

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: May 20, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150012-WU
Company Name: County-Wide Utility Co., Inc.
Company Code: WU008
Audit Purpose: Transfer of Certificate
Audit Control No: 15-050-1-1

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 is no confidential work papers associated with this audit.

LMD/cp

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

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

Auditor's Report

County-Wide Utility Co., Inc. /Southwest Ocala Utility, Inc.
Transfer of Certificate
Certificate No. 390-W

As of December 31, 2013

Docket No. 150012-WU
Audit Control No. 15-050-1-1

May 1, 2015

Handwritten signature of Debra M. Dobiak in black ink.

Debra M. Dobiak
Audit Manager

Handwritten signature of Lynn M. Deamer in blue ink.

Lynn M. Deamer
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 February 19, 2015. We have applied these procedures to the attached schedules prepared by audit staff in support of County-Wide Utility Co., Inc. /Southwest Ocala Utility, Inc.'s request for a Transfer of Certificate in Docket No. 150012-WU.

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

Buyer/Utility refers to Southwest Ocala Utility, Inc.

Seller/CWU refers to County-Wide Utility Company, Inc.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

Utility Information

County-Wide Utility Company, Inc. is a Class “C” Utility that provides water services to approximately 485 customers in Marion County. Rate base for CWU was established as of December 31, 2005 in Docket No. 050862-WU, Order No. PSC-07-0604-PAA-WU, issued July 30, 2007.

James K. Leeward had been the sole owner of CWU until his death on September 16, 2011. Dirk Leeward was CWU’s General Manager. Prior to his death, Mr. Leeward had funded CWU in order to make payments on the BBVA Compass Bank (Compass) loan for the utility system assets. After his death, the Estate of James K. Leeward, stopped funding CWU, and the bank filed a notice of default against CWU and the Estate. Dirk Leeward continued to manage the Utility.

Dirk and Donna Leeward purchased the note from Compass, and filed for foreclosure against the assets secured by the note. These assets were acquired by Dirk and Donna Leeward at a public foreclosure auction. According to the Additional Asset and Liability Information for Exhibit B filed with the Commission on March 17, 2015, Dirk and Donna Leeward have agreed to transfer the utility assets as shown on the Seller’s books to the Buyer when the transfer is approved by the Commission. It should be noted that Dirk and Donna Leeward are essentially both the Seller and the Buyer.

General

Utility Books and Records

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

Procedures: We reviewed the general ledger account numbers and descriptions. We verified that the Utility uses the accrual method of accounting and maintains its records on a calendar year basis. No exceptions were noted.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the 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 reconciled the beginning balances for water UPIS as of December 31, 2005, established in Docket No. 050862-WU, with the Seller's books and records. We scheduled water UPIS activity from December 31, 2005 through December 31, 2013. We traced asset additions to supporting documentation. We ensured that retirements were made when a capital item was removed or replaced. We determined the UPIS transfer balances as of December 31, 2013. Findings 1 and 2 discuss UPIS.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 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 reconciled beginning land balance as of December 31, 2005, established in Docket No. 050862-WU, with the Seller's books and records. We searched the Marion County Clerk of Courts' official records to verify the transfer of utility land from the Seller to the Buyer. We determined the land transfer balance for the water system as of December 31, 2013. Finding 1 discusses land.

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, 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 accumulated depreciation as of December 31, 2005, established in Docket No. 050862-WU, with the Seller's books and records. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balance for the water system as of December 31, 2013. Findings 1 and 2 discuss accumulated depreciation.

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 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balance for CIAC as of December 31, 2005, established in Docket No. 050862-WU, with the Seller's books and records. We reviewed the Seller's records and inquired about cash and property contributions since the last rate proceeding. We traced additions to CIAC to the cash receipts and the approved tariff. We determined the CIAC transfer balance as of December 31, 2013. Finding 3 discusses CIAC.

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 reconciled the beginning balances for accumulated amortization of CIAC as of December 31, 2005, established in Docket No. 050862-WU, with the Seller's books and records. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the accumulated amortization of CIAC transfer balance as of December 31, 2013. Finding 3 discusses accumulated amortization of CIAC.

