

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION
CLERK

DATE: March 12, 2012
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 110302-WU
Company Name: Raintree Utilities, Inc.
Company Code: WU663
Audit Purpose: Update Net Book Value
Audit Control No: 12-030-1-1

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 a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

01427 MAR 12 2012

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Raintree Utilities, Inc.
Transfer Audit

As of December 31, 2011

Docket No. 110302-WU
Audit Control No. 12-030-1-1

March 1, 2012

Handwritten signature of Intesar Terkawi in cursive script.

Intesar Terkawi
Audit Manager

Handwritten signature of Lynn M. Deamer in cursive script.

Lynn M. Deamer
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 29, 2012. We have applied these procedures to the attached exhibit prepared by the audit staff in support of the request for a Certificate of Transfer by Raintree Utilities, Inc. in Docket No. 110302-WU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures and the report is intended only for internal Commission use.

Objectives and Procedures

GENERAL

Utility Information

Raintree Utilities, Inc., (Utility) is a Class C utility that provides water service in Lake County, Florida. The Utility serves approximately 116 customers.

The audit period is from September 30, 2007 to December 31, 2011.

Regulatory Proceedings

The Utility has filed a request to transfer its certificate to the Raintree Harbor Utility LLC. The Utility's last rate case order PSC-08-0483-PAA-WU was issued July 25, 2008 in Docket No. 070627-WU.

Utility Books and Records

Objectives: Our objective was to determine that the Utility maintains its accounts and records in accordance with Commission rules and with the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA).

Procedures: We reviewed the Utility's accounting systems. The Utility uses NARUC account numbers in its ledger.

Rate Base

Utility Plant in Service

Objectives: Our objectives were to 1) Determine that property exists and is owned by the Utility, 2) Determine that additions to Utility Plant in Service (UPIS) are authentic, recorded at original cost, and classified in compliance with Commission rules and the NARUC USOA, 3) Verify that the proper retirements of UPIS are made when a replacement item was put in service, and 4) Verify that the adjustments to plant in the Utility's last rate proceeding were recorded in its general ledger.

Procedures: We determined the Utility's UPIS balances as of September 30, 2007 that was established in Docket No. 070627-WU. We compiled UPIS additions for the period October 1, 2007 through December 31, 2011. We ensured that retirements were made when a capital item was removed or replaced. We toured the Utility plant site to observe whether plant additions were completed and in service, and to ascertain if plant retirements were needed. Audit Finding 2 discusses our findings and recommended UPIS balance as of December 31, 2011.

Land and Land Rights

Objectives: Our objectives were to determine that the Utility's land is recorded at original cost and is owned or secured under a long-term lease.

Procedures: We determined the land balance as of September 30, 2007 that was established in Docket No. 070627-WU. We reconciled the Utility's land balance for this proceeding to the balance established in the same Docket. There were no changes to utility land since the last rate case proceeding.

Contributions-in-Aid-of-Construction

Objectives: Our objectives were to 1) Determine that additions to Contributions-in-Aid-of-Construction (CIAC) were recorded in compliance with Commission rules and the NARUC USOA, 2) Verify that donated property is properly accounted for and recorded as CIAC, 3) Verify that the adjustments to CIAC in the Utility's last rate proceeding were recorded in the general ledger, and 4) Verify that retirements were properly recorded.

Procedures: We determined the Utility's CIAC balance as of September 30, 2007 that was established in Docket No. 070627-WU. There were no additions to CIAC since the last rate case proceedings.

Accumulated Depreciation

Objectives: Our objectives were to: 1) Verify that the adjustments to accumulated depreciation in the Utility's last rate proceeding were recorded in the general ledger, 2) Determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA, 3) Verify that depreciation expense accruals are calculated using the Commission's authorized rates, and 4) Verify that retirements are properly recorded.

Procedures: We determined the Utility's accumulated depreciation balances as of September 30, 2007 that were established in Docket No. 070627-WU. We compiled accumulated depreciation accruals for the period October 1, 2007 through December 31, 2011 to determine the Utility's accumulated depreciation balances for this proceeding. We scheduled retirements to accumulated depreciation when a capital item was removed or replaced. Audit Finding 3 discusses our findings and recommended balances for accumulated depreciation as of December 31, 2010.

Accumulated Amortization of CIAC

Objective: Our objectives were to: 1) Determine accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules, and 2) Verify that the adjustments to accumulated amortization of CIAC in the Utility's last rate proceeding were recorded in the general ledger.

