

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: September 4, 2003
TO: Division of Economic Regulation (Clapp)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030458-WU; **Company Name:** Holiday Utility Company, Inc.; **Audit Purpose:** Establish Rate Base for Transfer of Utility;
Audit Control No. 03-176-2-1

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 Auditing and Safety (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

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DOCUMENT NUMBER DATE
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY

BUREAU OF AUDITING

TAMPA DISTRICT OFFICE

HOLIDAY UTILITY COMPANY, INC.

ESTABLISH RATE BASE FOR TRANSFER OF UTILITY

AS OF JUNE 30, 2003

DOCKET NO. 030458-WU

AUDIT CONTROL NO.: 03-176-2-1

A handwritten signature in black ink, appearing to read "Simon O. Ojada", written over a horizontal line.

Simon O. Ojada, Audit Manager

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher", written over a horizontal line.

Joseph W. Rohrbacher, Regulatory Analyst Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

JULY 25, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit and prepare a schedule of Water Rate Base as of June 30, 2003 for Holiday Utility Company, Inc.'s petition for transfer of Certificate No. 224-W; FPSC Docket 030458-WU. There is no confidential information associated with this audit.

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 FINDINGS:

Rate base balances authorized in FPSC Order No. 14506 issued June 26, 1985 were not reflected on the utility's books and records. The utility does not maintain its books and records in conformity with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. The utility was not using guideline depreciation rates as required by Rule 25-30.140, Florida Administrative Code.

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 company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

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: Compiled account balances for utility plant in service, contributions in aid of construction (CIAC), accumulated depreciation and accumulated amortization of CIAC from September 30, 1984. Examined supporting documentation for all plant additions since September 30, 1984. Computed depreciation of plant and amortization of CIAC from September 30, 1984 through June 30, 2003 as provided for in Rule 25-30.140, Florida Administrative Code.

OTHER: Confirmed ownership of utility property. Verified that utility was using approved rates and service availability charges. Inquired as to whether any assets on the seller's books were not being transferred.

Disclosure No. 1

Subject: NARUC Chart of Accounts

Statement of Fact: Commission Rule 25-30.115, Florida Administrative Code (F.A.C.) states that “water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform Systems of Accounts”

The Uniform System of Accounts, Accounting Instruction 2, requires the books of accounts of all water and wastewater be kept by the double entry method, on accrual basis. It further states that “All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries.”

The utility does not utilize the account numbering system delineated by NARUC and does not maintain proper records of Contributions In Aid of Construction.

Recommendation: The utility should be required to maintain its records in conformity with the NARUC Uniform Systems of Accounts as prescribed by Rule 25-30.115. F.A.C., regarding record keeping of water and wastewater utilities.

Disclosure No. 2

Subject: Plant In Service

Statement of Fact: The Commission set rate base for the utility after a staff assisted rate case with FPSC Order No. 14506, issued June 26, 1985. According to this Order, in June of 1977, the utility stopped selling water to two nearby utilities West Coast Utilities and Aloha Utilities, Inc. The water main and wells which provided this service are now dormant and should not be considered used and useful. Plant held for future use is recommended at this time since the utility may need to use the main and wells in the future.

This order determined Water Plant In Service of \$117,255 and net Plant Held for Future Use of \$62,294 (Plant Held for Future use of \$106,124 less Accumulated depreciation of \$43,830). The utility did not adjust its books and records to properly reflect the required rate base. The utility has recorded plant additions of \$36,341 from October 1, 1984 through June 30, 2003.

Recommendation: The utility plant account should be adjusted to reflect the balance approved by the Commission with FPSC Order No. 14506. Below is a summary of proposed adjustments.

| | |
|---|------------------|
| Plant In Service per Utility's 2002 Annual Report | \$250,234 |
| Less: Plant Held for Future Use | (106,124) |
| Amount to Adjust to FPSC order | <u>1,761</u> |
| | 145,871 |
| Add: 2003 Plant Additions | <u>7,725</u> |
| Plant In Service per Audit | <u>\$153,596</u> |

The utility should reduce its Plant In Service by the amount of Plant Held for Future Use and increase Plant In Service by \$1,761 to adjust to FPSC order No. 14506, issued June 26, 1985.

Disclosure No. 3

Subject: Accumulated Depreciation

Statement of Fact: The utility has not been depreciating plant using guideline rates as required by Rule 25-30.140, Florida Administrative Code. The utility books and records reflect incorrect plant balances being depreciated at incorrect rates.