Acquisition Adjustment

Objectives: The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this Utility at the time of transfer is \$630,589. Finding 4 discusses the acquisition adjustment.

Other

Rates and Charges

Objectives: The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We obtained and tested the Utility's billing register for January 2014. We recalculated a sample of customers' bills using the approved tariffs. No exceptions were noted.

Customer Deposits

Objectives: The objectives were to determine whether the Seller had collected customer deposits and whether the balances were transferred to the Buyer.

Procedures: We reviewed the ledger and inquired about the deposit policy. The Seller had an authorized tariff to collect customer deposits. We verified that the customer deposits were transferred to the Utility. No exceptions were noted.

Audit Findings

Finding 1: Utility Plant in Service and Land

Audit Analysis: The schedule provided by the seller reflects a balance of \$222,352 for UPIS as of December 31, 2013. Audit staff determined that the UPIS balance should be \$229,529 as of December 31, 2013 based on the Commission approved balances from Order No. PSC-07-0604-PAA-WU excluding the averaging adjustments and proforma amounts. We included the additions and retirements from January 1, 2006 through December 31, 2013 that we traced to source documentation. The utility plant is understated by \$7,177 as shown in Table 1-1.

Table 1-1

Account - Description	GL 12/31/2013	Audit 12/31/2013	Audit Adjustments
303 Land	\$ 2,815	\$ 2,815	\$ -
331 Transmission and Distribution Mains	177,398	167,931	(9,467)
334 Meters and Meter Install.	39,852	49,545	9,693
335 Hydrants	-	2,550	2,550
336 Backflow Prevention Devices	-	4,400	4,400
339 Other Plant And Misc.	-	2,287	2,287
340 Office Furniture & Equip.	2,287	-	(2,287)
Total:	\$ 222,352	\$ 229,529	\$ 7,177

The utility land is still in the name of Dirk and Donna Leeward, the noteholders of the utility assets. According to the Utility's Application for Transfer of Certificate, the noteholders have agreed to transfer the utility assets as shown on the Seller's books to the Buyer.

The schedule provided by the seller reflects a balance of \$93,858 for accumulated depreciation as of December 31, 2013. Audit staff calculated accumulated depreciation to be \$93,655 using the approved rates, the Commission approved beginning balances, and the audited plant additions/retirements from January 1, 2006 to December 31, 2013. Accumulated depreciation is overstated by \$203 as shown in Table 1-2.

Table 1-2

Account - Description	GL 12/31/2013	Audit 12/31/2013	Audit Adjustments
331 Transmission and Distribution Mains	\$ (68,525)	\$ (56,649)	\$ 11,876
334 Meters and Meter Install.	(24,345)	(32,598)	(8,253)
335 Hydrants	-	(478)	(478)
336 Backflow Prevention Devices	-	(3,300)	(3,300)
339 Other Plant And Misc.	-	(629)	(629)
340 Office Furniture & Equip.	(988)	-	988
Total:	\$ (93,858)	\$ (93,655)	\$ 203

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

Effect on the Filing: The UPIS balance should be increased by \$7,177 and the accumulated depreciation balance should be decreased by \$203.

Finding 2: Utility Interconnection to City Water Supply

Audit Analysis: CWU filed its application for a staff-assisted rate case with a test year ended December 31, 2005 and Docket No. 050862-WU was opened. In its application, the Utility requested rate relief for the cost of constructing an interconnection between its existing system and the City of Ocala (City) after entering into an agreement to receive bulk water and sewer service. These costs were reviewed under Audit Control No. 05-349-2-1.

As stated in Order No. PSC-07-0604-PAA-WU, issued July 30, 2007, the Commission found, “that it was not prudent for the Utility to retire its wells and interconnect with the City to supply water to its existing customers. However, it was a prudent decision for the Utility to pursue the interconnection for future supply to its future customers.”

As such, the Commission only approved the costs of the interconnection as shown in Table 2-1.