Procedures: We determined the Utility's accumulated amortization of CIAC balances as of September 30, 2007 that were established in Docket No. 070627-WU. We compiled accumulated amortization of CIAC accruals for the period October 1, 2007 through December 31, 2011 to determine the Utility's accumulated amortization of CIAC balances for this

proceeding. Audit Finding 4 discusses our findings and recommended balances for accumulated amortization of CIAC as of December 31, 2011.

Revenue and Miscellaneous Charges

Objective: Our objectives were to verify that the Utility is charging its authorized 1) monthly service rates, 2) miscellaneous service charges, and 3) meter installation charges.

Procedures: We requested samples of the customers bills for each of the months February, June and September. We verified that the Utility is using the correct tariff authorized by the Commission. We requested a list of the miscellaneous charges for the year ended December 31, 2011, and reconciled them to the tariff. We questioned the Utility and determined that there were no new meter installation charges since the last Order.

Audit Findings

Finding 1: Reconciliation to Order

Audit Analysis: The Utility adjusted its books according to the recommendations of Order No. PSC-08-0483-PAA-WU as of January 1, 2008. The audit staff reviewed the prior audit workpapers and staff analyst workpapers in support of Docket No. 070627-WU to determine the details of the Plant in Service balances. The audit staff noted that there were two discrepancies that caused a misstatement in the Commission ordered ending balance of Plant in Service.

The first discrepancy is that the Order removed \$5,740 of land from the Plant in Service balance. The amount was reduced under the premise that the land amount was included in the Utility's Plant in Service balance of \$68,550. Our review of the supporting documentation concluded that the Utility's Plant in Service balance of \$68,550 did not include land and there was no need to reduce the Plant in Service balance.

The second discrepancy is that the Order increased Account 340 – Office Furniture and Equipment by \$2,920. Audit staff could find no support for this. The only invoice in support of this account is for \$2,819. This amount is also included in the original Balance per Utility as of September 30, 2007; therefore, the original Commission adjustment of \$2,920 needs to be removed from this account.

The correct amount of the original study is \$212,583 (\$209,763 +\$5,740 - \$2,920).

We corrected the Order balance of Plant in Service by adding back the amount of land of \$5,740 and reducing Account 340 – Office Furniture and Equipment by \$2,920. The corrected balance of Plant in Service should be \$212,583 as of September 30, 2007 as shown in the following schedule.

Acct. No.	Description	Balance Per Utility as of 09/30/2007	Adjustment per Order	Balance per Order 9/30/2007	Corrected Adjustment	Corrected Balance as of 09/30/2007
304	Structure and Improvements	\$1,260	\$5,700	\$6,960	\$5,700	\$6,960
307	Wells and Springs	27,796	(3,063)	24,733	(3,063)	24,733
309	Supply Mains	2,100	991	3,091	991	3,091
311	Pumping Equipment	6,300	23,168	29,468	23,168	29,468
320	Water Treatment Equipment	315	46,622	46,937	46,622	46,937
330	Distribution Reservoirs& Standpipes	0	11,448	11,448	11,448	11,448
331	Transmission & Distribution Mains	12,790	49,878	62,668	49,878	62,668
333	Services	5,290	6,290	11,580	6,290	11,580
335	Hydrants	4,535	8,344	12,879	8,344	12,879
303	Land		(5,740)	(5,740)		0
334	Meter & Meter Installations	2,825	(2,825)	0	(2,825)	0
305	Collecting and Impounding Reservoirs	2,520	(2,520)	0	(2,520)	0
340	Office Furniture & Equipment	2,819	2,920	5,739	0	2,819
		\$68,550	\$141,213	\$209,763	\$144,033	\$212,583

Finding 2: Utility Plant in Service

Audit Analysis: The Utility's General Ledger reflects water UPIS balance of \$251,185 as of December 31, 2011. This balance includes the ordered adjustments from the prior order.

We reduced Account 320 – Water Treatment Equipment by \$12,991 (\$17,321 *.075) that represents a retirement of filter media and rock that the Utility did not record in 2011 when a replacement of \$17,321 was made.

We also reduced Account 340 – Office Furniture and Equipment by \$2,920 as explained in Finding 1.

Table 1 shows the details of Plant in Service Accounts.

