

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: June 17, 2022

TO: Office of the Commission Clerk

FROM: Todd M. Brown, Chief of Auditing, Office of Auditing and Performance Analysis 

RE: Docket No.: 20220035-WS
Company Name: S.V. Utilities, Ltd.
Company Code: WS812
Audit Purpose: A1b: Staff Assisted Rate Case
Audit Control No.: 2022-070-2-4

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 the Commission Clerk. There are no confidential work papers associated with this audit.

TMB/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
Tampa District Office

Auditor's Report

S.V. Utilities, Ltd
Staff-Assisted Rate Case

Twelve Months Ended December 31, 2021

Docket No. 20220035-WS
Audit Control No. 2022-070-2-4

June 3, 2022

A handwritten signature in black ink, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in black ink, appearing to read "Simon O. Ojada".

Simon O. Ojada
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 & Finance in its audit service request dated March 11, 2022. We have applied these procedures to the attached schedules prepared by the audit staff in support of S.V. Utilities, Ltd's request for a Staff Assisted Rate Case in Docket No. 20220035-WS.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to S.V. Utilities, Ltd.

The test year for this proceeding is the historical twelve months ended December 31, 2021.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts as adopted by Rule 25-30.115, Florida Administrative Code (F.A.C.)

Background

S. V. Utilities, Ltd. (SV or Utility) is a Class C water and wastewater utility currently providing service to approximately 731 water customers and 711 wastewater customers in Polk County. SV has been in existence and charging rates since 1981. The Utility was granted Certificate Nos. 605-W and 521-S in 1999.

The Utility serves the Swiss Village Mobile Home Park, Hidden Cove East Mobile Home Park, and Hidden Cove West Mobile Home Park. The Utility's 2021 Annual Report shows total gross revenues of \$99,438 for water and \$137,440 for wastewater, with net operating expenses of \$151,317 and \$191,130 for water and wastewater, respectively. The current rates have been in effect since May 2014.

The Utility files a 1065 Federal Tax Return, and is a Partnership.

Utility Books and Records

Objective: The objective was to determine whether the Utility maintains its books and records in conformity with the NARUC USOA.

Procedures: We reviewed the Utility's accounting system by examining the records provided for this proceeding and determined that the Utility's books are in substantial compliance with the NARUC USOA.

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 is put into service, and 4) Adjustments required in the Utility's last rate proceeding are recorded in its books and records.

Procedures: We reconciled the beginning balances for UPIS, as of July 1, 2013, from Order No. PSC-2014-0195-PAA-WU, issued May 1, 2014, in Docket No. 20130211-WS, to the general

ledger. We scheduled UPIS activity from July 1, 2013, to December 31, 2021. We traced asset additions to supporting documentation. We ensured that retirements were made when an asset was removed or replaced. We determined the simple average and year-end balances as of December 31, 2021. Finding 1 discusses our recommended adjustments to UPIS.

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) Adjustments to land in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: We reconciled the beginning balance for land that was established in Docket No. PSC 2014-0195-PAA-WS, issued May 1, 2014, to the general ledger. There was no change to utility land since the last rate case proceeding. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether: 1) Adjustments to accumulated depreciation in the Utility's last rate case proceeding were recorded in its general ledger, 2) accumulated depreciation accruals are properly recorded in compliance with Commission Rule 25-30.140-Depreciation, Florida Administrative Code (F.A.C.) and the NARUC USOA, 3) Depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Retirements are properly recorded when an asset is replaced.

Procedures: We reconciled the beginning balances for accumulated depreciation that were established in Docket No. PSC 2014-0195-PAA-WS as of May 1, 2014, to the general ledger. We calculated accumulated depreciation using the depreciation rates established by Rule 25-30.140(2), F.A.C - Depreciation. We determined the year-end and simple average accumulated depreciation balance as of December 31, 2021. Our recommended adjustments to accumulated depreciation are discussed in Finding 2.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions-in-aid-of-construction (CIAC) is properly recorded in compliance with Commission rules and the NARUC USOA, 2) Donated property is properly accounted for and recorded as CIAC, and 3) Adjustments to CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: There was no change to CIAC since the last rate case proceeding. No exceptions were noted.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether: 1) Accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission Rule 25-30.140, F.A.C., 2) Retirements are recorded when a contributed asset is replaced, 3) Adjustments to accumulated amortization of CIAC in the Utility's last rate case proceeding were recorded in its general ledger.