Table 2-1

Account - Description	Cost of Interconnection	Adjusted 15% Mgmt Fee	Adjusted Const Costs	Commission Approved
331 Transmission and Distribution Mains	\$ 750,649	\$ (98,378)	\$ (645,281)	\$ 6,990
334 Meters and Meter Install.	1,987	-	-	1,987
335 Hydrants	25,763	(3,071)	(20,142)	2,550
336 Backflow Prevention Devices	17,631	(1,750)	(11,481)	4,400
339 Other Plant And Misc.	8,977	(1,188)	(7,789)	-
Total:	\$ 805,007	\$ (104,387)	\$ (684,693)	\$ 15,927

Of the \$789,080 (\$805,007 - \$15,927) costs that were disallowed, \$104,387 was removed because it was a 15 percent project management fee charged by a related party. The remaining \$684,693 was removed because it was determined to be imprudent for its current customers. The \$15,927 that was allowed was plant related to the water service to Walgreens.

Since these assets of \$684,693 were purchased by the new owners at auction and are being used to provide water service to all of the Utility’s customers, we have included the costs and related accumulated depreciation in determining net book value as shown in Table 2-2.

Table 2-2

Account - Description	UPIS 12/31/2013	AD 12/31/2013
331 Transmission and Distribution Mains	\$ 645,281	\$ (118,868)
335 Hydrants	20,142	(3,525)
336 Backflow Prevention Devices	11,481	(8,036)
339 Other Plant And Misc.	7,789	(2,726)
Total:	\$ 684,693	\$ (133,155)

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

Effect on the Filing: In addition to the adjustments noted in Finding 1, the UPIS balance should be increased by \$684,693 and the accumulated depreciation balance should be increased by \$133,155.

Finding 3: Contributions in Aid of Construction and Accumulated Amortization of CIAC

Audit Analysis: The schedule provided by the seller reflects a CIAC balance of \$87,008 as of December 31, 2013. Audit staff determined a CIAC balance of \$97,847 using the Commission approved beginning balance and the audited cash receipts from January 1, 2006 to December 31, 2013.

The schedule provided by the seller reflects an accumulated amortization of CIAC balance of \$40,982 as of December 31, 2013. Audit staff calculated accumulated amortization of CIAC to be \$41,024 using a composite rate.

CIAC is understated by \$10,839 and accumulated amortization of CIAC is understated by \$42 as shown in Table 3-1.

Table 3-1

<u>Account - Description</u>	<u>GL 12/31/2013</u>	<u>Audit 12/31/2013</u>	<u>Audit Adjustments</u>
271 Contributions in Aid of Construction	\$ (87,008)	\$ (97,847)	\$ (10,839)
272 Accumulated Amortization of CIAC	\$ 40,982	\$ 41,024	\$ 42

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

Effect on the Filing: The CIAC balance should be increased by \$10,839 and the accumulated amortization of CIAC balance should be increased by \$42.

Finding 4: Acquisition Adjustment

Audit Analysis: Dirk and Donna Leeward purchased the note from Compass Bank on July 19, 2012. CWU was forced into foreclosure in December 2012. Dirk and Donna Leeward purchased the assets of CWU at a public foreclosure auction in 2013. Audit staff was unable to determine the purchase price of CWU due to lack of documentation.

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

Effect on the Filing: The staff analyst should determine the effect of this issue in this proceeding.

Exhibits

Exhibit 1: Net Book Value

**SOUTHWEST OCALA UTILITY, INC.
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 1500120-WU; ACN 15-050-1-1
SCHEDULE OF WATER NET BOOK VALUE
AS OF DECEMBER 31, 2013**

Description	Balance per Utilitiy 12/31/2013	Audit Adjustments	Audit Finding	Balance per Audit 12/31/2013
Utility Plant in Service	\$ 219,537	\$ 691,870	1, 2	\$ 911,407
Land	2,815	-		2,815
Accumulated Depreciation	(93,858)	(132,952)	1, 2	(226,810)
Contributions in Aid of Construction	(87,008)	(10,839)	3	(97,847)
Accumulated Amortization of CIAC	40,982	42	3	41,024
NET BOOK VALUE	\$ 82,468	\$ 548,122		\$ 630,590