

State of Florida



Public Service Commission

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

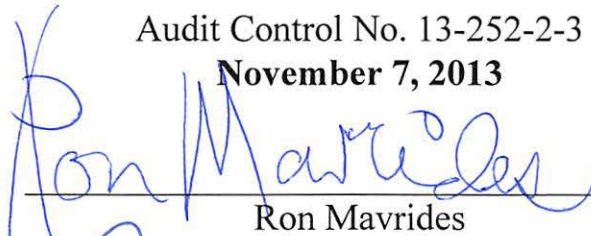
Auditor's Report

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

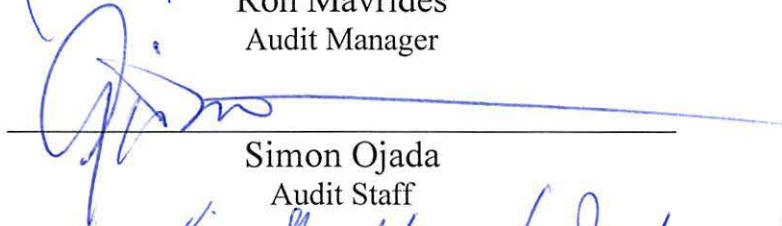
Twelve Months Ended June 30, 2013

Docket No. 130211-WS
Audit Control No. 13-252-2-3

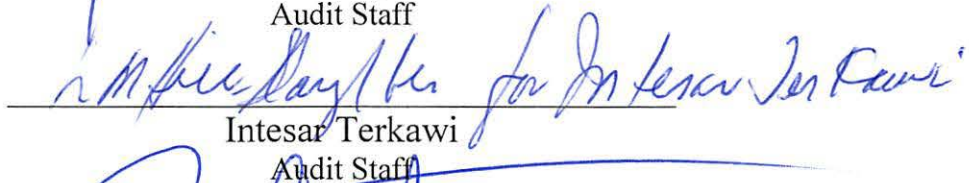
November 7, 2013



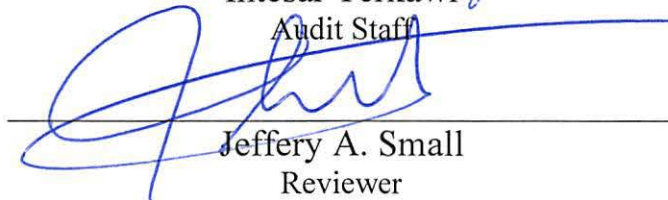
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Purpose

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 September 4, 2013. 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.130211-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

Background

Definitions

- Utility refers to the water and wastewater utilities owned and operated by S.V. Utilities, Ltd.
- Parent refers to Century Realty Funds, Inc., the parent company of S.V. Utilities, Ltd.
- Test Year refers to the twelve months ended June 30, 2013.
- Prior Test Year refers to the twelve months ended December 31, 2006.
- OCS refers to the Commission staff engineer's Original Cost Study of the Utility's rate base balances as of December 31, 2006, that was completed in 2007 in Docket No. 070413-WS.
- Technical Staff Report refers to the preliminary staff report dated December 13, 2007, which has not been codified in a Commission Order.
- NARUC refers to the National Association of Regulatory Commissioners.
- USOA refers to the NARUC Uniform System of Accounts as adopted by Commission Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code. (F.A.C.)

Company Background

S.V. Utilities, Ltd. is a Class C water and wastewater utility which serves approximately 758 water and wastewater customers. The Utility is located in Polk County and is part of the Southwest Florida Water Management District. The Utility serves the Swiss Village Mobile Home Park, Hidden Cove East Mobile Home Park and Hidden Cove West Mobile Home Park, (Communities) all of which are located on Lake Alfred.

The Communities own the land where the respective mobile home parks reside . Lot rental fees include the residential water and wastewater base facility charges and are collected by each Community from its residents on a monthly basis. Residential usage charges are billed directly by each Community and are collected quarterly. The general service water and wastewater charges for the common areas are billed and collected quarterly by each Community.

Polk County came under the Commission's jurisdiction on July 11, 1996. The Commission subsequently granted grandfather Certificates Nos. 609-W and 525-S to CHC VII in 1999. Rate Base has never been established for the Utility.

The Utility applied for a Staff-Assisted Rate Case (SARC) on July 16, 2007. Docket No. 070413-WS was opened with a test year of twelve months ended December 31, 2006. The audit report issued in that docket (ACN 007-233-2-4) disclosed that there was no support for the original cost of the plant and provided additional audit adjustments. An OCS was conducted by the Engineering Division for the prior test year and a Technical Staff Report was issued, which included the OCS and audit adjustments. However, the Utility withdrew its rate case application prior to a Commission Order being issued. Therefore, balances for Rate Base have not been codified in a Commission Order. Audit staff used the balances as of December 31, 2006, per the Technical Staff Report at the request of current technical Commission staff to determine the Utility's Rate Base balances as of June 30, 2013.

The Parent is a real estate development company with a specialty in the development of senior mobile home parks. The Parent owns and operates a total of five utilities, all of which are under the Commission's jurisdiction. All utilities owned are in Polk County and serve senior mobile home park communities. The Parent allocates a portion of its operating costs to the utilities they own based on the number of mobile home rental lots in each community.

General

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 Commissioners' (NARUC) Uniform System of Accounts (USOA) and maintained separate affiliate company's records.

