

State of Florida



Public Service Commission

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DATE: November 9, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120162-WS
Company Name: Silver Fox Utility Company, LLC d/b/a Timberwood Utilities
Company Code: WS896
Audit Purpose: B1c Transfer Audit
Audit Control No: 12-214-2-1

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 were no confidential work papers associated with this audit.

PD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER - DATE

07588 NOV -9 02

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Silver Fox Utility Company, LLC
d/b/a Timberwood Utilities
Transfer of Certificates

As of February 29, 2012

Docket No. 120162-WS
Audit Control No. 12-214-2-1
November 6, 2012

Ronald A. Mavrides

Ronald A. Mavrides

Audit Manager

Linda Hill-Slaughter

Linda Hill-Slaughter
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 July 31, 2012. We have applied these procedures to the attached schedule prepared by audit staff in support of the Silver Fox Utility Company, LLC d/b/a Timberwood Utilities request for certificate transfers in Docket No. 120162-WS.

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

General

Definitions

Utility refers to the Silver Fox Utility Company, LLC d/b/a Timberwood Utilities.

Buyer refers to Hometown Canada Utility, Inc.

Utility Information

Silver Fox Utility Company, LLC is a Class "C" water and wastewater utility serving 159 water and 158 wastewater customers at the Arbor Oaks Mobile Home Park in Pasco County. The Utility was granted Water Certificate No. 524-W in 1989 and Wastewater Certificate No. 459-S in 1990. Rate base was set as of December 31, 2004, in Docket No. 050274-WS, a staff assisted rate case.

The Utility and the Arbor Oaks Mobile Home Park were owned by David and Barbara Bollinger. An agreement to purchase the Utility was reached on July 11, 2011, and the closing between the Utility and Hometown Canada Utility, Inc., a company established to operate the Utility, occurred on March 31, 2012. Hometown Canada Utility, Inc. paid \$5,600,000 in cash and assumed an existing note and mortgage loan totaling \$3,150,000. The purchase price included the Arbor Oaks Mobile Home Park and the operating certificates, personal property and all rights and properties of Silver Fox Utility, LLC d/b/a Timberwood Utilities.

Utility Books and Records

Objectives: The objectives were to determine whether the Utility maintained its books and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) and maintained separate affiliated company records.

Procedure: We reviewed the Utility's books and records, including the general ledger as of December 31, 2011, the trial balance as of February 29, 2012, and selected plant invoices and cancelled checks. We verified that the Utility maintained separate affiliated company records. The Utility's books and records are in substantial compliance with the NARUC USOA. However, the Utility was inconsistent in its use of the NARUC USOA and failed to properly accrue accumulated depreciation and accumulated amortization of Contributions-in-Aid-of-Construction (CIAC) in its general ledger.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to verify that Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are authentic, recorded at original cost, and properly classified as a capital item in compliance with Commission rules and the NARUC USOA, 3) Retirements are made when a replacement item is put in service, and 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances of water and wastewater UPIS as of December 31, 2004, established in Docket No. 050274-WS, including Commission adjustments, with the Utility's books and records. We scheduled water and wastewater UPIS balances for the audit period using the Utility's books and records. We traced the plant additions and retirements from January 1, 2005, to February 29, 2012, to supporting documentation. No exceptions were noted.

Land & Land Rights

Objectives: The objectives were to determine whether utility land is either recorded at original cost or secured under a long-term lease, and if the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: The Utility purchases bulk water from Pasco County and resells the water to its customers; therefore, there is no land associated with the Utility's provision of water service. We determined that a long-term lease agreement was in place for the land used by the Utility at the wastewater treatment plant site. We obtained and reviewed the current and predecessor lease agreements. We determined that the remaining life of the land-lease agreement was reassigned to the Buyer on September 4, 2012. Our recommended adjustment to Land and Land Rights is discussed in Finding 1.

