were recurring in nature and did not include non-utility expenses. We verified each expense against the invoice and supporting documentation. We verified the accuracy of all expense allocations between Crestridge and other Utilities owned by the same owner. Our recommended adjustments to O&M Expense are discussed in Finding 7.

Depreciation Expense and CIAC Amortization Expense

Objectives: The objectives were to determine whether Depreciation Expense and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

Procedures: **Procedures:** We calculated the Utility's Depreciation Expense for the test year using the rates established by Rule 25-30.140, F.A.C. CIAC was fully amortized in 1999, therefore, there is no CIAC amortization expense applicable to the test year. Our recommended adjustments to Depreciation Expense are discussed in Finding 3

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We developed a schedule for the Utility's TOTI Expense for the test year. We included Real Estate Taxes, Regulatory Assessment Fees (RAF), Tangible Taxes, and Payroll Taxes. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI are discussed in Finding 8.

Audit Findings

Finding 1: NARUC Chart of Accounts

Audit Analysis: The Utility's books and records were not maintained in accordance with NARUC USOA procedures. The Utility did not use the USOA account numbering system in its general ledger for the period October 1, 2013, through July 31, 2014. The Utility created a new general ledger starting from August 1, 2014. The new general ledger does not incorporate the balances from the old general ledger. The Utility did not provide a mapping for the accounts in the general ledger to facilitate our audit making the audit process very time consuming.

Effect on the General Ledger: For information purposes only.

Effect on Staff Prepared Exhibits: None.

Finding 2: Utility Plant in Service

Audit Analysis: The Utility's general ledger reflects an UPIS balance of \$88,842 as of September 30, 2014. The audit staff determined in the certificate transfer audit, ACN 14-282-2-1, an UPIS balance of \$218,708 as of April 11, 2014.

We compiled UPIS additions from April 11, 2014, through September 30, 2014, using invoices presented by the Utility and arrived at an UPIS balance of \$220,931. Adjustments are needed to the following Accounts.

Acct. 334 - Meter & Meter Installations – Increase account by \$1,973 (\$1,651 + \$1,285 - \$964). The \$1,651 represents a reclassification of three invoices from O&M (see Finding 7), \$1,285 represents UPIS additions for four invoices, and a retirement of \$964.

Acct. 339 - Other Plant & Miscellaneous Equipment – Increase account by \$250, which represents a reclassification from O&M (see Finding 7).

We calculated UPIS balance as of September 30, 2014, to be \$220,931. We calculated the UPIS average balance to be \$219,820 as of September 30, 2014. Audit adjustments preceding April 11, 2014, are found in the audit done for certificate transfer ACN 14-282-2-1.

The audit UPIS balances by NARUC account are displayed in Table 2-1:

Table 2-1

<u>Acct. No.</u>	<u>Account Description</u>	Balance Per ACN 14-282-2-1 9/30/2013	Audit Balance as of 4/11/2014	Audit Adjust- ments	Balance Per Audit 9/30/2014
304	Structures & Improvements	\$8,255	\$8,255	\$0	\$8,255
307	Wells & Springs	9,837	9,837	0	9,837
309	Supply Mains	2,946	2,946	0	2,946
310	Power Generation Equipment	3,000	3,000	0	3,000
311	Pumping Equipment	43,970	43,970	0	43,970
320	Water Treatment Equipment	405	405	0	405
330	Distributions Reservoirs & Standpipes	28,751	28,751	0	28,751
331	Transmission & Distribution Mains	45,742	45,742	0	45,742
333	Services	12,509	12,509	0	12,509
334	Meter & Meter Installation	59,321	59,321	1,973	61,294
335	Hydrants	2,812	2,812	0	2,812
339	Other Plant & Misc. Equip.	600	600	250	850
340	Office Furniture & Equipment	560	560	0	560
		\$218,708	\$218,708	\$2,223	\$220,931

Effect on the General Ledger: As stated above.

Effect on Staff Prepared Exhibits: Increase UPIS by \$2,223 as of September 30, 2014.