Procedures: We reviewed the Utility's books and records and determined that they are in 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 was put in service, 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 5) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater UPIS as of December 31, 2006, as reflected in the Technical Staff Report. We scheduled UPIS activity from January 1, 2007, through June 30, 2013. We traced asset additions and retirements to supporting documentation and to the general ledger. We determined the year end and simple average UPIS balance as of June 30, 2013. We reviewed supporting documentation for assets acquired subsequent to the test year. Our recommended adjustments to UPIS are discussed in Findings 1 and 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 agreement, 3) Recorded in compliance with the NARUC USOA, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We obtained the beginning balances for water and wastewater Land as of December 31, 2006, as reflected in the preliminary Staff Report. We searched the Polk County Clerk of Court's official records for activity related to purchases or sales of utility land. We traced Land balances to the trial balance. We determined the year end and simple average Land balance as of June 30, 2013. Our recommended adjustments to Land are discussed in Finding 3.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether Contributions-in-Aid-of-Construction (CIAC): 1) Consists 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, 4) Adjustments required in the Utility's last rate proceeding were recorded to its books and records, and is 5) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater CIAC as of December 31, 2006, as reflected in the Technical Staff Report. We determined whether an account was established for CIAC by reviewing the Utility's general ledger. We verified that no activity occurred from January 1, 2007, through June 30, 2013, by questioning utility management and reviewing the Utility's 2011 and 2012 Federal Tax Returns. We determined the year end and simple average CIAC balances as of June 30, 2013. Our recommended adjustments to CIAC are discussed in Finding 4.

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, 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 4) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater Accumulated Depreciation as of December 31, 2006, as reflected in the Technical Staff Report. We recalculated depreciation accruals for each UPIS account to verify that the correct depreciation rates were used. We determined whether retirements were made when a capital asset was removed or replaced. We recalculated and determined the year end and simple average Accumulated Depreciation balances as of June 30, 2013. Our recommended adjustments to Accumulated Depreciation are discussed in Finding 5.

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, 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records, and is 4) Recorded in compliance with the NARUC USOA.

Procedures: We obtained the beginning balances for water and wastewater Accumulated Amortization of CIAC as of December 31, 2006, as reflected in the Technical Staff Report. We recalculated the amortization accruals for CIAC using the depreciation rate as required by Commission rule. We determined the year end and simple average Accumulated Amortization of CIAC balances as of June 30, 2013. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 4.

Working Capital

Objectives: The objective was to determine the Working Capital adjustment to be included in Rate Base per Rule 25-30.433 – Rate Case Proceedings, F.A.C.

Procedures: We calculated the Working Capital adjustment for the test year ended June 30, 2013, using one-eighth of Operation and Maintenance (O&M) Expense as required by Commission rule. Our recommended adjustments to Working Capital are discussed in Finding 8.

Capital Structure

Objectives: The objectives were to determine the: 1) Components of the Utility's capital structure, 2) Cost rate for each class of capital, 3) Overall weighted cost of capital, and that 4) Components are properly recorded in compliance with the NARUC USOA.

Procedures: We scheduled the Utility's Capital Structure using information extracted from the Utility's federal tax returns and general ledger. We determined that the Utility's Capital Structure is composed of common equity. We determined the year end and simple average Capital Structure balances and its weighted average cost as of June 30, 2013. Our recommended adjustments to Capital Structure and its related cost rate are discussed in Finding 6.

Net Operating Income

Operating Revenue

Objectives: The objectives were to determine whether Revenues are: 1) Representative of the Utility's operations for the test year, 2) Calculated using Commission approved tariff rates, and 3) Recorded in compliance with the NARUC USOA.

Procedures We obtained the Utility's quarterly billing registers and summarized the billing and usage data for the test year by meter size to develop a billing determinant report. We obtained the monthly tenant listing and agreed Revenues transferred by each Mobile Home Community to the general ledger. We recalculated test year Revenues based on consumption data and billing determinants using the Utility's authorized tariff rates. We identified those customers not properly billed for utility services. Our recommended adjustments to Operating Revenue are discussed in Finding 7.

Operation and Maintenance Expense

Objectives: The objectives were to determine whether O & M Expense is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We reviewed all invoices for the Utility's O&M Expense for the test year. We traced each invoice to the detailed general ledger. We ensured all expenses were correctly classified, and verified that they were recurring in nature. We verified each expense against the invoice and supporting documentation. We reviewed all available contracts and test checked billings for agreement. We verified payroll expense and the current allocation. We reviewed the Parent's allocations among the five utilities for payroll, corporate general and administrative services and management fees. We provided copies of all direct and allocated contractual services invoices for Analyst review. Our recommended adjustments to O&M Expense are discussed in Finding 8. Payroll and corporate overhead allocations for the test year are discussed in Finding 9.

Depreciation Expense and CIAC Amortization Expense

Objectives: The objectives were to determine whether Depreciation Expense and CIAC Amortization Expense are properly calculated and recorded in compliance with the NARUC USOA.

Procedures: We calculated the Utility's Depreciation Expense and CIAC Amortization Expense for the test year ended June 30, 2013, using the rates established by Rule 25-30.140, F.A.C. Our recommended adjustments to Depreciation and Amortization Expenses are discussed in Finding 10.

Taxes Other than Income

Objectives: The objectives were to determine whether Taxes Other Than Income Expense (TOTI) is: 1) Representative of the Utility's ongoing operations for the test year, 2) Recorded in the appropriate period for the correct amount, 3) Required for the provision of utility services, and 4) Recorded in compliance with the NARUC USOA.

