

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: February 20, 2006
TO: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 050862-WU; **Company Name:** County-Wide Utility Company
Audit Purpose: Staff Assisted Rate Case
Audit Control No: 05-349-2-1

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 confidential work papers associated with this audit.

DNV:sbj
Attachments

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

Mr. Dirk J. Leeward, President
County-Wide Utility Company
3233 SE Maricamp Road, Suite 601
Ocala, Florida 34471

DOCUMENT NUMBER-DATE

01463 FEB 20 06

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

TAMPA DISTRICT OFFICE

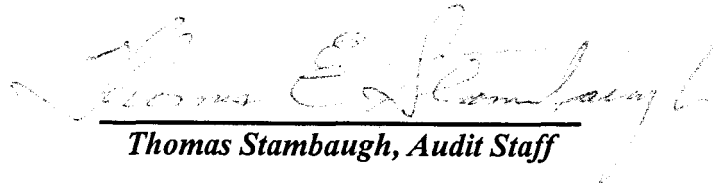
COUNTY-WIDE UTILITY COMPANY, INC.

STAFF ASSISTED RATE CASE

12 MONTHS ENDED DECEMBER 31, 2005

DOCKET NO. 050862-WU

AUDIT CONTROL NO. 05-349-2-1


Thomas E. Stambaugh
Thomas Stambaugh, Audit Staff


Joseph W. Rohrbacher
Joseph W. Rohrbacher, Tampa District Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE.....	1
	DISCLAIM PUBLIC USE.....	1
	SUMMARY OF SIGNIFICANT PROCEDURES	2
II.	EXCEPTIONS	
	1. UTILITY BOOKS AND RECORDS	3
III.	DISCLOSURES	
	1. INTERCONNECTION TO OCALA WATER.....	4
	2. RELATED PARTY TRANSACTIONS.....	5
	3. UTILITY PLANT IN SERVICE.....	6
	4. ACCUMULATED DEPRECIATION.....	7
	5. CIAC AND AMORTIZATION.....	8
III.	EXHIBITS	
	RATE BASE.....	9
	NET OPERATING INCOME.....	10
	CAPITAL STRUCTURE.....	11

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

FEBRUARY 9, 2006

**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 Rate Base, Net Operating Income and Capital Structure for the historical 12 month period ended December 31, 2005 for County-Wide Utility Company, Inc. These schedules were prepared by the auditor as part of our work on a Staff Assisted Rate Case in Docket No. 050862-WU. There is 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: 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, 1993 through December 31, 2005. Reconciled rate base balances as determined in the prior audit to utility records. Reviewed for CIAC additions. Examined invoices and supporting documentation for all major plant additions. Calculated accumulated depreciation using guideline rates in the Florida Administrative Code, F.A.C., Section 25-30.140. Computed amortization of CIAC using yearly composite depreciation rates. Computed working capital using one-eighth (1/8) of Operation and Maintenance Expense.

NET OPERATING INCOME: Compiled utility revenue and expenses for the year ended December 31, 2005. Chose a judgmental sample of customer bills and recalculated using FPSC approved rates. Tested 92.5% of operation and maintenance expenses, examined invoices and other supporting documentation. Tested 100% of related party and contracted services. Calculated depreciation expense using guideline rates. Calculated CIAC amortization using composite depreciation rates. Examined support for taxes other than income and income taxes.

CAPITAL STRUCTURE: Compiled components of the capital structure for the year ended December 31, 2005. Agreed interest expense to the terms of the notes.

OTHER: Verified that billed rates, miscellaneous service charges, service availability charges and customer deposits charged by the utility are consistent with approved tariff. Noted related party relationships and transactions. Verified costs charged for the water interconnection and expansion.

Exception No. 1

Subject: Utility Books and Records

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 (UsoA). The NARUC Uniform System of Accounts, Accounting Instruction 2, states that:

“The books of accounts of all water utilities shall be kept ...on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.”

County-Wide Utility records revenues on a calendar year basis and expenses on a December to November yearly basis. Utility staff stated this was done because many bills arrive late in the month and this gives them ample time to close the books for the year.

Recommendation: While this procedure helps the utility in the yearly closing, it does not reflect the matching of expenses to income. Expenses were over stated by \$979 in 2005. The Commission should require the company to maintain its books and records in conformity with the NARUC UsoA as prescribed by Rule 25-30.115.

