

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: October 7, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamen, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150166-WU
Company Name: Black Bear Reserve Water Corporation
Company Code: WU940
Audit Purpose: Transfer of Certificate
Audit Control No.: 15-217-1-1

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 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
Tallahassee District Office

Auditor's Report

Black Bear Reserve Water Corporation/Black Bear Waterworks, Inc.
Transfer of Certificate
Certificate No. 654-W

As of June 30, 2015

Docket No. 150166-WU
Audit Control No. 15-217-1-1

October 5, 2015

A handwritten signature in cursive script, appearing to read "Debra Dobiac", written over a horizontal line.

Debra Dobiac
Audit Manager

A handwritten signature in cursive script, appearing to read "Lynn M. Deamer", written over a horizontal line.

Lynn M. Deamer
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 August 5, 2015. We have applied these procedures to the attached schedules prepared by audit staff in support of Black Bear Reserve Water Corporation/Black Bear Waterworks, Inc.'s request for a Transfer of Certificate in Docket No. 150166-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 Black Bear Waterworks, Inc.

Seller/BBRWC refers to Black Bear Reserve Water Corporation.

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

Black Bear Reserve Water Corporation is a Class “C” Utility that provides water services to approximately 300 customers in Lake County. BBRWC was established in 1998 by the original developer as a corporation solely owned by a master homeowners’ association (HOA) known as Black Bear Reserve Homeowners Association, Inc. Upon the Florida Public Service Commission’s (Commission) receipt from customer inquiries in 2004, Commission staff determined that BBRWC appeared to be exempt from Commission Regulation.

By 2007, a new development of 50 homes in the adjacent subdivisions was completed with no requirement for mandatory HOA membership. This resulted in most homeowners in the new subdivisions not joining the HOA. Upon receipt of additional customer inquiries, Commission staff determined that BBRWC was no longer exempt from Commission regulation because service was being provided to non-members and requested BBRWC to file for an original water certificate. This issue was addressed in Docket No. 100085-WU and Order No. PSC-11-0478-PAA-WU, issued October 24, 2011, granted BBRWC Certificate No. 654-W.

In the application to transfer Certificate No. 654-W from BBRWC to the Utility, it states that the purchase price is \$155,449. The Utility also states that it’s their understanding that Rate Base has not been established. However, an original cost study of utility plant in service and the associated accumulated depreciation had been performed for the completion of BBRWC’s 2010 Annual Report, which was referenced in Order No. PSC-11-0478-PAA-WU.

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: We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintains its records on a calendar year basis. No exceptions were noted.

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 for water UPIS, as of December 31, 2010, from the original cost study with the Seller's books and records. We scheduled water UPIS activity from December 31, 2010 through June 30, 2015. We traced asset additions to supporting documentation. We ensured that retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of June 30, 2015. Findings 1 and 2 discuss 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 beginning land balance, as of December 31, 2010, from the original cost study with the Seller's books and records. We searched the Lake County Clerk of Courts' official records to verify the transfer of utility land from the Seller to the Buyer. We determined the land transfer balance for the water system as of June 30, 2015. Finding 2 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 balances for accumulated depreciation, as of December 31, 2010, from the original cost study with the Seller's books and records. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balance for the water system as of June 30, 2015. Findings 1 and 2 discuss 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 balance for CIAC, as of December 31, 2010, with the Seller's books and records. We reviewed the Seller's records and inquired about cash and

property contributions since the last rate proceeding. We traced additions to CIAC to the cash receipts and the approved tariff. We determined the CIAC transfer balance as of June 30, 2015. 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 reconciled the beginning balances for accumulated amortization of CIAC, as of December 31, 2010, with the Seller’s books and records. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the accumulated amortization of CIAC transfer balance as of June 30, 2015. No exceptions were noted.

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 less than the purchase price, which would reflect a positive acquisition adjustment. Pursuant to Rule 25-30.0371(2) – Acquisition Adjustments, F.A.C., a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The Utility is not requesting a positive acquisition adjustment. Therefore, we did not calculate an acquisition adjustment.

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 July 2015. We recalculated a sample of customers’ bills using the approved tariffs. 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 reviewed the ledger and inquired about the deposit policy. The Seller had an authorized tariff to collect customer deposits. We verified that the customer deposits were transferred to the Utility. Finding 3 discusses customer deposits.