Procedures: We developed a schedule for the Utility's TOTI Expense for the test year. We included property taxes and Regulatory Assessment Fees (RAF) for the test year, confirmed their utility classification, verified their recurring nature and traced them to original source documentation. We recalculated RAFs based on test year Revenues. Our recommended adjustments to TOTI are discussed in Finding 11.

Audit Findings

Finding 1: Utility Plant in Service – Technical Staff Report Adjustments

Audit Analysis: Utility records reflect UPIS water and wastewater balances as of December 31, 2006, of \$481,263 and \$1,384,132, respectively. Commission Staff determined water and wastewater UPIS balances of \$367,233 and \$478,626, respectively, in Docket No. 070413-WS using the OCS balances and prior audit adjustments that increased water and wastewater UPIS by \$5,426 and \$4,542, respectively. The Utility withdrew its rate case application prior to a Commission Order being issued. The OCS and prior audit adjustments reduced UPIS by \$105,030 and \$905,506 for water and wastewater, respectively. Adjustments are detailed in Tables 1-1 and 1-2.

Table 1-1

Water UPIS					
NARUC		Per Utility	OCS	Prior Audit	Per Audit
Acct. No.	Acct. Description	06/30/06	Adjustments	Adjustments	06/30/06
301	Organization	\$1,250	(\$1,250)	\$0	\$0
302	Franchises	1,722	(1,722)	0	(0)
304	Structures	39,060	(31,060)	0	8,000
307	Wells & Spring	64,400	(49,918)	0	14,482
309	Supply Mains	11,337	(11,337)	0	0
310	Power Generation Equip.	6,500	(6,500)	0	0
311	Pumping Equip.	0	86,273	0	86,273
320	Water Treatment Equip.	7,452	2,148	0	9,600
330	Storage Tank	14,102	21,640	0	35,742
331	Trans & Dist. Mains - Pipes	196,589	(31,579)	0	165,010
333	Service to Customers	18,560	(18,560)	0	0
334	Meters	100,171	(97,471)	5,426	8,126
335	Fire Hydrant	20,120	28,880	0	49,000
341	Transportation Equipment	0	0	0	0
343	Tool, Shop & Garage Equip	0	0	0	0
347	Miscellaneous Equipment	0	0	0	0
		\$481,263	(\$110,456)	\$5,426	\$376,233
		(\$105,030)			

Finding 1 (cont'd)

Table 1-2

Wastewater UPIS					
NARUC		Per Utility	OCS	Prior Audit	Per Audit
Acct. No.	Acct. Description	06/30/06	Adjustments	Adjustments	06/30/06
351	Organization	\$1,200	(\$1,200)	\$0	\$0
352	Franchises	1,929	(1,929)	0	0
354	Structures	35,958	(35,958)	0	0
360	Collection Sewers-Force	10,846	(10,846)	4,542	4,542
361	Collection Sewers-Gravity	291,944	31,940	0	323,884
362	Special Collecting Structure	0	0	0	0
363	Services to Customers	86,263	(86,263)	0	0
364	Flow Measuring Devices	3,344	(444)	0	2,900
365	Flow Measuring Install	0	0	0	0
370	Receiving Wells	0	0	0	0
371	Pumping Equipment	514,597	(514,597)	0	0
380	Treatment/Disposal Equip.	410,451	(263,151)	0	147,300
381	Plant Sewers	27,600	(27,600)	0	0
389	Other Plant and Misc. Equip.	0	0	0	0
390	Office Equipment & Furniture	0	0	0	0
391	Transportation Equipment	0	0	0	0
393	Tools Shop and Garage Equip.	0	0	0	0
395	Power Operated Equip.	0	0	0	0
398	Other Tangible Plant	0	0	0	0
		<u>\$1,384,132</u>	<u>(\$910,048)</u>	<u>\$4,542</u>	<u>\$478,626</u>
		<u>(\$905,506)</u>			

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013. The individual account adjustments are detailed in each table.

Acct.	Account Description	Debit	Credit
101	UPIS - Water		\$105,030
101	UPIS - Wastewater		\$905,506
	To be determined by the Utility	\$1,010,536	

Does not include the corresponding effect of adjustments to Accumulated Depreciation and Depreciation Expense.

Effect on Staff's Exhibits: Reduce water and wastewater UPIS by \$105,030 and \$905,506, respectively, for the test year. The corresponding effect on Accumulated Depreciation and test year Depreciation Expense are included in calculations described in Findings 5 and 10.

Finding 2: Utility Plant in Service Plant - Current Docket

Audit Analysis: The Utility made several additions to both the water and wastewater plant accounts from January 1, 2007, through June 30, 2013. Many of the additions were asset replacements that should have included a corresponding retirement amount. Additionally, several wastewater plant asset purchases made during the test year were erroneously expensed to O&M Expense during the test year. Adjustments are detailed in Table 2-1.