Disclosure No. 1

Subject: Utility Interconnection to City water Supply

Statement of Fact: County-Wide Utility Company closed its water plant and connected to the city of Ocala for its bulk water supply. Utility records showed a cost for the interconnection of \$807,823, \$805,008 for plant additions and \$2,815 for land easement costs.

In discussions with utility personnel and FPSC engineer, the following reasons were given for the interconnection:

1. The utility expected 100 new customers within the next two years.
2. At full build out there will be 1200 customers.
3. The current water plant is operating at almost full capacity.
4. The water tank and other equipment is old and has to be replaced.
5. Ocala city codes require new construction to provide fire hydrants producing 2,500 gallons per minute for four hours, which the current water plant cannot do.
6. The utility expects five acres of new commercial building within two years in its service area.

Recommendation: Information provided for Commission staff.

Disclosure No. 2

Subject: Related Party Transactions

Statement of Fact: There were three related party entities providing goods, services or allocations to County-Wide Utility in 2005. They were:

RAF Group 45 LLC
Bahia Oaks
Dirk Leeward – utility President

RAF Group 45, LLC provided the following goods and services:

Material & Supplies	\$ 591
Telephone	203
Repair & Maintenance	1,517
Computer Usage	2,012
Transportation	542
Water Extension Work	2,277
Insurance	<u>4,026</u>
Total	\$11,168

Bahia Oaks – Owns the land the water plant is located on. Rent \$2,250 for 2005. Should be eliminated due to interconnect for 2006.

Dirk Leeward – Lease on generator at water plant, \$2,390 for eleven months. Should be eliminated due to interconnect for 2006.

Recommendation: Information provided for Commission staff.

Disclosure No. 3

Subject: Utility Plant In Service (UPIS)

Statement of Fact: When closing the books for 2005, the utility recorded two plant additions for water lines to A/C No. 331 – Transmission and Distribution Mains, \$23,683 and \$21,199. Utility staff stated that the items were installed in the 1980's and 1990's, but were not recorded on the books. Invoices are not available.

The utility retired replaced meters at the cost of the new meters. Commission practice is to retire plant at 75% of the new cost when original cost records are unavailable in sufficient detail. The calculated difference is \$3,497.

The utility recorded \$4,301 to 2003 plant additions in A/C 331. A review of invoices showed additions to be \$6,026. The auditor made an adjustment of \$1,725 (\$6,026 – \$4,301) to 2003 plant additions.

Recommendation: The following adjustments should be made to PIS:

A/C No.	Account Name	Amount
331	Transmission & Distribution Mains	\$(23,683)
331	Transmission & Distribution Mains	(21,199)
331	Transmission & Distribution Mains	1,725
334	Meters & Meter Installation	<u>3,497</u>
	Total	\$(39,660)

Disclosure No. 4

Subject: Accumulated Depreciation and Expense

Statement of Fact: The Florida Administrative Code (F.A.C.), Section 25-30.140 states depreciation guidelines for water and wastewater companies. Requirements stated include:

Average service life depreciation rates based on guideline lives and salvages shall be used.

All Class C utilities shall maintain depreciation rates and reserve activity data by total depreciable plant, function or account as prescribed by the Commission.

Depreciation expense shall be computed on a monthly basis in conformity with group depreciation accounting procedures.

As stated in Disclosure No. 3 the utility retired replaced meters at the cost of the new meters, and offset the resultant amounts to accumulated depreciation. Commission practice is to retire plant at 75% of the new cost and charge accumulated depreciation accordingly.

An adjustment for Accumulated Depreciation from the prior audit was not made.

The utility used a 2.5% depreciation rate instead of guideline rates.

Depreciation for 2005 was not recorded on the utility records provided to audit staff. The auditor calculated depreciation expense on eleven months of original plant and one month on the interconnection plant.

Recommendation: The following adjustments should be made:

Retired meters at 75% cost of new	\$ 3,497
Adjustment from prior audit	6,886
Difference between guideline rates and rates used	13,305
2005 depreciation (expense and accumulated)	<u>4,929</u>
Total	\$28,617

Disclosure No. 5

Subject: Contributions In Aid Construction (CIAC)

Statement of Fact: When the utility retired plant for the interconnection it also wrote off CIAC and Amortization of CIAC in the amount of \$42,459. Utility staff stated this amount is based on the percentage of contributed plant written off, 43.04%, applied to the balance in CIAC as of December 31, 2005, of \$98,650.

