

State of Florida



**Public Service Commission**

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

**Auditor's Report**

Utility Corporation of Florida, Inc./South Highlands Investment Corporation  
Application for Transfer of Certificate  
Certificate No. 550-S

**As of May 9, 2014**

Docket No. 140145-SU  
Audit Control No. 14-227-2-2

**October 8, 2014**

A handwritten signature in black ink that reads "Ronald Mavrides".

Ronald Mavrides  
Audit Manager

A handwritten signature in blue ink that reads "Linda Hill".

Linda Hill  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Accounting and Finance in its audit service request dated July 12, 2013. We have applied these procedures to the attached schedule- prepared by the audit staff in support of Utility Corporation of Florida, Inc./South Highlands Investment Corporation's request for a Transfer of Certificate in Docket No.140145-SU.

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

Seller refers to Utility Corporation of Florida, Inc.

Buyer refers to South Highlands Investment Corporation.

#### Utility Information

Utility Corporation of Florida is a Class C Utility that provides wastewater services to 317 customers in Highlands County, Florida. Per information on the Florida Department of State's website, documents for incorporation were filed September 20, 2007.

Wauchula State Bank made loans to Utility Corporation of Florida, Inc., which were secured by mortgages on certain undeveloped property, as well as the wastewater system. The loans went into default, and Wauchula State Bank acquired the wastewater system as well as the undeveloped property in a "short-sale." The sale of the Utility by Utility Corporation of Florida to the Buyer was consummated on May 9, 2014. The consideration paid was \$2,242,373. The Buyer is not in the business of running a utility, and intends to sell the wastewater system. The Buyer is also assuming the 99 year lease on the wastewater treatment plant property.

An application for the certificate transfer was filed by the Buyer on July 31, 2014. Rate base was last established for the Utility as of December 31, 2010, by Order No. PSC-12-0410-PAA-SU, issued August 13, 2012 in Docket No. 11-0165-SU.

### **General**

#### Utility Books and Records

**Objective:** The objective was to determine whether the Utility maintains its books and records in conformity with National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

**Procedures:** We reviewed the Utility's books and records by obtaining a general ledger as of May 31, 2014. Overall, the detailed account information contained in the general ledger was unreliable. An inordinate amount of time was spent in an attempt to reconcile transactions with individual account balances. As a result, Audit Staff only utilized the general ledger for establishing a basis for adjustments to the overall account balances.

## **Net Book Value**

### Utility Plant in Service

**Objectives:** The objectives were to determine whether Utility Plant in Service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

**Procedures:** We took the beginning balances for UPIS as of December 31, 2010, established in PSC Order 12-0410-PAA-SU and scheduled UPIS activity from that date through May 9, 2014. We reviewed all asset additions and retirements to supporting documentation. We determined the UPIS transfer balance for the Utility as of May 9, 2014. Our recommended adjustments to plant are in Finding 1.

### Land & Land Rights

**Objectives:** The objectives were to determine whether utility land was: 1) Recorded at original cost, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

**Procedures:** We determined that Land is being rented currently at \$975 per month from Spring Lake Club, Inc., a related party. The lease is for a 99 year period. We inquired and searched for additional activity related to utility land and none was found. No exceptions were noted.

### Accumulated Depreciation

**Objective:** The objective was to determine the correct Accumulated Depreciation balances as of May 9, 2014, based on Rule 25-30.140 – Depreciation, (F.A.C.).

**Procedures:** We took the beginning plant balances as reported in Order PSC-12-0410-PAA-SU and beginning Accumulated Depreciation balances from the Analyst's workpapers in Docket No. 110165-SU and depreciated the appropriate plant balances, adjusted for additions and retirements, from December 31, 2010, to May 9, 2014, using the asset lives reflected in Rule 25-30.140. We determined the Accumulated Depreciation transfer balances for the Utility as of May 9, 2014, and used these balances to adjust the Utility's books. 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): 1) Consist 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, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We reconciled the beginning balances for CIAC as of December 31, 2010, established in PSC-12-0410-PAA-SU, with the Seller's books and records. We scanned the Seller's records and inquired about cash and property contributions since the last rate proceeding. CIAC has not been added since then. We determined the CIAC transfer balances for the Utility as of May 9, 2014, remains the same as the Order date. No exceptions were noted.

#### 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, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

**Procedures:** We took the beginning balances of Accumulated Amortization of CIAC established by Order PSC-12-0410-PAA-SU in December 31, 2014 and amortized CIAC using composite rates from December 31, 2010 to May 9, 2014. We determined the correct Accumulated Amortization of CIAC transfer balances for the Utility as of May 9, 2014. We did not calculate an acquisition adjustment because the Buyer did not request one and it could not be determined because other property being included in the transfer. Our recommended adjustments to Accumulated Amortization of CIAC are discussed in Finding 3.

