

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-**

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**DATE:** October 22, 2004  
**TO:** Jay Revell, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *DNV*  
Division of Regulatory Compliance and Consumer Assistance  
**RE:** **Docket No.** 981079-SU ; **Company Name:** Hudson Utilities, Inc. ; **Audit Purpose:** Focused Audit : **Audit Control No.** 04-222-2-1

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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 Regulatory Compliance and Consumer Assistance (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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Mr. Mathew Griffin, Vice President  
Hudson Utilities, Inc.  
14334 Old Dixie Highway  
Hudson, Florida 34667-1134

DOCUMENT NUMBER-DATE

11532 OCT 25 04

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**FLORIDA PUBLIC SERVICE COMMISSION**

***DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
BUREAU OF AUDITING***

***TAMPA DISTRICT OFFICE***

**HUDSON UTILITIES, INC.**

**FOCUSED AUDIT**

**FOR THE PERIOD JANUARY 1, 2002 THROUGH JUNE 30, 2004**

**DOCKET NO. 981079-SU**

**AUDIT CONTROL NO. 04-222-2-1**

A handwritten signature in black ink, appearing to read "Simon Ojada", written over a light gray rectangular background.

***Simon Ojada, Audit Manager***

A handwritten signature in black ink, appearing to read "J.W. Rohrbacher", written over a light gray rectangular background.

***Joseph W. Rohrbacher, Regulatory Analyst Supervisor***

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

**October 5, 2004**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit specific accounts of Hudson Utilities, Inc. for the period January 1, 2002 through June 30, 2004. 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:** Compiled account balances for Utility Plant in Service, Contributions In Aid of Construction (CIAC), Accumulated Depreciation and Accumulated Amortization of CIAC from December 31, 2001 to June 30, 2004. Examined supporting documentation for all plant additions. Computed depreciation of plant and amortization of CIAC from January 1, 2002 through June 30, 2004 as provided for in Rule 25-30.140, Florida Administrative Code.

**OTHER:** Reviewed the following accounts for the period January 1, 2003 through June 30, 2004: Contractual Services-Accounting, Contractual Services-Legal, Transportation Expenses, Miscellaneous Expenses, and Non-utility Income and Expenses.

## **Disclosure No. 1**

### **Subject: Summary Information**

**Plant Additions:** Verified all plant additions from January 1, 2002 through June 30, 2004. The utility added \$1,151 in 2002, \$17,482 in 2003, and \$702,722 in 2004 to plant. All the 2004 plant addition of \$702,722 relates to the construction of the collection system to Signal Cove.

**Contributions In Aid of Construction (CIAC):** The utility added \$68,172 in 2002, \$31,170 in 2003, and \$340,874 in 2004 to CIAC. According to the utility official, most of the 2004 CIAC additions relates to the construction of the Signal Cove collection system.

**Accumulated Depreciation and Accumulated Amortization of CIAC.** Reviewed accumulated depreciation and accumulated amortization of CIAC for reasonableness. For the period January 1, 2002 through June 30, 2004, the auditors calculated accumulated depreciation was \$2,118,155 compared to the utility accumulated depreciation of \$2,021,382, and accumulated amortization of CIAC was \$901,429 compared to \$810,588 recorded by the utility in its General Ledger.

According to the utility official, the depreciation and amortization of CIAC are done by the utility's outside CPA firm. However, the utility Annual Report that is prepared by the outside CPA firm has more depreciation and amortization of CIAC reported than what the utility has in its General Ledger. The General Ledger does not reflect any adjustment made to depreciation by the CPA firm at the end of the year. The utility enters a fixed amount of depreciation and amortization every month in its General Ledger which does not reflect actual depreciation nor amortization of CIAC.

**Loan:** The utility received a revolving line of credit in the amount of \$1,800,000 for the construction of the collection system to Signal Cove and Sea Pines. Out of the \$1,800,000, the utility has withdrawn \$702,722 for the construction of Signal Cove and the Old Dixie Highway extension.

**Estimated Construction Cost Vs Actual Construction Cost:** The estimated construction cost for the Signal Cove was \$593,994 while the actual construction cost as of June 30, 2004 is \$702,722.

**Expenses:** Reviewed Contractual Services-Legal and Accounting, Transportation expenses, and Miscellaneous expenses. Some of the items in the Miscellaneous Expense account were wrongly classified. (See page 4 for reclassification).

**Non-utility Income and Expenses:** The only item recorded in the general ledger as miscellaneous non-utility income was a deposit refund of \$39 that was returned unclaimed.

**Reclassification of Miscellaneous Expenses.**

**2004**

710 Purchased Wastewater Treatment	3,677	
731 Contractual Services - Engineering	9,285	
736 Contractual Services - Other	3,594	
742 Rental of Equipment	45	
775 Miscellaneous Expenses		16,601

**2003**

710 Purchased Wastewater Treatment	5,336	
731 Contractual Services - Engineering	11,050	
736 Contractual Services - Other	6,243	
775 Miscellaneous Expenses		22,629