Accumulated Depreciation

Objectives: The objectives were to verify that: 1) Accumulated Depreciation accruals are properly calculated and recorded based on Commission rules and the NARUC USOA, 2) Retirements are properly recorded, and 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We recalculated Accumulated Depreciation, beginning with the balances established in Order No. PSC-05-1218-PAA-WS, using the depreciation rates established by Rule 25-30.140(2), Florida Administrative Code (F.A.C.). We compared Accumulated Depreciation balances in the general ledger to staff's recalculated balances as of February 29, 2012. Our recommended adjustment to Accumulated Depreciation is discussed in Finding 2.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to verify that: CIAC additions are in compliance with the Utility's Commission approved service availability tariff and that the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances of water and wastewater CIAC as of December 31, 2004, established in Docket No. 050274-WS, including Commission ordered adjustments, with the Utility's books and records. We inspected the Utility's service area and reviewed Utility records to determine whether any new customers had connected to the Utility since the last time rate base was established. In addition, we spoke with the Utility's consultant who confirmed that there were no CIAC additions or retirements for the period December 31, 2004, through February 29, 2012. We found that the Utility had not recorded the Commission adjustments found in Docket No. 050274-WS to CIAC in its books and records. Our recommended adjustment to CIAC is discussed in Finding 3.

Accumulated Amortization of CIAC

Objectives: The objectives were to verify that Accumulated Amortization of CIAC accruals are properly calculated and recorded in compliance with Commission rules and if the adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We recalculated Accumulated Amortization of CIAC, beginning with the balances established in Order No. PSC-05-1218-PAA-WS, using applicable Commission approved rates. We compared Accumulated Amortization balances in the general ledger to staff's recalculated balances as of February 29, 2012. We found that Accumulated Amortization of CIAC was not included in the Utility's general ledger. Our recommended adjustment to Accumulated Amortization of CIAC is discussed in Finding 4.

Rates and Charges

Objective: The objective was to verify the extent to which the Utility is charging its authorized monthly service rates, customer deposits, miscellaneous service charges, and service availability charges.

Procedures: We obtained a copy of the Utility's billing register for February 2012. We recalculated a sample of the customer bills using the approved tariff rates and compared our calculation with the actual amount billed. We verified that the Utility charged the authorized monthly service rates and the miscellaneous service charges for late payments. The auditor noted no instances in which the Utility collected customer deposits or service availability charges for the month of February. . There was no balance for customer deposits on the trial balance as of December 31, 2011. No exceptions were noted.

Audit Findings

Finding 1: Land and Land Rights

Audit Analysis: In Order No. PSC-05-1218-PAA-WS, the Commission found that the Utility had a 99-year land-lease agreement with Mink Associates I, the prior owner, for the land for the wastewater treatment plant. The cost of the land was removed from rate base and an allowance was given to the Utility for land rental. The Utility failed to remove the \$10,152 in Land and Land Rights from its general ledger. Land and Land Rights should be reduced by \$10,152 to remove the cost of land from the Utility's general ledger.

Effect on the General Ledger: The effect on the general ledger is a decrease of \$10,152 to Land and Land Rights.

<u>A/C No.</u>	<u>Account Title</u>	<u>Dr</u>	<u>Cr</u>
215	Retained Earnings	\$10,152	
353	Land and Land Rights		\$10,152

Finding 2: Accumulated Depreciation

Audit Analysis: Order No. PSC-05-1218-PAA-WS established balances for Accumulated Depreciation for water and wastewater as of December 31, 2004. Staff calculated Accumulated Depreciation balances of \$42,619 and \$159,809 for water and wastewater, respectively, as of February 29, 2012. The Utility did not use the Commission approved depreciation rates. Accumulated Depreciation for water should be reduced by \$9,927 for water and increased by \$5,527 for wastewater.

Effect on the General Ledger: The net effect on the general ledger is a reduction to Accumulated Depreciation for water of \$9,927 and an increase to Accumulated Depreciation for wastewater of \$5,527.

<u>A/C No.</u>	<u>Account Title</u>	<u>Dr</u>	<u>Cr</u>
108-W	Accumulated Depreciation - Water	\$9,927	
108-WW	Accumulated Depreciation - Wastewater		\$5,527
215	Retained Earnings		\$4,400

Finding 3: Contributions-in-Aid-of-Construction

Audit Analysis: Order No. PSC-05-1218-PAA-WS established balances for CIAC of \$53,583 and \$95,165 for water and wastewater, respectively, as of December 31, 2004. We verified that there were no additions to CIAC since the last time rate base was established. The Utility did not adjust the balances in its general ledger for CIAC per the Commission order. The amounts recorded in the Utility's general ledger were \$34,857 and \$70,799 for water and wastewater, respectively, as of February 29, 2012. CIAC should be increased by \$18,726 and \$24,366 for water and wastewater, respectively, to reflect the balances approved in Order No. PSC-05-1218-PAA-WS.

Effect on the General Ledger: The net effect on the general ledger is an increase to CIAC of \$18,726 and \$24,366 for water and wastewater, respectively.