Procedures: There was no change to accumulated amortization of CIAC since the last rate case proceeding. No exceptions were noted.

Working Capital

Objective: The objective was to determine the working capital adjustment to be included in the Utility's rate base per Commission rule 25-30.433(3).

Procedures: We calculated the Utility's working capital adjustment as of December 31, 2021, using one-eighth of operation and maintenance (O&M) expense as required by Commission Rule 25-30.433(3), F.A.C. Our recommended working capital is calculated in Finding 3.

Capital Structure

Objectives: The objectives were to determine: 1) Component balances for the Utility's capital structure, 2) Cost rates to be used to arrive at the overall weighted cost of capital and, if 3) Components are properly recorded in compliance with Commission requirements.

Procedures: We reviewed the general ledger and determined that the Utility's capital structure is composed of common equity, and Short-term debt. We determined the year-end and simple average capital structure balances and its weighted average cost as of December 31, 2021. No exceptions were noted.

Net Operating Income

Operating Revenue

Objective: The objective was to determine whether the Utility's test year revenues are recorded in compliance with Commission rules and calculated using Commission approved rates.

Procedures: We compiled the Utility's revenues for the test year ending December, 31, 2021, by obtaining the monthly customer billing registers. We reconciled the billing registers to the general ledger. We recalculated revenues based on current tariffs in effect by class. We completed a billing analysis as requested by technical staff. No exceptions were noted.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether operation and maintenance (O&M) expense are: 1) Representative of the Utility's ongoing operations for the test year, 2) Properly recorded in the appropriate period for the correct amount, and 3) Recorded in compliance with NARUC USOA and Commission rules.

Procedures: We verified O&M expense for the test year ended December, 31, 2021, by tracing a sample of invoices to the original source documentation. We reviewed invoices for proper amount, period, classification, NARUC account, and whether recurring in nature. We determined the proper allocation of expenses between the Utility's related party operations and its operations. Our recommended adjustments to O&M expense are discussed in Finding 3.

Depreciation and CIAC Amortization Expense

Objectives: The objectives were to determine whether depreciation and CIAC amortization expenses are properly recorded in compliance with Commission rules and that they accurately

represent the depreciation of UPIS assets and the amortization of CIAC from ongoing utility operations.

Procedures: We recalculated depreciation expenses and CIAC amortization expenses for the test year ended December 31, 2021, by using the rates established by Commission Rule 25-30.140, F.A.C. Our recommended adjustments to depreciation expense are discussed in Finding 2.

Taxes Other than Income

Objectives: The objectives were to determine whether taxes other than income (TOTI) expenses are: 1) Properly recorded in compliance with Commission rules, 2) Reasonable for ongoing utility operations, and 3) Recorded in compliance with the NARUC USOA.

Procedures: We verified TOTI expenses for the test year ended December 31, 2021, by tracing the taxes to original source documentation. We reviewed the 2021 regulatory assessment fee returns. No exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service (UPIS)

Audit Analysis: The Utility's general ledger reflects UPIS balances of \$627,412 and \$802,558 for water and wastewater, respectively, as of December 31, 2021. Audit staff made adjustments to account 341 and 391 – Transportation Equipment of \$12,041 for water and \$17,913 for wastewater as outlined in Table 1-1, and Table 1-2.

Acct. Nos. 341 and 391 – Transportation Equipment were increased by \$12,041 for water and \$17,913 for wastewater. The Utility purchased three Ford F-250 trucks for utility operations and the payments were being expensed. Auditors removed the payment amounts from the O&M expense accounts. We capitalized the three Ford vehicles and included the amounts in the appropriate plant accounts. Account 341 – Transportation Equipment was increased by \$12,041 and account 391 – Transportation Equipment was increased by \$17,913.