Commission rules require that utilities maintain their records in conformity with the NARUC Uniform System of Accounts. The NARUC USoA, for Account 272 – Accumulated Amortization of CIAC, states that contributions of depreciable plant shall be amortized over a period equal to the estimated service life of the contributed asset. A group or overall composite rate may be used for balances that cannot be directly related to a plant asset. The utility used a 2.5% amortization rate annually while the auditor used the composite depreciation rates.

Additionally, staff determined that the 2005 CIAC amortization, as calculated by the company, was understated by \$122.

Recommendation: Upon discussion with Commission staff, information is provided for their determination on handling of CIAC and Amortization.

CIAC and Amortization written off for retired plant	\$ 42,459
Difference between guideline rates and rates used	10,995
2005 amortization difference (expense and accumulated)	<u>122</u>
Total	\$ 53,576

EXHIBIT 1

COUNTY-WIDE UTILITY COMPANY
 DOCKET: 050862 - WU
 RATE BASE
 AS OF DECEMBER 31, 2005

DESCRIPTION	(a) BALANCE PER BOOKS @12/31/05	(b) AUDIT ADJUSTMENTS	(c) AUDITED BALANCE @12/31/05	(d) AVERAGE RATE BASE @12/31/05
UTILITY PLANT IN SERVICE	913,359	(39,659) DS 2	873,700	483,071
LAND	2,815	(0)	2,815	1,408
PLANT HELD FOR FUTURE USE		0		
CIAC	(56,191)	(42,459) DS 4	(98,650)	(98,125)
ACCUMULATED DEPRECIATION	(9,317)	(28,617) DS 3	(37,934)	(57,533)
AMORTIZATION-CIAC	(12,909)	53,577 DS 4	40,668	39,063
WORKING CAPITAL		12,669	12,669	12,669
ACQUISITION ADJUSTMENT		0		
TOTAL	837,757	(44,489)	793,268	380,552

NOTE: WORKING CAPITAL ALLOWANCE COMPUTED AT 1/8 O&M EXPENSES.

Average Rate Base is combination of balances at 12/31/04 and 12/31/05 (with interconnection) divided by two.

EXHIBIT II

COUNTY-WIDE UTILITY COMPANY
 DOCKET: 050862 - WU
 NET OPERATING INCOME
 AS OF DECEMBER 31, 2005

DESCRIPTION	(a) BALANCE PER BOOKS @ 12/31/05	(b) AUDIT ADJUSTMENTS	(c) BALANCE PER AUDIT @ 12/31/05
OPERATING REVENUES:	106,201		106,201
Metered	103,992		
Returned Check fee	160		
Non-Pay Reconnect	540		
Standby Rate	429		
Transfer/Turn On	1,080		
OPERATING EXPENSES:			
O&M EXPENSE	102,332	(979) EX 1	101,353
DEPRECIATION EXPENSE	0	4,929 DS 3	4,929
AMORTIZATION - CIAC	(3,087)	(122) DS 4	(3,209)
TAXES-OTHER	8,027		8,027
INTEREST EXPENSE	5,419		5,419
OTHER UTILITY (AMORTZ)	2,008		2,008
TOTAL PROFIT (LOSS)	(8,499)	(3,828)	(12,327)

EXHIBIT III

COUNTY-WIDE UTILITY COMPANY
DOCKET: 050862 - WU
CAPITAL STRUCTURE
AS OF DECEMBER 31, 2005

DESCRIPTION	(a) BALANCE PER BOOKS @ 12/31/05	(b) AUDIT ADJUSTMENTS	(c) AUDITED PER BOOKS @ 12/31/05	(g) RATIO	(h) COST RATE (2)	(j) WEIGHTED COST OF CAPITAL
COMMON EQUITY (A)	98,927	0	98,927	10.65%	25.10%	2.67%
Common Stock	1,000		1,000			
Paid in Capital	63,482		63,482			
Retained Earnings	34,445		34,445			
NOTES PAYABLE - LPL	114,387		114,387	12.32%	8.25%	1.02%
Creditline JKL	139,266		139,266	14.99%	8.25%	1.24%
Long Term Debt - Compass Bar	576,187		576,187	62.04%	7.16%	4.44%
CUSTOMER DEPOSITS			0			0.00%
ITC			0			0.00%
OTHER			0			0.00%
TOTAL	928,767	0	928,767	100.00%		9.37%

(A) Common Equity is the sum of the sub items listed below it.

NOTE: (1) Equity cost based on leverage formula in Order No. PSC-05-0680.
(2) Rates from HSH Financial Publications web site @ December 2005

SOURCE: AS REFERENCED