Table 2-1

Acct	Acct. Description	Year	Utility		Audit		Audit Adjustments		
			Addition	Retire	Addition	Retire	Addition	Retire	
304	Structures	2009	\$0	\$0	\$64,550	(\$35,742)	\$64,550	(\$35,742)	a
309	Supply Mains	2008	0	0	1,910	0	1,910	0	b
330	Dist. Reservoirs	2009	64,550	0	0	0	(64,550)	0	a c
334	Meters & Meter Install.	2007	2,807	0	2,807	(2,105)	(0)	(2,105)	c
334	Meters & Meter Install.	2008	7,787	0	7,787	(5,840)	(0)	(5,840)	c
334	Meters & Meter Install.	2013	0	0	1,604	(1,203)	1,604	(1,203)	c d
							<u>\$3,514</u>	<u>(\$44,890)</u>	
354	Structures & Improve.	2008	\$0	\$0	\$5,950	\$0	\$5,950	\$0	e f
370	Receiving Wells	2008	1,425	0	0	0	(1,425)	0	g
371	Pumping Equipment	2012	0	0	1,091	(818)	1,091	(818)	c d
371	Pumping Equipment	2013	0	0	1,897	(1,423)	1,897	(1,423)	c d
380	Treatment & Disposal	2008	1,750	0	0	0	(1,750)	0	e
381	Plant Sewers	2008	0	0	1,425	0	1,425	0	g
389	Misc. Equipment	2013	0	0	1,781	0	1,781	0	d b
393	Tools & Shop	2008	\$4,200	\$0	\$0	\$0	(\$4,200)	\$0	e
							<u>\$4,769</u>	<u>(\$2,241)</u>	

- a Reclassified from Account 304
- b Initial asset recorded in this account. No retirement.
- c Retirement calculated as 75 percent of replacement cost.
- d Reclassified from O&M Expense.
- e Reclassified from Accounts 380 and 393.
- f New type additions that were not replacements. No retirements.
- g Reclassified from Account 370.

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
304	Structures	\$28,808	
309	Supply Mains	\$1,910	
330	Dist. Reservoirs		\$64,550
334	Meters & Meter Install.		\$7,544
	To be determined by the Utility	\$41,376	

Does not include the corresponding effect of adjustments to Accumulated Depreciation and Depreciation Expense.

Finding No. 2 (cont.)

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
354	Structures & Improve.	\$5,950	
370	Receiving Wells		\$1,425
371	Pumping Equipment	\$747	
380	Treatment & Disposal		\$1,750
381	Plant Sewers	\$1,425	
389	Misc. Equipment	\$1,781	
393	Tools & Shop		\$4,200
	To be determined by the Utility		\$2,528

Does not include the corresponding effect of adjustments to Accumulated Depreciation and Depreciation Expense.

Effect on Staff's Exhibits: Reduce water and increase wastewater UPIS by \$ 41,376 and \$2,528, respectively, for the test year. The corresponding effect on Accumulated Depreciation and test year Depreciation Expense are included in calculations described in Findings 5 and 10.

Finding 3: Land and Land Rights

Audit Analysis: Utility records reflect water and wastewater Land balances as of December 31, 2006, of \$7,695 and \$33,087, respectively. Commission Staff determined water and wastewater Land balances of \$2,621 and \$27,935, respectively, in Docket No. 070413-WS using the prior Staff audit report balances as of December 31, 2006. The Utility withdrew its rate case application prior to a Commission Order being issued.

The prior Staff audit report adjustments reduced Land by \$5,074 and \$5,152 for water and wastewater, respectively. Adjustments are detailed in Table 3-1.

Table 3-1

Warranty Deed	Purchase Price	Estimated Acres	Price Per Acre	Utility Acres	Utility Land Value
OR Bk 1934/Pg1646	\$16,250	1.3012	\$12,488	1.3012	\$16,250
OR Bk 2167/Pg2087	\$120,000	20.9688	\$5,723	<u>2.5000</u> 3.8012	\$14,307
Description of Land Use	Utility Acres	Price Per Acre	Water	Wastewater	
Water Plant Site	0.2099	\$12,488	\$2,621	\$0	
Wastewater Plant Site	1.0913	12,488	0	13,628	
Wastewater Percolation Ponds	<u>2.5000</u>	5,723	<u>0</u>	<u>14,307</u>	
Per Audit	3.8012		\$2,621	\$27,935	
Per Utility			<u>7,695</u>	<u>33,087</u>	
Audit Adjustment			(\$5,074)	(\$5,152)	

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013.

Acct.	Account Description	Debit	Credit
303	Land - Water		\$5,074
353	Land - Wastewater		\$5,152
	To be determined by the Utility	\$10,226	

Effect on Staff's Exhibits: Reduce water and wastewater land balances by \$5,074 and \$5,152, respectively, for the test year.

Finding 4: Contributions-in-Aid-of-Construction and Accumulated Amortization of CIAC

Audit Analysis: The Utility records do not include CIAC or Accumulated Amortization of CIAC balances for water and wastewater as of December 31, 2006. Commission Staff determined water and wastewater CIAC balances of \$165,010 and \$323,884, and Accumulated Amortization of CIAC balances of \$109,913 and \$206,476, respectively, in Docket No. 070413-WS using the OCS balances as of December 31, 2006. The Utility withdrew its rate case application prior to a Commission Order being issued.

The OCS adjustments increased CIAC by \$165,010 and \$323,884 and Accumulated Amortization of CIAC by \$109,913 and \$206,476 for water and wastewater, respectively.

There were no changes to the CIAC balances since they were established in the OCS. We calculated annual CIAC Amortization Expense through the test year. Calculations increase water and wastewater Accumulated Amortization of CIAC by \$28,208 to \$138,121 and by \$56,842 to \$263,318, respectively, as of June 30, 2013.

Effect on the General Ledger: The following entry is needed to adjust the general ledger as of June 30, 2013.

<u>Acct. No.</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
272	Accumulated Amortization - Water	\$138,121	
272	Accumulated Amortization - Wastewater	\$263,318	
271	Contributions in Aid of Construction - Water		\$165,010
271	Contributions in Aid of Construction - Wastewater		\$323,884
	To be determined by the Utility	\$87,455	

Effect on Staff's Exhibits: Increase water and wastewater CIAC by \$165,010 and \$323,884, respectively, and increase water and wastewater Accumulated Amortization of CIAC by \$138,121 and \$263,318, respectively, for the test year. The corresponding effect on test year Amortization Expense is included in calculations described in Finding 10.