Table 1-1

Water		Balance per Utility	Audit	Audit	Simple
Account No.	Account Description	12/31/2021	Adjustments	Balance 12/31/2021	Average
304	Structures & Improvements	\$8,000	\$0	\$8,000	\$8,000
307	Wells & Springs	14,482	-	14,482	14,482
309	Supply Mains	1,910	-	1,910	1,910
311	Pumping Equipment	92,064	-	92,064	92,064
320	Water Treatment Equipment	10,755	-	10,755	10,755
330	Distribution Reservoirs & Standpipes	64,550	-	64,550	64,550
331	Transmission & Distribution Mains	171,372	-	171,372	169,228
334	Meters & Meter Installations	175,928	-	175,928	175,928
335	Hydrants	62,864	-	62,864	57,549
340	Office Furniture & Equipment	13,459	-	13,459	13,459
341	Transportation Equipment	4,494	12,041	16,535	10,515
345	Power Operated Equipment	7,534	-	7,534	7,534
Total		\$627,412	\$12,041	\$639,453	\$625,974

Table 1-2

Wastewater		Balance per	Audit	Audit	
Account No.	Account Description	Utility	Adjustments	Balance	Simple
		12/31/2021		12/31/2021	Average
354	Structures & Improvements	\$5,950	\$0	\$5,950	\$5,950
355	Collecting & Impounding Reservoirs	924	-	924	924
360	Lake, River & Other Intakes	4,542	-	4,542	4,542
361	Wells & Springs	323,884	-	323,884	323,884
364	Pumping Equipment (SubPump)	2,566	-	2,566	2,566
371	Distribution Reservoirs & Standpipes	40,165	-	40,165	40,074
380	Transmission & Distribution Mains	396,741	-	396,741	396,741
381	Services	1,425	-	1,425	1,425
389	Hydrants	2,768	-	2,768	2,768
390	Office Furniture & Equipment	13,459	-	13,459	13,459
391	Transportation Equipment	-	17,913	17,913	8,957
395	Power Generation Equipment	10,134	-	10,134	10,134
Total		\$802,558	\$17,913	\$820,471	\$811,424

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

Effect on Filing: UPIS for water and wastewater should be increased by \$12,041 and \$17,913, respectively, as of December 31, 2021. The UPIS simple average balance is \$625,974 for water and \$811,424 for wastewater.

Finding 2: Accumulated Depreciation and Depreciation Expense

Audit Analysis: According to the Utility's general ledger, Accumulated Depreciation balance was \$472,236 for water and \$553,874 for wastewater as of December 31, 2021. Audit staff recalculated accumulated depreciation and depreciation expense using the audited UPIS balances and the depreciation rates established by Rule 25-30.140(2), F.A.C. Our calculation for accumulated depreciation, depreciation expense, and simple average are shown in Tables 2-1 and 2-2.

Table 2-1

Water						
Account No.	Account Description	Balance per Utility 12/31/2021	Audit Adjustments	Balance per Audit 12/31/2021	Simple Average	Depreciation Expense
304	Structures & Improvements	\$8,000	-	\$8,000	\$8,000	-
307	Wells & Springs	14,482	-	14,482	14,482	-
309	Supply Mains	808	-	808	778	60
311	Pumping Equipment (SubPump)	88,607	-	88,607	85,437	341
320	Water Treatment Equipment	9,939	-	9,939	9,906	68
330	Distribution Reservoirs & Standpipe	24,981	-	24,981	24,004	1,956
331	Transmission & Distribution Mains	167,197	-	167,197	167,140	113
334	Meters & Meter Installations	85,284	-	85,284	80,112	10,345
335	Hydrants	50,445	-	50,445	49,660	1,572
340	Office Furniture & Equipment	13,459	-	13,459	13,459	-
341	Transportation Equipment	1,498	6,145	7,643	4,196	2,756
345	Power Operated Equipment	7,534	-	7,534	7,534	-
Total		\$472,235	\$6,146	\$478,380	\$464,707	\$17,209

