



Public Service Commission

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

DATE: November 5, 2003
TO: Division of Economic Regulation (Johnson)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030656-WU; **Company Name:** Dixie Groves Estates, Inc.; **Audit Purpose:** Establish a current rate base as of the date of transfer December 30, 2002; **Audit Control No.** 03-237-2-2

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

Mr. Judson F. Potter, President
Virginia City Utility Company,
a Division of Community Utility
5940 Main Street
New Port Richey, FL 34652-2716

Mr. Matthew A. Potter, Treasurer
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

DIXIE GROVES ESTATES, INC.

ESTABLISH RATE BASE FOR TRANSFER OF UTILITY

AS OF DECEMBER 30, 2002

DOCKET NO. 030656-WU

AUDIT CONTROL NO. 03-237-2-2

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

Simon 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**

OCTOBER 10, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedule of Water Rate Base as of December 30, 2002 for Dixie Groves Estates, Inc.'s petition for transfer of Certificate No. 139-W; FPSC Docket No. 030656-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 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: Using annual reports and the general ledger, compiled account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from June 30, 1998 to December 30, 2002. Reconciled rate base balances authorized in Commission Order No. PSC-99-0243-FOF-WU, issued February 9, 1999 to the December 1999 annual report. Calculated accumulated depreciation using guideline rates. Computed amortization of CIAC using the depreciation composite rates.

OTHER: Verified that rates, miscellaneous service charges, service availability charges, and customer deposits charged by the utility are consistent with approved tariff.

Disclosure No. 1

Subject: Utility Plant in Service (UPIS)

Statement of Fact: Plant in Service was last determined by the Commission in Order No. PSC-99-0243-FOF-WU issued on February 9, 1999. It established UPIS as of June 30, 1998 to be \$74,697. Dixie Groves Estates made the recommended adjustments in its books and records to agree with the Commission order. From July 1, 1998 through December 30, 2002, the utility made \$17,417 additions to plant bringing UPIS totals up to \$92,114.

Dixie Groves Estates did not include the retirement of pumping equipment and meters replaced in its books and records. Also, office computers totaling \$2,229 were not included in the sale of the utility.

Recommendation: The auditors reduced UPIS by \$8,709, representing retired items and office computers not included in the sale of the utility. The resulting test year UPIS is \$83,405. Accept Plant in Service balance of \$83,405 as of December 30, 2002 for certificate transfer purposes.

Below are the recommended adjustments:

Balance per book @ 12/30/02		\$ 92,114
<u>Audit adjustments</u>		
Retirements: Pumping Equipments	(3,306)	
Meters & Meter Install.	(3,174)	
Office Furniture & Equip.	(2,229)	
Total Adjustments		<u>(8,709)</u>
Utility Plant in Service		<u>\$ 83,405</u>

Disclosure No. 2

Subject: Accumulated Depreciation

Statement of Fact: Rule 25-30.140 F.A.C. establishes the useful life of depreciable assets for Class C utilities effective March 22, 1984. Subsection 4 (b) states "All Class C utilities shall maintain depreciation rates and reserve activity data by total depreciable plant, function or account as prescribed by this Commission."

The utility books and records reflected an accumulated depreciation balance of \$63,768 at the end of the test year, December 30, 2002. The utility used the prescribed depreciation rates, however, the utility did not take depreciation in the years new meters were placed in service.

Dixie Groves Estates did not include the retirement of pumping equipment and meters replaced totaling \$6,480 in its books and records. Also, the utility accumulated depreciation balance did not reflect computers totaling \$2, 229 that were not transferred to the new owners.

Recommendation: The auditor recalculated accumulated depreciation starting with balances from Order No. PSC-99-0243-FOF-WU and used the depreciation rates as prescribed by Rule 25-30.140 F.A.C. for class C utilities and arrived at \$55,430.

