


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: July 25, 2005
TO: Tracey Biggins, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing 
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 050274-WS ; **Company Name:** Silver Fox Utility d/b/a
Timberwood Utility ; **Audit Purpose:** Staff Assisted Rate Case ; **Audit
Control No.** 05-140-2-1

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 the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District
Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. David Bollinger, President
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Gary Morse, Utility Consultant
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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

Tallahassee District Office

SILVER FOX UTILITY, CO., d/b/a
TIMBERWOOD UTILITIES, INC.

STAFF ASSISTED RATE CASE AUDIT

TWELVE MONTH PERIOD ENDED DECEMBER 31, 2004

DOCKET NO. 050274-WS
AUDIT CONTROL NO. 05-140-2-1

A handwritten signature in cursive script that reads "Robert Moore".

Robert Moore, Audit Staff

A handwritten signature in cursive script that reads "Lynn M. Deamer".

Lynn M. Deamer, Audit Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

July 15, 2005

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the financial and operating records, and prepare schedules of rate base, capital structure, and net operating income as part of a Staff Assisted Rate Case for the 12-month period ending December 31, 2004 for Timberwood Utilities, Inc. The attached schedules were prepared by the auditor as part of our work in Docket No. 050274-WS.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the Utility. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Determined beginning balances of depreciable Plant in Service, Land, Accumulated Depreciation, Contributions in Aid of Construction, Accumulated Amortization of CIAC, and Net Acquisition Adjustment for both water and wastewater as of March 23, 2000 for this proceeding based on prior audit workpapers and balances established in PSC Order PSC-01-1167-PAA-WS. Updated all balances through December 31, 2004. Determined Working Capital based on 1/8 of Operations and Maintenance Expense.

Reviewed selected invoices for plant additions for years 2000, 2001, 2002, 2003, and 2004. Requested utility provide estimates for any planned additions to plant.

Researched acquisition adjustment found in application for staff assistance filing and annual reports filed with this Commission.

Researched ownership of land.

Toured Plant facilities.

CAPITAL STRUCTURE: Prepared the capital structure as of December 31, 2004.

NET OPERATING INCOME: Determined the utility Net Operating Income for 12 months ended December 31, 2004. Recalculated the Revenue for both residential and commercial customers. Tested that the utility is applying the correct rates per the tariff. Determined the appropriate Operation and Maintenance expenses for both water and wastewater of the utility for the 12 months ended December 31, 2004. On a test basis, traced some expenses to invoices. Calculated depreciation expense and accumulated amortization of CIAC. Calculated Taxes Other Than Income.

OTHER: Compared balances for O&M expenses and plant using trend analysis and ratio analysis for years 2000 to 2004. Obtained utility responses for questions observed. Obtained tax returns for years 2003 and 2004. Prepared billing analysis of both residential and commercial customers.

EXCEPTION NO. 1

Subject: Commercial Revenue

Statement of Fact:

Utility has 3 commercial customers. They are the Mobile Home Park Clubhouse, the Pool/Spa and the Utility Wastewater Plant. The Clubhouse, pool/spa, and wastewater treatment plant are billed for water usage. The Clubhouse is also billed for Wastewater treatment. The utility has recorded revenues in the amounts of \$3,070 for water and \$6,989 for wastewater in 2004 for these commercial accounts. These accounts were billed for \$1,181 and \$319 for water and wastewater respectively. Audit staff determined that the commercial accounts are being billed at the correct tariff rates. Audit staff recalculated these amounts due based on the tariff rates. Audit staff could not determine why there was a large difference between what was recorded as revenue and what was billed. The Consultant and CPA of the utility did not know why there was a difference. The schedule below shows the adjustment needed. The accompanying adjustment to Regulatory Assessment Fees is also shown.

	Balance		Balance
	Per Utility	Adjustment	Per Audit
Revenue			
Water	\$3,070	(\$1,889)	\$1,181
Wastewater	\$6,989	(\$6,670)	\$319
 Regulatory Assessment Fee			
Water	\$689	(\$85)	\$604
Wastewater	\$1,726	(\$300)	\$1,426

Recommendation: Adjust the Utility's balances to reflect the tariff rates.