Finding 5: Accumulated Depreciation

Audit Analysis: Utility records reflect Accumulated Depreciation water and wastewater balances as of December 31, 2006, of \$390,960 and \$1,192,101, respectively. Commission Staff determined water and wastewater Accumulated Depreciation balances of \$287,834 and \$356,759, respectively as of December 31, 2006, in Docket No. 070415-WS using the OCS as of December 31, 2006, and prior audit adjustments that increased water and wastewater Accumulated Depreciation by \$318 and \$84, respectively. The Utility withdrew its rate case application prior to a Commission Order being issued

The OCS and prior audit adjustments were corrected by the auditor to remove excess depreciation accruals recorded in the OCS schedules. The corrected OCS adjustments reduced Accumulated Depreciation by \$85,085 and \$943,615 for water and wastewater, respectively.

The Utility's general ledger reflect balances for water and wastewater Accumulated Depreciation of \$391,733 and \$1,364,710, respectively. The review of utility records indicates that the rates prescribed by Rule 25-30.140 – Depreciation were not used by the Utility to depreciate UPIS. Based on this issue and our adjustments to UPIS discussed in Findings 1 and 2, we have recalculated the Utility's Accumulated Depreciation balances for the period January 1, 2007, through June 30, 2013.

Staff's audit adjustments reduce Accumulated Depreciation for water by \$156,854 to \$306,596 and wastewater is reduced by \$857,373 to \$412,364. The adjustments are detailed in Tables 5-1 and 5-2.

Table 5-1
Water System

NARUC		Per Utility		Per Audit
Acct. No.	Acct. Description	06/30/13	Adjustments	06/30/13
301	Organization	\$1,250	(\$1,250)	\$0
302	Franchises	994	(994)	0
304	Structures	54,960	(46,960)	8,000
307	Wells & Spring	64,400	(49,918)	14,482
309	Supply Mains	11,340	(11,040)	300
310	Power Generation Equip.	6,500	(6,500)	0
311	Pumping Equip.	0	86,273	86,273
320	Water Treatment Equip.	7,452	2,148	9,600
330	Storage Tank	13,669	(5,303)	8,366
331	Trans & Dist. Mains - Pipes	166,542	(28,406)	138,136
333	Service to Customers	16,880	(16,880)	0
334	Meters	103,762	(101,523)	2,239
335	Fire Hydrant	15,701	23,500	39,201
341	Transportation Equipment	0	0	0
343	Tool, Shop & Garage Equip	0	0	0
347	Miscellaneous Equipment	0	0	0
		\$463,450	(\$156,854)	\$306,596

Finding 5 (cont'd)

Table 5-2

Wastewater System				
NARUC		Per Utility		Per Audit
Acct. No.	Acct. Description	06/30/13	Adjustments	06/30/13
351	Organization	\$1,200	(\$1,200)	\$0
352	Franchises	1,377	(1,377)	0
354	Structures	35,958	(35,064)	894
360	Collection Sewers-Force	10,846	(9,670)	1,176
361	Collection Sewers-Gravity	200,770	62,549	263,319
363	Services to Customers	77,159	(77,159)	0
364	Flow Measuring Devices	0	2,900	2,900
365	Flow Measuring Install	3,344	(3,344)	0
370	Receiving Wells	436	(436)	0
371	Pumping Equipment	515,646	(515,383)	263
380	Treatment/Disposal Equip.	410,986	(263,686)	147,300
381	Plant Sewers	13,818	(13,548)	270
389	Other Plant and Misc. Equip.	0	28	28
390	Office Equipment & Furn.	0	0	0
391	Transportation Equipment	0	0	0
393	Tools Shop and Garage Equip.	1,541	(1,541)	0
398	Other Tangible Plant	0	0	0
	Total	\$1,273,081	(\$856,932)	\$416,149
	Unknown	(100)	100	0
	Adjusted Total	\$1,272,981	(\$856,832)	\$416,149

- (a) The unknown balance of \$100 represents the difference between the \$1,272,981 balance in the Trial Balance and the \$1,273,081 balance in the summary detail schedule provided by the Utility.

Effect on the General Ledger: The following entry is needed to correct the general ledger as of June 30, 2013. The individual account adjustments are detailed in each table.

Acct.	Account Description	Debit	Credit
108	Accumulated Depreciation - Water	\$156,854	
108	Accumulated Depreciation - Wastewater	\$856,832	
	To be determined by the Utility		\$1,013,686

Does not include the corresponding effect of adjustments to UPIS and Depreciation Expense.

Effect on Staff's Exhibits: Reduce water and wastewater Accumulated Depreciation by \$156,854 and \$853,587, respectively. The corresponding effect on test year Depreciation Expense is included in calculations described in Finding 10.

Finding 6: Capital Structure

Audit Analysis: The Utility reported the following debt and equity balances as of June 30, 2013. The affiliate payable balance represents intercompany payables between the Utility, its parent and other related utility operations. There is no contract or note that contains repayment terms or interest rate for this obligation. Prior Commission policy treats intercompany payables such as this as equity based on Order No. PSC-10-0681-PAA-WU, issued Nov 15, 2010.

Table 6-1

S.V. Utilities, Ltd.