Audit Findings

Finding 1: Utility Plant in Service

Audit Analysis: According to the seller's general ledger, UPIS additions were \$214,644 from January 1, 2011 through June 30, 2015. Audit staff determined the UPIS additions for the same period to be \$148,058 based on invoices and tax returns provided by the seller. The utility plant is overstated by \$66,586 as shown in Table 1-1.

Table 1-1

<u>Account - Description</u>	<u>GL</u> <u>6/30/2015</u>	<u>Audit</u> <u>6/30/2015</u>	<u>Audit</u> <u>Adjustments</u>
301 Organization	\$ 83,126	\$ -	\$ (83,126)
304 Structures & Improvements	87,321	87,321	-
307 Wells & Springs	30,900	31,430	530
309 Supply Mains	7,817	4,021	(3,796)
310 Power Generation Equip.	396	-	(396)
311 Pumping Equip.	-	396	396
320 Water Treatment Equip.	-	9,677	9,677
331 Transmission and Distribution Mains	-	1,866	1,866
333 Services	-	3,909	3,909
334 Meters and Meter Install.	-	2,786	2,786
335 Hydrants	-	1,568	1,568
339 Other Plant And Misc.	5,084	5,084	-
Total:	\$ 214,644	\$ 148,058	\$ (66,586)

Audit staff removed the organization costs of \$83,126 because no substantial evidence other than the tax return was provided to support this amount. These costs were recorded in the general ledger on December 31, 2011 with a notation that this amount represents legal costs. Based on the timing, we believe that these costs were incurred during the litigation that was referenced in Order No. PSC-11-0478-PAA-WU. However, we were not able to verify this. Audit staff requests the analyst to review and determine if organization costs should be included in UPIS and its effect on accumulated depreciation.

In addition, we traced an amount of \$14,650 included in the wells and springs balance to the 2012 tax return. However, the addition was listed as meters and parts on the tax return, and meters are not usually classified as wells and springs. Based on the information, audit staff was not able to determine if the meters were flow meters, which would be included Account 309 – Supply Mains, or meters for customers, which would be included in Account 334 – Meters and Meters Installation. Audit staff requests the analyst and/or engineer to review these items for proper classification and the effect on accumulated depreciation.

According to the seller's general ledger, accumulated depreciation applicable to the UPIS additions from January 1, 2011 through June 30, 2015 was \$33,564. Audit staff calculated accumulated depreciation to be \$15,070 using the approved rates and the audited plant additions

and retirements for the same period. Accumulated depreciation is overstated by \$18,494 as shown in Table 1-2.

Table 1-2

Account - Description	GL 6/30/2015	Audit 6/30/2015	Audit Adjustments
301 Organization	\$ (14,546)	\$ -	\$ 14,546
304 Structures & Improvements	(11,832)	(11,414)	418
307 Wells & Springs	(4,992)	(3,453)	1,539
309 Supply Mains	(553)	1,611	2,164
310 Power Generation Equip.	(152)	-	152
311 Pumping Equip.	-	(70)	(70)
320 Water Treatment Equip.	-	(142)	(142)
331 Transmission and Distribution Mains	-	(47)	(47)
333 Services	-	(335)	(335)
334 Meters and Meter Install.	-	(164)	(164)
335 Hydrants	-	(39)	(39)
339 Other Plant And Misc.	(1,489)	(1,017)	472
Total:	\$ (33,564)	\$ (15,070)	\$ 18,494

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

Effect on the Filing: The UPIS balance should be decreased by \$66,586 and the accumulated depreciation balance should be decreased by \$18,494.

The analyst should review the organization costs of \$83,126 to determine whether they should be included in UPIS and its effect on accumulated depreciation.

In addition, the analyst and engineer should review the meters and parts of \$14,650 for proper classification and the effect on accumulated depreciation.

Finding 2: Original Cost Study

Audit Analysis: Audit staff reviewed the original cost study provided by the seller and noted a UPIS balance of \$1,251,025 at December 31, 2010. However, the seller's general ledger had a UPIS balance of \$1,284,549 at December 31, 2010. The seller was not able to provide support for the variance of \$33,523 as shown in Table 2-1.

