

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-**

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**DATE:** June 29, 2016

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 160075-WS  
Company Name: Oak Springs, LLC  
Company Code: WU875  
Audit Purpose: Transfer of Certificate  
Audit Control No.: 16-119-2-1

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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.

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

Oak Springs, LLC/Oak Springs MHC, LLC  
Transfer of Certificate  
Certificate No. 623-W

As of May 31, 2015

Docket No. 160075-WS  
Audit Control No. 16-119-2-1

June 16, 2016

*Ronald A. Mavrides*

Ronald A. Mavrides  
Audit Manager

*Linda Hill*

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 objectives set forth by the Division of Accounting and Finance in its audit service request dated April 19, 2016. We have applied these procedures to the attached schedules prepared by Audit Staff in support of Oak Springs, LLC/Oak Springs MHC, LLC's request for a transfer of Certificate 623-W in Docket No. 160075-W.

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 Oak Springs MHC, LLC.

Seller refers to Oak Springs, LLC.

#### Utility Information

Oak Springs MHC, LLC is a Class C water utility that is located in Orange and Lake Counties. The Utility serves approximately 312 customers.

The buyer and seller executed an asset purchase agreement on May 31, 2015, for \$11,000,000 of which \$110,000 is allocated to the purchase price of the utility assets. The full purchase price included the Utility assets, the mobile home park, and other non-utility assets.

Rate base has never been established by the Florida Public Service Commission for this system. The Utility was granted an Original Certificate to operate a water utility in Docket 040515-WU. Although Order No. PSC-04-1120-PAA-WU, issued November 9, 2004, contains a schedule of the Utility's proposed Rate Base, the Order is clear that the rate base schedule is for informational purposes to establish initial rates and is not intended to formally establish rate base.

### **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, and 3) Retirements were made when a replacement asset was put in service.

**Procedures:** We reviewed Order No. PSC-04-1120-PAA-WU, the Utility's annual reports, and its original cost study prepared for the water plant. We requested documentation supporting all plant additions for the period November 9, 2004, through May 31, 2015. 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 Order No. PSC-04-1120-PAA-WU was issued November 9, 2004. We reviewed the warranty deed. 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:** Order No. PSC-04-1120-PAA-WU, issued on November 9, 2004, did not impute CIAC because Oak Springs, LLC did not sell lots; the lots are leased to homeowners. Audit staff verified that no CIAC has been collected since this Order. No further work was done.

### 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 calculated Accumulated Depreciation in compliance with Rule 25-30.140, Florida Administrative Code (F.A.C.). Our recommended adjustment to Accumulated Depreciation is discussed in Finding 4.

### 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:** Audit staff determined there is no CIAC balance; therefore, no amortization is warranted.

### 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), F.A.C.

**Procedures:** We determined the net book value for this Utility, as of May 31, 2015, to be \$61,165. An acquisition adjustment could not be determined due to lack of Plant In Service records. No further work was done.

### **Other**

#### Rates and Charges

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

**Procedures:** We obtained ten customer bills and recalculated them to verify that the approved tariffs were used. There were no exceptions.

#### Customer Deposits

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

**Procedures:** We determined that neither the seller nor the buyer had ever collected customer deposits.

## 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. The buyer is waiting for the disposition of this proceeding to determine the balances for Plant in Service and Accumulated Depreciation.

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:** Audit staff requested the Utility provide support for the original cost of plant. The Utility provided an original cost study that was provided to Commission staff in the prior docket. This was not used by audit staff in this proceeding because Order No. PSC-04-1120-PAA-WU, page 3, states “The rate base schedule is for informational purposes to establish initial rates and is not intended to formally establish rate base”. Audit staff requests commission technical staff to review the cost study and determine its effect on this proceeding.

The Utility did provide invoices for two plant additions that Audit staff could include in calculating net book value. The first invoice is dated February 2, 2015, and is for \$23,000. The second invoice is dated April 15, 2015, and is for \$36,900. Audit staff did not calculate a retirement related to these additions because there are no beginning balances. The audit balances by NARUC account are displayed in Table 2-1.

**Table 2-1**

<b>Acct.</b>	<b>Description</b>	<b>Utility Bal. (N/A)</b>	<b>Additions</b>	<b>Audit Bal. 5/31/2015</b>
301	Organization	\$-	\$-	\$-
304	Structures & Improvements	-	-	-
307	Wells & Springs	-	-	-
309	Supply Mains	-	-	-
310	Power Generation Equipment	-	23,000	23,000
311	Pumping Equipment	-	36,900	36,900
320	Water Treatment Equipment	-	-	-
330	Distrib. Reser. & Standpipes	-	-	-
331	Trans. & Distrib. Mains	-	-	-
333	Services	-	-	-
334	Meter & Meter Installation	-	-	-
335	Hydrants	-	-	-
336	Backflow Prevention Devices	-	-	-
		<b>\$-</b>	<b>\$59,900</b>	<b>\$59,900</b>

N/A = Beginning balances not available.

**Effect on the General Ledger:** The Utility should increase UPIS balance by \$59,900 as of May 31, 2015.

**Effect on Staff Prepared Exhibits:** Increase UPIS by \$59,900.

### **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 acquired in 1972 for the 1973 construction of the water plant. The cost assigned to the land was \$2,733 and was calculated as follows:

Stamp Tax Rate 1972	.30 per \$100
Stamp Tax	\$8.20
Calculation	$(\$8.20 / .30) \times \$100 = \$2,733.$

**Effect on the General Ledger:** The Utility should increase the land balance by \$2,733 as of May 31, 2015.

**Effect on Staff Prepared Exhibits:** Increase the land balance by \$2,733.

**Finding 4: Accumulated Depreciation**

**Audit Analysis:** Audit Staff calculated Accumulated Depreciation for the two additions since Order No. PSC-04-1120-PAA-WU on November 9, 2004, using rates prescribed in Rule 25-30.140, F.A.C. The Accumulated Depreciation per 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. (N/A)</b>	<b>Adjustments</b>	<b>Audit Bal. 5/31/2015</b>
310	Power Generation Equipment	\$ -	\$564	\$564
311	Pumping Equipment	-	904	904
		<b>\$ -</b>	<b>\$1,468</b>	<b>\$1,468</b>

N/A = Beginning balance not available.

**Effect on the General Ledger:** The Utility should increase its Accumulated Depreciation balance by \$1,468, as of May 31, 2015.

**Effect on Staff Prepared Exhibit:** Increase Accumulated Depreciation by \$1,468

Exhibit

**Exhibit 1: Net Book Value**

Oak Springs, LLC/Oak Springs MHC, LLC  
**Net Book Value - Water**  
As of May 31, 2015

<b>Description</b>	<b>Utility Bal. (N/A)</b>	<b>Adjustments</b>	<b>Audit Bal.</b>
Plant in Service	\$ -	\$59,900	\$59,900
Land	-	2,733	2,733
Acc. Dep.	-	(1,468)	(1,468)
CIAC	-	-	-
Acc. Amort. - CIAC	-	-	-
<b>Net Book Value</b>	<b>\$ -</b>	<b>\$61,165</b>	<b>\$61,165</b>

N/A = Beginning balance not available.