<u>Account Description</u>	<u>Per Utility @6/30/2013</u>	<u>Adjustments</u>	<u>Per Audit @6/30/2013</u>
Affiliate payables	\$360,767	(\$360,767)	\$0
Long Term Debt	0	0	0
Common Equity	(268,179)	360,767	92,588
Customer Deposits	0	0	0
Total	<u>\$92,588</u>	<u>\$0</u>	<u>\$92,588</u>

Effect on General Ledger: None.

Effect on Staff's Exhibit: The Utility's Capital Structure has been reconciled with the average Rate Base in Exhibit 1. The Utility's average Capital Structure and its weighted average cost are in Exhibit 2.

Finding 7: Operating Revenue

Audit Analysis: The Utility's records reflect test year Revenues of \$74,417 and \$71,130 for water and wastewater services. We reviewed the Utility's quarterly billing registers and recalculated a sample of customers bills. Based on our review and calculations, we determined that the Utility was not accurately applying its Commission approved tariff rate. The Revenue balances above do not accurately reflect the test year operations because of the following issues.

- The tariff states that the base fee is \$15.71 per month for water and wastewater services combined. This charge applies to all customers and all meter sizes.
- The Utility accurately splits the \$15.71 between water and wastewater service for those customers with residential or general service meters. However, customers with irrigation meters were charged the entire rate of \$15.71 for that meter rather than the water rate which is \$7.86. This error overstates water Revenues.
- The Utility accurately collects from its residential customers 12 months of base fees for water and wastewater services. However, the Utility's general service and irrigation customers are billed quarterly and thus are only charged the base fee for one month each quarter instead of a total of three months each quarter. This error understates water and wastewater Revenues.
- The Utility accurately calculates and bills its residential customers for quarterly water and wastewater consumption fees per its tariff. However, the Utility's general service customers consumption fees were recorded to water service and not split between water and wastewater services. This error overstates water Revenues and understates wastewater Revenues.

Because of the billing errors described above, we recalculated the Utility's water and wastewater Revenues using the water consumption information from the quarterly billing registers and the Utility's approved tariffs. Calculations reduce water Revenues by \$139 to \$74,278 and increase wastewater Revenues by \$965 to \$72,095 for the test year.

Effect on the General Ledger: To be determined by the Utility.

Effect on Staff's Exhibits: Reduce water and increase wastewater Revenues by \$139 and \$965, respectively, for the test year.

Finding 8: Operation and Maintenance Expense

Audit Analysis: The Utility's O&M account balances for water and wastewater for the test year are \$44,588 and \$118,881, respectively. A review of accounts indicate that a number of erroneous entries were made during the test year. Audited balances indicate that a reduction in O&M Expense of \$1,382 and \$6,555 for water and wastewater are required. Adjustments are detailed in Tables 8-1 and 8-2. Details to the adjustments are discussed following each table.

Table 8-1

Summary of Test Year Water O&M Expense Adjustments				
Acct. No.	Acct. Description	Per Utility	Adjustments	Per Audit
601	Salaries & Wages	\$852	\$0	\$852
604	Pension & Benefits	0	0	0
610	Purchased Water	0	0	0
615	Purchased Power	10,888	(32)	10,856
616	Fuel for Power Prod.	0	0	0
618	Chemicals	2,490	0	2,490
620	Material & Supplies	7,778	(2,366)	5,412
630	Contract - Billing	0	0	0
631	Contract - Prof. Fees	13,252	0	13,252
635	Contract - Testing	1,715	(437)	1,278
636	Contract - Other	1,132	0	1,132
640	Rents	0	0	0
650	Transportation Exp.	4,496	(1,588)	2,908
655	Insurance Expense	0	2,521	2,521
665	Regulatory Com. Exp.	0	0	0
670	Bad Debt Expense	138	0	138
675	Miscellaneous Exp.	1,846	520	2,366
		\$44,588	(\$1,383)	\$43,205

Account No. 615 – Purchased Power: We reduced this account by \$32 to remove late fees paid by the Utility that are not recoverable in a rate case proceeding.

Account No. 620 - Materials and Supplies: We reduced this account by \$2,366 to remove \$655 of unsupported invoice transactions, to reclassify \$259 of wastewater testing fees to Account No. 735, to include \$150 for expenses that were not included in the test year, and to reclassify \$1,602 of invoiced transactions for water meters to Account No. 334.

Account No. 635 – Testing: We reduced this account by \$437 to reclassify \$437 of wastewater testing fees to Account No. 735.

Account No. 650 – Transportation: We reduced this account by \$1,588 to remove \$116 of unsupported invoices, to remove \$163 of out of period invoice transactions, to reclassify a \$789 automobile insurance premium to Account No. 655, and to reclassify \$520 of Parent allocated communication and licensing fees to Account No. 675.

Finding No. 8 (cont.)

Account No. 655- Insurance Expense: We increased this account by \$2,521 to reclassify \$789 from Account 650 and to include \$1,732 for the current premium for the Utility’s general liability insurance policy.

Account No. 675 Miscellaneous Expense: We increased this account by \$520 to reclassify \$520 from Account No. 650.