<u>A/C No.</u>	<u>Account Title</u>	<u>Dr</u>	<u>Cr</u>
215	Retained Earnings	\$43,092	
271-W	CIAC - Water		\$18,726
271-WW	CIAC - Wastewater		\$24,366

Finding 4: Accumulated Amortization of CIAC

Audit Analysis: Order No. PSC-05-1218-PAA-WS established balances for Accumulated Amortization of CIAC of \$25,908 and \$53,205 for water and wastewater, respectively, as of December 31, 2004. Staff calculated Accumulated Amortization of CIAC balances of \$37,319 and \$74,560 for water and wastewater, respectively, as of February 29, 2012. The Utility did not record Accumulated Amortization of CIAC in its general ledger. Accumulated Amortization of CIAC should be increased by \$37,319 and \$74,560 for water and wastewater, respectively.

Effect on the General Ledger: The net effect on the general ledger is an increase to Accumulated Amortization of CIAC of \$37,319 and \$74,560 for water and wastewater, respectively.

<u>A/C No.</u>	<u>Account Title</u>	<u>Dr</u>	<u>Cr</u>
272-W	Accumulated Amortization of CIAC - Water	\$37,319	
272-WW	Accumulated Amortization of CIAC - Wastewater	\$74,560	
215	Retained Earnings		\$111,879

Finding 5: Deferred Revenues

Audit Analysis: The Utility reported a non-NARUC prepaid water and wastewater liability of \$3,700.16 on its trial balance. These are prepaid amounts that seasonal residents pay in advance for future services. The deferred revenue collected was not separated into water and wastewater. The Utility was able to provide a detailed list of which customers had prepaid \$1,523.79 of the total. The Utility could not provide a detailed list of which customers had prepaid the remaining \$2,176.37. Audit staff defers to the analyst for further review.

Effect on the General Ledger: For informational purposes only.

Exhibits

Exhibit 1: Net Book Value

Silver Fox Utility, LLC
Net Book Value
As of February 29, 2012

Water	Utility Balance 2/29/2012	Audit Adjustment	AF*	Audit Balance 2/29/2012
Utility Plant in Service	\$68,319	\$0		\$68,319
Accumulated Depreciation	(52,546)	9,927	AF 2	(42,619)
Contributions-in-Aid-of-Construction (CIAC)	(34,857)	(18,726)	AF 3	(53,583)
Accumulated Amortization of CIAC		37,319	AF 4	37,319
Net Book Value	(\$19,084)	\$28,520		\$9,436

Wastewater	Utility Balance 2/29/2012	Audit Adjustment	AF*	Audit Balance 2/29/2012
Utility Plant in Service	\$195,972	\$0		\$195,972
Land	10,152	(10,152)	AF 1	0
Accumulated Depreciation	(154,282)	(5,527)	AF 2	(159,809)
Contributions-in-Aid-of-Construction (CIAC)	(70,799)	(24,366)	AF 3	(95,165)
Accumulated Amortization of CIAC		74,560	AF 4	74,560
Net Book Value	(\$18,957)	\$34,515		\$15,558

AF* references the Audit Finding

Exhibit 2: UPIS and Accumulated Depreciation

Silver Fox Utility Company, LLC
 Utility Plant in Service and Accumulated Depreciation
 Audit Balances as of February 29, 2012

Water				
NARUC				
Acct.	Acct. Description	UPIS	Acc. Dep.	Dep. Rate
301	Organization	\$5,007	(\$3,833)	2.50%
304	Structures and Improvements	263	(236)	3.70%
331	Transmission and Distribution Mains	53,583	(33,371)	2.63%
334	Meters and Meter Installations	5,925	(1,638)	5.88%
335	Hydrants	0	0	2.50%
340	Office Furniture and Equipment	3,541	(3,541)	6.67%
		<u>\$68,319</u>	<u>(\$42,619)</u>	
Wastewater				
NARUC				
Acct.	Acct. Description	UPIS	Acc. Dep.	Dep. Rate
354	Structures and Improvements	\$81,228	(\$74,686)	3.70%
361	Collection Sewers - Gravity	89,967	(62,146)	2.50%
363	Services to Customers	5,466	(4,209)	2.86%
380	Treatment and disposal Equipment	12,866	(12,865)	6.67%
381	Plant Sewers	2,904	(2,362)	3.13%
390	Office Furniture and Equipment	3,541	(3,541)	6.67%
		<u>\$195,972</u>	<u>(\$159,809)</u>	