EXCEPTION NO. 2

Subject: Residential Revenue

Statement of Fact:

Audit Staff recalculated water and wastewater revenue from residential customers based on gallonage used. The schedule below shows the adjustment needed. The accompanying adjustment to Regulatory Assessment Fees is also shown.

	Balance		Balance
	Per Utility	Adjustment	Per Audit
REVENUE	<hr/>		
Water	\$12,244	\$2,439	\$14,683
Wastewater	\$31,366	\$7,734	\$39,100
Regulatory Assessment Fee			
Water	\$689	\$110	\$799
Wastewater	\$1,726	\$348	\$2,074

Recommendation: Adjust the Utility's balances as shown.

EXCEPTION NO. 3

Subject: Meter Replacements

Statement of Fact:

The last proceeding had a test year of 12 months ended 3/23/00. According to the Commission order PSC-01-1167-PAA-WS issued May 22, 2001, a net addition to Account 334-Meters & Meter Installation in 2000 was \$2,231. The annual report for year 2000 showed net additions of \$3,338. This is a difference of \$1,107 of additions made and recorded by the utility subsequent to the audit adjustment in the prior order. Invoices could support only \$660.00 in meter additions at a cost of \$55.00 per meter. This leaves \$447 (\$1,107 - \$660) unsupported. Since there was no customer increase in that year, we assume that these are replacement meters and a cost needs to be associated with the retirement of the ones replaced. Prior Commission practice is to use 75% of the replacement cost as a substitute for plant retirements. This results in \$495 to be removed from plant for retirement purposes.

In years, 2001, 2002, 2003 and 2004, there were no additions or retirements to plant for meter replacement per the annual reports. However, Audit Staff located support for the cost of meters as shown below. These retirements are calculated using a 75% replacement value per prior Commission practice.

Account 334-Meters						Total Audit
Description	2000	2001	2002	2003	2004	Adjustments
Additions	660	756	0	0	252	1,668
Retirements	(495)	(567)			(189)	(1,251)
Adjustment for unsupported	(447)					(447)
Total Audit Adjustments	(282)	189	0	0	63	(30)

In addition, the invoice for the meter additions in 2004 was expensed to Account 731-Contractual Services. Since audit staff is reflecting the cost of the meter in Account 334-Meters, Account 731 should be reduced by \$252.

Recommendation: Adjust Plant in Service and Accumulated Depreciation for the replacement of meters as shown. Adjust Operation and Maintenance Expense for Wastewater for \$252.

EXCEPTION NO. 4

Subject: Acquisition Adjustment

Statement of Fact:

Utility annual reports reflect an acquisition adjustment of \$318,499 beginning on its 2000 annual report. This acquisition adjustment is reduced each year at a rate of approximately 3.3333% per year or \$10,617 per year.

Per FPSC Order PSC-01-1167-PAA, issued May 22, 2001 (consummated in FPSC Order PSC-1353-CO-WS), no Acquisition Adjustment was or is approved by this Commission during the last Commission proceeding, Docket 001513-WS

The utility divides the Amortization between water and wastewater at a rate of 27% (\$2,868/\$10,617) to 73% (\$7,749/\$10,617) respectively.

Therefore, we reflected the Net Acquisition Adjustment of \$276,031 for this audit at the same ratio.

Water	Per Utility @12/31/04	Audit Adjustment	Per Audit @ 12/31/04
Acquisition Adjustment Accumulated	85,994.00	(85,994.00)	0.00
Amortization of Acquisition Adjustment	(11,466.00)	11,466.00	0.00
Net Acquisition Adjustment	<u>74,528.00</u>	<u>(74,528.00)</u>	0.00
Wastewater	Per Utility @12/31/04	Audit Adjustment	Per Audit @ 12/31/04
Acquisition Adjustment Accumulated	232,504.00	(232,504.00)	0.00
Amortization of Acquisition Adjustment	(31,001.00)	31,001.00	0.00
Net Acquisition Adjustment	<u>201,503.00</u>	<u>(201,503.00)</u>	0.00

Recommendation:

The Commission has not authorized this Acquisition Adjustment. Therefore, we recommend a reduction to Rate Base for Water and Wastewater for the amounts stated above.