Table 8-2

Summary of Test Year Wastewater O&M Expense Adjustments

Acct. No.	Acct. Description	Per Utility	Adjustments	Per Audit
701	Salaries & Wages	\$33,173	\$0	\$33,173
704	Pension & Benefits	0	0	0
710	Purchases WW Treatment	0	0	0
711	Sludge Removal Expense	20,038	0	20,038
715	Purchased Power	19,166	(133)	19,033
716	Fuel for Power Production	0	0	0
718	Chemicals	5,821	248	6,069
720	Material & Supplies	13,278	(4,684)	8,594
730	Contract - Billing	0	0	0
731	Contract - Prof. Fees	7,421	(1,288)	6,133
735	Contract - Testing	7,599	668	8,267
736	Contract - Other	5,270	(110)	5,160
740	Rents	0	0	0
750	Transportation Expense	4,812	(1,643)	3,169
755	Insurance Expense	1,750	(96)	1,654
765	Regulatory Commission Exp.	0	0	0
770	Bad Debt Expense	138	0	138
775	Miscellaneous Expense	415	484	899
		\$118,881	(\$6,555)	\$112,326

Account No. 715 – Purchased Power: We reduced this account by \$133 to remove late fees paid by the Utility that are not recoverable in a rate case proceeding.

Account No. 718 – Chemicals: We increased this account by \$248 to reclassify \$475 from Account No. 731 and to remove \$227 of unsupported invoice transactions.

Account No. 720 - Materials and Supplies: We reduced this account by \$4,684 to reclassify \$2,988 for lift station pumps to Account No. 371, to reclassify \$1,781 for sampler equipment to Account No. 389, to reclassify \$169 from Account No. 750, and to remove \$85 of unsupported invoice transactions.

Account No. 731 – Contract Professional: We reduced this account by \$1,288 to reclassify \$358 of wastewater testing fees to Account No. 735, to reclassify \$475 of chemical invoices to Account No. 718, and to remove \$455 of unsupported invoice transactions.

Finding No. 8 (cont.)

Account No. 735 – Contract Testing: We increased this account by \$668 to reclassify \$259 from Account No. 620, and to reclassify \$437 from Account No. 635, to reclassify \$358 from Account No. 731, and to remove \$386 of unsupported invoice transactions.

Account No. 736 – Contract Other: We reduced this account by \$110 to remove unsupported invoice transactions.

Account No. 750 – Transportation: We reduced this account by \$1,643 to reclassify \$169 of Parent allocated material purchases to Account No. 720, to reclassify a \$789 automobile insurance premium allocation to Account No. 755, to reclassify \$484 of Parent allocated communication and licensing fees to Account No. 775, and to remove \$201 of unsupported invoice transactions.

Account No. 755 – Insurance: We reduced this account by \$96 to reclassify \$789 from Account No. 750, to include \$865 for the current allocated premium for the Utility's general liability insurance policy, and to remove \$1,750 for the prior allocated premium for the Utility's general liability insurance policy. (The old policy was not allocated to the water system.)

Account No. 775 – Miscellaneous Expense: We increased this account by \$484 to reclassify \$484 from Account No. 750.

Effect on the General Ledger: To be determined by the Utility.

Effect on Staff's Exhibits: Reduce water and wastewater O&M Expense by \$1,382 and \$6,555, respectively, for the test year. Additionally, the Utility's water and wastewater Working Capital adjustments for rate base purposes are \$5,401 and \$14,041, respectively. Working Capital was calculated as one-eighth of the audit determined O&M Expense based on Rule 25-30.433 – Rate Case Proceedings, F.A.C.

Finding 9: Payroll and Corporate Overhead Allocations

Audit Analysis: The Parent has indicated that the Utility's payroll expenses and corporate overhead allocations for the test year are incorrect. Adjustments to the general ledgers for the test year will be made by the Parent to restate costs for all the Parent's water and wastewater operations. The annualized impact will increase operating expenses for the test year expenses for water and wastewater by \$50,125 and \$25,704, respectively.

The major differences in the new allocation methodology is how payroll dollars are allocated. Previously, payroll dollars were not split equitably between water and wastewater plants. Now both plants share in the direct payroll costs of all personnel assigned to specific facilities, in addition to a percent of indirect costs such as a percent of the salaries for park managers.

The Parent's corporate overhead allocations are currently allocated across all five utilities. The basis is a combination of a percent of staff's salaries attributable to the management of the utilities and the number of mobile home rental spaces each utility has.

A management fee will be charged to all utilities. This fee is to be in addition to the payroll expenses and corporate overhead allocations. The fee will be a flat six percent of total Revenues. Details were not provided for the purpose, methodology or the basis for the six percent charge.

Effect on the General Ledger: For informational purposes only.

Effect on Staff's Exhibits: If the Analyst should determine that the allocations are appropriate, Staff's Exhibit 3 should reflect an increase in O&M Expense of \$50,229 and \$35,687 for water and wastewater, respectively.

Finding 10: Depreciation and Amortization Expenses

Audit Analysis: The Utility records reflect test year Depreciation Expense of \$11,374 and \$11,369 for water and wastewater, respectively. Amortization Expenses for CIAC for water and wastewater have never been recorded on the Utility's books.

With the discussion of UPIS and CIAC in Findings 1, 2, and 4, Table 10-1 summarizes the related adjustments needed for test year Depreciation and CIAC Amortization Expenses.

Table 10-1

Acct. No.	Acct. Description	Per Utility 06/30/13	Adjustments	Per Audit 06/30/13
403	Depreciation Expense - Water	\$11,374	(\$3,145)	\$8,229
403	CIAC Amortization Expense - Water	<u>0</u>	<u>(4,340)</u>	<u>(4,340)</u>
	Net Water	\$11,374	(\$7,485)	\$3,889
403	Depreciation Expense - Wastewater	\$11,369	(\$1,971)	\$9,398
403	CIAC Amortization Expense - Wastewater	<u>0</u>	<u>(8,745)</u>	<u>(8,745)</u>
	Net Wastewater	\$11,369	(\$10,716)	\$653

Effect on the General Ledger: To be determined by the Utility.