Finding 3: Accumulated Depreciation

Audit Analysis: The Utility’s general ledger reflects an Accumulated Depreciation balance of \$39,641 as of September 30, 2014. Audit staff calculated Accumulated Depreciation since the certificate transfer audit as of April 11, 2014, through September 30, 2014, using the audit UPIS balances, plant additions and retirements, and depreciation rates prescribed in Rule 25-30.140, F.A.C. to be \$164,422. Also, we calculated depreciation expense to be \$4,393 for the 12 months ended September 30, 2014.

In reviewing the audit work-papers in the certificate transfer audit, it was noted that the ending balance for accumulated depreciation was incorrectly calculated, therefore, the balance should be increased by \$12,179. The adjustment is incorporated in the schedule below.

The Accumulated Depreciation per Audit Staff is displayed in Table 3-1:

Table 3-1

<u>Acct. No.</u>	<u>Account Description</u>	Balance Per ACN 14-282-2-1 4/11/2014	Adjusts to ACN 14-282-2-1	Transfer Balance as of 4/11/2014	Audit Adjusts 9/30/2014	Balance Per Audit 9/30/2014
304	Structures & Improv	\$5,961	\$24	\$5,985	\$123	\$6,108
307	Wells & Springs	9,837		9,837		9,837
309	Supply Mains	2,300	8	2,308	38	2,346
310	Power Generation Equip	7,364		7,364		7,364
311	Pumping Equipment	33,515	4,151	37,666		37,666
320	Water Treatment Equip	1,871	12	1,883	57	1,940
330	Distrib Reservoirs & Stand.	(10,162)	405	(9,757)	395	(9,362)
331	Trans & Distribution Mains	45,742		45,742		45,742
333	Services	12,509		12,509		12,509
334	Meter & Meter Installation	50,236	7,570	57,806	1,973	59,779
335	Hydrants	3,683	9	3,692	45	3,737
339	Other Plant & Misc. Equip.	600		600	36	636
340	Office Furniture & Equip	560		560		560
		\$164,016	\$12,179	\$176,195	\$2,667	\$178,862

Effect on the General Ledger: The Utility should increase its Accumulated Depreciation balance by \$14,846 as of September 30, 2014.

Effect on Staff Prepared Exhibits: Increase Accumulated Depreciation balance by \$14,846 as of September 30, 2014. Increase Depreciation Expense by \$4,393 as of September 30, 2014.

Finding 4: Customer Deposits

Audit Analysis: Effective February 25, 2014, the Utility's tariff was amended to authorize the collection of a \$25 customer deposit. The Utility began assessing the customer deposit in April, 2014.

A review of the documentation to support the collection and accounting of customer deposits disclosed that:

- The Utility's listing of deposits collected from April 2014 through September 2014 was for 45 customers, a total of \$1,125.
- The Refundable Deposit Account indicates that only 24 of the 45 customers deposits were actually recorded to the general ledger for a total of \$600.
- The remaining 21 customer deposits could not be substantiated on the Utility's general ledger.
- A liability account was not set up in the general ledger to reclassify these amounts.

Effect on the General Ledger: The general ledger is understated by \$525.

Effect on Staff Prepared Exhibits: Increase Capital Structure by \$525.

Finding 5: Refundable Reconnect Deposit

Audit Analysis: The Utility has a practice of charging an additional \$15 deposit to those customers who have frequent shut offs due to delinquent bills. Per the Utility these monies are refunded to customers once they move-out. This practice pre dates both the SARC and the transfer.

The Utility provided a listing of 88 customers who are currently charged a refundable reconnect deposit during the test year. Deposits totaled \$1,320. The authorized reconnect fee of \$15 is accounted for in the general ledger and included in revenue (see Finding 6). The unauthorized refundable reconnect fee was included in the Utility's billing register and is not included in Revenue.

The Utility does not have a tariff which allows them to assess and collect an additional deposit from customers for the frequent non payment of a water bill. The Utility should set up a liability account in the general ledger and refund the deposits to the customers immediately.

Effect on the General Ledger: To be determined by the Utility.

Effect on the Filing: None.

Finding 6: Operating Revenue

Audit Analysis: The Utility reported total water revenues of \$98,809 for the 12-months ending September 30, 2014 on its general ledger.

