

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: October 03, 2005
TO: Tracey Biggins, Division of Economic Regulations
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 050449-WU; **Company Name:** Dixie Groves Utility Company;
Audit Purpose: A1b Staff Assisted Rate Case; **Audit Control No:** 05-213-2-1

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:bj
Attachment

Cc: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Competitive Markets and Enforcement (Harvey)
Division of Commission Clerk and Administrative Services (2)
General Counsel
Office of Public Counsel

Mr. Gary Deremer
Dixie Groves Utility Company, a Division of Community Utilities of Florida, Inc.
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING
TAMPA DISTRICT OFFICE

DIXIE GROVES UTILITY COMPANY
STAFF ASSISTED RATE CASE
HISTORICAL YEAR ENDED MAY 31, 2005

DOCKET NO. 050449-WU

AUDIT CONTROL NO. 05-213-2-1

A handwritten signature in black ink, appearing to read "Tomer Kopelovich".

Tomer Kopelovich, Audit Manager

A handwritten signature in black ink, appearing to read "Simon Ojada".

Simon Ojada, Audit Staff

A handwritten signature in black ink, appearing to read "Joseph W Rohrbacher".

Joseph W Rohrbacher, Regulatory Analyst Supervisor

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT**

SEPTEMBER 15, 2005

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income, and Capital Structure for the historical 12-month period ended May 31, 2005, for Dixie Groves Utility Company. These schedules were prepared by the auditor as part of the utility's petition for a Staff Assisted Rate Case in Docket No. 050449-WU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must 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.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers.

Reviewed - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Examined account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC from January 1, 2003 to May 31, 2005. Reconciled rate base balances to prior Order NO. PSC-04-0338-PAA-WU. Scheduled plant additions and retirements for the period. Reviewed for CIAC additions. Calculated accumulated depreciation. Computed amortization of CIAC using the depreciation composite rates.

NET OPERATING INCOME: Compiled utility revenue and operation and maintenance accounts for the 12 month period ended May 31, 2005. Chose a judgmental sample of customer bills and recalculated using FPSC approved rates. Reviewed operation and maintenance expenses and examined invoices or other supporting documentation. Recalculated depreciation expense. Verified taxes other than income.

CAPITAL STRUCTURE: Compiled components of the capital structures for the period ended May 31, 2005.

Disclosure No. 1

Subject: Plant-in-Service

Statement of Fact: Plant in Service was last determined by Order NO. PSC-04-0338-PAA-WU. A review of plant additions for the audit period revealed that items for the period January to May 2005 were not recorded on the books. Also, the retirement of the replaced items was not recorded on the books.

Recommendation: The utility should make the following entries to reflect the correct plant balance as of May 31, 2005.

	<u>DR</u>	<u>CR</u>
310 Power Generating Equipment	3,666	
311 Pumping Equipment	250	
330 Dist. Resv. & Standpipes	22,465	
331 Transmiss. & Distr. Lines	214	
334 Meters & Meter Installation	4,140	
336 Backflow Prevention Devices	768	
348 Other Tangible Assets	2,919	
345 Power Operated Equipment	391	
Notes Payable		34,812

The utility is unable to provide the actual cost of the retirements related to the plant additions. Following the methodology used in Commission Order No. PSC-01-1574-PAA-WS, we estimated retirements at 75% of the replacement cost. The entry below represents 75% of the cost of the new items:

	<u>DR</u>	<u>CR</u>	<u>Cost of New Items</u>
Accumulated Depreciation	21,128		
307 Wells & Springs		909	1,212
310 Power Generating Equipment		2,749	3,666
311 Pumping Equipment		291	389
320 Water Treatment Equipment		349	465
330 Distribution Resv. & standpipes		15,653	20,871
334 Meters & Meter Installation		884	1,178
345 Power Operated Equipment		293	391

Disclosure No. 2

Subject: Accumulated Depreciation/Expense

Statement of Fact: Rule 25-30.140 FAC 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."

Depreciation expense and accumulation of depreciation were computed by the auditor from January 1, 2003 to May 31, 2005. The auditor used rates as prescribed by Rule 25-30.140 FAC for class C utilities.

In 2003, 2004, and for the period January to May 2005 the utility added new items but did not retire the old items.

Recommendation: We recommend the balance of accumulated depreciation be reduced by \$17,108 to reflect the retirement of various replaced plant items at 75% of the cost of the new items, prior periods adjustment and depreciation expense from January 1, 2005 to May 31, 2005.

Below is the auditor's computed depreciation expense for the test year and the accumulated depreciation as of May 31, 2005.

Depreciation Expense

	<u>Jun to Dec. '04</u>	<u>Jan to May '05</u>	<u>Total</u>
Balance Per Utility	2,535	0	2,535
Balance Per Audit	<u>3,067</u>	<u>2,394</u>	<u>5,461</u>
Difference	<u>532</u>	<u>2,394</u>	<u>2,926</u>

Accumulated Depreciation

	<u>Dec. '04</u>	<u>May'05</u>
Balance Per Utility	62,986	62,986
Balance Per Audit	<u>64,614</u>	<u>45,878</u>
Difference	<u>1,628</u>	<u>17,108</u>

<u>Retired Items</u>	(21,128)
Diff @12/31/04	1,628
Depr Exp 1/1/05-05/31/05	<u>2,394</u>
Total	17,108

The balance of the accumulated depreciation in the utility books reflects the General Ledger balance of accumulated depreciation as of December 31, 2004. The utility did not record any depreciation expense nor accumulated depreciation for the 5 month period ending May 31, 2005.

Accept auditor's computed amounts for rate making purposes.