Effect on Staff's Exhibits: Reduce net water and wastewater Depreciation Expense by \$7,485 and \$10,716, respectively, for the test year.

Finding 11: Taxes Other than Income

Audit Analysis: The Utility’s records reflect water and wastewater TOTI Expenses of \$3,347 and \$3,197, respectively, for the test year. The amounts represent the Utility’s Regulatory Assessment Fee (RAF) payments for 2012. Real estate property taxes were not included nor were there any found in a search of the Polk County Tax Collectors web site.

Finding 7 determined water and wastewater Revenues of \$74,278 and \$72,095, respectively for the test year. Water and wastewater RAF expenses due on these amounts are \$3,343 and \$3,244, respectively. Adjustments are detailed in Table 11-1.

Table 11-1

<u>Description</u>	<u>Water</u>			<u>Wastewater</u>		
	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>	<u>Per Utility</u>	<u>Adjustment</u>	<u>Per Audit</u>
Property Tax	\$0	\$0	\$0	\$0	\$0	\$0
RAF	<u>3,347</u>	<u>(4)</u>	<u>3,343</u>	<u>3,197</u>	<u>47</u>	<u>3,244</u>
Total	\$3,347	(\$4)	\$3,343	\$3,197	\$47	\$3,244

RAF is calculated as 4.50% of utility revenues.

Effect on the General Ledger: To be determined by the Utility.

Effect on the Staff’s Exhibit: Reduce water and increase wastewater TOTI Expenses by \$4 and \$47 respectively, for the test year.

Exhibits

Exhibit 1: Rate Base

**S.V. Utilities, Ltd.
Rate Base As of June 30, 2013
Docket No. 13021-WS**

Description	Water			
	Per Utility @06/30/2013	Adjustments	Per Audit. @06/30/2013	Simple Average
Utility Plant In Service	\$556,407	(\$146,406)	\$410,001	\$409,800
Land and Land Rights	7,695	(5,074)	2,621	2,621
CIAC	0	(165,010)	(165,010)	(165,010)
Amortization of CIAC	0	138,123	138,123	135,953
Accumulated Depreciation	(463,450)	156,854	(306,596)	(303,083)
Working Capital	0	5,401	5,401	5,401
Net Rate Base	\$100,652	(\$16,112)	\$84,540	\$85,682

Description	Wastewater			
	Per Utility @06/30/2013	Adjustments	Per Audit. @06/30/2013	Simple Average
Utility Plant In Service	\$1,394,937	(\$902,978)	\$491,959	\$490,831
Land and Land Rights	33,087	(5,152)	27,935	27,935
CIAC	0	(323,884)	(323,884)	(323,884)
Amortization of CIAC	0	263,318	263,318	258,945
Accumulated Depreciation	(1,272,981)	856,832	(416,149)	(408,118)
Working Capital	0	14,041	14,041	14,041
Net Rate Base	\$155,043	(\$97,823)	\$57,220	\$59,750

Exhibit 2: Capital Structure

**S.V. Utilities, Ltd.
Capital Structure
As of June 30, 2013
Docket No. 130211-WS**

Capital Component	Per Utility @06/30/2013	Adjustments	Per Audit @06/30/2013	Prorata Adjustments			Ratio	Cost	Weighted Cost
				Adjustment	Ratio	Balance (b)			
Affiliate Payable	\$360,767	(\$360,767)	\$0	\$0	0.00%	\$0	0.00%	0.00%	0.00%
Long Term Debt	0	0	0	0	0.00%	0	0.00%	4.18%	0.00%
Common Equity (a)	(268,179)	360,767	92,588	\$52,844	100.00%	\$145,432	100.00%	8.74%	8.74%
Customer Deposits	0	0	0	0	0.00%	0	0.00%	0.00%	0.00%
Total Capital	\$92,588	\$0	\$92,588	\$52,844	100.00%	\$145,432	100.00%		8.74%

(a) Parent's Equity balance as of 12/31/2012

(b) Capital structure was reconciled to the total average rate base.

<u>Water</u>	<u>W/Water</u>	<u>Total</u>
\$85,682	\$59,750	\$145,432

Exhibit 3: Net Operating Income

**S.V. Utilities, Ltd.
Net Operating Income
Test Year Ended June 30, 2013
Docket No. 130211-WS**

Description	Water		Per Audit. @06/30/2013
	Per Utility @06/30/2013	Adjustments	
Revenues	\$74,417	(\$139)	\$74,278
Operation & Maintenance Expense	44,588	(1,383)	43,205
Depreciation Expense	11,374	(3,145)	8,229
CIAC Amortization Expense	0	(4,340)	(4,340)
Taxes Other Than Income	3,347	(4)	3,343
Provision for Income Tax Expense*	0	0	0
Operating Expense	\$59,309	(\$8,872)	\$50,437
Net Operating Income/(Loss)	\$15,108	\$8,733	\$23,841

Description	Wastewater		Per Audit. @06/30/2013
	Per Utility @06/30/2013	Adjustments	
Revenues	\$71,130	\$965	\$72,095
Operation & Maintenance Expense	118,881	(6,555)	112,326
Depreciation Expense	11,369	(1,971)	9,398
CIAC Amortization Expense	0	(8,745)	(8,745)
Taxes Other Than Income	3,197	47	3,244
Provision for Income Tax Expense*	0	0	0
Operating Expense	\$133,447	(\$17,224)	\$116,223
Net Operating Income/(Loss)	(\$62,317)	\$18,189	(\$44,128)

*The Utility files IRS Form 1065 U. S. Return of Partnership Income.