Recommendation: The auditor recalculated accumulated depreciation using guideline rates and Commission approved plant account balances. Below is a summary of Accumulated Depreciation as recalculated by the auditor.

| | |
|---|------------------|
| Accumulated Depreciation per utility annual report @ 12/31/02 | \$233,378 |
| Less: Accumulated. Depreciation - Plant Held for Future Use | <u>(108,389)</u> |
| Balance- Accum. Depr. without Plant Held for Future Use | 124,989 |
| Add: Accum. Depreciation Jan. 1 - June 30, 2003 | <u>3,179</u> |
| Total Accumulated Depreciation per audit @ 06/30/03 | <u>\$128,168</u> |

Disclosure No. 4

Subject: Contributions In Aid of Construction - CIAC

Statement of Fact: Rule 25-30.115, F.A.C., requires all water and wastewater utilities to maintain their accounts and records in conformity with the NARUC Uniform System of Accounts.

The NARUC Uniform System of Accounts for Contributions In Aid of Construction, Account Number 271, states that:

The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation, the conditions, if any, upon which it was made, the amount of donations from (a) states, (b) municipalities, (c) customers, and (d) others, and the amount applicable to each utility department.

An attempt was made to update CIAC from September 30, 1984, when Rate Base was last established, to June 30, 2003. A request was made to the utility for records pertaining to this period. The information provided was incomplete and did not sufficiently allow for the updating of CIAC.

The auditor scheduled CIAC for the above time frame using copies of the utility's Annual Report. Many of these were improperly prepared and did not appear to reflect the true CIAC contributions. On the 1989 Annual Report the utility recorded CIAC net of prior years amortization as the beginning balance. CIAC Amortization was not recorded on the 1991 through 1997 Annual Reports. We requested that the new owners explain and reconcile the Annual Reports for discrepancies noted by the auditor. They were unable to do this.

Opinion: The utility records provided were insufficient to determine CIAC with any certainty. The records maintained by the prior owners were not kept in accordance with the NARUC Uniform System of Accounts. Therefore, the auditor relied on the figures as recorded on the Annual Reports in establishing CIAC and Amortization for current rate base.

Recommendation: Accept auditor amounts for CIAC and Amortization in determining Rate Base as of June 30, 2003.

| | <u>Per Utility</u> | <u>Per Audit</u> | <u>Difference</u> |
|----------------------|--------------------|------------------|-------------------|
| CIAC @ 06-30-03 | \$ 11,810 | \$ 32,052 | \$ 20,242 |
| Accrued Amortization | 1,859 | 18,762 | 16,903 |

Disclosure No. 5

Subject: Land

Statement of Fact: Holiday Utility Company, Inc. did not include land on its books and records. The utility indicated that all the wells and treatment plant are located on land owned by the previous owner and this land is part of his overall ranch. Since he owned both the ranch and the utility, he saw no need to transfer the land to the utility. The utility was not charged a lease fee for use of the land.

The new owners purchased the land that the utility plant is situated on from the original owner for \$20,000 in a separate land deal. The utility has two locations for its wells and water treatment plants, one in the Westwood Area and the other in the Anclote area. The utility owns an easement to its plant located in the Westwood area and purchased the land in the Anclote area.

HOLIDAY UTILITY COMPANY, INC.

DOCKET 030458-WU

CERTIFICATE TRANSFER

AVERAGE RATE BASE

PERIOD ENDED 06/30/03

| | Balance Per Company <u>06/30/03</u> | <u>Ref</u> | Audit <u>Adjustments</u> | Balance Per Audit <u>06/30/03</u> | Average Bal Per Audit <u>06/30/03</u> |
|------------------------|---|------------|-----------------------------|---|---|
| Plant in Service | 250,234 | D2 | 1,761 7,725 (106,124) | 153,596 | 159,734 |
| Land | 0 | | 0 | 0 | 0 |
| Const Work in Progress | 0 | | 0 | 0 | 0 |
| Accum Depr of Plant | (233,378) | D3 D3 | 108,389 (3,179) | (128,168) | (131,650) |
| CIAC | (11,810) | D4 | (20,242) | (32,052) | (32,052) |
| Amort of CIAC | 1,859 | D4 | 16,903 | 18,762 | 20,093 |
| Contributed Taxes, net | 0 | | 0 | 0 | 0 |
| Working Capital | 0 | | 6,160 | 6,160 | 3,080 |
| Deferred Tax Assets | 0 | | 0 | 0 | 0 |
| Total | <u>6,905</u> | | <u>11,393</u> | <u>18,298</u> | <u>19,205</u> |

Working Capital is 1/8 of 2002 O&M Expense