#### Acquisition Adjustment

**Objective:** The objective was to determine the acquisition adjustment, if any, based on Audit Staff's net book value pursuant to Rule 25-3-.0371 (1) – Acquisition Adjustments, F.A.C.

**Procedures:** We determined that the Net Book Value for this Utility at the time of transfer is \$99,051. However, the acquisition adjustment is undeterminable at this time as the Seller's bank loan is in default. Our recommendation for acquisition adjustment is discussed in Finding 5.

### **Other**

#### Rates and Charges

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

**Procedures:** We obtained the Utility's June 2014 billing register. We verified that the Utility properly billed customers at the tariffed flat rate. No exceptions were noted.

#### Customer Deposits

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

**Procedures:** We inquired about customer deposits. The Seller stated that they are not collected. None were found in the Seller's books and records.

## Audit Findings

### **Finding 1: Utility Plant in Service**

**Audit Analysis:** There were a number of entries booked in the general ledger that were not substantiated with adequate documentation. Additionally, many entries had not been made to reflect the required adjustments in the December 31, 2010, Order. A summary of adjustments are delineated in Table 1-1. Details to adjustments follow.

**Table 1-1**

<u>Acct. No.</u>	<u>Account Description</u>	<u>Utility Bal.</u> <u>5/9/2014</u>	<u>Adjustments</u>	<u>Audit Bal.</u> <u>5/9/2014</u>
101	Composite Plant	\$623,716	(\$330,224)	\$293,492
101	Utility Plant in Service - Other	\$0	\$18,366	\$18,366
351	Organization Costs	\$1,850	\$0	\$1,850
354	Structures & Improvements	\$5,030	(\$5,030)	\$0
360	Collection Sewers - Force	\$3,791	(\$3,678)	\$113
364	Flow Measuring Devises	\$0	\$487	\$487
365	Flow Measuring Installations	\$0	\$165	\$165
370	Receiving Wells	\$0	\$1,173	\$1,173
371	Pumping Equipment	\$6,173	(\$3,364)	\$2,809
380	Treatment & Disposal	\$10,003	(\$5,215)	\$4,788
381	Plant Sewers	\$2,029	(\$1,703)	\$326
389	Other Plant & Misc. Equip.	\$0	\$2,029	\$2,029
390	Office Furniture & Equipment	\$139	(\$139)	\$0
393	Tools, Shop and Garage Equip.	\$80	(\$80)	\$0
395	Power Operated Equipment	(\$0)	\$0	\$0
398	Other Tangible Plant	(\$25,889)	\$27,150	\$1,261
		<u>\$626,922</u>	<u>(\$300,063)</u>	<u>\$326,859</u>

**Finding 1 (Cont'd)**

Acct. 101 Composite Plant – Reduce account by (\$330,224) to adjust the general ledger balance to reflect the correction of a double entry of \$311,858 and the adjustments of additions and retirements to the 12/31/2010 Order.

Acct. 101 UPIS – Increase account by \$18,366 to adjust to the 12/31/2010 Order.

Acct. 354 Structures and Improvements – Reduce the account by (\$5,030) for unsubstantiated documentation to support the transactions.

Acct. 360 – Collection Sewers – Force – Increase account by \$3,678 to reclassify transaction in Acct. 370 Receiving Wells to the correct account. Reduce account by (\$3,678) as there was no documentation to support the transaction.

Acct. 364 Flow Measuring Devices – Increase account by \$487 to book unrecorded plant.

Acct. 365 Flow Measuring Installations – Increase account by \$165 to book unrecorded plant.

Acct. 370 Receiving Wells – Increase account by \$1,173 to book unrecorded plant.

Acct. 371 Pumping Equipment – Reduce account by (\$3,364) to adjust to the 12/31/2010 Order balance of (\$ 2,809) and to remove transactions not supported by documentation of (\$555).

Acct. 380 Treatment and Disposal – Reduce account by a net of (\$5,215) to adjust to the 12/31/2010 Order of (\$3,558), unrecorded net additions and retirements of (\$1,230) and the removal of unsubstantiated transactions of (\$427).

Acct. 381 Plant Sewers – Reduce account by a net of (\$1,703) to reclassify the adjustment from 12/31/2010 Order of (\$2,029) to Acct. 389 Other Plant and Misc. Equipment. Increase account by \$326 for unrecorded plant.

Acct. 389 Other Plant and Misc. Equipment – Increase account by \$2,029 erroneously recorded in Acct 3381.

Acct. 390 Office Furniture and Equipment – Reduce account by (\$139) to remove transactions not supported by documentation.

Acct. 393 Tools, Shop and Garage Equipment – Reduce account by (\$80) to remove transactions not supported by documentation.

Acct. 398 Other Tangible Plant – Increase account by \$27,150 to remove transactions not supported by documentation.