In our analysis of the billing register, we calculated water revenues to be \$89,168 for a difference of \$836. We reduced water revenues by \$836.

The Utility's general ledger indicated Transfer Fees of \$1,715. In our analysis of the billing register, we calculated Transfer Fees of \$1,710 for a difference of \$5. We reduced miscellaneous revenues by \$5.

The Utility overcharged its customers \$772 for late fees due to a computer glitch. We reduced miscellaneous revenues by \$772. The Utility should be required to refund that amount to its customers.

Customers are charged a \$25 Non Sufficient Fund fee for returned checks and in one instance a customer was charged \$20. The Utility's tariff does not include NSF fees, therefore, we reduced miscellaneous revenues by \$95. The Utility should be required to refund the \$95 to its customers.

The Utility sold some of its used meters resulting in miscellaneous revenues of \$162. We reclassified the amount to Account 334 - Meters and Meters Installation account and reduced Miscellaneous Revenues by \$162.

Table 4-1 summarizes adjustments that are needed to Revenues for the test year.

Table 6-1

<u>Fee Description</u>	<u>Balance Per Utility 9/30/2014</u>	<u>Audit Adjustments</u>	<u>Balance Per Audit 9/30/2014</u>
Water Revenues	\$90,004	(\$836)	\$89,168
Transfer Fees	1,715	(5)	1,710
Late Fees	5,213	(772)	4,441
Non Sufficient Funds Fees	95	(95)	-
Misc. Uncategorized	162	(162)	-
Reconnect Fee	930	-	930
Premise Visit	540	-	540
Meter Tampering	150	-	150
Total Revenue	<u>\$98,809</u>	<u>(\$1,870)</u>	<u>\$96,939</u>

Effect on the General Ledger: To be determined by the Utility.

Effect on Staff Prepared Exhibits: Adjust NOI by decreasing Revenues by \$1,870, the net effect of the above.

Finding 7: Operation and Maintenance Expense

Audit Analysis: The Utility's general ledger reflects water O&M Expense of \$100,794 for the test year. Audit staff made adjustments to test year expenses based on our review of supporting documentation. A summary of the adjustments follows:

Account 601- Salaries and Wages – Employees - The Utility did not record salaries on a monthly basis. The Utility made an end of year salaries allocation of \$22,191 for the 12- months ending December 31, 2013. We reduced the amount by \$3,698 for out of period expense. Also, we reduced August and September salaries by \$1,159 representing the Utility's 20 percent markup in its salaries allocation.

Account 603 – Salaries and Wages – Officers – We reduced Account 603 by \$465 due to improper allocation percentages.

Account 618 – Chemicals – We reduced Account 618 by \$120 for out of period expenses.

Account 620 – Materials and Supply – Meters and lawn mower purchases of \$1,652 and \$250 respectively were reclassified and capitalized to account 334 – Meters and Meter Installation and account 339 – Other Plants and Miscellaneous Equipment.

Account 636 – Contractual Services – Other. We reduced Account 636 by \$1,558 for out of period expenses and by \$1,280 for double recording of expenses. The Utility made end of year adjustments in December 2013 that were recorded again in January 2014. We added back \$2,244 for end of year Utility's reclassifications that affected out of period expenses. Also, we reduced Management Fees by \$899 for out of period expense.

Table 7-1

Acct No.	Description	Balance Per	Audit	Balance Per
		Utility 9/30/2014	Adjustment	Audit 9/30/2014
601	Salaries and Wages - Employees	\$27,988	(\$4,857)	\$23,131
603	Salaries and Wages - Officers, Director	1,965	(465)	1,500
604	Employee Pensions and Benefits	4,852	-	4,852
615	Purchased Power	3,938	-	3,938
618	Chemicals	2,026	(120)	1,906
620	Materials and Supplies	1,902	(1,902)	-
630	Contractual Services - Billing	4,923		4,923
631	Contractual Services - Professional	3,035		3,035
636	Contractual Services - Other	31,951	(1,493)	30,458
640	Rents	6,098		6,098
650	Transportation Expense	832		832
655	Insurance Expense	1,210		1,210
675	Miscellaneous Expenses	10,074		10,074
		<u>\$100,794</u>	<u>(\$8,837)</u>	<u>\$91,957</u>

Finding 7 (continued)

Effect on the General Ledger: To be determined by the Utility.