EXCEPTION NO. 5

Subject: Real and Tangible Personal Property Tax

Statement of Fact:

Real Property Tax

The wastewater land is located on parts of two tracts of the parcel ID that houses the entire mobile home park. We could not determine the acreage of a tract. However, on the map of the mobile home park obtained by audit staff, a tract is roughly 1/5 of the total property. The wastewater plant is roughly 1/6 of a tract. The real estate tax bill is for 5 tracts, each containing 6 parts (6x5=30), so the utility is entitled to 1/30 of the entire bill of \$66,279.60 or \$2,209.32. To divide between water and wastewater, staff used a percentage based on depreciable plant.

Tangible Personal Property Tax

Utility booked the entire tangible personal property tax of \$1,516, to Wastewater. Audit Staff agrees with this because there is no water plant.

Staff Recommendation:

Based on the above, the audit staff recommends the following adjustments.

	Bal Per Utility @ 12/31/04	Audit Adjustment	Bal Per Audit @12/31/04
<i>Water</i>			
Real Property Tax	827	(272)	555
<i>Wastewater</i>			
Real Property Tax	2,227	(573)	1,654
Tangible Personal Property Tax	1,516	0	1,516
Total Wastewater	3,743	(573)	3,170

EXCEPTION NO. 6

Subject: Transportation Expense

Statement of Fact:

The utility is charged \$6,000/year for the lease of a vehicle for the president, David Bollinger. This amount is divided evenly between water and wastewater, Account 640-Rents and Account 740-Rents. These amounts are recorded in the incorrect accounts according to NARUC, Class C, Water Operation and Maintenance Expense Account 640-Rents (and NARUC, Class C, WasteWater Operation and Maintenance Expense Account 740-Rents) which says:

This account shall include those costs associated with the rental of buildings, real property and equipment, except for the rental of automobiles and trucks which shall be included in account 650-Transportation Expense.

Mr. Bollinger is also responsible for 3 other business entities, besides the utility. Therefore, audit staff believes that this amount should be reduced to allocate only ¼ of the cost to the utility- \$6,000/4=\$1,500 to be allocated between water and wastewater equally (\$750 respectively) and booked to the proper NARUC account of 650-Transportation and 750-Transportation.

Recommendation: Adjust the Utility's balances as shown below.

<i>Water</i>	<u>Account Per Utility Adjustment Per Audit</u>			
Remove from improper account	640	\$3,000	(\$3,000)	\$0
Reclass and adjust for utility portion	650	\$0	<u>\$750</u>	\$750
Net Adjustment to Water Expenses			<u>(\$2,250)</u>	

<i>Wastewater</i>	<u>Account Per Utility Adjustment Per Audit</u>			
Remove from improper account	740	\$3,000	(\$3,000)	\$0
Reclass and adjust for utility portion	750	\$0	<u>\$750</u>	\$750
Net Adjustment to Water Expenses			<u>(\$2,250)</u>	

EXCEPTION NO. 7

Subject: Amortization of CIAC and Accumulated Amortization of CIAC Water & Wastewater

Statement of Fact: The Utility used incorrect rates and has under amortized CIAC for Water and Wastewater since the year 2000. This results in both Amortization of CIAC Expense and Accumulated Amortization of CIAC being too low.

Per the schedule below, these balances need to be charged to correctly report Amortization of CIAC and Accumulated Amortization of CIAC for both water and wastewater.

	Bal. Per Utility <u>12/31/04</u>	Audit Adj. _____	Bal. Per Audit <u>12/31/04</u>
<u>WATER</u>			
Amortization of CIAC	1,410	214	1,624
Accum. Amortization of CIAC	24,913	1,808	26,721
<u>WASTEWATER</u>			
Amortization of CIAC	2,438	798	3,236
Accum. Amortization of CIAC	47,957	6,957	54,914

Recommendation: The Amortization Expense rate for the Utility should be the yearly composite rate of all depreciable items.

EXCEPTION NO. 8

Subject: Accumulated Depreciation and Depreciation Expense

Statement of Fact:

Utility did not use rates as per Rule 25-30.140 F.A.C. in calculating depreciation expense and accumulated depreciation. To conform to these rates, the adjustments shown in the schedule below need to be made.