**Effect on the General Ledger:** The following entry is needed to correct the general ledger as of 5/9/2014.

<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$300,063	
Utility Plant in Service		\$300,063
To adjust UPIS balance as of 5/9/14.		

**Effect on the Filing:** N/A



## Finding 2: Accumulated Depreciation

**Audit Analysis:** Accumulated Depreciation was not consistently recorded and some accounts used were not proper NARUC Accounts. The General Ledger balance of \$398,314 was reduced by \$183,381 to reconcile to the Audit Staff's computed balance of \$214,933. Adjustments to the General Ledger are needed and are outlined below.

**Effect on the General Ledger:** The following entry is needed to adjust the General Ledger as of 5/9/14.

**Table 2-1**

<b>Acct. No.</b>	<b><u>Account Description</u></b>	<b>Utility Bal. 5/9/2014</b>	<b><u>Adjustments</u></b>	<b>Audit Bal. 5/9/2014</b>
101	Composite Plant	(\$194,762)	(\$34,023)	(\$228,785)
351	Organization Costs		(\$156)	(\$156)
360	Collection Sewers - Force	(\$6)	\$302	\$296
370	Receiving Wells	(\$45)	\$2,037	\$1,992
371	Pumping & Disposal		(\$16)	(\$16)
380	Treatment & Disposal	(\$552)	\$9,367	\$8,815
389	Other Plant & Misc. Equip.	(\$313)	\$4,208	\$3,895
393	Tools, Shop & Garage Equip.		(\$927)	(\$927)
395	Power Operated Equipment		(\$47)	(\$47)
101	Accumulated Depreciation - Other	(\$202,636)	\$202,636	
		<u>(\$398,314)</u>	<u>\$183,381</u>	<u>(\$214,933)</u>

<b><u>Account Description</u></b>	<b><u>Debit</u></b>	<b><u>Credit</u></b>
Accumulated Depreciation	\$183,381	
Retained Earnings		\$183,381
To adjust the Accumulated Depreciation Accounts to Commission Order.		

**Effect on the Filing:** N/A

**Finding 3: Accumulated Amortization of CIAC**

**Audit Analysis:** There have not been additions to CIAC since the last rate case. The balance in the Utility's general ledger is \$29,167. The correct balance of \$43,842 was computed by Audit Staff by amortizing the Order amount of \$37,815 to the test date of 5/9/2014. An adjustment of \$14,675 is needed to increase the account to the proper amount of \$43,842.

**Effect on the General Ledger:** The following entry is needed to correct the General Ledger as of 5/9/14.

<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
Acc Amort-CIAC	\$14,675	
Retained Earnings		\$14,675
To adjust CIAC Amort Accounts to Commission Order.		

**Effect on the Filing:** N/A

#### **Finding 4: Contributions-in-Aid-of-Construction CIAC**

**Audit Analysis:** There have not been additions to CIAC since the last rate case. Audit Staff amortized the balances established in the Commission Order using the composite rates to the end of the test period, 5/9/14. The General Ledger recorded (\$83,333) in this account, which should have remained unchanged at the Order amount of (\$112,500) An adjustment is needed to reflect the Commission Order.

**Effect on the General Ledger:** The following entry is needed to correct the general ledger.

<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
Retained Earnings	\$29,167	
CIAC		\$29,167
To adjust CIAC to the Commission Order.		

**Effect on the Filing:** N/A

## **Finding 5: Acquisition Adjustment**

**Audit Analysis:** We determined that the Net Book Value for this Utility at the time of transfer is \$99,051. However, the acquisition adjustment is undeterminable at this time as the Seller's bank loan is in default. The purchase price of \$2,242,373 does not necessarily represent the true value of the net dollars paid to the bank.

**Effect on the General Ledger:** To be determined by the Analyst.

**Effect on the Filing:** N/A

## Exhibit

### Exhibit 1: Rate Base

**South Highlands Investment Corporation  
Rate Base As of May 9, 2014  
Docket No. 140145-SU**

	<b>Per Utility (1)</b>		<b>Per Audit</b>
	<b><u>5/31/2014</u></b>	<b><u>Adjustments</u></b>	<b><u>5/9/2014</u></b>
Utility Plant in Service	\$626,922	(\$300,063)	\$326,859
Land (2)	\$0	\$0	\$0
Accumulated Depreciation	(\$398,314)	\$183,381	(\$214,933)
CIAC	(\$83,333)	(\$29,167)	(\$112,500)
Amortization of CIAC	\$29,167	\$14,507	\$43,674
Net Rate Base	<u>\$174,442</u>	<u>(\$131,342)</u>	<u>\$43,100</u>

(1) All plant activity between 5/10/2014 and 5/31/2014 per the Utilities G/L were immaterial, totaling \$289.

(2) Land is leased from Spring Lake Club, Inc., a related party.