Table 2-2

Wastewater						
Account No.	Account Description	Balance per Utility 12/31/2021	Audit Adjustments	Balance per Audit 12/31/2021	Simple Average	Depreciation Expense
354	Structures & Improvements	\$2,766	-	\$2,766	2,656	\$220
355	Collecting & Impounding Reservoirs	171	-	171	155	34
360	Lake, River & Other Intakes	2,606	-	2,606	2,521	168
361	Wells & Springs	323,884	-	323,884	323,884	-
364	Pumping Equipment (SubPump)	2,053	-	2,053	1,796	513
371	Distribution Reservoirs & Standpipe	7,139	-	7,139	7,421	2,233
380	Transmission & Distribution Mains	189,741	-	189,741	183,045	13,393
381	Services	649	-	649	627	45
389	Hydrants	1,273	-	1,273	1,181	184
390	Office Furniture & Equipment	13,458	-	13,458	13,458	-
391	Transportation Equipment	-	8,280	8,280	4,140	2,985
395	Power Generation Equipment	10,134	-	10,134	10,134	-
Total		\$553,874	\$8,280	\$562,154	\$551,017	\$19,776

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

Effect on Filing: Audit staff determined the year-end and simple average balances of the accumulated depreciation to be \$464,707 for water and \$551,017 for wastewater, as of December 31, 2021. Audit staff determined depreciation expense to be \$17,209 for water and \$19,776 for wastewater for the test year ended December 31, 2021.

Finding 3: Operations and Maintenance Expense

Audit Analysis: According to the Utility’s trial balance, operation and maintenance expense balance was \$131,640 for water and \$142,354 for wastewater as of December 31, 2021. The Utility’s water operation and maintenance balance is overstated by \$3,590, and wastewater by \$2,972, as outlined in Tables 3-1 and 3-2.

As discussed in Finding 1, the Utility misclassified monthly vehicle payments as transportation expense. We requested the purchase invoice for each vehicle and capitalized the total amount. As a result, audit staff made the following adjustments:

Account No. 650 – Transportation Expense is reduced by \$3,590 due to improper classification of monthly auto vehicle payments that were being expensed.

Account No. 750 – Transportation Expense is reduced by \$2,972 due to improper classification of monthly auto vehicle payments that were being expensed.

Table 3-1

Water		Balance per	Audit	Balance per
Account	Description	Utility	Adjustment	Audit
		12/31/2021		12/31/2021
601	Salaries & Wages	\$56,176	-	\$56,176
615	Purchased Power	8,678	-	8,678
618	Chemicals	4,527	-	4,527
620	Materials & Supplies	6,362	-	6,362
631	Contractual - Professional	1,153	-	1,153
635	Contractual - Testing	3,912	-	3,912
636	Contractual - Other	37,664	-	37,663
650	Transportation Expense	6,151	(3,590)	2,561
655	Insurance Expense	4,738	-	4,739
670	Bad Debt Expense	421	-	421
675	Miscellaneous Expense	1,858	-	1,858
Total		\$131,640	(\$3,590)	\$128,051
			Working Capital	\$16,006

Table 3-2

Wastewater		Balance per	Audit	Balance per
Account	Description	Utility	Adjustment	Audit
		12/31/2021		12/31/2021
701	Salaries & Wages	\$64,753	-	\$64,753
711	Sludge Removal Expen	21,035	-	21,035
715	Purchased Power	16,051	-	16,051
718	Chemicals	7,699	-	7,699
720	Materials & Supplies	4,567	-	4,567
731	Contractual - Professional	10,620	-	10,620
735	Contractual - Testing	2,045	-	2,046
736	Contractual - Other	2,635	-	2,635
750	Transportation Expense	7,073	(2,972)	4,101
755	Insurance Expense	4,738	-	4,739
770	Bad Debt Expense	371	-	371
775	Miscellaneous Expense	767	-	767
	Total	\$142,354	(\$2,972)	\$139,383
			Working Capital	\$17,423

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

Effect on Filing: Operation and maintenance expenses should be decreased by \$3,590 for water and by \$2,972 for wastewater. Working capital is calculated to be \$16,006 for water and \$17,423 for wastewater using 1/8th of O&M as prescribed by Rule 25-30.433 F.A.C.