	<u>Audit Adjustment</u>
Water	
Accumulated Depreciation	(3,125)
Depreciation Expense	(44)
Wastewater	
Accumulated Depreciation	(1,712)
Depreciation Expense	(445)

Recommendation: Adjust Accumulated Depreciation and Depreciation Expense by the above amounts.

EXCEPTION NO. 9

Subject: Working Capital

Statement of Fact:

Working Capital is calculated using one-eighth of Operation and Maintenance Expense. This equates to \$4,337 for Water and \$5,707 for Wastewater based on the audit balances of Operation and Maintenance Expense.

EXCEPTION NO. 10

Subject: Unsupported allocated office expense

Statement of Fact:

In 2004, all of the office expenses charged to Account 630-Contractual Services and Account 730-Contractual Services were supported by checks except for \$1,326. This amount is split between water (\$663) and wastewater (\$663). The CPA told audit staff that this was allocated office expense. Although audit staff asked, he did not provide additional information.

Recommendation: Reduce Operation and Maintenance Expenses by \$663 for water and \$663 for wastewater.

DISCLOSURE NO. 1

Subject: Amounts paid to CPA and utility consultant

Statement of Fact:

The utility employs a Certified Public Accountant to prepare financial statements for the utility. During 2004, the utility incurred \$5,085 in fees divided between water (\$2,543) and wastewater (\$2,543). The invoice does not provide detail such as listing number of hours worked, supplies used etc.

The utility also employs a consultant that takes the information from the CPA and prepares the annual report as well as other engineering forms. During 2004, the utility incurred \$18,816 in fees divided between water (\$3,648) and wastewater (\$15,168). The invoice does not provide detail such as listing number of hours worked, supplies used etc.

	Amount allocated to Water per utility at 12/31/04	Amount allocated to WasteWater per utility at 12/31/04
Operation and Maintenance Expense	37,608	48,819
Consultant Fees	3,648	15,168
As a percent of O&M Expense	9.70%	31.07%
CPA Fees	2,542	2,542
As a percent of O&M Expense	6.76%	5.21%

Recommendation:

For use by analyst.

DISCLOSURE NO. 2

Subject: Land

Statement of Fact:

Per FPSC Order PSC-01-1167-PAA, issued May 22, 2001 (consummated in FPSC Order PSC-1353-CO-WS), land on which the wastewater treatment plant is located was approved at a value of \$10,152 and included in rate base by this Commission during the last Commission proceeding, Docket 001513-WS

The current owner, Silver Fox Utility Company, purchased this utility with a closing date of January 28, 2004 contingent on Commission approval. However, the application for transfer was not applied for with this Commission until January 26, 2005. (Docket 050062-WS)

The land ownership continues to reside with a prior owner, Mink I. Mink II, the seller in Docket 050062-WS, had a 99-year lease agreement (dated August 26, 2002) with Mink I. The current utility owner, Silver Fox, filed an executed copy of this lease assignment as per Order PSC-05-0682-FOF-WS.

Order PSC-05-0682-FOF-WS also noted that this issue of land rental would be addressed in the next rate proceeding.

Recommendation:

Prudence of land rental should be considered by this Commission. Rate base should be reduced by \$10,152 if land rental is continued.

DISCLOSURE NO. 3

Subject: Insurance Expense

Statement of Fact:

The Utility recorded \$257 of insurance expense to water and \$257 of insurance expense to wastewater in 2004. The general ledger and check register both concur that payment was to Gulf Insurance. However, the Utility did not provide a copy of the policy for this utility. The CPA stated that it was the utility's portion of the vehicle insurance for the vehicle in Exception 8 of this report.

	<u>Per Utility</u>	<u>Adjustment to reduce for unsupported</u>	<u>Per Audit</u>
Account 655-Insurance	\$257	(\$257)	\$0
Account 755 - Insurance	\$257	(\$257)	\$0

Recommendation: Adjust the Utility's balances as shown.