Effect on Staff Prepared Exhibits: We reduced O&M expenses by \$8,837.

Based on the total O&M expense of \$91,957, we calculated Working Capital to be \$10,390 for the test year in accordance with Rule 25-30.433 F.A.C.

Finding 8: Taxes Other Than Income

Audit Analysis: The Utility recorded \$8,760 as Taxes Other Than Income (TOTI) for the test year ending September 30, 2014. Based on the revenue determined in Finding 6, we recalculated RAF to be \$4,362 for a difference of \$43. The Regulatory Assessment Fees (RAF) were computed as follows:

Due to the timing difference between the test year and the fiscal year that the fees are paid on, there is a difference between the imputed fees and fees paid. TOTI were increased by \$43 to reflect the imputed RAF.

We also obtained the 2013 tangible tax bill for the Utility plant. The November payment due is \$357. The Utility recorded \$364 in the test year for tangible taxes. We reduced tangible taxes by \$7. TOTI were computed as follows:

Table 8-1

Description	Balance Per	Audit Adjustments	Balance Per
	Utility 9/30/2014		Audit 9/30/2014
Real Estate Taxes	\$792	\$0	\$792
Regulatory Assessment Fee	4,319	43	4,362
Tangible Taxes	364	(7)	357
Payroll Taxes	1,827	-	1,827
	<u>\$7,302</u>	<u>\$36</u>	<u>\$7,338</u>

Effect on the General Ledger: None.

Effect on Staff Prepared Exhibits: Taxes Other Than Income were reduced by \$36.

Exhibits

Exhibit 1: Rate Base

Crestridge Utilities, LLC
Rate Base
As of September 30, 2014.

	Balance Per Transfer Audit 9/30/2014	Audit Adjustments	Balance Per Audit 9/30/2014	Simple Avg Per Audit
Utility Plant in Service	\$218,708	\$2,223	\$220,931	\$219,820
Land	6,000	0	6,000	6,000
Accumulated Depreciation	(164,016)	(14,846)	(178,862)	(171,439)
CIAC	(86,055)	0	(86,055)	(86,055)
Accumulated Amortization of CIAC	86,055	0	86,055	86,055
Working Capital	0	11,494	11,494	5,747
	<u>\$60,692</u>	<u>(\$1,129)</u>	<u>\$59,563</u>	<u>\$60,128</u>

Note: Audit staff incorporated the audit adjustments in the certificate transfer audit, ACN 14-282-2-1.

Exhibit 2: Capital Structure

Crestridge Utilities, LLC.
Capital Structure
As of September 30, 2014

Description	Balance Per G/L @10/31/13	Balance Per G/L @09/30/14	Audit Adjust- ments	Balance Per Audit @09/30/14	Simple Average Per Audit	Ratio	Cost Rate	Weighted Cost of Capital
Common Equity (1)	\$22,113	\$22,113	\$0	\$22,113	\$22,113	9.44%	8.74%	0.83%
L/T Debt- Note Payable	0	423,172	0	423,172	211,586	90.32%	7.50%	6.77%
Customer Deposits	0	600	525	1,125	563	0.24%	2.00%	0.00%
TOTAL	\$22,113	\$445,885	\$525	\$446,410	\$234,262	100%		7.60%

(1). Equity cost based on FPSC Order No. 14-0272-PAA-WS issued 5/29/14.

Exhibit 3: Net Operating Income

Crestridge Utilities, LLC
Net Operating Income
12-Months Ended September 30, 2014

Description	Per Utility 09/30/2014	Adjustment	Per Audit 09/30/14
Operating Revenues	\$98,809	(\$1,870)	\$96,939
Operating Expenses			
Operation & Maintenance	100,793	(8,837)	91,956
Depreciation Expense	-	4,393	4,393
Amortization Expense (CIAC)	-	-	-
Taxes Other Than Income	7,302	36	7,338
Income Taxes	-	-	-
Total Operating Expenses	108,095	(4,408)	103,687
Operating Income	(\$9,286)	\$2,538	(\$6,748)