

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: June 20, 2018

TO: Office of Commission Clerk

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

RE: Docket No.: 20180066-WU
Company Name: Kincaid Hills Water Company
Company Code: WU690
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2018-096-1-1

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

Kincaid Hills Water Company/
Gator Waterworks, Inc.
Transfer of Certificate
Certificate No. 555-W

As of February 23, 2018

Docket No. 20180066-WU
Audit Control No. 2018-096-1-1
June 5, 2018

Debra M. Dobiac
Audit Manager

Marisa N. 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 March 30, 2018. We have applied these procedures to the attached schedules prepared by audit staff in support of Kincaid Hills Water Company/Gator Waterworks, Inc.'s request for a Transfer of Certificate in Docket No. 20180066-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 Gator Waterworks, Inc.

Seller/Kincaid refers to Kincaid Hills 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

Kincaid Hills Water Company is a Class “C” Utility that provides water service to approximately 321 customers in Alachua County.

On June 30, 1992, the Alachua County Board of County Commissioners adopted a resolution, which gave jurisdiction over the regulation of privately-owned water and wastewater utilities to this Commission. On November 18, 1992, Kincaid filed its application for an original certificate to provide water service in Alachua County under grandfather rights, and Certificate No. 555-W was granted by Order No. PSC-1993-1027-FOF-WU, issued July 13, 1993.

On September 26, 1994, Kincaid filed an application for a staff-assisted rate case and Docket No. 19941015-WU was opened. On December 29, 1994, an auditor’s report was issued, Audit Control No. (ACN) 1994-294-3-2, for period ending September 30, 1994. However, on March 1, 1995, Kincaid withdrew its application and the docket was administratively closed. Rate base has never been established for this Utility.

In the 25 years that Kincaid has been under the Commission’s jurisdiction, it has consistently failed to remit its payment of its Regulatory Assessment Fees (RAF) and to timely submit its Annual Reports. Order No. PSC-2017-0470-PCO-WU, issued on December 15, 2017, summarizes this history and directs Commission staff to initiate certificate revocation proceedings. On February 27, 2018, Gator Waterworks, Inc. contacted Commission staff that it had acquired Kincaid.

Gator Waterworks, Inc. purchased Kincaid Hills Water Company for \$82,500 on February 23, 2018, and filed an application for Transfer of Certificate on March 12, 2018.

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: In its application for Transfer of Certificate, the Buyer stated that it will maintain its books and records using the NARUC USOA.

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 recorded when a replacement asset was put into service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We scheduled UPIS from December 31, 1992 to February 23, 2018 from the Utility's annual reports, and traced the ending balance to the Buyer's proposed plant value in its application for transfer. 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 scheduled land from December 31, 1992 to February 23, 2018 from the Utility's annual reports, and traced the ending balance to the Buyer's proposed land value in its application for transfer. We obtained a warranty deed dated October 5, 1982. 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 recalculated accumulated depreciation from December 31, 1992 to February 23, 2018 based on the plant balances from the Utility's annual reports, and traced the ending balance to the Buyer's proposed plant value in its application for transfer. Finding 1 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 noted that the Utility's annual reports do not reflect a balance for CIAC. We imputed CIAC by multiplying the customer growth for each year, from December 31, 1992 to February 23, 2018, times the approved service availability charges from Order No. PSC-1993-

1027-FOF-WU. We also imputed CIAC based on Rule 25-30.370, F.A.C. 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 recalculated accumulated amortization of CIAC from December 31, 1992 to February 23, 2018 based on the CIAC balances imputed from the customer activity from December 31, 1992 to February 23, 2018. We also imputed accumulated amortization of CIAC based on Rule 25-30.370, F.A.C. Finding 3 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 noted that the purchase price is greater than 80 percent of net book value, so an acquisition adjustment was not calculated. No further work performed.

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 March 2018. We recalculated a sample of customer 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: The Seller’s authorized tariff approved the collection of customer deposits in the amount of \$25. The customer deposit balance was \$5,760 in the Seller’s 2016 annual report. According to the Buyer’s application for transfer, the Seller was to apply any remaining customer deposits to the ending account balances. Any final credits were to be refunded to the customer. The customer deposit balance on the Buyer’s books was zero at the time of transfer. No further work performed.