Disclosure No. 3

Subject: Contribution in Aid of Construction (CIAC)

Statement of Fact: Order NO. PSC-04-0338-PAA-WU established CIAC and Accumulated Amortization of CIAC as of 12-31-02 to be \$10,330 and \$10,330 respectively. CIAC was fully amortized by the end of 2002.

In January, March, and May 2005, the utility recorded \$3,686 for the cost of new line connections as other water revenues. This should be recorded as CIAC. We calculated amortization of CIAC to be \$235.

Recommendation: The auditor started with the balance of CIAC and accumulated amortization of CIAC per prior PSC Order and applied the composite depreciation rate 1.67% for the first five months of 2005.

	<u>CIAC</u>	<u>ACCUM</u>	<u>TEST YR AMORTZ</u>
Balance per utility	10,330	10,330	0
Balance per audit	<u>14,016</u>	<u>10,565</u>	<u>235</u>
Difference	3,686	235	235

The utility should adjust its books to reflect auditor's amounts for CIAC and amortization of CIAC as shown above for the test period ending May 31, 2005.

Disclosure No. 4

Subject: Revenues

Statement of Fact: The utility recorded total revenues of \$62,258 in its general ledger for the 12 month period ended May 31, 2005. During the audit, the auditor discovered that the utility overstated its January, March, and May Other Water Revenues by recording CIAC of \$768, \$1,000, and \$1,919.

Recommendation: The company should reduce total revenues by \$3,687 to reflect the actual revenues for the test year of \$58,571.

Disclosure No. 5

Subject: Operation and Maintenance Expense

Statement of Fact: The utility recorded \$5,746 as Materials and Supplies for the 12 month period ending May 31, 2005.

Opinion: Out of the \$5,746 recorded as Materials and Supplies, \$4,354 were capital items made up of Meters and Meters Installation (\$4,140) and Transmission and Distribution, Mains (\$214).

Also, included in Materials and Supplies were repairs and maintenance of \$1,152.

Recommendation: The following adjustments were made by staff to correct Operation and Maintenance expense account misclassifications.

Items To Capitalize

	<u>DR</u>	<u>CR</u>
Meters and Meters Installation	\$4,140	
Transmission & Distribution, Mains	214	
Materials and Supplies		\$4,354

Items To Reclassify

Contractual Services-Repairs	\$1,152	
Materials and Supplies		\$1,152
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The utility should record all the items above.

Disclosure No. 6

Subject: Taxes Other Than Income

Statement of Fact: The utility recorded \$2,354 as Regulatory Assessment Fees for the 12 month period ending December 31, 2004.

Recommendation: The audited revenue for the test period was \$58,571. Therefore, the auditor increased the Regulatory assessment fee by \$282 to a total of \$2,636 to reflect the RAF for the test period (Total Revenue of \$58,571 X .045).

Accept auditor's calculation of Taxes Other Than Income for rate making purposes.

SCHEDULE FOR SARC
DIXIE GROVES UTILITY
RATE BASE - WATER
TEST YEAR ENDED 05/31/05

Dixie Groves Utility Company Water Rate Base as of 05/31/05

	Balance Per Book 5/31/2005	Audit Adjustments	REF	Per Audit 5/31/2005	Average Balance Per Audit
Total Plant in Service-Water	129,341	13,684	D1	143,025	136,183
Land	1,211	0		1,211	1,211
Accumulated Depreciation	(62,986)	17,108	D2	(45,878)	(54,432)
CIAC	(10,330)	(3,687)	D3	(14,017)	(12,173)
Amortization of CIAC	10,330	235	D3	10,565	10,447
Working Capital	0	7,766		7,766	3,883
Total	67,566	35,106		102,672	85,119

STAFF ASSISTED RATE CASE
DIXIE GROVES UTILITY
NOI EXHIBIT
12 MONTHS ENDED 05/31/05

<u>Description</u>	<u>W/P REF</u>	(1) Test Yr Per Books <u>(Actual)</u>	(2) Audit <u>Adjust</u>	(3) <u>Audited Balance</u>
Operating Revenues	41	62,258	(3,687)	58,571
Operating Expenses:				
Operation & Maint.	43	66,874	(4,745)	62,129
Depreciation	22	2,535	2,925	5,460
Amortization	23	0	235	235
Taxes other than income	53	3,515	282	3,797
Income Taxes	54	0	0	0
Total Operating expenses		<u>72,924</u>	<u>(1,303)</u>	<u>71,621</u>
Net Operating Income/Loss		<u>(10,666)</u>	<u>(2,384)</u>	<u>(13,050)</u>

STAFF ASSISTED RATE CASE
DIXIE GROVES UTILITY
CAPITAL STRUCTURE
12 MONTH ENDED 05/31/05

DESCRIPTION	(a) BALANCE PER T/B 06/01/04	(b) BALANCE PER T/B 05/31/05	(c) SIMPLE AVERAGE PER T/B	(d) AUDIT ADJUST- MENTS	(e) BALANCE PER AUDIT 05/31/05	(f) SIMPLE AVERAGE PER AUDIT	(g) RATIO	(h) COST RATE	(i) WEIGHTED COST OF CAPITAL
COMMON EQUITY (95,031	67,254	81,142	0	67,254	81,142	77.06%	8.86%	6.85%
COMMON STOCK	115,000	115,000	115,000	0	115,000	115,000			
RETAINED EARN.	(19,969)	(47,746)	(33,858)	0	(47,746)	(33,858)			
PD IN CAPITAL	0	0	0	0	0	0			
NOTES PAYABLE	0	38,708	19,354	0	38,708	19,354	18.38%	9.00%	1.65%
CUSTOMER DEPOSE	4,885	4,717	4,801	0	4,717	4,801	4.56%	6.00%	0.27%
OTHER	0	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	99,915	71,971	85,943	0	71,971	105,298	100.00%		8.77%