Accumulated depreciation should be reduced by \$8,338, the difference between the company figures and auditors recalculated amounts. Accept auditor's recalculated accumulated depreciation balance of \$55,430 for certificate transfer purposes.

Below are the recommended adjustments:

Balance per book @ 12/30/02		\$ 63,768
<u>Audit adjustments</u>		
Retirements: Pumping Equipments	(3,306)	
Meters & Meter Install.	(3,174)	
Office Furniture & Equip.	(2,229)	
Meters & Meter Install.	371	
Total Adjustments		<u>(8,338)</u>
Accumulated Depreciation Per Audit.		<u>\$ 55,430</u>

The 371 is due to utility not taking depreciation in the years new meters were placed in service.

Disclosure No. 3

Subject: Contribution in Aid of Construction (CIAC)/Amortization of CIAC

Statement of Fact: Order No. PSC-99-0243-FOF-WU issued on February 9, 1999 established CIAC and Accumulated Amortization of CIAC as of June 30, 1998 to be \$10,343 and \$8,597 respectively. These amounts were recorded in the utility books and records. There were no new CIAC additions.

The auditor started with the balance of CIAC and accumulated amortization of CIAC per the FPSC Order, applied the annual composite depreciation rates derived from the various years depreciation schedules and arrived at a fully amortized CIAC in the year 2002. The utility books also showed a fully amortized CIAC in the year 2002.

Disclosure No. 4

Subject: Land

Statement of Fact: Dixie Grove Estates, Inc. owned the land on which the utility plant is situated. Order No. PSC-99-0243-FOF-WU, issued February 9, 1999, established land value of \$1,211 and requested the utility to adjust its books and records. The utility did not adjust its books to reflect the FPSC recommendation. The utility books and records showed a land value of \$211 for the test period ended December 30, 2002.

Recommendation: Accept \$1,211 as the value of utility land as per Order No. PSC-99-0243-FOF-WU issued February 9, 1999. The utility should be required to increase its land value by \$1,000 to reflect the appropriate balance of \$1,211.

Disclosure No. 5

Subject: Acquisition Adjustment/Allocation of Purchase Price

Statement of Fact: Dixie Groves Estates, Inc. (Seller) sold its assets to Dixie Groves Utility Company (Buyer) on December 30, 2002 for \$115,000. Audited water rate base as of December 30, 2002 is \$29,186. The buyer in its application for certificate transfer requested an acquisition adjustment stating that the system's actual value is more than the book value. The buyer claimed that the seller expensed rather than capitalized major improvements to plant accounts.

Opinion and Conclusion: No attempt was made to allocate the excess of the purchase price of the utility over the net rate base. Rule 25-30.0371, Florida Administrative Code, requires that a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. There are no known extraordinary circumstances regarding the purchase that would justify an acquisition adjustment to rate base. The buyer's representative indicated that the company may or may not pursue the issue of acquisition adjustment.

DIXIE GROVE ESTATES, INC.
DOCKET NO. 030656-WU
RATE BASE - WATER
TEST YEAR ENDED 12/30/02

(a) <u>DESCRIPTION</u>	(b) PER BOOKS <u>12/30/02</u>	(c) AUDIT <u>DISCL.</u>	(d) REFER <u>TO</u>	(e) PER AUDIT <u>12/30/02</u>
UTILITY PLANT IN SERVICE	92,114	(8,709)	1	83,405
LAND	211	1,000	4	1,211
PLANT HELD FOR FUTURE USE	0	0		0
CIAC	(10,343)	0		(10,343)
AMORTIZATION OF CIAC	10,343	0		10,343
ACCUMULATED DEPRECIATION	(63,768)	8,338	2	(55,430)
NEGATIVE ACQUISITION ADJUSTMENT	0	0		0
ACCUM. AMORTIZATION OF ACQ. ADJ.	0	0		0
RATE BASE	<u>28,557</u>	<u>629</u>		<u>29,186</u>

(1). All amounts rounded to the nearest whole dollar.