Table 1
Plant in Service Balance
As of December 31, 2011

Acct No.	Account Description	Balance Per Utility	Adjustment	Balance Per Audit
304	Structure and Improvement	\$6,960	-	\$6,960
307	Wells & Springs	24,733	-	24,733
309	Supply Mains	4,179	-	4,179
311	Pumping Equipment	40,241	-	40,241
320	Water Treatment Equipment	64,258	(12,991)	51,267
330	Distribution Reservoirs & Standpipes	11,448	-	11,448
331	Transmission & Distribution Mains	62,668	-	62,668
333	Services	11,580	-	11,580
335	Hydrants	12,879	-	12,879
336	Backflow Prevention Devices	6,500	-	6,500
340	Office Furniture & Equipment	5,739	(2,920)	2,819
	Total UPIS	\$251,185	(\$15,911)	\$235,274

Effect on the General Ledger: The UPIS balance should be decreased by \$15,911, as of December 31, 2011.

Finding 3: Accumulated Depreciation

Audit Analysis: The Utility's General Ledger reflects Accumulated Depreciation balance of \$171,356 as of December 31, 2011.

We determined the audit balance of Accumulated Depreciation to be \$162,322 as of December 31, 2011.

The adjustment to Account 108/311- Pumping Equipment of \$1,987 is due to an incorrect calculation of depreciation that the Utility made in 2011.

The adjustment to decrease Account 108/320 – Water Treatment Equipment by \$9,805 is due to the retirement of \$12,991 in 2008 and a decrease of \$2,674 to remove the applicable accumulated depreciation on the \$12,991 in Finding 2. The increase of \$5,860 is the adjustment to correct the depreciation rates to the rates prescribed in Commission Rule 25-30-140, F.A.C. This is a net decrease in accumulated depreciation of \$9,805 (\$12,991 + \$2,674 - \$5,860).

The adjustment to Account 108/340 – Office Furniture and Equipment of \$780 is fallout to the adjustment in the Reconciliation to Order Finding 1.

The other adjustments are to correct the depreciation rates to the rates prescribed in Commission Rule 25-30-140, F.A.C.

Table 1
Water Accumulated Depreciation
As of December 31, 2011

Acct No.	Account Description	Balance per Utility	Adjustment	Balance Per Audit
108/304.	Structure and Improvements	\$6,317	-	\$6,317
108/307.	Wells & Springs	\$15,698	(\$315)	\$15,383
108/309.	Supply Mains	\$2,477	13	2,490
108/311.	Pumping Equipment	25,444	1,987	27,431
108/320.	Water Treatment Equipment	52,723	(9,805)	42,918
108/330	Distribution Reservoirs\$ Standpipes	8,500	-	8,500
108/331	Transmission & Distribution Mains	40,404	-	40,404
108/333.	Services	8,111	-	8,111
108/335	Hydrants	7,889	-	7,889
108/336	Backflow Prevention Devices	704	(131)	573
108/340.	Office Furniture & Equipment	3,089	(780)	2,309
	Total	\$171,356	(\$9,034)	\$162,322

Effect on the General Ledger: The Utility should adjust its general ledger to the audited accumulated depreciation balances determined above. The accumulated depreciation balance should be decreased by \$9,034 as of December 31, 2011.

Finding 4: Accumulated Amortization of CIAC

Audit Analysis: The Utility's general ledger reported \$10,653 Accumulated Amortization of CIAC as of December 31, 2011.

Order No. PSC-08-0483-PAA-WU established Accumulated Amortization of CIAC of \$5,803 as of September 30, 2007. The Utility adjusted its books to the Order as of September 30, 2007.

We calculated accumulated amortization of CIAC using the composite depreciation rates prescribed in Commission Rule 25-30-140, F.A.C. to be \$10,774 as of December 31, 2011.

Effect on the General Ledger: The Utility should increase Accumulated Amortization of CIAC by \$121 (\$10,774 - \$10,653).

Exhibit

Exhibit 1: Rate Base

Description	Balance per Utility as of 12/31/2011	Adjustment	Refer to	Balance per Audit as of 12/31/2011
Utility Plant In Service	\$251,185	(\$15,911)	F 2	\$235,274
Land and Land Rights	5,740	\$0		5,740
Contributions in Aid of Construction	(29,750)	\$0		(29,750)
Accumulated Depreciation	(171,356)	\$9,034	F 3	(162,322)
Accumulated Amortization of CIAC	10,653	\$121	F 4	10,774
Total	\$66,472	(\$6,756)		\$59,716