Exhibits

Exhibit 1: Water Rate Base

S.V. Utilities, Ltd.					
Water - Rate Base					
As of December 31, 2021					
Docket No. 20220035-WS					
Description	Per Utility 12/31/21	Adjustments	Audit Finding	Per Audit 12/31/21	Simple Average
Plant in Service	\$627,412	\$12,041	1	\$639,453	\$625,974
Land and Land Rights	2,621	-		2,621	2,621
Contribution in Aid of Construction	-	-		-	-
Accumulated Depreciation	(472,235)	(\$6,146)	2	(\$478,380)	(464,707)
Accum. Amortization of CIAC	-	-		-	-
Working Capital Allowance	-	16,006	3	16,006	16,006
Water Rate Base	\$157,798	\$21,902		\$179,700	\$179,894

Exhibit 2: Wastewater Rate Base

S.V. Utilities, Ltd. Wastewater - Rate Base As of December 31, 2021 Docket No. 20220035-WS					
Description	Per Utility 12/31/21	Adjustments	Audit Finding	Per Audit 12/31/21	Simple Average
Plant in Service	\$802,558	\$17,913	1	\$820,471	\$811,424
Land and Land Rights	27,935	-		27,935	27,935
Contribution in Aid of Construction	-	-		-	-
Accumulated Depreciation	(553,873)	(6,788)	2	(560,661)	(551,017)
Accum. Amortization of CIAC	-	-		-	-
Working Capital Allowance	-	17,423	3	17,423	17,423
Wastewater Rate Base	\$276,620	\$28,548		\$305,168	\$305,765

Exhibit 3: Capital Structure

S.V. Utilities, Ltd. Capital Structure As of December 31, 2021 Docket No. 20220035-WS							
Capital Component	Balance per Utility 12/31/2021	Audit Adjustments	Balance per Audit 12/31/2021	Ratio	Cost	Weighted Cost	
Long Term Debt	-	-	-	0.00%	0.00%	0.00%	
Common Equity	1,993,131	-	1,993,131	43.88%	8.74%	3.84%	
Short Term Debt	126,467	-	126,467	2.78%	0.00%	0.00%	
Affiliate Payable	2,394,837	-	2,394,837	52.73%	0.00%	0.00%	
Customer Deposits	-	-	-	0.00%	0.00%	0.00%	
Accrued Taxes	25,461	-	25,461	0.56%	0.00%	0.00%	
Deferred Income	2,127	-	2,127	0.05%	0.00%	0.00%	
Total Capital	\$4,542,023	-	\$4,542,023	100.00%		3.84%	

Exhibit 4: Water Net Operating Income

S.V. Utilities, Ltd. Water - NOI As of December 31, 2021 Docket No. 20220035-WS				
Description	Balance per Utility 12/31/2021	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2021
Operating Revenues	\$99,428	\$10		\$99,438
Operation & Maintenance Expenses	131,640	(3,590)	3	128,051
Depreciation Expense	15,202	2,007	2	17,209
Amortization Expense	-	-		-
Taxes Other Than Income	4,475	-		4,475
Total Operating Expenses:	151,317	(1,583)		149,734
Net Operating Income (Loss)	(\$51,889)	(\$1,573)		(\$50,296)

Exhibit 5: Wastewater Net Operating Income

S.V. Utilities, Ltd. Wastewater - NOI As of December 31, 2021 Docket No. 20220035-WS				
Description	Balance per Utility 12/31/2021	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2021
Operating Revenues	\$137,440	\$35		\$137,475
Operation & Maintenance Expenses	142,354	(2,972)	3	139,383
Depreciation Expense	16,791	2,985	2	19,776
Amortization Expense	-	-		-
Taxes Other Than Income	6,185	-		6,185
Total Operating Expenses:	165,329	13		165,345
Net Operating Income (Loss)	(\$27,890)	\$20		(\$27,870)