Audit Findings

Finding 1: Utility Plant in Service and Accumulated Depreciation

Audit Analysis: According to the Buyer's plant value in its application for transfer, the water UPIS balance was \$454,492 as of February 23, 2018. Audit staff determined the water UPIS balance to be \$380,899 as of February 23, 2018.

According to the Buyer's accumulated depreciation value in its application for transfer, the water accumulated depreciation balance was \$342,780 as of February 23, 2018. We calculated water accumulated depreciation to be \$288,095, as of February 23, 2018, using the approved rates and the plant additions and retirements schedule prepared by audit staff.

Since rate base had never been established, no order was available to provide UPIS or accumulated depreciation beginning balances. The earliest annual report filed with this Commission was as of December 31, 1992. We were able to obtain the Seller's 1993 1120S Federal Tax Return from the audit work papers from Docket No. 19941015-WU, and we noted that the tax return supported the beginning and ending balances for UPIS and accumulated depreciation as shown in the 1993 annual report. Therefore, we used the December 31, 1992 amounts for our UPIS and accumulated depreciation beginning balances.

We reviewed the Buyer's plant value in its application for transfer from December 31, 2016 through the transfer date, and noted that there were no plant additions or retirements. No invoices were available from the Seller. We scheduled plant additions and retirements from the annual reports from 1992 through 2016, and carried the 2016 balance forward to the transfer date. We also calculated accumulated depreciation using the approved rates from 1992 through the transfer date. We noted the following discrepancies in our review of the annual reports.

- The 2016 beginning plant balances were the same as the 2015 beginning plant balances, which removed the 2015 additions of \$5,875. We included the \$5,875.
- The 2002 beginning plant balance was \$10,520 more than the 2001 ending plant balance. We carried the 2001 ending balance forward, which decreased the plant assets by \$10,520.
- Any and all transportation vehicles owned and registered to the Seller were listed on Schedule 1 of the Asset Purchase Agreement, and the 2016 annual report included \$68,948 in Account 341 – Transportation Equipment. In its response to our request for support, the Utility stated that it had not purchased any vehicles and none were transferred. In addition, the transportation equipment was fully depreciated and had no impact on the net book value. We removed \$68,948 from UPIS and accumulated depreciation.
- The Seller did not use the depreciation rates as per Rule 25-30.140 – Depreciation, F.A.C.
- Accruals for depreciation expense continued to be recorded in the annual reports for plant items that had been fully depreciated.

The water utility plant is overstated by \$73,593 (\$5,875 - \$10,520 - \$68,948) as shown in Table 1-1.

Table 1-1

Account - Description	Utility Balance 2/23/2018	Audit Balance 2/23/2018	Audit Adjustments
304 Structures & Improvements	\$ 6,000	\$ 6,000	\$ -
307 Wells & Springs	3,800	3,800	-
309 Supply Mains	1,500	1,500	-
310 Power Generation Equip.	18,300	18,300	-
311 Pumping Equip.	79,634	84,254	4,620
320 Water Treatment Equip.	2,409	2,409	-
330 Distribution Reservoirs	29,155	24,905	(4,250)
331 Transmission and Distribution Mains	154,830	156,085	1,255
334 Meters and Meter Install.	72,423	71,168	(1,255)
339 Other Plant And Misc.	6,400	4,000	(2,400)
340 Office Furniture & Equip.	6,791	4,528	(2,263)
341 Transportation Equipment	68,948	-	(68,948)
343 Tools, Shop and Garage Equip.	1,200	1,200	-
344 Lab Equipment	200	200	-
345 Power Operated Equipment	2,552	2,200	(352)
346 Communication Equipment	350	350	-
Total:	\$ 454,492	\$ 380,899	\$ (73,593)

The water utility accumulated depreciation is overstated by \$54,685 as shown in Table 1-2.

