



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.** 030655-WU; **Company Name:** Virginia City Utilities, Inc.; **Audit Purpose:** Establish a current rate base as of the date of transfer December 30, 2002; **Audit Control No.** 03-237-2-1

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

Mr. Judson F. Potter, President
Virginia City Utility Co., A Division of Community Utilities
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Mr. Matthew A. Potter, Treasurer
Virginia City Utilities, Inc.
5940 Main Street
New Port Richey, FL 34652-2716

DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

VIRGINIA CITY UTILITIES, INC.

ESTABLISH RATE BASE FOR TRANSFER OF UTILITY

AS OF DECEMBER 30, 2002

DOCKET NO. 030655-WU

AUDIT CONTROL NO. 03-237-2-1

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

Joseph W. Rohrbacher, Tampa District Supervisor

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

OCTOBER 24, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare and audit schedules of Water Rate Base as of December 30, 2002 for Virginia City Utilities, Inc.'s petition for transfer of Certificate No. 149-W. These schedules were prepared by the auditor as part of the utility's petition for Certificate Transfer in Docket No. 030655-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 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.

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

RATE BASE: Prepared a schedule and compiled account balances for Utility-Plant-in-Service (UPIS), Contributions-in-Aid-of-Construction (CIAC), accumulated depreciation, and accumulated amortization of CIAC for the period January 1, 1996 through December 30, 2002. Reconciled rate base balances authorized in Commission Order No. PSC-97-0037-FOF-WU, issued January 8, 1997, to utility records. Reviewed for CIAC additions. Examined invoices and supporting documentation for all major plant additions. Calculated accumulated depreciation using guideline rates. Computed amortization of CIAC using yearly composite depreciation rates.

OTHER: Toured the Utility's service area. Evaluated issues regarding an acquisition adjustment and determined whether any assets of the utility are not being transferred. 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-97-0037-FOF-WU, issued January 8, 1997. It established Plant in Service as of December 31, 1995 to be \$59,480. The utility balance for UPIS as of December 30, 2002 was \$80,853.

Virginia City Utilities did not remove Organization Costs of \$2,166 from its records and included a pro forma adjustment of \$1,000. The utility expensed additions of \$14,248 in 1997 and did not record retirements of \$7,602 from 1996 through 2002. Also, O&M expenses were capitalized and invoices were not recorded or recorded with an incorrect amount.

Computer equipment totaling \$2,637 was not included in the sale of the utility.

Recommendation: The utility plant in service should be adjusted to reflect the above. The UPIS balance as of December 30, 2002 is \$81,440.

Below are the recommended adjustments:

	<u>Total</u>	<u>A/C 301</u>	<u>A/C 309</u>	<u>A/C 331</u>	<u>A/C 334</u>	<u>A/C 335</u>	<u>A/C 340</u>	<u>A/C 348</u>
Balance per Utility	\$80,853	2,166	11,363	37,009	25,699	386	4,100	130
<u>Audit adjustments</u>								
Remove pro forma Organization Cost		(2,166)			(1,000)			
1997 additions expensed				8,729	5,519			
Retirements				(1,808)	(5,794)			
Computer not transfer							(2,637)	
O&M capitalized			(774)					
Invoice adjustments					520			
Balance per Audit	<u>\$81,440</u>		<u>10,588</u>	<u>43,930</u>	<u>24,943</u>	<u>386</u>	<u>1,463</u>	<u>130</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. 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 \$54,277 as of December 30, 2002. The utility used the prescribed depreciation rates.

Virginia City Utilities did not record depreciation on the 1997 or 2002 additions to plant and did not remove depreciation on retirements, Organization Costs, and computer equipment not transferred. Also, the utility recorded incorrect computations using the same dollar amount for 1996 - 2002.

Recommendation: The auditor recalculated accumulated depreciation using guideline rate. The utility's accumulated depreciation balance as of December 30, 2002 should be adjusted to reflect the above. The accumulated depreciation balance as of December 30, 2002 is \$43,398.

Below are the recommended adjustments:

	<u>Total</u>	<u>A/C 301</u>	<u>A/C 309</u>	<u>A/C 331</u>	<u>A/C 334</u>	<u>A/C 335</u>	<u>A/C 340</u>	<u>A/C 348</u>
Balance per Utility	\$54,277	2,729	3,801	30,525	13,598	311	3,215	98
<u>Audit adjustments</u>								
Organization Cost	(2,729)							
1997 & 2002 additions			191	1,001	1,230			
Retirements				(1,808)	(5,794)			
Computer not transfer							(2,637)	
Incorrect computation			(158)				(175)	
Balance per Audit	<u>\$43,398</u>	<u>3,834</u>	<u>29,718</u>	<u>9,034</u>	<u>311</u>	<u>403</u>	<u>98</u>	

Disclosure No. 3

Subject: Amortization of Contributions in Aid of Construction (CIAC)

Statement of Fact: Rule 25-30.140, Subsection 8 (a), F.A.C. states in part “Where CIAC records are not kept by account, the depreciation rates shall be applied to the entire depreciable plant. the composite plant amortization rate shall be used.”

The utility books and records reflected an Amortization of CIAC balance of \$9,161 as of December 30, 2002. The utility used a 4.57% amortization rate each year. The auditor recalculated amortization using the annual composite depreciation rates derived from the various years depreciation schedules and arrived at a balance of \$10,393 as of December 30, 2002.

Recommendation: The amortization balance should be increased by \$1,232, the difference between the company figures and the auditors recalculated amount.

Below are the recommended adjustments:

Balance per Utility	\$ 9,161
<u>Audit Adjustments</u>	
1996-1999 Used 4.57%	(337)
1999 Did not record amortization	645
2000-2002 used 4.57% on amortization balances	<u>924</u>
Balance per audit	<u>\$10,393</u>

Disclosure No. 4

Subject: Acquisition Adjustment

Statement of Fact: Virginia City Utilities, Inc. (Seller) sold its assets to Virginia City Utility Company (Buyer) on December 30, 2002 for \$140,000. Audited water rate base as of December 30, 2002 is \$34,853. 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 seller had been purchasing water service from the Pasco County Utility Department and reselling to its customers. There was one well and well house owned by the utility, but it was not being used.

In 2003 the buyer refurbished the well house and water tank and bought new pumps and a chlorination system costing \$18,785 to date. At the present time this well is being used as a source of supply. Also, the buyer has spent \$4,403 on a valve replacement program.

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, at the present time, regarding the purchase that would justify an acquisition adjustment to rate base.

This information is provided to Commission staff for their determination if an acquisition adjustment is warranted.

VIRGINIA CITY UTILITIES, INC
DOCKET 030655-WS
RATE BASE - WATER
TEST PERIOD ENDED DECEMBER 30, 2002

DESCRIPTION	(a) BALANCE PER BOOKS @12/30/02	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @12/30/02	(d) AVERAGE RATE BASE @12/30/02
UTILITY PLANT IN SERVICE	80,853	587 Disc 1	81,440	78,921
LAND	0	0	0	0
PLANT HELD FOR FUTURE USE	0	0	0	0
CIAC	(17,159)	(0)	(17,159)	(17,159)
CWIP	0	0	0	0
ACCUMULATED DEPRECIATION	(54,277)	10,879 Disc 2	(43,398)	(43,378)
AMORTIZATION-CIAC	9,161	1,232 Disc 3	10,393	13,363
WORKING CAPITAL	0	0	0	0
ACQUISITION ADJUSTMENT	0	0	0	0
TOTAL	18,578	12,698	31,276	31,737

NOTE: WORKING CAPITAL ALLOWANCE NOT REQUIRED PER ASR.