Table 2-1

Account - Description	GL 6/30/2015	Audit 6/30/2015	Audit Adjustments
303 Land	\$ 5,000	\$ 5,000	\$ -
304 Structures & Improvements	7,276	3,777	(3,499)
307 Wells & Springs	170,370	170,370	-
309 Supply Mains	10,509	10,509	-
310 Power Generation Equip.	43,971	43,971	-
311 Pumping Equip.	15,428	15,428	-
320 Water Treatment Equip.	38,056	38,056	-
330 Distribution Reservoirs	81,480	81,480	-
331 Transmission and Distribution Mains	675,563	675,563	-
333 Services	57,034	48,949	(8,085)
334 Meters and Meter Install.	79,882	69,965	(9,917)
335 Hydrants	87,958	87,958	-
339 Other Plant And Misc.	4,110	-	(4,110)
340 Office Furniture & Equip.	7,912	-	(7,912)
Total:	\$ 1,284,549	\$ 1,251,026	\$ (33,523)

The utility land was valued at \$5,000 in the original cost study. We searched the Lake County Clerk of Courts records, but we were unable to determine the cost of land when it was first dedicated to public service. Audit staff noted that a Quit Claim Deed was filed with the Lake County Clerk of Courts on July 23, 2015, which transferred the land from the seller to the buyer.

According to the seller's general ledger, the accumulated depreciation balance as of June 30, 2015 applicable to the December 31, 2010 plant balances was \$644,178. Audit staff calculated accumulated depreciation as of June 30, 2015 to be \$636,031 using the approved rates and the original cost study balances. Accumulated depreciation is overstated by \$8,147 as shown in Table 2-2.

Audit staff included the original cost study balances for UPIS in our exhibit. However, we request the analyst and engineer to review and determine the reasonableness of the original cost study.

Table 2-2

Account - Description	GL 6/30/2015	Audit 6/30/2015	Audit Adjustments
304 Structures & Improvements	\$ (1,159)	\$ (2,157)	\$ (998)
307 Wells & Springs	(95,986)	(100,961)	(4,975)
309 Supply Mains	(5,230)	(5,261)	(31)
310 Power Generation Equip.	(35,790)	(41,384)	(5,594)
311 Pumping Equip.	(13,520)	(14,517)	(997)
320 Water Treatment Equip.	(30,964)	(35,807)	(4,843)
330 Distribution Reservoirs	(42,405)	(42,314)	91
331 Transmission and Distribution Mains	(287,104)	(270,225)	16,879
333 Services	(23,942)	(22,392)	1,550
334 Meters and Meter Install.	(63,275)	(65,830)	(2,555)
335 Hydrants	(37,383)	(35,183)	2,200
339 Other Plant And Misc.	(1,205)	-	1,205
340 Office Furniture & Equip.	(6,215)	-	6,215
Total:	\$ (644,178)	\$ (636,031)	\$ 8,147

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

Effect on the Filing: The UPIS balance should be decreased by \$33,523 and the accumulated depreciation balance should be decreased by \$8,147.

We request the analyst and engineer to review the original cost study to determine reasonableness.

Finding 3: Customer Deposits

Audit Analysis: In its application for approval of transfer, the Utility stated that customer deposits in the amount of \$4,122 have been transferred to them. The Utility provided audit staff a schedule of customer deposits that agree to the total of \$4,122. However, audit staff noted that the customer deposit balance in Seller's general ledger is \$17,923. We asked the Utility to explain the disposition of the remaining balance of \$13,801.

In its response, the Utility stated that two issues came up when researching the discrepancy. First, the Seller has a different customer deposit listing and amount than what the Utility acquired from the Seller's billing vendor. These two reports will require reconciling. The second issue is that the Buyer never received the funds for the customer deposits.

The reconciliation has not been completed at the time this report was written. Once it is complete, the Utility will pursue the transfer of funds and notify Commission staff.

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

Effect on the Filing: We defer this issue to the analyst.

Exhibits

Exhibit 1: Net Book Value

**BLACK BEAR WATERWORKS, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 150166-WU; ACN 15-217-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF JUNE 30, 2015**

Description	Balance per Utility 6/30/2015	Audit Adjustments	Audit Finding	Balance per Audit 6/30/2015
Utility Plant in Service	\$ 1,494,193	\$ (100,109)	1, 2	\$ 1,394,084
Land	5,000	-		5,000
Accumulated Depreciation	(677,742)	26,641	1, 2	(651,101)
Contributions in Aid of Construction	(832,912)	-		(832,912)
Accumulated Amortization of CIAC	112,693	-		112,693
NET BOOK VALUE	\$ 101,232	\$ (73,468)		\$ 27,764