Table 1-2

Account - Description	Utility Balance 2/23/2018	Audit Balance 2/23/2018	Audit Adjustments
304 Structures & Improvements	\$ (5,601)	\$ (6,000)	\$ (399)
307 Wells & Springs	(2,801)	(3,800)	(999)
309 Supply Mains	(188)	(265)	(77)
310 Power Generation Equip.	(18,300)	(18,300)	-
311 Pumping Equip.	(24,972)	(35,149)	(10,177)
320 Water Treatment Equip.	(2,653)	(1,516)	1,137
330 Distribution Reservoirs	(20,271)	(20,155)	116
331 Transmission and Distribution Mains	(108,566)	(125,376)	(16,810)
334 Meters and Meter Install.	(72,986)	(65,545)	7,441
339 Other Plant And Misc.	(6,400)	(4,000)	2,400
340 Office Furniture & Equip.	(6,791)	(4,039)	2,752
341 Transportation Equipment	(68,948)	-	68,948
343 Tools, Shop and Garage Equip.	(1,200)	(1,200)	-
344 Lab Equipment	(200)	(200)	-
345 Power Operated Equipment	(2,552)	(2,200)	352
346 Communication Equipment	(350)	(350)	-
Total:	\$ (342,780)	\$ (288,095)	\$ 54,685

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

Effect on the Filing: The water UPIS balance should be decreased by \$73,593 and the water accumulated depreciation balance should be decreased by \$54,685.

Finding 2: Land and Land Rights

Audit Analysis: According to the Buyer's land value in its application for transfer, the water land balance was \$14,000 as of February 23, 2018. Audit staff determined the water land balance to be \$8,000 as of February 23, 2018.

In the 1992 annual report, the land balance was \$14,000. We obtained a warranty deed between Sheldon A. Brook, grantor, and Kincaid Hills Water Company, grantee, dated October 5, 1982, and the documentary stamps supported \$8,000 for utility land. No other additions or retirements were noted.

The water utility land is overstated by \$6,000 (\$8,000 - \$14,000), which was also noted in the Auditor's Report, ACN 1994-294-3-2.

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

Effect on the Filing: The land balance should be decreased by \$6,000.

Finding 3: Contributions in Aid of Construction and Accumulated Amortization of CIAC

Audit Analysis: Rate base had never been established for this Utility. CIAC and accumulated amortization of CIAC had not been recorded in any of its annual reports. Audit staff imputed CIAC and accumulated amortization of CIAC using two separate methodologies.

Order No. PSC-1993-1027-FOF-WU approved service availability charges of \$75 for tap-in fees, \$75 for meter installations, and \$450 for plant capacity charges for a total of \$600. We scheduled customer activity as shown in the annual reports from 1992 through 2016, and noted that the customer count grew by 16 customers from December 31, 1992 to December 31, 2007. After 2007, the customer count diminished over time. We determined a balance of \$9,600 (\$600 x 16) for CIAC, and calculated a balance of \$2,826 for accumulated amortization of CIAC using a composite rate of 2.5 percent as of February 23, 2018 as shown in Table 3-1.

Table 3-1

Description	Audit Balance CIAC 2/23/2018	Audit Balance Accum Amort 2/23/2018
Calculation 1:		
Based on Customer Growth	(9,600)	2,826
Total:	\$ (9,600)	\$ 2,826
Utility balance - 2/23/2018:	-	-
Adjustment 1:	\$ (9,600)	\$ 2,826

According to Rule 25-30.570, F.A.C., CIAC shall be imputed to be the proportion of the cost of the facilities and plant attributed to the water transmission and distribution system. As of February 23, 2018, the plant account for transmission and distribution mains had a balance of \$156,085, and the associated accumulated depreciation account had a balance of \$125,376 as shown in Table 3-2.

Table 3-2

Description	Audit Balance CIAC 2/23/2018	Audit Balance Accum Amort 2/23/2018
Calculation 2:		
As per Rule 25-30.370, F.A.C	(156,085)	125,376
Total:	\$ (156,085)	\$ 125,376
Utility balance - 2/23/2018:	-	-
Adjustment 2:	\$ (156,085)	\$ 125,376

We defer the final disposition of this issue to the analyst.

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

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

Exhibits

Exhibit 1: Net Book Value

**KINCAID HILLS WATER COMPANY
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20180066-WU; ACN 2018-096-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF FEBRUARY 23, 2018**

Description	Balance per Utility 2/23/2018	Audit Adjustments	Audit Finding	Balance per Audit 2/23/2018
Utility Plant in Service	\$ 454,492	\$ (73,593)	1	\$ 380,899
Land	14,000	(6,000)	2	8,000
Accumulated Depreciation	(342,780)	54,685	1	(288,095)
Contributions in Aid of Construction (A)	-	-	3	-
Accumulated Amortization of CIAC	-	-	3	-
NET BOOK VALUE	\$ 125,712	\$ (24,908)		\$ 100,804

(A) See Finding 3 for discussion on CIAC.