DISCLOSURE NO. 4

Subject: Cost of Capital

Statement of Fact:

The utility has received cash from the utility president and an affiliated company in the amounts of \$5,100 and \$395,392 respectively. These are not third party transactions and there is no binding formal notes specifying repayment terms. Although there is interest found on the annual reports, (imputed interest rate of 5.5%), there has been no payments by the utility for either amount. Therefore, audit staff views this as equity and used the cost rate set forth in Commission Order PSC-05-0680-PAA-WS to determine cost of capital.

Recommendation: Adjust the Utility's balances as shown.

EXHIBIT I

**Timberwood Utilities
Staff Assisted Rate Case
12 months ended 12/31/04
Dkt 050274 ACN 05-140-2-1
Schedule of Rate Base-Water**

Description	End Bal Per Utility 12/31/04	Audit Adjustment	AE Reference	End Bal Per Audit 12/31/04
Land	0	0		0
Plant In Service	65,727	(30)	AE3	65,697
Accumulated Depreciation	(31,665)	4,376	AE8,AE3	(27,289)
Contributions in Aid of Construction	(53,583)	0		(53,583)
Accumulated Amortization of CIAC	24,913	1,808	AE7	26,721
Net Acquisition Adjustment	74,528	(74,528)	AE4	0
Working Capital	0	4,337	AE9	4,337
Total RateBase	<u>79,920</u>	<u>(64,037)</u>		<u>15,883</u>

EXHIBIT II

**Timberwood Utilities
Staff Assisted Rate Case
12 months ended 12/31/04
Dkt 050274 ACN 05-140-2-1
Schedule of Rate Base-WasteWater**

Description	End Bal Per Utility 12/31/04	Audit Adjustment	AE Reference	End Bal Per Audit 12/31/04
Land	10,152	0		10,152
Plant In Service	195,972	0		195,972
Accumulated Depreciation	(117,568)	1,712	AE8	(115,856)
Contributions in Aid of Construction	(53,583)	0		(53,583)
Accumulated Amortization of CIAC	47,957	6,957	AE7	54,914
Net Acquisition Adjustment	201,503	(201,503)	AE4	0
Working Capital	0	5,707	AE9	5,707
Total RateBase	<u>284,433</u>	<u>(187,127)</u>		<u>97,306</u>

EXHIBIT III

**Timberwood Utilities
Staff Assisted Rate Case
12 months ended 12/31/04
Dkt 050274 ACN 05-140-2-1
Schedule of Net Operating Income-Water**

Description	Balance per Utility @ 12/31/04	Audit Adjustment	AE Reference	Balance per Audit @ 12/31/04
Operating Revenues	15,314	550	AE1,AE2	15,864
Operation and Maintenance	37,608	(2,913)	AE6,AE10	34,695
Depreciation	2,010	(44)	AE8	1,966
Amortization of CIAC	1,410	214	AE7	1,624
Taxes Other Than Income	1,516	(247)	AE1,AE2,AE5	1,269
Total Operating Expenses	<u>42,544</u>	<u>(2,990)</u>		<u>39,554</u>
Operating Income (Loss)	<u>(27,230)</u>	<u>3,540</u>		<u>(23,690)</u>

EXHIBIT IV

**Timberwood Utilities
Staff Assisted Rate Case
12 months ended 12/31/04
Dkt 050274 ACN 05-140-2-1
Schedule of Net Operating Income-WasteWater**

Description	Balance per Utility @ 12/31/04	Audit Adjustment	AE Reference	Balance per Audit @ 12/31/04
Operating Revenues	38,355	1,064	AE1,AE2	39,419
Operation and Maintenance	48,819	(3,165)	AE3,AE6,AE10	45,654
Depreciation	7,166	(445)	AE8	6,721
Amortization of CIAC	2,438	798	AE7	3,236
Taxes Other Than Income	5,469	(525)	AE1,AE2,AE5	4,944
Total Operating Expenses	63,892	(3,337)		60,555
Operating Income (Loss)	(25,537)	4,401		(21,136)

EXHIBIT V

**Timberwood Utilities
Staff Assisted Rate Case
12 months ended 12/31/04
Dkt 050274 ACN 05-140-2-1
Cost of Capital-Common Equity-Water and Wastewater**

<u>Description</u>	<u>Per Audit</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost of Capital</u>
Common Equity	400,492.00	100.00%	11.78%	11.78%
	<u>400,492.00</u>			